James Gwartney (Florida State University) and Richard E. Wagner (George Mason University), "The Public Choice Revolution." ***The Intercollegiate Review*****, Vol. 23, no. 2 (Spring 1988), pp. 17-26. (Posted on this web site with permission of the authors.)**

The Public Choice Revolution

IN THE 1950s and 1960s, economists with rare exception treated government as a corrective device available to right the economic wrongs of this world. While *hypothetical* competitive markets allocated resources efficiently, the real world was characterized as being replete with market failure. Externalities, public goods, lack of competition, and imperfect information all were thought to plague market economies. Economists typically saw their function as one of developing "solutions," which in turn would be faithfully adopted by democratic governments to promote the general welfare.

Despite this near consensus within the academy, thoughtful students of that era were troubled by the chasm that separated the classroom view of government from simple observations of the real world. It did not take a genius to determine that real world governments not only failed generally to adopt the optimal solutions of economists, but often intervened in ways that promoted economic inefficiency, thereby clashing sharply with the economists' prescriptions for good government. For example, while most economists opposed tariffs, particularly those protecting concentrated industries such as steel and automobiles, the political process nonetheless led to trade restrictions in these areas. Similarly, while most economists opposed agricultural price supports, minimum wage legislation, rent controls, and various government-imposed barriers restraining market competition, such policies seemed to be a natural outgrowth of the political process. Observing the policies of the real world, many students of economics during the 1950s and l960s found themselves asking: "If government is a device for correcting market failure, why do governments often adopt policies that are obviously wasteful and inefficient?"

The public choice revolution provided the answer. Government is *not* a corrective device. It is *not* a pinch hitter we can count on to supply a base hit whenever we fear the market might strike out. Government is not a person, it has no mind or conscience. It is simply a set of processes by which people relate to one another. Governmental decisions and policies are simply the outcomes of the interactions of the people who relate to one another through a particular political system or constitutional order. If we want to know if and when government can be expected to yield preferable outcomes compared to the market, we must systematically analyze how the political process works. This is precisely what public choice theory does. Public choice analysis is to government what traditional economic analysis is to markets.

Public Choice and the Political Process

During the last 25 years, public choice scholars have made great strides in expanding our knowledge of how democratic political processes work. Public choice, which has now developed to the point where one of its founders, James M. Buchanan of George Mason University, was awarded in 1986 the Nobel Prize in Economics, is often described as representing the application of economic reasoning to politics.(1) Just as economic reasoning holds that people are predominantly self-interested creatures, so public choice holds that political processes are likewise dominated by self-interest. This is not to deny the existence of benevolence, but only to note that benevolence provides an inadequate basis for social organization. Self-interest is pervasive in the organization of human affairs and it would be futile and foolish to think otherwise. As Adam Smith noted: "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages."(2)

Just as economics studies the interactions among self-interested creatures within market processes, so public choice does the same thing within political processes. The voter who selects among political alternatives is the same person who selects among market alternatives. If Jones is influenced by the expected personal benefits and costs when he makes choices in the department store, it makes sense that he will also be influenced by personal interests when he makes choices in the voting booth. Similarly, the men and women working in government as politicians and bureaucrats are pretty much the same as their counterparts in the private sector. If pursuit of such rewards as personal wealth, power, and prestige motivates people in the marketplace, there is every reason to believe that these same elements will motivate them in the political arena. (3) A pivotal implication of public choice scholarship is that political outcomes will depend importantly on how political institutions and constitutional rules influence the incentives people face and not just on who in particular is elected or appointed to political office.

The key players in the democratic political process are citizen-voters, politicians, and bureaucrats. While politicians may be motivated by a broad range of factors, their ability to achieve both private and public objectives is dependent upon one thing--winning elections. Understandably, politicians will seek to promote an image and stake out positions on issues that will enhance their chances of winning elections. Just as market entrepreneurs pursue profits, politicians pursue votes. Political competition more or less forces politicians to pay primary heed to how their actions influence their electoral prospects. if a politician refuses to support policies that are vote-getters, perhaps because he thinks the policies are counterproductive or morally wrong, the politician runs an increased risk of being replaced by a competitor who is more strenuous in his search for votes. The requirements of electoral competition present even the most public-spirited politician with a strong incentive to base decisions primarily on political considerations. Just as neglect of economic profit is the route to market oblivion, so is neglect of potential votes the route to political oblivion.

While the politician's position is parallel to that of a producer in the marketplace, the voter's position is parallel to that of a consumer. Just as consumers use dollar votes to demand market goods, citizens use votes, lobbying, campaign contributions, and the Me to demand political goods--that is, to try to bring political outcomes into line with personal objectives. Many elements may enter into a voter's decision concerning which legislative candidate to support. The television image, perceived honesty, communication skills, and experience of alternative candidates may, in varying degrees, influence the choices of voters. However, the basic postulate of economics indicates that voters, like consumers, will ask "What can you do for me and how much will it cost me?" Other things remaining constant, voters will tend to support those candidates whom they believe will provide them with the most political goods, services, and transfer benefits *net of personal costs*.

In making their choices, however, voters are likely, by and large, to be poorly informed. It is more likely that a voter will be struck by lightning on the way to the polls than it is that his vote will decide who is elected mayor or county commissioner, to say nothing of senator or congressional representative. Since one vote is not going to decide who is elected, why should an individual study the issues and research the position of alternative candidates? After all, the outcome will be unaffected regardless of whether a voter makes an informed choice or simply chooses on the basis of current knowledge and vague impressions. Voters *have*, at best, a weak incentive to invest the time and energy required to cast a well-informed vote. It is not surprising, then, that few voters are able to accurately identify their congressional representative, much less identify and understand the position of their representatives on issues like minimum wage legislation, tariffs, or agricultural price supports. The scanty information voters have on most political issues--a fact confirmed again and again by voter surveys--merely indicates that they are responding sensibly to the political incentive structure. Since it was first articulated by Anthony Downs in 1957, public choice theorists have referred to this phenomenon as the "rational ignorance effect."(4)

The political process can be visualized as a complex set of interrelationships among citizens, politicians, and bureaucrats. Public choice analysis seeks to understand and assess the outcomes that emerge from different political processes. Its cardinal presupposition, which was also held by the Founders of the American constitutional order, is that a properly functioning political order depends not on the generosity or the self-denying capacities of those who engage in political activity, but on the presence of a well-constructed constitutional order that channels the pursuit of self-interest into generally desirable directions.

For instance, when the people who pay for a public sector project are the same as those who desire or benefit from the project, democratic political processes generally work quite well. If a project generates more value than it costs, most citizens affected by the project are likely to gain, provided that taxpayers and beneficiaries are the same people. Predictably, politicians will be supportive of such productive projects. By the same reasoning, counterproductive projects that generate less value than costs will impose losses on most voters, so long as taxpayers and beneficiaries are the same people. Vote-seeking politicians have an incentive to oppose such projects. The general principle that emerges from this line of reasoning elaborated by public choice theory is that so long as government acts in a non-discriminatory manner, thereby avoiding "the violence of faction," the individual pursuit of self-interest within political processes will tend to be harmonious with the general or common welfare.(5)

Public Choice and Democratic Pathology

The theory of public choice has articulated with contemporary analytical techniques what was common knowledge among the Founders of our constitutional order: democratic political processes can, both through their police powers and their budgetary powers, become an instrument of discrimination that accommodates the plunder of some for the benefit of others.(6)

One of the major subsets of public choice scholarship has come to be called the theory of rent-seeking, which is an examination of the various ways by which government can serve as an instrument of discrimination and plunder.(7) Rather than trying to build that proverbial better mousetrap, people might lobby for tariffs or quotas on imports, they might lobby a safety commission to ban lower cost, competitive mousetraps, or they might lobby to prevent people from making mousetraps at home. Rather than applying resources to the creation of wealth, rent-seeking uses resources to redistribute previously created wealth.

The incentive to engage in rent seeking is directly proportional to the ease with which the political process can be used to transfer income and modify existing property rights. When the effective law of the land makes it difficult to take the property of others or to force others to pay for projects favored by you and your interest group, rent-seeking is unattractive. Because the benefits of rent-seeking are relatively low under such circumstances, few resources flow into rent-seeking activities. But when government becomes more involved in transfer activities and when it fails to link its expenditures with taxes, the payoff to rent-seeking expands and rent-seeking attracts resources away from socially productive activities.

When government gets more involved in doing good things for some people (for example, providing them with direct transfers or favored programs) by imposing bad things on others (forcing them to pay for benefits supplied to others), individuals and groups will invest more resources into efforts designed to shape political outcomes to their advantage. Resources that otherwise would be used to create wealth and generate income will be "invested" in rent-seeking. People will spend more time organizing and lobbying politicians and less time producing goods and services. The employment of lobbyists, "expert" witnesses, lawyers, accountants, and other political specialists capable of influencing public policy and/or the size of one's tax bill will expand. By contrast, engineers, architects, physical scientists, craft workers, machine operators and other workers involved in the creation of goods and services will decline as a share of the labor force. The size of the economic pie will decline (or expand less rapidly) as more and more resources are employed in rent-seeking activities rather than the creation of wealth. Fewer people will be engaged in seeking after that proverbial better mousetrap as more become engaged in such things as lobbying for tariffs or quotas on imported mousetraps or for regulations restricting the ability of new firms to compete with established producers.

As the size of the tax-transfer sector increases, the theory of rent-seeking indicates that more resources will flow into lobbying, which is the most visible manifestation of rent-seeking. The data are consistent with this view. Between 1976 and 1983 the number of lobbyists registered with the federal government rose from 3,420 to 6,500, an increase of 90 percent in 7 years. As recently as 1979 New York City had twice as many national trade associations as Washington, D.C. By 1983 the number of Washington trade associations exceeded New York's by nearly 20 percent. A recent study found that 65 percent of the chief executive officers of the top 200 Fortune firms are in Washington on business at least once every two weeks, up from 15 percent a decade ago.(8) When the political process makes transfers more likely, an increase in rent-seeking and a decrease in wealth creation are natural outcomes. Viewed in this light the economic stagnation in personal disposable incomes during the past two decades is not surprising. It is a man-made and not a "natural" occurrence.

Sources of Democratic Pathology

The democratic pathologies characterized by the theory of public choice arise out of some institutional features that distinguish political processes from market processes. Those features lead to a predominance of special over general or common interests, produce a shortsightedness within government, and promote waste through the bureaucratic form of organization.

In contrast with the situation when the benefits and costs of individual voters are closely linked, the political process goes awry when the two are disconnected and fiscal discrimination arises. Special interest issues--policies that provide substantial personal gain to a concentrated group of beneficiaries at a cost which is spread widely among voters--illustrate the troublesome features of fiscal discrimination, as a comparison of the political gains a vote-seeking politician can expect from supporting the special interest relative to the disorganized majority shows. Since the personal stake of the concentrated beneficiaries is substantial, they have a strong incentive to inform themselves and their allies and to let candidates (and legislators) know how strongly they feel about the issue. Many such beneficiaries--perhaps as illustrated by, among others, social security recipients or protected industries--will vote for or against politicians almost exclusively on the basis of whether those politicians support their interests. Such concentrated beneficiaries will also use financial assistance and work to support politicians who are receptive to their views and oppose those who are not.

By contrast, consider the probable political consequences a representative could expect from the support of the interests of the diffuse majority--the ordinary taxpayer if you like. Voters who have only a small *personal* cost imposed on them by special-interest measures will care little about the issue. Most likely, they will be rationally uninformed (remember the rational ignorance effect) since the time and energy necessary to examine the issue and figure out its impact will be more costly than it is worth, particularly if the issue is fairly complex. And even if the diffuse majority of citizens is informed on the issue, they will not feel very strongly about it because it exerts little impact on their personal welfare.

If you were a vote-seeking politician, what would you do? Clearly, you would gain little from supporting the interest of the largely uninformed and disinterested majority. An astute politician would almost surely support the special, concentrated interest over the general, diffused interest. Support of the special interest is capable of providing additional votes, campaign workers, and perhaps most importantly, campaign contributions. In turn, the finances supplied by the special interest can be used to buy media time and take other steps to win the support of other voters.

When the benefits are concentrated and the cost diffused, politicians will be led as if by an invisible hand to serve the purposes of the well-organized, concentrated beneficiaries.(9) This is true even if the project reduces the size of the economic pie. Much economic inefficiency emanates from this deficiency of the political process. For example, consider the case of the roughly 11,000 sugar farmers in the United States. The cost of producing sugar in the U. S. is three or four times higher than production costs in many other countries, particularly in the Caribbean. Nonetheless, Congress has instituted import restrictions and price supports which have pushed the U. S. price above 20 cents per pound compared to the 7 cents per pound price on the world market. As of 1986 the average U.S. resident pays approximately $6 more for sugar each year than would otherwise be the case, while the 11,000 sugar farmers gain $1.5 billion in gross income, approximately $130,000 per farm. Of course, the average ("rationally ignorant") voter is totally unaware that special interest policies have pushed up the price of sugar, while the sugar farmers are among the leading contributors to those politicians who exert a key impact on agricultural policy. As a nation we are poorer, because we could buy sugar cheaper than we can raise it. Nonetheless, the continuation of the program under both Republican and Democratic administrations indicates that catering to the concentrated interests of the sugar industry is "good politics" even if it is "bad economics."

The special interest effect helps to explain the presence of tariffs and quotas on steel, automobiles, textiles, and several other products. Regulations mandating that Alaskan oil be transported by the high cost American maritime industry reflect the industry's political clout, not its economic efficiency. Acreage restrictions and price supports on feed grains, tobacco, and peanuts generate waste and promote the adoption of inefficient production methods. Nonetheless, they survive in the political marketplace because agricultural pressure groups support such policies while most others are largely disinterested and uninformed. Federally-funded irrigation projects, subsidized grazing rights, subsidized loans, subsidies to airports--the list goes on and on. Policy in each of these areas is rooted in the special interest effect and not in sound economic doctrine. While each such program individually imposes only a small drag on our economy, in the aggregate they drain our resources, threaten our standard of living, and impair our liberty.

What happens prior to the next election is of crucial importance to incumbent politicians. Since issues of public policy are usually complex, it is often difficult for voters to anticipate *future* benefits and costs accurately. To the extent this is so, voters will tend to judge incumbents primarily on the basis of economic conditions around election day. Therefore, policies that improve the state of affairs prior to an election will be attractive to politicians, even if those policies are likely to have substantial negative consequences after the election. On the other hand, policies that impose costs now but whose benefits will emerge only after the next election will reduce the reelection prospects of incumbents. As a result, the political process is biased toward the adoption of shortsighted policies and against the selection of sound long-range policies.

Essentially, legislators can claim credit--whether rightly or wrongly is irrelevant--for benefits (for example, improvements in the economy) that accrue prior to the next election, but they have much less ability to claim credit for prospective benefits *subsequent to* the election. Unlike their market counterparts, who can borrow against anticipated future benefits to stay in business now, politicians have limited ability to capture prospective future benefits from wise decisions. As a result, politicians tend to exaggerate the importance of policy impacts prior to the next election and to discount excessively their post-election consequences.

This shortsightedness often leads to a conflict between good politics and sound economics. Even counterproductive policies can enhance the election prospects of politicians when the short-term results differ substantially from the effects over a longer time period. Unfortunately, this is often the case with economic issues. Examples abound. Financing government by monetary expansion is likely to stimulate employment and output in the short-run, even though inflation, uncertainty, and instability are side-effects observable in the long run. Borrowing to finance short-term programs that benefit coveted voting blocks is attractive even though the long-term result will be higher real interest rates, less capital formation, and higher future taxes. Rent controls may reduce rental housing prices in the short-term, but at the price of housing shortages, black markets, and a deterioration in housing quality in the long run. In each case, the positive short-term effects strengthen the political attractiveness of policies that are generally detrimental in the long run.

The day-to-day functions of government are performed by bureaus, which derive most if not all of their revenues from the periodic appropriations of the legislature rather than from the direct sale of output to consumers. In effect, the legislative body supplies the bureau with a budget along with instructions for dealing with its assigned tasks. The function of the bureau is to transform the budget into public services.

If bureaucrats are pretty much like the rest of us, neither more nor less virtuous or self-interested, it is useful as a first approximation to view them as seeking to maximize the size of their bureau's budget.(10) A larger budget will enhance the opportunities and resources available throughout the bureau. As the bureau expands, the power, prestige, salary and other benefits to bureau managers will generally increase. At the middle and lower levels of employment, a larger budget and an expanding bureau will offer additional job security and possibilities for promotion. Larger budgets are also likely to generate additional funds for office space, furniture, travel, and other resources that improve the work environment of bureaucrats. Almost every bureaucrat can expect to gain something from the growth of the bureau; it is surely a rare bureaucrat who would lose as the result of an expansion in the bureau's budget. Therefore, the people who staff the bureau can be expected to develop and unite behind a strategy designed to increase the size of the bureau's budget.

Political competition might seem to provide legislators with an incentive to curb inefficient performance by public sector suppliers. However, there are several reasons why it will be extremely difficult for a legislative body to control the cost effectiveness of a bureau and promote operational efficiency, particularly when the bureau is a monopoly supplier. Bureaus do not have an easily identifiable "bottom line," analogous to the net income of a corporation, that might be used to judge the bureau's performance. The absence of a well-defined index of performance provides managers in the public sector with considerably more leeway to gloss over inefficiency and to pursue personal objective's than is available to their counterparts in the market sector. Neither do bureaus confront a mechanism, like bankruptcy in the private sector, capable of bringing inefficient projects to a halt. In fact, failure to meet objectives often generates pressure for larger appropriations in the public sector. If the crime rate is rising, crime prevention agencies will lobby for additional funds. If schools are plagued with discipline problems and low achievement scores, public school administrators and unions will demand more funds. If the Department of Defense is beset with cost overruns, you can bet that supplemental appropriations will be requested.

The major source of information with regard to the bureau's performance invariably comes from a biased source--the bureau itself. In addition, bureaucratic suppliers and their clients often constitute concentrated interests capable of influencing legislative action. All of these factors combine to reduce both the ability and the incentive of legislative overseers to control the cost of bureaucratic suppliers. It is important to note that the fault lies with the organizational structure and not with the character of public sector employees. On the whole there is no reason to think that government employees are less competent, less energetic, or less committed to their work than other workers. Nonetheless, given the incentive structure under which they toil, bureaucratic inefficiency is a predictable result.

Constitutional Implications of Public Choice

Both bad news and good news flow from public choice analysis. The bad news is that unconstrained democratic government is far from being a corrective device, and is rather itself a major source of economic waste and inefficiency. Unless somehow restrained constitutionally, democratic governments will often enact programs that waste resources and impair the general standard of living of their citizens. In the language of economics, the world is beset not only by "market failure" but also by "government failure." Therefore, we must understand how both market and political processes work before we can judge which is likely to be more consistent with economic efficiency and the general welfare. Merely because the market fails to meet someone's hypothetical idealized conditions for economic efficiency (what economists call pareto optimality), it does not follow that government intervention will improve the situation. In like manner, just because the market does not achieve what someone perceives as a fair distribution of income, it does not follow that the political process will do better.

In the aftermath of the public choice revolution, sound economics must be comparative economics. Economists who formulate optimizing solutions to market failure that are inconsistent with the operation of political organization might as well be spending their time working crossword puzzles. The real value of economics, at least with respect to questions of public policy, lies in its ability realistically to compare the properties of different institutional frameworks guiding the organization of economic activity. Expected outcomes under market organization (in its various forms) must be compared with expected outcomes under political organization (in its various forms). Unless we follow this approach, we are as George Stigler once stated, like the judge who after hearing the first contestant sing, immediately declared the second contestant the winner.

Fortunately, there is also good news arising from the public choice revolution: if the rules of politics are structured properly, which is a task for constitutional construction as the authors of *The Federalist* recognized, many of the adverse consequences of the political process can be limited. Public choice theory provides insights into how this might be accomplished--that is, how political institutions and rules can be designed in a manner which will direct the self-interest of political players to the furtherance of the general welfare.

The major problems of political organization emanate from two related characteristics: (1) centralization, and (2) lack of competition among governmental units. Both these factors strengthen the position of organized interest groups relative to the general taxpayer, weaken the incentive for efficiency in government, and enhance the likelihood that public sector action will be exploitative through fiscal discrimination.

What would a political structure designed to bring the self-interest of political players into harmony with the betterment of the general citizens look like? Interestingly, with regard to economic affairs it would encompass a number of the ideas emanating from Philadelphia 200 years ago. First, the primary function of the central government would be to protect the life, liberty, and property of its citizens from both foreign and domestic aggressors, including the government itself. Performance of these protective functions would require that government enforce contracts (U.S. Constitution, Article 1, Section 10) and prohibit the taking of private property without the granting of full compensation to the owner (Amendment V). Governments would also be prohibited from the fixing of prices or the barring of entry into the production of otherwise legal goods, both of which restrain trade and are indirect forms of taking property without compensation. Similarly, governments would be restrained from imposing discriminatory taxes and regulations designed to limit the movement of people or goods across the boundaries of governmental units.

Second, at the central government level, the primary beneficiaries of a program should be required to foot the bill for its cost. This would be accomplished if the central government were permitted only to undertake projects that provide widespread, general, or common benefits to citizens financed by general taxation. The U. S. Constitution, Section 8 states: "The Congress shall have power to lay and collect taxes, duties, imports and excises to ... provide for the *common* defence and *general* welfare of the United States, but all duties, imposts and excises shall be *uniform* throughout the United States." This constitutional provision indicates that it was the intent of the Founders that uniformly levied taxes would be used only for the finance of expenditures yielding general benefits (the "common" defense and "general" welfare). Certainly there is nothing in the Constitution authorizing programs of the general nature that A and B enrich themselves at the expense of C (and possibly D and E as well). However, with the passage of time and erosion of the original intent, today a large share of federal expenditures are precisely of this type--they benefit a narrow segment of society at the expense of others.(11) In order to assure greater adherence to this substantive provision, tax and spending proposals at the central government level could be required to secure the approval of a supra-majority (for example three-fourths) approval of the legislative members. Such a procedure would constrict the scope for winning factions to practice fiscal discrimination.

Third, the size of the supra-majority required for legislative action could reasonably decrease at lower levels of government. For example, we might continue to permit local legislative bodies (city commissions, county commissions, regional authorities, etc.) to act with the approval of only a simple majority, while requiring a three-fifths majority for legislative action at the state level and a three-fourths majority at the federal level. The increasing majorities required for legislative action at higher levels of government would help remedy a deficiency of the current system: the tendency of public sector activities to move toward the central government, where government is least competitive and the potential for oppressive action is greatest. At the state and local level, citizens are better able to control government and to avoid being victimized by fiscal discrimination. If a decentralized governmental unit is operated inefficiently or being used to funnel resources to interest groups, citizens could at a relatively low cost move to governmental units which provide them more value for their tax dollar. In a decentralized setting, the tax base of inefficient governmental units would fall relative to local governments that are operated more efficiently. Much as the competitive process roots out inefficiency in the marketplace, competition among decentralized governmental units could be a useful weapon against public sector inefficiency.

Of course, public choice theorists are continuing to investigate the operation of alternative forms of political organization.(12) The challenge before us is to develop political institutions capable of bringing, to the fullest extent possible, the self-interest of politicians, bureaucrats, and voters into harmony with the general welfare of a society. In other words, public choice economists seek to design political structures and procedures capable of directing the political players to serve the general welfare just as Adam Smith's invisible hand directs market participants to serve the general welfare.

With regard to the achievement of this objective, one thing is certain: success rests upon our ability to develop and institute sound rules and procedures rather than on our ability to elect "better" people to political office. Unless we get the rules right, the political process will continue to be characterized by special interest legislation, bureaucratic inefficiency, and the waste of rent-seeking. The political incentive structure is like the law of gravity. Just as both Republicans and Democrats fall at 32 feet per second, so too do both engage in special interest politics and other socially wasteful political behavior when the political incentive structure encourages them to do so.

As James Buchanan has often stated, in a very real sense the roots of public choice analysis are found in the writings of the American Founders, particularly the contributions of James Madison in *The Federalist Papers."* The Founders were designing a government for fallible men. As Madison stated in *Federalist* No. 51: "If men were angels, no government would be necessary."

How do you provide fallible men a government which necessarily possesses a monopoly on the use of force within society without simultaneously giving rise to a situation which will lead to the abuse of that force? This was the central issue at the time of our constitutional founding and it is still the central issue today. The Founders answered it with a constitution providing for a federal system, enumerated powers of the central government, substantive limitations on the taxing and spending authority of the federal government, a bicameral legislative system, and a division of power between three branches of government. As Madison explained, they sought to counteract ambition with ambition. Public choice theory suggests that they might also have provided procedural restraints such as the requirement of a supra-majority for legislative action at the federal level, which would have retarded the tendency toward the centralization of power which has undermined the American system during the last 50 years. Although public choice theory has developed new insights into the problems of self-government, it has also reaffirmed that the American Founders had the right idea. The Founders sought to design a government that would provide the legal framework and stability necessary for private sector cooperation while simultaneously limiting government, particularly the federal government, to activities where there was reason to believe its actions would be beneficial. In brief, they sought to structure government so that it would undertake beneficial activities and refrain from counterproductive actions. In a very real sense, their work reflected the objectives of modern public choice analysis.

1. For a survey of Buchanan's scholarship with particular reference to its implications for constitutional order, see Richard E. Wagner, "James M. Buchanan: Constitutional Political Economist," *Regulation* 11 (February 1987), 13-17.

2. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* [1776] (New York: Modem Library, 1937), 14.

3. Contrary to the charges of some, this self-interest postulate does not imply that individuals are greedy materialistic money-grubbers who care only about themselves. People act for a variety of reasons, some selfish and some humanitarian. The basic economic postulate implies that the choices of *both* the humanitarian and egocentric individual will be influenced by changes in personal cost and benefits. For example, both will be more likely to support a policy that generates benefits for others (for example, farmers, the poor, or the elderly) when the personal cost of doing so is low than when it is high. Similarly, both the humanitarian and the egocentric will be more likely to discover and act upon opportunities to reduce costs the greater the personal payoff for doing so.

4. See Anthony Downs, *An Economic Theory of Democracy* (New York: Harper and Brothers, 1957).

5. On this property of non-discrimination, see W. H. Hutt, "Unanimity Versus Non-Discrimination (As Criteria for Constitutional Validity)," *South African Journal of Economics* 34 (June 1966), 133-47.

6. For a thorough survey of the Public Choice literature see William C. Mitchell, "Fiscal Behavior of the Modem Democratic State: Public Choice Perspectives and Contributions," in *Political Economy: Recent Views*, ed. L. Wade (Los Angeles: Sage, 1983), 69-114.

7. The seminal work on rent-seeking is Gordon Tullock, "The Welfare Cost of Tariffs, Monopolies, and Theft," *Economic Inquiry* (June 1967), 224-32. A survey of the literature is presented in Robert D. Tollison, "Rent-Seeking: A Survey," *Kyklos* 35 (March 1982), 575- 602.

8. See David Boaz, "Spend Money to Make Money," *Wall Street Journal* (November 13, 1983, op-ed).

9. For additional discussion of this topic, see Gary Becker, "Public Policies, Pressure Groups, and Dead Weight Costs", *Journal of Public Economics* 28 (December 1985), 329-47, and James Gwartney and Richard Stroup (4th ed.), *Economics: Private and Public Choice* (New York: Harcourt, Brace, and Jovanovich, 1987), 696-700.

10. For additional information on the theory of bureaucracy, see William Niskanen, *Bureaucracy and Representative Government* (Chicago: Aldine-Atherton, 1970), and Gordon Tullock, *The Vote Motive* (London: The Institute of Economic Affairs, 1976), Chapter IV.

11. See Richard Epstein, *Takings: Private Property and the Power of Eminent Domain* (Cambridge: Harvard University Press, 1985) for a comprehensive analysis of why constitutional prohibitions on governmental activities of this type are crucially important for both economic efficiency and the preservation of a free society.

12. See, for example, many of the essays collected in James Gwartney and Richard E. Wagner, eds., *Public Choice and Constitutional Economics,* (Greenwich, CN: JAI Press, 1988).

13. For a detailed analysis of the contribution of Madison to the U.S. Constitution, see James Dorn, "Public Choice and the Constitution," *Public Choice and Constitutional Economics*, eds. Gwartney and Wagner.