CORPORATE OWNERSHIP & CONTROL

КОРПОРАТИВНАЯ СОБСТВЕННОСТЬ И КОНТРОЛЬ
GOVERNMENT AND MARKET: A CRITIQUE OF PROFESSOR JAMES BUCHANAN'S "WHAT SHOULD ECONOMISTS DO?"

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Abstract

For Professor James Buchanan, government is just one more player in the market, along with all others, such as consumers, landlords, farmers, etc. This view is subjected to sharp criticism by the present author, who makes the case that the government differs from all other participants in society in that it and it alone enjoys a legal monopoly over initiatory aggression against person and property. No individual presumes to take on the role accorded the state (e.g., to "tax" anyone, or prevent businesses from merging under threat of fine or jail); the government does this every day.

Keywords: Government, monopoly, public choice, anarchism, libertarianism, aggression, public goods, free rider, market failure

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Introduction

Political science may be defined as the systematic thorough and rational analysis of politics. In order to approach this field in a scientific manner, the analyst must avail himself of the relevant empirical insights as well as normative considerations, since political science straddles, or is composed of, or touches upon, endeavors such as economics, ethics, sociology, history, etc., in addition to politics itself.

To the extent that political science is interdisciplinary, economics is its first cousin. A sub field of the dismal science, public choice, has perhaps made the greatest strides, from within economics, to bridge the gap in the direction of political science. The public choice school of economic thought is dedicated to the notion that political choices and decision making may be profitably studied using the tools of economic analysis. If there is a father of public choice, it is James Buchanan. His Nobel Prize in economics was awarded to him, in part, because of his path breaking work in the analysis of political institutions from an economic perspective.

Such a research agenda is sometimes characterized as "social science imperialism," the attempt of one field within this broad calling to take over the "turf" of another, or as "economic imperialism," the endeavor to establish a beachhead of dismal science on to what had been traditionally counted as the territory of a different discipline. Public choice is an attempt, par excellence, on the part of economists to seize the intellectual property of political scientists. It is one of the main purposes of the present paper to assess whether or not, and if so to what extent, have economists of the public choice school succeeded in wresting away realms traditionally the preserve of political scientists.

A Contradiction

What was the thesis of Buchanan and Tullock (BT) in their 1971 book, Calculus of Consent (CC)? They put forth the view that government is really just another sort of market; that the political marketplace and the political marketplace are just two sides of the same coin; that dollar votes and ballot box votes follow the same rules (e.g., downward sloping demand curves); that, at the very least, there is a strong analogy between the two.

1 Gordon Tullock deserves, also, to be mentioned in this context, since he co authored with James Buchanan several of the tomes which have set up the foundations of public choice. As well, Tullock has contributed mightily to this field on his own and with others besides Buchanan. See for example Tullock (1980a,b, 1985, 1967).

2 In justice, this Nobel Prize should have been given to both Buchanan and Tullock.

3 In the interests of full disclosure, I am an economist, not a political scientist. My Ph.D. is in the former field not the latter. True confession: my natural predilection is to support forays of this sort.
But Buchanan (1979, pp. 30,31) contradicts this thesis. Here, he maintains that there are two ways of viewing human economic organization. The first, a means-ends perspective, sees the “wealth of nations” as the goal, and economic allocation as a problem to be solved. In this conception, the market, as a mechanism, is appropriately compared with government, as an alternative mechanism for accomplishing similar tasks.

However, continues Buchanan, “The second ... is wholly different, although subtly so, and it is this second conception that I am trying to stress in this paper. And what is this second view of human economic organization? It specifically rejects the idea of macro level goals, such as maximizing the “wealth of nations,” or the challenges of overall economic allocation. Rather, it takes on a more individualistic or micro stance. “It is, instead, the institutional embodiment of the voluntary exchange processes that are entered into by individuals in their several capacities.” It is not that there are no purposes in this second concept. There are. It is just that these are held by private individuals, with no thought as to how this impacts the entire society. Here, Buchanan (p. 31) observe(s) men attempting to accomplish their own purposes, whatever these may be.” Buchanan can only have it both ways, that is, can remain true to CC, if he accepts the first of these two visions. If, and to the degree he embraces the second, as he says he does in this later work, then he must, upon pain of contradiction, renounce the thesis of CC.

Public Goods

His further comments in this context would appear to buttress the claim that he had abandoned the CC thesis. For next lie discusses the “local swamp (which) requires draining to eliminate or reduce mosquito breeding” (p. 32). One would expect the Buchanan of CC to wax eloquent about externalities, free riders, and the need for government to make good this “market failure.” Instead, we are treated to an outright rejection of this typical view: “Defined in the orthodox, narrow way, the ‘market’ fails; bilateral behavior of buyers and sellers does not remove the nuisance.... This is, however, surely an overly restricted conception of market behavior.”

How then will the market work? How can people, without the aid of the state, work together to solve the problems of the swamp?

Here he continues in a vein perfectly consistent with that of a libertarian: “Individual citizens will be led, because of the same propensity, to search voluntarily for more inclusive trading or exchange relationships.” Were he to continue in this vein, one can almost hear Buchanan maintaining at this point, Rothbard-like, that the entire swamp, and much of the surrounding area, will be owned by one corporation; then, the negative externalities of the mosquitoes will be internalised by this land company. Unless they solve this swamp problem, the surrounding land values will not increase; they will not be able to sell fishing, boating, swimming, housing rights. That prospective golf course will remain on the drawing boards forever.

In the event, Buchanan says none of this, unfortunately. But he does do the next best thing: he discusses the internalization of externalities, albeit in a completely different context, He states (p.32):

“How is the free rider problem to be handled? This specter of the free rider, found in many shapes and forms in the literature of modern public finance theory, must be carefully examined. In the first place, there has been some confusion between total and marginal effects here. If a pretty woman strolls through the hotel lobby, many tired convention delegates may get some external benefits, but, presumably, she finds it to her own advantage to stroll, and few delegates would pay her to stroll more than she already does.”

Not so good. Had Buchanan remained perfectly true to the free market vision, had he more closely tied the strolling woman case to that of the mosquito-laden swamp, he would have speculated about the possibility that there was too little strolling compared to the optimal amount. Then, this would have led him, as if by “an invisible hand” to enquire as to the identity of the person with a financial interest in seeing to it that the incidence of strolling increased. Obviously, this would be the hotel owner, the analog to the land owner of the previous example.

Market Failure

Unhappily, this author then completely drops the ball. He resorts to the same tired old traditional “market failure” analysis he just finished excoriating (pp. 32, 33):

“there may be cases where the expected benefits from draining are not sufficiently high to warrant the emergence of some voluntary cooperative arrangement. And, in addition, the known or predicted presence of free riders may inhibit the cooperation of individuals who would otherwise. In such situations, voluntary cooperation may never produce an ‘efficient’ outcome for the individual members of the

4 Nowadays, the government is the least likely source of the solution to the mosquito challenge. It is not part of the problem, not the solution. For under the aegis of the Environmental Protection Agency, swamp draining, or interfering with practically any body of water, or “wetlands,” will likely be prohibited outright. And if not prohibited, then postponed, and made far more expensive than before.


6E.g., “market failure.” Not to be sure, of the external diseconomy mosquito type, but of the mirror image failure to promote an external economy of the stroller sort.
group. Hence, the 'market,' even in its most extended sense, maybe said to 'fail.'

All he is saying, here, is that even with a full private property free enterprise system, there may still he some swamps which remain undrained. This might well be true. But Buchanan has no warrant for claiming that if this occurred, it would be a "failure." On which stone tablets is it written that all undrained swamps are an affront to the Almighty? Who says that the optimal number of mosquito infested swamps is zero? The neoclassical economists live and die by empirical considerations, but what evidence could he adduced in behalf of this claim? On the contrary, if the market "fails" in this manner, it is prima facie evidence that for those few swamps which remain in the pristine form, it is a success to leave them exactly as they were.7 The "market failure-ists" never put forth their own independent criterion of the optimal number of undrained swamps. They rely on the claim that there are externalities to assume, a fortiori, that the optimal level will not be reached through voluntary economic action. Consider the possibility of swamp ownership by a group such as Ducks Unlimited, or the Sierra Club, or some such other environmental group. Suppose they owned a large holding with a swamp located in the middle of it, such that the mosquitoes never strayed onto the property of other people. That is, this "harm"8 never reaches out to those who view it negatively. Why isn't this a case of economically rational swamping?

Voluntarism?

However, Buchanan does redeem himself at least partially. He poses the challenge, "What recourse is there to the community as a collectivity, at least for some act, to which they assign a valuation, through which they carry out their decisions, and through which they are coeriely enforced once they are made?"

This is all well and good, if interpreted sympathetically enough. The constitutional state would be directly analogous to the "big land company" that would own both the swamp and the surrounding affected area. Of course it would be legitimate for it to enforce its decisions "coericially," because they would be no more coercive than would be those of the business firm in demanding its right to evict trespassers. The government would be like a private club, where everyone had agreed to pay dues, to be bound by the rules created by the majority, subject perhaps to a bill of rights agreed upon at the outset, etc. But all this soon comes unglued when we realize that Buchanan is not talking about some ideal situation, some model he has concocted entirely from his imagination. Rather, he is offering this as an analysis of real world governments such as that of the United States. And here, Spooner's (1966)9 insights render nonsensical all such claims. There simply is no such agreement, signed by all citizens at any given time, in all of U.S. history. The closest we come to this model is when a scant few men signed the Declaration of Independence. Buchanan's is an attempt to analyze not merely theoretical governments, but extant ones. He may have succeeded in the former case, in coming up with some very interesting fairy tales, but with regard to the latter his effort must be judged a dismal failure.

As it happens, Buchanan comes very close to admitting his whole scheme is self-contradictory; that the voluntary elements of the free enterprise system cannot be reconciled with the essentially coercive elements of the state. He states (p. 34):

"Insofar as individuals meet one another in a relationship of superior-inferior, leader to follower, principal to agent, the predominant characteristic in their behavior is political;... Economics is the study of the whole system of exchange relationships. Polities is the study of the whole system of coercive or potentially coercive relationships." But it is not true that hierarchy is per se exploitative. The orchestra conductor leads the musicians, not the other way around; the employer, within limits, controls the behavior of the employee; it is the principal, not the agent, who exerts the commands. But all of this occurs in the market, where all relationships are reciprocal and voluntary. How, then, to explain how someone can "boss" someone else around, and yet not coerce him? The answer is simple. As long as the "inferior" person has agreed to be bound by the dictates of the "superior" (usually but not always because of monetary payments), the relationship is a legitimate, voluntary one. Take away this essential prior agreement, and a legitimate hierarchical one is rendered coercive.

Visions

It is just barely possible that we have been too hard on Buchanan. Maybe his model is merely an imaginary one, in which ease we have no serious objections; perhaps he does not really mean to apply it to the real world. Evidence for the former hypothesis abounds. He tells us (p.144):

"In my vision of social order, individual person are the basic component units, and 'government' is simply that complex of institutions through which individuals make collective decisions, and through which they carry out

7See also Rothbard (1973, 1982) and Hoppe (1993).
group. Hence, the 'market,' even in its most extended sense, maybe said to 'fail.'

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"It is surely that of transferring, again voluntarily, at least at some ultimate constitutional level, activities of the swamp-clearing sort to the community as a collective unit, with decisions delegated to specifically designated rules for making choices, and these decisions coercively enforced once they are made."

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7This would merely show that in the view of the economic actors who stand ready to lose money by making poor decisions, the benefits of clearing of the marginal swamp are more than offset by the costs. Or, that the costs of internalizing the externalities, whether through restrictive covenants, or single ownership, are lower than the benefits of these activities.

8Remember, one man's meat is sometimes another man's poison.

9See also Rothbard (1973, 1982) and Hoppe (1993).
need be. This means that it is legitimate to use force not agreed to be bound by anything at all, as would be true against a would be aggressor, even if this latter person has defend himself and what is his through use of violence if damage on a person or his property, he has a right to on such title. Therefore, if someone attempts to inflict in a state of nature.

So far, we have been arguing not that if the constitution is like a private contract, but w actually was a private contract, that we have no serious reservations with the Public Choice Model of constitutional economies. This is because if the state really is akin to the market, then any force excited by it on "unwilling" participants is really justified, for these persons agreed beforehand to be bound by the view of the majority.

Tyranny of the majority

Buchanan (1979, p. 150) criticizes Arrow (1951) not for the latter's analysis, with which he agrees in any case, but for the latter's wishes about that analysis. Specifically, Arrow proved that given simple majority voting, no unique and consistent social ordering of the social welfare function would emerge. Arrow was unhappy with this result, yearning for stability, while in Buchanan's view. "If we had a majority voting rule that would, in fact, produce internally consistent choices in the Arrow sense, we should, indeed, have a tyranny of the majority." But this is highly problematic. BT have all along been asserting their constitutional thesis, namely, that the populace has agreed to be bound by the dictates of the majority. How can Buchanan, then, turn around and castigate any determination of the majority at all as "tyrannical"? That is, even if a majority of Nazis, for example, were to vote to eliminate all Jews, this would still not be tyrannical, at least according to the thesis put forth by BT. This is because the Jews, initially, made a decision to be bound by the will of the majority. If they feared animosity emanating toward them from the Nazis, they never should have constitutionally agreed to be bound by majority decision. Since they have, by stipulation, they should calmly accept their fate, and not denigrate their fellow citizens with such a harsh and unjustified a characterization as "tyrannical."

Unanimity

Buchanan (1979, p. 153) states: "If we reject the notion that there must exist a public or general interest apart from that of the participants, we are necessarily led to the conclusion that only upon unanimous consent of all parties can we absolutely sure that the total welfare of the group is improved."

In this, he is totally correct. First of all there is no general or public interest over and above that of the citizenry. There are only separate people. All groups, nations, collectives, etc. are merely gatherings of unique individuals. Even a marriage, perhaps the closest collective of all, is still composed of two non identical people. There is no third party in the marriage, over and above the two of them. "Two's company, three's a crowd."

The only problem is that BT talk about a near or "relative" or "conceptual" unanimity. In their view, this can also justify state activity. Put this as highly problematic. Suppose that the near unanimity consists of 98% of the populace. But this still leaves the other 2% which can be victimized by them. Now it might pay for the 2% to agree to be bound by political voting of the 98%; perhaps this will be better for their, under certain circumstances, than a situation where the state is nonexistent. Maybe the 98% could more heavily, or efficiently, brutalize the 2% under anarchy than under archy. But that is for them (e.g., the minority) to say. There is no warrant for maintaining that the 2% must have agreed with this assessment. Perhaps, in some cases (e.g., Nazi Germany, for the Jews) they may prefer

10 Some people might take from this line of thought that it is always illegitimate to impose one's will on people who have not agreed to be bound by it, beforehand. This is only roughly correct, and it may be worthwhile to explore why such a line of reasoning is not entirely valid. So we ask, what is the case for supposing that it is legitimate to use force even against people who have not agreed to be bound by it? Let us return to the Hobbesian state of nature for this exercise. According to the libertarian perspective, Public Choice's main competitor within the broadly based free enterprise camp, each individual has a right to be free from aggression in his person, and in his legitimately held property. This in turn, is based on either original homesteading, or trades based on such title. Therefore, if someone attempts to inflict damage on a person or his property, he has a right to defend himself and what is his through use of violence if need be. This means that it is legitimate to use force against a would be aggressor, even if this latter person has not agreed to be bound by anything at all, as would be true in a state of nature.

11 Not that they could have done anything about it, given that for Buchanan, their signatures on the dotted line is not needed.

12 For the view that we all accept government "implicitly," and thus no explicit unanimity is needed to justify it, see Buchanan (1971, p. 254).

13 The overwhelming majority of brutality and mass murder occurs within or between governments (Conquest, 1986, 1990); thus it might appear that anarchy has had a bad press, since the opposite view is perhaps more prevalent.

14 For critiques of anarchy, see Buchanan (1977), Nozick (1974). For defenses, see Spooner (1966), Hoppe (1993), Barnett (1977), Childs (1977); Evers (1977); Rothbard (1977); Sanders (1977).
to go it alone, unprotected by the niceties of the political process.

Bureaucracy

Buchanan (1979, p. 162) states: "The administrative hierarchy of a modern corporate giant differs less from the federal bureaucracy than from the freely contracting tradesmen envisaged by Adam Smith."

Now this is undoubtedly true—but only superficially. For example, it is surely the case that the employees of Big Government and Big Business are housed in similar office buildings; that the memos they pass along to each other are parallel in many specifics; that there are as many levels in the chain of command in the one case as in the other. Moreover, it cannot be denied that in this same regard both of these are as far apart as it is possible to imagine from the small firm with one or two employees. The latter has no chain of command worthy of that name at all, The boss usually initiates, but typically depends on trusted workers to contribute; there are no memos; they work in a basement or in a garage or in a small shop or office. Not for them the trappings of Bigness.

But Buchanan's point is just like saying that a big man and a seal are more alike (since they weigh about as much) than is a big man and a small baby. It is akin to asserting that Pope Paul II's kinship with his replica in Madame Tussaud's Wax Museum is greater than that which exists between him and someone else, say Professor Buchanan. It amounts to concentrating on superficial similarities, and ignoring important, but underlying differences. Big Business and Big Government may look alike to an ignorant outside observer (or even to an insider, a participant), but they are very different as pertains to the voluntariness of each institution. Business no matter how Big, cannot compel customers to make purchases; they must attain consent. Government, no matter how Small, may legally do so.

They also differ as far as survivability is concerned. Business, no matter how Big, must satisfy customers; if it fails to do so, it are forced into bankruptcy. Government, in contrast, particularly the bureaucracy, boasts of no such automatic feedback mechanism. If you don't like how they run things at the Post Office, or at the Motor Vehicle Registry, you cannot take your "business" elsewhere. If many people boycott these institutions, and they lose money hand over fist, there is still no tendency toward dissolution. Instead, the government merely hands over additional funds mulcted from the long-suffering taxpayer.

Value Free Policy Prescriptions

Buchanan (1979, p. 180) holds the following view: "In a sense, public-choice analysts can take on a normative role in advocating some matching of policy proposals with the institutional realities of modern politics. We can talk meaningfully about the 'best' rules, or the 'nth best' arrangements, often quite independently of the ultimate policy targets. In other words, we can talk normatively about 'process' or 'procedure,' while staying clear of normative discussions of 'end-states.' This sounds altogether too much like the "value free" chemist being asked by the Nazis about the most efficient way to attain their goals. Yes, to be sure, the words offered by the scientist under such a condition would be indistinguishable from those uttered in an entirely different context, But context is all. Sentences indicating that water is composed of two parts oxygen and one part hydrogen, or the poison gas can best be produced in such and such a way, or that the most efficient oven will be composed of this metal not that, are non normative sentences. But uttering them, an act may or may not be value free. Contrary to Buchanan, the usual presumption is that speech acts are normative exercises. Why would the speaker have spoken them did he not prefer a world which included these statements to one which did not? And is this preference not to he considered a value? And is the attainment of a value not to be considered normative?

A Contradiction?

Buchanan (1979, p. 181) holds the following view, which we shall call A:

"We should care, and we should think about, what the fiscal constitution for political democracy should look like, what sort of institutions should most efficient in the working of democratic politics."

Let us contrast this with another statement, call it B, which reads as follows (Buchanan, 1979, p. 186):

"I found myself less interested in the old question, How should tax shares be allocated? and at the same time more interested in the new question, How are tax shares allocated in a democracy?"

While it might be too harsh to claim that A and B are explicit contradictions of each other, one must acknowledge that they, at the very least, lead the reader in rather different directions. According to B, we should eschew old normative questions. But A is a normative issue. Now let us bring into the analysis opinion C (Buchanan, 1979, p. 188):

"Individuals do not pay 'prices' for partitionable units of (public) goods. They pay 'taxes' which are coercively imposed through a political process and this coercion is, in turn, made necessary by the free rider motivation inherent in
general collective action. Few persons will voluntarily pay taxes if they expect to receive the benefits from generally available public goods. One problem with C is that it is logically incompatible with BT's oft-made claim to the effect that the polity is a voluntary one at the outset. If we all agree to be part of the government (e.g., citizens) how can it be "coercive" to compel us to pay our fair share of taxes, as determined democratically? After all, in joining up, we have agreed to be bound by the will of the majority, and the vote was, presumably, in favor of leveling taxes. Another difficulty is that coercion is by no means "made necessary" by the free rider motivation. It is not at all logically "necessary" that the government force people to contribute to programs it is pleased to think provide for the betterment of non contributors, One man's meat is another man's poison. There is not a single solitary act, from defense to mosquito eradication, which benefits all people. Pacifists, and members of the fifth column of the beleaguered country, are harmed by its attempt to defend itself. They would actually prefer that the nation not be militarily secure. Members of Earth First!, who believe that there are altogether too many human beings inhabiting the planet, and that they are "excessive protoplasm" which should be destroyed would actually welcome disease bearing mosquito infestation. But suppose, just for the sake of argument, that all people had the same evaluations of all of these goods and services; that there were no pacifists, internal enemies, nor misanthropes. Would it then be "necessary" for the government to force people to contribute for these "good" ends? Not a bit of it! For we would still have to weigh the good to be clone as a result of compulsion against, the bad inherent in using this fiduciary device. Also problematic is the fact that C and B are somewhat incompatible. B claimed an interest in positive economics. A is nothing if not normative. While we are on the subject of internal contradictions in the public choice philosophy, let us consider (Buchanan, 1979, pp. 189-190):

"In ordinary markets, the presumption that all persons choose rationally does little to distort empirical reality because the rationality of only a few participants who can affect results at the appropriate margins of adjustment guarantees the equivalence of outcomes as between what we might call the full rationality and the partial rationality models. The situation in "public markets" is not at all analogous. Solutions do not emerge as the outcome of the mutual interactions of many participants who make private and independent decisions. Instead, public-market solutions are the result of the interactions of many persons who are necessarily involved in the unique public or collective decision. The result reflects the choice of the median voter, or his representative, who may or may not be fully rational in the sense that informs traditional price theory. The presumption of fully informed rationality here is much more severely restrictive than in any other market setting (emphasis added)." Where is the contradiction? The constitutional argument of BT, the claim that there are really two kinds of "markets," the political and the economic, the view that the polity is really a contract between all citizens, is predicated on the vision that there is a strong analogy between the political and economic realms. And yet in this quote Buchanan concedes that the situation between the two "is not at all analogous." In so doing, however, he strives valiantly to maintain that this analogy is valid. He does so by calling the political realm a "public market" and by referring to politics as an "other market setting." But this is clearly not the case, as even Buchanan (partially) admits. The point is, we can infer rationality in the market because there is a weeding out process which occurs every minute. Those who act rationally in ferreting out future consumer desires, and in ministering to them in an expeditious manner, earn profits; those who fail in this regard, and instead produce Edsels, suffer losses. Rut people who acquire profits, other things equal, tend to make more and more decisions and have greater and greater control over resources than those who bear losses. And the same goes for consumers and investors. Those who make wise choices prosper; those who do not see their wealth reduced. Over time, such a process ensures that market activity at least tends toward rationality.

In the political sphere, no such occurrence takes place. Those who vote for the eventual winner do not receive additional ballots for the next election. Those who vote for the loser do not suffer any diminution in their treasure. Nor can this sort of analysis be applied to any aspect of politics. The analogous "weeding out" process is completely missing. As a result, there is no case for supposing a move toward rationality, ceteris paribus.

Conclusion

We began this paper by posing the question of whether economists of the public choice stripe have succeeded in claiming for their own (in behalf of the entire profession) areas of study traditionally under the sway of political scientists. That is, do the tools of traditional economic analysis succeed in explaining, characterizing, pigeon holing, or in any other way accounting for intellectual realms which lie squarely in the province of political science, or even in territory lying somewhere in between these two disciplines? Clearly, given the foregoing, I find no warrant for any such claim, at least in this case. While the lines of demarcation between the various social sciences cannot be impenetrable unshakeable inviolable barriers, while forays from one onto the territory of another are thus in principle acceptable.


17 And highly so, since intellectual pursuits are all but impossible when frozen in concrete.
success in this regard cannot be claimed in the present case.

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