

JUSTIFICATION OF THE COMPOUND REPUBLIC: THE *CALCULUS* IN RETROSPECT

James M. Buchanan

Elsewhere I have stated that the public choice perspective combines two distinct elements: the extension of the economist's model of utility-maximizing behavior to political choice and the conceptualization of "politics as exchange" (Buchanan 1983). The *Calculus of Consent* (1962) was the first book that integrated these two elements into a coherent, logical structure. It will be useful here to compare and contrast the argument developed in the *Calculus* to those that were present in the nascent public choice analysis of the time as well as in the then-conventional wisdom in political science.

The Model of Utility Maximization

Kenneth Arrow published his seminal *Social Choice and Individual Values* in 1951; Duncan Black's *Theory of Committees and Elections* appeared in 1958, following earlier papers published in the late 1940s and early 1950s; and Anthony Downs published *An Economic Theory of Democracy* in 1957. These three writers were all economists, as was Joseph Schumpeter whose *Capitalism, Socialism, and Democracy* (1942) contained precursory, if widely neglected, parallels to the inquiries that followed. In each case, analysis was grounded on the economist's model of utility maximization. Indeed, in the Arrow, Black, and later social choice constructions, the individual is viewed as ranking his preferences over alternative social states. Downs's work differs from the social choice strand of inquiry in that he modeled the behavior of political parties analogously to that of profit-seeking firms in a competitive market environment; but ultimately, the construction is also based on the utility-maximizing

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The author is Director of the Center for Study of Public Choice and University Professor at George Mason University. He is the recipient of the 1986 Nobel Prize in Economics.

behavior of office-seeking politicians and interest-seeking voting constituents.

The missing element in these constructions is any justificatory argument for democratic process that embodies individualistic norms for evaluation. Arrow and Black seemed to place stability and consistency in "social choice" above any consideration of the desirability of correspondence between individual values and collective outcomes. Downs seemed to be interested in the predictions of the results of majoritarian political processes independently of overriding the desires of persons in minority preference positions. Arrow dramatically proved that consistent sets of individual orderings need not generate consistent social or collective results under any rule; but he totally neglected any normative reference to the possible coercion of minority preferences or interests in any non-unanimous rule structure.¹

The Justificatory Basis for Collective Action

These works left us with a dangling question: Why should an individual enter into a collective? The authors of these works presumed, without inquiry, that the individual was locked into membership in a political community and that the range and scope of the collective's activities were beyond the control of the individual and, by inference, beyond the boundaries of analysis amenable to any individualistic calculus. The *Calculus* differed from the precursory works in one fundamental respect, namely, it embodied *justificatory* argument. The *Calculus* sought to outline, at least in very general terms, the conditions that must be present for the individual to find it advantageous to enter into a political entity with constitutionally delineated ranges of activity or to acquiesce in membership in a historically existent polity.

The intellectual-analytical vacuum was much more apparent in relation to the early extensions of economic methodology to the political process than it seemed in then-conventional political science inquiry. Precisely because Black, Arrow, and Downs explicitly incorporated individual utility maximization in their analyses, possible differences among persons in preference orderings over political alternatives emerged as a central issue. In a model with identical preferences, the problems addressed by Arrow, Black, and Downs do not directly arise. Once preferences over political choice options

¹Arrow's emphasis on stability and consistency in *collective* results to the neglect of *individual* interests was the primary target of my own criticism (Buchanan 1954).

are presumed to differ, however, it is but a natural extension to consider the choice among political regimes.

Normative political science in the 1950s offered a dramatically different ideational environment. Influenced in part by Hegelian-inspired idealism, the interest of the individual was treated as being embodied in the state and in politics as process. Even for many of those who could scarcely be classified as falling within the Hegelian tradition, politics was still conceived as a search for truth and goodness, a search from which a uniquely determinate “best” result (for *everyone*) emerges. One important strand of positive political analysis, based largely on the work of Arthur Bentley ([1908] 1935), focused on conflicts among differing interests but in turn tended to neglect the cooperative elements that are necessary to justify playing the game at all.

If we remain within the presuppositions of methodological individualism, the state or the polity must ultimately be justified in terms of its potential for satisfying individuals’ desires, whatever these might be. The state is necessarily an artifact, an instrument that has evolved or is designed for the purpose of meeting individual needs that cannot be readily satisfied under alternative arrangements. In this sense, the great game of politics must be a positive-sum game. If this fact is recognized while also acknowledging the potential for conflict among differing individual interests, the basic exchange model of the economist is immediately suggested. In this elementary model, traders enter the interaction process with distributionally conflicting interests but in a setting that offers mutuality of gain from cooperation.

Wicksell’s Unanimity Criterion

This second element in the inclusive public choice perspective, that of “politics as exchange,” is necessary to make any justificatory argument. In adding this element to the utility-maximizing models for individual choice behavior in politics, Gordon Tullock and I were directly influenced by the great work of Knut Wicksell (1896), the primary precursor of my own efforts in public choice and in political economy generally. Along with a few of his European colleagues, Wicksell sought to extend the range of economic analysis of resource use to the public or governmental sector. He sought a criterion for efficiency in the state or collective use of resources that was comparable to the criterion that had been formally specified for the use of resources in the market sector of the economy. In determining the value of the collective use of a resource, Wicksell adhered to the basic individualistic postulate of market exchange: individuals, who

both enjoy the benefits of state-financed services and pay the costs in sacrificed privately supplied goods, are the only legitimate judge of their own well-being. From this individualistic presupposition, there emerged the Wicksellian unanimity criterion—if any proposed public or governmental outlay is valued more highly than the alternative market or private product of the resources, there must exist a tax-sharing scheme that all citizens will agree upon. If there is no tax-sharing scheme that will secure unanimous approval, the proposed outlay fails the test. Note that this basic Wicksellian proposition incorporates the epistemological humility of revealed preference as well as the Pareto criterion for evaluation, both of which emerged as independently developed ideas later.

In proposing a departure from the established majority voting rule in legislative assemblies, Wicksell was suggesting a change in the effective political constitution, the set of constraints within which political choices are made. He shifted the ground for discourse. Rather than discuss the relative efficiency of policy options under an unchanging rules structure, with little or no regard given either to what efficiency means or for any prospect for the desired option being chosen, Wicksell sought to open up the structure of decision rules as a variable that might be chosen instrumentally for the purpose of ensuring that collective action meet a meaningfully defined efficiency norm. Wicksell, of course, recognized that the strict requirement for unanimity would offer incentives for strategic behavior to all participants and that some relaxation of this requirement might be necessary for practicable operation. By reducing the requirement to, say, five-sixths of the voting members of the assembly, the incentives for strategic behavior are dramatically reduced and there is insurance against most, if not all, inefficient outlay.

Wicksell, however, did not move beyond the development of criteria for evaluating policy alternatives one at a time. He shifted attention to a change in the decision rules, from simple majority voting toward unanimity, to ensure against collective approval of projects that do not yield benefits equal to or in excess of costs, *on any ordinary project*.² Wicksell did not extend his analysis to the operation of specific decision rules over a whole sequence of time periods or separate categories of outlay, which might have allowed for less restrictive criteria for single projects.

²Wicksell exempted categories of outlay that were considered to be irrevocable commitments, for example, interest on public debt.

Extension of the Wicksellian Criterion to Constitutional Choice

In the *Calculus*, Tullock and I made this extension. We were directly influenced by discussions with our colleague Rutledge Vining at the University of Virginia, who hammered home the argument that political choices are among alternative rules, institutions, and arrangements which generate patterns of results that are at least partly stochastic. We should then evaluate the working of any rule not in terms of its results in a particularized choice situation, but in terms of its results over a whole sequence of separate “plays,” separated both intercategory and intertemporally. Vining’s insistence on the relevance of the analogy with the selection of the rules for ordinary games was part of the intellectual environment in Charlottesville, and the shift of the Wicksellian criterion from single projects to rules seemed a “natural” one for us to take.

In the confined Wicksellian choice setting, an individual, behaving non-strategically, will vote to approve a proposed collective outlay if he anticipates that the benefits he secures will exceed the tax costs. He will oppose all proposals that fail this test. If, however, the individual is placed in a genuine *constitutional* choice setting, where the alternatives are differing decision rules under which a whole sequence of particular proposals will be considered, he will evaluate the predicted working properties of rules over the whole anticipated sequence. If, on balance, the operation of a defined rule is expected to yield net benefits over the sequence, the individual may vote to approve the rule, even if he predicts that he must personally be subjected to loss or damage in some particular “plays” of the political game.

By shifting the applicability of the unanimity or consensus criterion from the level of particular proposals to the level of rules—to constitutional rather than post-constitutional or in-period choices—we were able to allow for the possibility that preferred and agreed-on decision rules might embody sizable departures from the unanimity limit, including simple majority voting in some cases and even less than majority voting in others. The constitutional calculus suggests that both the costs of reaching decisions under different rules and the importance of the decisions are relevant. And because both of these elements vary, the preferred rule will not be uniform over all ranges of potential political action.

The construction seemed to offer justificatory argument for something akin to the complex political structure that James Madison had in mind, much of which finds itself embedded in the constitutional framework approved by the Founding Fathers. There is a justification

for the compound republic, for constitutional democracy, that can be grounded in individual utility maximization; but the general argument does not allow the elevation of majority rule to dominating status. This rule, whether in the entire electorate or in the legislative assembly, takes its place alongside other rules, some of which may be more and others less inclusive.

At the constitutional stage of choice among rules, our argument conceptually requires unanimous agreement among all parties. In this sense, we were simply advancing the Wicksell-Pareto criterion one stage upward in the choice-making hierarchy. As we suggested, however, agreement on rules is much more likely to emerge than agreement on policy alternatives within rules, because of the difficulties in identifying precisely the individual's economic interests in the first setting. The rule to be chosen is expected to remain in existence over a whole sequence of time periods and possibly over a wide set of separate in-period choices. How can the individual at the stage of trying to select among rules identify his own narrowly defined self-interest? How can he predict which rule will maximize his own net wealth? He is necessarily forced to choose from behind a dark "veil of uncertainty." In such a situation, utility maximization dictates that generalized criteria, such as fairness, equity, or justice, enter the calculus rather than the more specific arguments, such as net income or wealth.

This construction enabled us analytically to bridge, at least in part, the gap between narrowly defined individual self-interest and an individually generated definition of what could be called the general interest. In this construction, our efforts were quite close to those of John Rawls, which culminated in his seminal book, *A Theory of Justice* (1971). Early papers published in the late 1950s had adumbrated the essential parts of the Rawlsian construction; and while our own construction was independently developed, we were familiar with Rawls's parallel efforts.³

Our analysis differed from that of Rawls, however, in the important respect that we made no attempt to generate specific predictions as to what might emerge from the prospective agreement among the contractors who choose rules from behind the veil of uncertainty. Our construction suggested that no single decision rule was likely to be chosen for general applicability over the whole range of political action. We used the construction to eliminate some sets of outcomes rather than to specify those sets that would be selected. By contrast,

³We were not familiar at all with the construction of John Harsanyi, which had appeared in the mid-1950s, but with quite a different normative purpose.

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Rawls was led (we think, misled) to attempt to use the veil-of-ignorance construction to make specific predictions. He suggested that his two principles of justice would uniquely emerge from the pre-constitutional stage of contractual agreement.

The Social Contract Tradition

When constitutional-stage politics is conceptualized as exchange among utility-maximizing individuals, we are obliged to classify ourselves as working within the social contract tradition in political philosophy. Precursors of the *Calculus* are found in the works of the classical social contract theorists rather than in the works of the idealists or the realists. What has been and remains surprising to me has been the reluctance or inability of social scientists, philosophers, and especially economists to understand and appreciate the relationships between the institutions of voluntary exchange, the choice among constitutional rules, and the operations of ordinary politics within such rules. James Madison clearly had such an understanding, which we tried to articulate in modern analytical language a quarter-century ago. There has been some shift toward recovery of the Madisonian wisdom in both public and scholarly attitudes over two and one-half decades. Perhaps the *Calculus* contributed marginally to this change. But both “politics as pure conflict” and “politics as the quest for truth and light” continue as dominant models shaping both public and “scientific” views on collective action.

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