

POLITICS AS THE ART OF CONFINED COMPROMISE

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Politics is commonly called the “art of compromise.” This label is thought to be especially appropriate for democratic politics. Elected officials representing different voters meet in legislative chambers to hammer out policies that all constituents can live with. Of course, no politicians or voters receive everything they want in the final legislative package: the need to assemble at least a simple majority to implement any policy almost invariably means that supporters of some policy must sacrifice something of value to others active in the political process. In the public choice literature, this process of political compromise is called “logrolling.”¹

Regardless of the terms employed, few doubt that politics is indeed the art of compromise. Politicians unwilling to compromise are typically labeled ideologues—a label not regarded as a badge of honor among members of the political class. Moreover, politicians who refuse to compromise seldom win and hold on to office for the obvious reason that uncompromising politicians garner too little pork to send home to voters. Successful politicians early on learn the survival value of compromise. Economist Donald Wittman (1995: 154) correctly observes, “That is what good politicians do: create coalitions and find acceptable compromises.” Political philosopher Jean Bethke Elshtain (1995: 61) is almost rhapsodic about democratic compromise: “But

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¹“Public choice” is the study of politics through analytical lenses supplied by economics. Fundamental to public choice is the recognition that people working in the public sector are motivated by the same degree of self-interest as are people working in the private sector. The classic work on both public choice and logrolling is Buchanan and Tullock (1962). A useful introduction to public choice is Mitchell and Simmons (1994).

compromise is not a mediocre way to do politics; it is an adventure, the *only* way to do democratic politics.”

While the centrality of compromise to politics is beyond question, we argue that the current story of political compromise is misleadingly incomplete. Our argument is built of two prongs. First, we show that politics is the art of compromise only at the level of legislative activity; politics is not the art of compromise at the ballot box. While compromise—logrolling—by elected officials is necessary for the successful political careers of these officials, we argue that the institutional structure of democratic elections causes voters to seek representatives who at least appear to be uncompromising. Moreover, we argue that democratic voting causes voters to demand excessively rigid adherence to principle by elected officials. That is, the institutional structure of democratic voting leads voters to demand more rigid adherence to ideological positions than is socially optimal.

Of course, a complication for elected officials is that many voters also want their representatives to bring home the pork. Because bringing home the pork requires compromise with other legislators, each legislator confronts the difficult task of being an expert compromiser in legislatures while appearing to voters to be an uncompromising champion of principle.

Second, we show that democratic politics falls short of achieving optimal compromise not only because of immoderate ideological restraints imposed on representatives by voters, but also because it displaces voluntary market arrangements which achieve a far greater and more inclusive amount of compromise. In fact, politics stymies more beneficial compromise than it promotes. Politics should more appropriately be called the art of *confining* compromise—political compromises are confined to the relatively few parties with ample political power to participate in political bargaining.

Legislative versus Electoral Pressures

The Necessity—and Perils—of Political Compromise

Students of politics have long understood that political success for elected representatives requires these officials to compromise early and often (Mitchell and Simmons 1994: 51–52). Re-election for the representative from south Louisiana’s sugar-cane fields requires that he do all he can to ensure that government props up the incomes of American sugar farmers. (The U.S. government transfers wealth from American consumers to American sugar growers by imposing substantial restrictions on the importation of foreign sugar.) But because very few other representatives have sugar growers among their constituents,

the Louisiana representative wins majority support in the legislature for sugar protection only by offering something of value to representatives from other regions. What the Louisiana representative offers, of course, is his support for government programs desired by representatives from non-sugar-growing regions. "If you vote for my sugar protection, I'll vote for subsidies for urban mass transit," is the kind of deal the representative from south Louisiana makes with representatives from Boston and Los Angeles. A representative from south Louisiana who steadfastly refuses on principle to support government subsidies or import restrictions for any products other than sugar will soon find himself out of office. The reason is that his principled refusal ensures that no other representatives will roll legislative logs with him and, hence, government stops protecting sugar growers from foreign competition. Unwillingness to compromise is not a trait prevalent among successful politicians.

Nothing in the preceding paragraph is new or controversial, for it conveys precisely what people mean when they say that politics is the art of compromise. But the story told in the preceding paragraph is incomplete. While politicians must strike compromises amongst themselves in order to retain favor with interest groups, politicians must not be seen by voters as too willing to compromise. Politicians professing no ideology and unreservedly admitting that *their highest skill and calling is to compromise with other politicians* do not have long-lived political careers.

As president, George Bush learned this lesson the hard way from his autumn 1990 compromise with congressional Democrats to break his "read my lips, no new taxes" campaign pledge. In one sense, President Bush did what comes naturally to all politicians: compromise first and worry about ideological purity only after all the necessary compromising is done. Bush's problem, however, was that he got caught in the act. His pledge not to raise taxes was the central theme of his 1988 campaign. Thus, when Bush compromised away his commitment to no new taxes, his political rivals easily portrayed him as an unprincipled leader. Even though Bush arguably acted out of noble motives—genuinely believing that a tax hike would promote the worthwhile goal of balancing the federal government's budget—and even though most voters support efforts to balance the budget, Bush's violation of his no-new-taxes pledge was too blatant to be seen as anything other than the action of a politician with no ideological conviction. Bush now understands his political blunder. He sensibly notes, "The biggest mistake of my presidency was that I damaged my credibility by agreeing to a tax increase. . . . I worked out a compromise and it cost me plenty" (Bush 1996).

Contrast Bush to his immediate predecessor, Ronald Reagan. Although Reagan compromised during his presidency,² his communication skills were well-enough refined to deflect voters' attention from his compromises and focus instead on his proudly proclaimed ideological beliefs.³ Reagan was perceived as one of the most ideologically committed presidents of modern times, and it was this staunch ideological commitment that seems to have appealed most powerfully to voters.

Voters' Ideological Motivations

Voters reward ideological commitment by politicians because the voting process elevates in the voting booth ideological considerations at the expense of pragmatic considerations. As Geoffrey Brennan and Loren Lomasky (1993) argue, the fact that no voter reasonably expects to cast the decisive vote in an election means that each voter incurs no material cost of voting ideologically—even if an ideologically cast vote runs contrary to the voter's material interests.

The logic of the Brennan-Lomasky argument is compelling. It begins with the recognition that the typical voter has both narrow material interests as well as ideological preferences that transcend narrow material interests. Some ideological preferences conform with a voter's material preferences. Under these circumstances, predicting how a voter will vote is easy. For example, a heavily taxed voter who is ideologically opposed to high taxes will almost surely vote, if given the opportunity, to reduce taxes. Importantly, however, ideological preferences can—and often do—run counter to narrow material interests. Many people benefit materially from government actions that these same people oppose on principle.⁴ Likewise, many people who stand to benefit materially from government's refusal to act in certain

²For example, Reagan dropped plans to eliminate the Department of Energy and the Department of Education, he created a new cabinet-level agency (Department of Veterans' Affairs), and he agreed to several tax hikes. See Weidenbaum (1988) and Stockman (1986).

³James Bovard (1991: 79–80) relates a telling example of Reagan's rhetorical dexterity. In September 1984 Reagan ordered the U.S. Trade Representative to raise barriers to the importation of foreign steel. But in announcing this protectionist order, Reagan began with a paean to free trade. Bovard (1991: 79) called Reagan's announcement "a masterpiece in trade doubletalk."

⁴Each author of this paper opposes on ideological grounds government funding of higher education. And yet we are both employed by state-supported universities. Were we to vote on a proposition to eliminate taxpayer funding of our universities, we would both vote in favor of the proposition. However, the reader should not be too quick to praise our commitment to principle: because we both know that the outcome of the election does not turn on our individual votes, it is costless for us to vote according to our ideological lights. Our votes in favor of the proposition in fact do nothing to threaten our access to taxpayer funds.

ways often express ideological support for government acting in these ways. For example, high-income people frequently express support for a large and active government funded by high taxes even though many of these people would be personally materially better off with a smaller government (and, hence, lower tax bills).

The strong probability that voters often express ideological beliefs that diverge from their narrow material interests is clear upon reflection. The fact that millions of people regularly vote in statewide and in national elections proves that voters are motivated by more than narrow material concerns. If each voter was concerned only with maximizing his narrow material welfare, few people would vote. The very act of voting in an election in which the probability of affecting the outcome is practically zero is an act of ideological commitment that cannot be understood as an effort to increase the voter's material well-being.⁵

Given that large numbers of people vote knowing that they individually have no chance of deciding the outcome of an election, it follows that many voters likely have as part of their utility functions some ideological concerns that are not in perfect congruence with their narrow material interests. *Being motivated to vote by non-material interests* strongly suggests, therefore, that the typical voter often casts his vote ideologically—and that these ideologically cast votes do not necessarily conform with the voter's narrow material interests. Brennan and Lomasky (1993: 36) put the point succinctly: "if the act of voting is a matter of sufficient moral seriousness to induce the individual to go to the polls, it would surely be surprising if moral considerations did not bear on what the voter does when he gets there."

Unlike when a voter's ideology conforms with his narrow material interests, it is much more difficult to predict how a voter will vote when his ideology on the issue in question runs counter to his narrow material interests.⁶ Will the voter's narrow material interest dominate

⁵Consider, for example, Brennan's and Lomasky's (1993: 35) observations on the fact that voters on the American west coast continue going to the polls in national elections even after these west-coast voters know the outcome of the election:

This was in fact the case in both the Reagan victories in the 1980s. Yet voters continued to go to the polls and to cast votes for one or the other presidential candidate long after the result was known. In this case, the voters knew with complete certainty that they could not alter the outcome. Yet they continued to cast presidential votes—in apparently moderated, but still substantial numbers. Presumably they derived benefits from doing so: It is simply that the benefits were not of an instrumental [i.e., material] kind.

⁶Would each of the authors of this paper vote to eliminate taxpayer funding of our universities if we knew that our votes would be decisive? We boast that we would, but the only real test of our boastful claim would be if either of us were in fact given a decisive say on the question of whether or not our universities will continue receiving taxpayer funds. Happily

his (contradictory) ideological belief, or will his ideology triumph over his material self-interest? Either outcome is possible for any particular voter in any particular election.

Consider an election pitting protectionist candidate Smoot against free-trade candidate Smith. Suppose voter Williams works on a General Motors assembly line and, like candidate Smith, opposes tariffs on ideological grounds. Will Williams vote for Smoot or Smith? It's impossible to say for certain. What we can say, however, is that Williams is *more* likely in the voting booth to express his ideological preference for free trade than he would be to express such a preference if he were given the decisive say on whether or not the U.S. auto industry will enjoy trade protection. The reason is that a vote for Smith costs Williams nothing. With his material interests effectively out of play in the voting booth, Williams' ideological concerns—those that can be satisfied by voting according to one's ideological lights—dominate his narrow material concerns.

While Williams's ideological commitment to free trade may be so resolute that he would vote for Smith even if Williams knew that his vote would be decisive, surely our confidence in Williams's resolve to vote ideologically is higher in those circumstances in which the cost to Williams of an ideological vote is zero. In any actual election, in which no rational voter expects to cast a deciding vote, an auto worker with an ideological preference for free trade will likely express this preference in the ballot box even though a policy of free trade might materially harm this worker (relative to a policy of high tariffs on automobile imports) *and* even if this same worker would vote for protectionism if he believed that the election turned on his vote.⁷

for us, we are unlikely to be placed in such a predicament.

On the question of the ethics of people ideologically opposed to government programs taking advantage of such programs, see Buchanan and Lee (1995).

⁷Of course, psychological adjustments prompted by cognitive dissonance cause many people's ideological commitments to track tightly their narrow material interests. For example, it is no doubt difficult, if not impossible, to find a sugar farmer ideologically opposed to government trade restraints on sugar.

As a positive matter, we predict that the tracking of a person's ideological preferences to his narrow material interests is negatively correlated with the political security of this person's government privileges. That is, if trade protection for sugar growers were, say, embedded in a constitution that could be amended only with great difficulty, a greater number of protected sugar farmers would be on record opposing sugar protection than when, say, sugar protection enjoys only tenuous legislative support. The reason for this prediction about the relationship between the (perceived) security of political pork and the ideological commitment of pork recipients to the program producing the pork is based on the Brennan and Lomasky logic. The costs of opposition to your pork are lower when your pork is secure than when it is insecure.

Thus, the correct public choice recognition that voters' representatives must and do engage in logrolling amongst themselves does not mean that voters approve of this logrolling as such, or that logrolling is the reason most voters send representatives to legislatures. Nor does it mean that the bargaining calculus confronting representatives on the floor of representative assemblies is understood or felt by voters.

The general lesson is that voters vote more ideologically than traditional public choice recognizes. Indeed, Brennan and Lomasky might be understood to argue that democratic voting produces *excessive* amounts of ideological sentiment in each election. Because no voter confronts the costs of voting romantically, voters vote more romantically than they would if each confronted the true cost of voting ideologically. In popular elections, romance crowds out realism.⁸

The Brennan and Lomasky argument implies that democratic voting procedures create an externality that has thus far escaped the notice of students of politics. The fact that large numbers of people vote means that each voter can ignore the material costs of casting a vote. Making decisions while ignoring the relevant effects that these decisions impose on others is the essence of externalities. In democratic-vote settings, then, each voter makes electoral decisions without taking account of the full costs of such decisions. Because all voters are immune to the full cost of ideological expression in the voting booth, democratic voting—by fostering imprudent voting—reduces social welfare. Democracies produce excessive amounts of romantic voting just as private markets with inadequately specified or poorly enforced property rights produce excessive amounts of air and water pollution. Democratic outcomes are “polluted” with excessive romance and, hence, governed by too little realism.⁹

⁸Even politicians known to vigorously represent constituents with a dominant, specific interest—for example, representatives from the tobacco regions of North Carolina and Virginia—unfailingly insist in public that the special-interest statutes demanded by such politicians on behalf of their interest groups serve mainly the public welfare. That is, even the most hard-boiled pork barrelers in Congress proclaim that the pork they secure serves ultimately to make all of America stronger, better, or wealthier. All politicians find it necessary to portray even their most parochial actions romantically—as part of a principled quest to serve America's best interest. As F.A. Hayek (1979: 10) observed, “it is useful to the legislators to claim that they have been moved by considerations of justice.”

⁹Plausible examples of legislative results of the excessive romanticism engendered by electoral voting include the war on drugs, the Superfund statute, and the Clean Air Act of 1990. These legislative commands all demand outcomes that any reasonable and informed person would regard as too costly (e.g., the crowding of scarce prison space with nonviolent drug users, thereby making it more difficult to imprison violent offenders; Superfund's requirement that toxic-waste sites be made cleaner than they were before any toxic wastes were dumped on them, and the Clean Air Act's requirement that billions of dollars be spent solving the nonproblem of “acid rain”).

We do not doubt that these and most other statutes also serve narrow self-interest goals;

Of course, if most voters' ideology happens to support limited government and private property, this "voting externality" increases social welfare by keeping government constrained. But whenever the predominant ideology among voters does not consistently support limited government, the externality unleashed in the voting booth is a negative one. Voters with romantic delusions about the powers and intentions of government will too often summon Leviathan into action. Because too few voters today consistently oppose, on ideological grounds, government intervention, voting generates a welfare-reducing externality.

The romantic mandate issued in elections poses a genuine problem for politicians. Interest groups, unlike voters, are neither rationally ignorant nor shielded from the costs of expressing ideological beliefs that conflict with the material best interests of their members. Suppose, for example, that most sugar farmers object on ideological grounds to government support of agriculture. The sugar lobby would incur heavy material costs if it lobbied to promote this ideology. So, the prospect of the sugar lobby pressing for the easing of trade restraints on sugar would be remote even if most sugar farmers ideologically opposed government assistance to agriculture. Moreover, because they are organized and in a position to exert political influence, the lobbying of sugar farmers has a far greater effect on political outcomes than does any single vote at the ballot box. Therefore, organized interest groups support politicians and policies that promote the material welfare of interest-group members. And politicians who ignore interest-group demands are politicians with underfunded campaign coffers.

What's a politician to do? On one hand, voters demand that their elected officials be men and women of principle. On the other hand, the reality of interest-group politics means that politicians must strike numerous unprincipled compromises—both directly with interest groups wielding political influence, as well as indirectly with other representatives beholden to different voters and different interest groups. Appearing to be an uncompromising champion of principle while simultaneously being virtuoso at the art of compromise is a daunting task.

We are privy to no recipe allowing politicians to pull off such a feat. But we do insist that such feats are regularly accomplished. Successful politicians are those who understand how this game is

however, it appears that the requisite public support for these statutes is romantic in that the public seems to disregard the necessity of making appropriate tradeoffs (e.g., the greater the amount of resources devoted to the war on drugs, the fewer are the resources available to fight nondrug related violent and property crimes).

played and are willing and able to play it skillfully. These politicians somehow succeed in portraying their compromises as being fully consistent with principled commitment to voters' romantic visions.¹⁰ Platitudes and political obfuscation combine with voters' rational ignorance enabling skillful politicians continually to strike interest-group deals without sacrificing the romantic mantle.

As a positive matter, then, it appears, first, that representatives are not free to roll logs unconstrained by voters' ideology. The need to appear to legislate in accord with voter ideology is real and puts outer boundaries on politicians' actions. Second, voters' ideological demands are unusually strong and imprudent because democratic voting allows voters to ignore the costs of ideological expression. To the extent that voters ignore this cost, politics is not the art of compromise.

However, a third feature of modern democracy is relevant: representatives in fact compromise (at least in wealthy nations) much more frequently than voters as a group desire. It is not clear, of course, that the world would be a better place if voters always successfully held politicians' feet to the ideological fires. Unchecked romantic visions, if implemented politically, probably contain far more potential for serious harm than does the most corrupt pork-barreling government.¹¹ Consequently, attractive opportunities for lucrative logrolling

¹⁰Consider again Bovard's (1991: 79–80) report of President Reagan's use of free-trade rhetoric to justify increased trade protection for the domestic steel industry. Other examples of public-interest rhetoric designed to camouflage special-interest legislation include Sen. Howell Heflin's explanation that textile quotas were necessary to protect "the American dream" (*Congressional Record* 1985: S15300); Sen. Fritz Hollings's (*Congressional Record* 1990: S4901) assertion that tariffs on footwear are justified because such tariffs protect American consumers from the threat of "runaway prices" for shoes; Rep. Ed Jonkins's (*Congressional Record* 1986: H9386) argument that unless all "basic industries" in the United States receive protection from imports, "we shall not be able to lead the free world that all of us want to lead"; and Rep. Sam Gibbons's (*Congressional Record* 1986: H3083) grandiloquent (if illogical) pronouncement that U.S. trade restrictions "serve notice on the world that we stick to the high principles of free and open and competitive trade."

¹¹We offer the following hypothesis: the poorer the society, the more likely are elected representatives to focus on ideological issues rather than on logrolling. The reason is that poorer societies have a less-extensive division of labor than do wealthy societies. With a less-extensive division of labor, the opportunities for logrolling are diminished. (In the extreme, if everyone in every part of the country has the same occupation—e.g., everyone is a farmer—there are precious few political exchanges that are mutually beneficial to representatives from different parts of the country.) Casual empiricism supports our hypothesis. Nazi Germany stands out as an example of a nation whipped into a romantic fervor, and whose leaders spent a godly amount of resources and effort pursuing Nazi romanticism (devilish as it was). Pauperized by World War I and by the Treaty of Versailles, Germany was poor when Hitler rose to power. Today's "ethnic cleansing" in Bosnia, and carnage in sub-Saharan Africa, might also be understood in the same way. Being poor, with little wealth to roll around as logs in representative assemblies, the costs to political leaders in these nations of engaging in romantic crusades are lower than are the costs of romantic crusading to members of the American Congress.

and pork-barreling may help save democratic society from the worst excesses of romantic politics. Politicians with no opportunity to roll lucrative logs with their fellow representatives incur no political costs to pressing relentlessly for the romantic notions expressed by voters during elections. (Again, elected representatives do not relentlessly represent their constituents on the romantic front because doing so would cost each politician lucrative interest-group support. That is, with lucrative logs to roll, it is too costly for representatives to ignore these logs by focusing exclusively on ideological and romantic issues.) But this fact does not mean that the kind and extent of compromise occurring within political markets is optimal. Indeed, we argue in the next section that political markets achieve much less than the optimal degree of compromise necessary for maximizing human welfare. The reason, in a nutshell, is that the political bargaining table has only a limited number of seats. Those unlucky enough not to have a seat are not party to any political compromise; they have no effective political voice.

Comparing Political Compromise with Compromise in Markets

So far we have seen that the romantic communiqués issued by voters in democratic elections constrain, though by no means eliminate, the ability of elected officials to compromise: politicians' hesitancy to strike compromises rises with the risks of being exposed as ideologically vacuous. Politics is not as compromising as might be thought, for excessive ideological expression by voters constrains political compromise.

But there is more to our story. Labeling politics as the art of compromise makes sense only if politics is compared with the breadth and depth of compromise occurring in other institutional settings. Such a comparison shows that politics does *not* excel at compromise, even if voters put no ideological restraints on the ability of politicians to logroll. We argue here that decentralized markets achieve more extensive and deeper compromise than is achieved by political decisionmaking.

While all parties sidling up to the political bargaining table must compromise amongst themselves, only a relatively small handful of interested parties ever get seats at this table (Gwartney and Wagner 1988: 19–21). Political influence generally requires that people be organized into lobbying groups of sufficient size and with sufficient resources to attract (in competition with other groups) the attentions

of elected representatives.¹² Individual citizens, as such, rarely have political influence. Moreover, not even all groups of citizens exercise such influence, for free-rider problems may thwart efforts of some groups to remain organized and funded as effective lobbies (Olson 1971). Dairy farmers are an effective political lobby; consumers of dairy products are not.

Politics is weak at compromise not only because voters vote excessively ideologically, but also because politics artificially and unnecessarily limits the number of bargaining parties (Crew and Twight 1990; Twight 1994). Thus parties excluded from the political bargaining table never have their interests on the table to be weighed against the interests of the select few sitting at the table.

Consider, for example, consumers. Because the costs of organizing the large number of consumers into an effective interest group are quite high, it is commonplace—and correct—to observe that consumers are politically unorganized (McCormick and Tollison 1981). And because the costs of organizing producers are often low (relative to the benefits available to successful organization), politically organized producers use the political process to stymie competition at the expense of unorganized consumers.¹³ Of course, no particular organized group of producers gets all it wants from the political process: every group must agree to settle for less than any single group would receive if that group were the only organized political block and could then use the state to extract whatever wealth it wished. That is, each interest group must compromise with other organized interest groups.¹⁴ But the interests of unorganized groups are ignored by political processes.

Thus, describing politics as the art of compromise is misleading. Because the value to interest groups of using the political process depends on the inability of other groups to organize effectively and join in the political bargaining, politics may just as accurately be described as the art of *confining compromise*: organized interest groups have incentives to confine the number of parties sitting at the political bargaining table.¹⁵ The result is that the interests of the general, unorganized public typically are compromised by political compromise.

¹²McCormick and Tollison (1981) show that democratic government is largely a process of transferring wealth to organized interest groups from citizens who, for whatever reason, find it too costly to organize into effective political lobbies. See also Tollison (1988).

¹³See, for example, Stigler (1988), Young (1987), and Lee (1982).

¹⁴For the classic treatment of political compromise within a public choice framework, see Peltzman (1976). Also important is Becker (1983).

¹⁵Olson (1982: 74) describes the incentives of organized interest groups to increase the complexity of government as well as to restrict the access of others to government.

In contrast to politics, the market promotes genuine and extensive compromise. The market brings to the bargaining table a much wider and more complete array of bargainers than are brought to the political bargaining table. Inevitable differences in talents, tastes, and circumstances among people create opportunities for mutually advantageous private exchange.¹⁶ In free markets based on private property rights, each person can make buy-and-sell offers individually. Unlike the political arena, the market does not require aligning oneself with an organized interest group as a prerequisite for bargaining.¹⁷ Because almost everyone has something of value to offer to others, everyone has an opportunity to participate in private markets. And to the extent that an individual participates in private markets, that individual has a decisive vote in determining the pattern of market outcomes.

No one making a buy or sell offer in the market can be ignored, for each buy and sell offer is registered as part of the demand or supply for a good, service, or resource. Each buy and sell offer forces every market participant to take account of the valuations expressed by those who make these offers (Coase 1960, Boudreaux 1996). To see how, consider a straightforward example of the sale of a used truck.

If Joe offers to buy Sam's truck for \$5,000, the value to Sam of his truck is at least \$5,000, even if Sam personally no longer has any use for a truck. Moreover, every other potential buyer of Sam's truck must take account of Joe's offer, even though Joe's offer is not directed at other potential buyers of Sam's truck. If Mary then offers Sam \$5,100 for the truck, the value to Sam of the truck rises, immediately upon receipt of Mary's offer, from \$5,000 to \$5,100. If no one offers more than \$5,100 for Sam's truck, and if Sam himself values the truck at something less than \$5,100, Mary becomes owner of the truck. Through such bargaining, Mary, Sam, and Joe (along with other would-be buyers of the truck) reach an agreement about the best allocation of the truck. Both Sam and Joe value the truck, but neither values it as highly as does Mary. Both Sam and Joe voluntarily chose to forego the truck rather than forego the amount of money it would cost each to keep the truck from Mary. Of course, each person would like to have the truck as well as the money—that is, each person would

¹⁶The classic explanation of this point remains Smith (1776).

¹⁷Of course, private market participants often combine their resources and efforts into joint selling and buying agreements. A firm, for example, is an agreement among certain resource owners to jointly offer for sale the firm's output, and to jointly offer to purchase inputs. The difference between private markets and political markets is that private markets do not require joint activity, while it is impossible to purchase anything in political markets without being aligned with a minimum number of other people all of whom share some special interest in government action.

prefer not to compromise with others over the disposition of the truck and their money—but, unlike in political settings, such uncompromising outcomes are unavailable in private markets.¹⁸

To see the nature of market compromise more clearly, it is helpful to compare the market with government's power of eminent domain. Suppose that Mary enjoys the power of eminent domain over Sam's possessions, and with no duty to compensate. With such power, Mary is not compelled to bargain with Sam or with anyone else over the disposition of Sam's truck. Mary simply takes the truck regardless of how little she values it (assuming, of course, that she attaches some positive value to the truck). In these circumstances, Mary compromises with no one. It is Mary's decision *alone* whether or not she or someone else gets the truck. Moreover, she is not required to sacrifice anything of value in exchange for the truck. It may well be that Sam, or Joe, or any number of other people value the truck more highly than does Mary. But no one can ever know these relative valuations unless ownership of the truck is secure against takings and the owner and potential buyers then bargain with each other over the disposition of the truck. Secure ownership rights thus guarantee that all parties interested in the truck must bargain ("compromise") with each other. The truck goes to the person who values it most highly, but this person must pay an amount at least equal to the sum offered by the truck's next-highest-valued user.

Market compromise is based on the necessity of market participants to consider carefully the costs that their decisions inflict on others. A crucial factor behind this necessity to take account of the costs on others is that each person's "vote" in the market is decisive. Because *each market participant recognizes that he will, with 100 percent certainty, pay a price for his market choices*, he is forced to consider his market decisions carefully.

Consider, for example, a skilled neurosurgeon who becomes romantically attracted to being a full-time poet. Because living the life of a full-time poet imposes costs on others (who are denied the neurosurgery services that this poet would otherwise produce) and because this cost is borne personally by the poet (in the form of lower money income earned as a poet rather than as a neurosurgeon), fewer

¹⁸As Macey (1994: 185) points out, "While private market exchange transactions benefit both the parties to such transactions and society as a whole, rent-seeking in the public sector harms everyone in society, save the individuals or groups that directly benefit from such transactions. . . . When resources are acquired through consensual market transactions, there are no losers, only winners among the parties to such transactions. . . . By contrast, when resources are acquired through governmental fiat, there generally will be more losers than winners."

poetically inclined neurosurgeons will actually become full-time poets than would be the case if a neurosurgeon's decision to work as a surgeon or as a poet had no effect on his income. None of this is to say that no neurosurgeon will ever leave the medical profession to work full-time as a poet. But because a decision to quit neurosurgery in favor of poetry is a personally decisive one—if the neurosurgeon chooses to quit the medical profession, his decision is implemented—people do not make such market decisions without weighing as best as they can the costs and benefits of alternative courses of action. In contrast, if the poetic neurosurgeon's occupation were chosen by majority rule by large numbers of citizens, then this person has much less incentive to weigh carefully the costs and benefits of his options—for his choice of neurosurgeon versus poet would likely not be decisive.¹⁹

Thus, although it is often thought of in quite opposite terms, the market in fact is a highly inclusive forum for compromise. The market brings vast numbers of people together, on a regular basis, so that they all may bargain over the disposition of multitudes of goods and services. The resulting compromises—the pattern of which changes continually as people's tastes change and as new production possibilities emerge—reflect much more accurately than do political compromises the full costs and benefits of alternative uses of resources and constraints on people's behaviors.

Of course, in important ways there is *less* compromise in markets than in politics. If 50.1 percent of voters approve Sunday blue laws, the 49.9 percent of voters opposing these laws must accede to the wishes of their fellow citizens. The requirement that all citizens abide by the wishes of electoral majorities is certainly a requirement for compromise. But not all compromise is meritorious. Forcing businesses to remain closed on Sundays may or may not be socially worthwhile. Because the winning coalition of voters uses coercion rather than voluntary negotiation with all affected parties to prevent Sunday commerce, it is impossible to tell if the net value of Sunday blue laws to members of the winning coalition exceeds the losses suffered by

¹⁹Regardless of how romantic a person's desire may be to own some good (say, a beautiful painting), contract law compels contracting parties to approach the *process* of exchange nonromantically. Through its imposition of civil sanctions for breach of contract, as well as through its requirement that contracts fulfill certain formal conditions (e.g., the requirement of the Statute of Frauds that certain contracts be in writing), contract law complements and strengthens market exchange by impressing upon all would-be contracting parties the binding nature of their contractual commitments. Contractual expression is decisive for each contracting party. For a more general discussion of the huge social benefits generated by the relatively simple common-law rules of contract, see Epstein (1995).

citizens preferring that retail shops open on Sundays. In the absence of Sunday blue laws, people who wish not to shop or to open their stores on Sundays are not forced to do so, but nor are people who wish to shop forcibly prevented from doing so. Unlike politics, then, markets compel no compromise where compromise is unnecessary. Sunday blue laws achieve compromise insofar as maintenance of civil order requires that people opposed to such laws heed these statutes. But it is not a kind of compromise that we can trust to maximize social welfare.

Conclusion

Two reasons render politics' reputation as the "art of compromise" misleading. First, the indecisiveness of each voter's vote in democratic elections causes voters to vote too romantically. Voters thus reward politicians for supporting policies consonant with voters' prevailing ideology. Such rewards are forthcoming whether or not such policies pass any reasonable cost-benefit tests. Likewise, voters punish politicians who stray too far from voters' ideological demands. Fear of such punishment stops politicians from compromising as openly and as fully as they otherwise would.

Second, political decisionmaking is overly sensitive to the demands of organized interest groups and relatively insensitive to the demands of unorganized groups. That is, not all parties affected by political choices are represented at the political bargaining table. While (ideologically constrained) compromise is commonplace among politicians representing organized interest groups, the fact that many politically affected people are not party to these compromises means that political compromises are selective, at best.

Private markets, in contrast to political markets, achieve much wider and deeper compromise. Anyone owning alienable property to which others attach some value can bargain in the private market; there is no need for buyers or sellers first to organize into politically stable and influential lobbies. People can, and do, participate in private markets in many different ways. Nearly everyone participates individually as a consumer as well as a seller of his labor and other assets. Many people also participate jointly, through firms, as input buyers and output sellers. Overcoming organization costs is not prerequisite to market participation as it is to effective political participation. Therefore, more people are party to market exchanges than are party to political exchanges—which is another way of saying that private markets achieve compromise among a fuller set of people. To partici-

pate in private markets, resting on secure private property rights, is to participate in the real art of compromise.

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