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TOWARD POSITIVE PUBLIC CHOICE THEORY*

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The purpose of this article is to argue the nature of a positive theory of public choice which can, should be, and has been partly developed. By "positive" I mean objective and nonnormative, that is, without implicit or explicit normative premises, and which thereby attempts only to explain and/or describe, not to evaluate.

In support of this objective the article argues the following: (1) There is a difference between saying (a) there is a tendency toward more (less) production than otherwise would be the case, and (b) there is over(under)production. (2) There is a difference between saying (a) myths and symbols are more important than, or equal in importance to, actual social reality because they influence the basis on which people make decisions, and (b) certain myths and symbols are necessary for the proper or correct functioning of society. (3) There is a difference between saying (a) what *is* the case, (b) what *ought to be* the case, and (c) what is *necessary or instrumentally useful* given what ought to be the case. In each instance, to go from the (a) statement to the (b) statement (and in the case of (3) to the (c) statement as well) one must have some normative basis or premise on which to predicate the additional normative holding.

To illustrate the type of public choice theory which I propose to be both desirable and feasible, I shall use some of the analysis in James M. Buchanan and Richard E. Wagner's *Democracy in Deficit*. This virtuoso effort argues, among other things, that bloated government spending, continued and increasing budget deficits and national debts, apparent permanent inflation, and high unemployment are undesirable and, further, may be related to certain understandings of how democratic, political and psychological processes work in conjunction with Keynesian ideas to abort desired constitutional restraints on politics. In the course of developing their argument or diagnosis, Buchanan and Wagner (BW) utilize public choice theory. Apropos their overall argument, I would like the following points clearly understood. First, I believe that theirs is a distinctive normative argument utilizing public choice theory, which is to say that theirs is a norma-

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tive version of public choice theory. Second, I intend here no critique of the normative elements of their analysis (or of the normative element in their version of public choice theory). Third, I believe that one can elicit valuable *positive* public choice analysis from their treatment. Fourth, I am not in the slightest opposed to normative public choice theory. I am in favor of the precise specification of the normative premises in such theory *and* I emphasize the necessity and utility of all normative public choice theory as a contribution to the total social valuational process (see below). In such manner, public choice theory can raise deep and important questions of both a positive and normative nature. Fifth, I do not intend to present here a complete statement of positive public choice theory. The analysis is intended only to be illustrative.

Part I deals with valuation, government, and public choice in general. Part II treats positive public choice theory, using *Democracy in Deficit.*

I. VALUATION, GOVERNMENT, AND PUBLIC CHOICE

I wish to discuss briefly the context of significance in which actual public choice (as distinct from but not necessarily unrelated to the study of public choice, or public choice theory) takes place. The discussion is intended to be strictly positive in the sense specified above. It is expected that adherents to different normative (or ideological) positions will react more or less heatedly to the discussion but it is asserted that the statements made are descriptively and objectively true whether one likes them or not.

Society is an artifact. It is made and remade by man. Given that we start from where we are (really from a quite heterogeneous *status quo* which may be variously specified), society is subject to revision. It is in fact reformed (deliberatively and nondeliberatively) through the very processes of living, acting, and interacting. The future of society is indeterminate because it is in part created through our efforts to apprehend it. These efforts are both individual and collective and the latter are both nominally private (for example, corporate) and public (governmental).

There is a continuing process of articulation and selection of ends (goals) and of evaluation of means-ends relationships. Entering into that valuational process are both alternative conceptions of norms (normative premises) and alternative comprehensions of reality. On the basis of any one normative premise and/or any one specification of reality, the others are wrong, harmful, bad, deficient, and/or sub-optimal.

Government, in fact, is one arena in which the valuational process takes place. In that arena power and ideology operate to influence or govern the valuational results. Ideology participates by infusing certain combinations of values and definitions of reality. Power participates, in part, by governing whose interests, values, and definitions of reality will count in making and effectuating public policy. Power play and ideological manipulation take place over the control of government. I urge that positive public choice theory must, among other things, study actual public choice in this large context. I am inclined to add that normative public choice theory, as a facet in the valuational process and governmental arena, is itself a proper subject of positive public choice theory.

The development of economics (and also of political theory), to an extent largely unappreciated by most practitioners, has been in part due to efforts to construe "knowledge" so as to affect government policy. Each theory of government and of the economic role of government has its own agenda and nonagenda for government (not always explicit). Each perpetrates or gives effect to selective perception of government. Each promotes and inhibits certain interests, intentionally or inadvertently. All this is particularly true of normative theories. The "war" of conflicting theories of economic policy constitutes the intellectual facet of the conflict over the control of government. Another and not unrelated facet is the manipulation of myths and symbols instrumental in the struggle over power and over the control of the state. Each theory of economic policy attempts certain uses of government and certain checks on other uses of government. For each participant government is in fact an economic alternative: It is an alternative route or vehicle through which personal or private utility and profit maximization can be sought. It is one of the strengths of public choice theory (in both its normative and positive formulations) to have stressed this realistic nature of governmental processes in contradistinction to theories idealizing political authority and/or some of its uses. (Realism, however, often is selective; moreover, it may devolve into cynicism.) Government is a mechanism, like markets, through which individuals act collectively to improve their private utility. Government is a vehicle through which is promoted the self-interest of whomever can get into a position to control it.

Public choice actually takes place with regard to the values, definitions of reality, means, and interests which are to be promoted and perhaps realized through certain uses of government and certain (and related) limits on the use of government. Power play and ideological manipulation are demonstrably part of the actual process of public choice. Positive public choice theory, among other things, stresses that the meaning of individual participation in both market and political choice processes can and must be interpreted in terms of both autonomous voluntary choice *and* the large processes of power and power play in which the individual operates. One connecting link is the availability and use of government as an economic alternative.

II. POSITIVE PUBLIC CHOICE THEORY

There is a difference between (1) describing certain more or less objective features of the operation of public choice and (2) judging those features to be adequate, inadequate, or excessive; effective or ineffective; and/or successful or a failure. To go from the first type of statement to the second, one must have a normative basis on which to predicate the additional normative element.

One of the facets of the operation of actual public choice is the identification and selection of that normative basis and the value (s) which it represents and comprises or to which it gives effect. This is patently the case when one describes *vis-a-vis* judges the actual spending by a municipal government on public golf courses *vis-a-vis* public tennis courts or by a central government on intelligence gathering *vis-a-vis* military armament. For any analyst to employ a normative basis requires the analyst to substitute his or her judgment for that of the social valuational and public choice process or to advance his or her basis conditionally and problematically. Either way, the analyst operates as participant in the valuational and public choice process. Given the possibility of alternative normative bases (as well as of alternative factual statements of the ostensibly objective features), quite opposite statements of the judgmental type can be simultaneously adduced.

Positive public choice analysis must be concerned with at least the following: empirical (quantitative and nonquantitative) tendencies of the operation of actual public choice processes; conflict among plural tendencies; the possible alternative bases for normative judgment; and alternative hypotheses with regard to causation and the testing thereof. Such considerations necessarily enter the following discussion centering on the positive public choice content of BW's

Democracy in Deficit but cannot be explored here in detail.

1. *Overproduction of Public Goods.* One of BW's central arguments is that deficit finance lowers the tax-price of public goods thereby resulting in an overproduction of public goods. This argument has a number of facets to it. One is that the lower tax-price induces greater purchasing of public goods and thereby an allocative bias toward a larger public sector. [pp. 99, 103-104] A second is that informed, rational evaluation of public spending proposals requires the simultaneous consideration of the tax bill thereof [pp. 11, 34] and that deficit finance permits the individual to escape from both the tax-price and the evaluation. [pp. 17-18, 34, 50, 139. BW are aware of and try to cope with arguments centering on the discounting to present value of future tax bills, the Ricardian equivalence theorem; pp. 135ff and passim.] A related line of reasoning holds that complex and indirect tax structures create fiscal illusion producing excessive public spending *vis-a-vis* simple-payment tax structures [p. 129] and that perceptions of costs and benefits, and thereby cost-benefit signals, are distorted by the lowered tax-price of public goods. [pp. 129-130]

The BW argument that deficit-finance lowered tax-prices of public goods result in an overproduction of public goods is but one of an array of lines of reasoning which conclude that there is an over(under) production of public goods. Other *over*production arguments center on such lines of reasoning as the role of logrolling among politicians, pricing public goods at less than their true social cost, demand reinforcement and growth consequent to the emergence of a vested beneficiary class, and the difficulties of discarding old programs. The *under*production arguments stress such things as nonrevelation of preferences, free rider maximizing, organization costs (especially with large numbers), the need to satisfy all or most coalition members, veto capacities over new programs, social benefits greater than private benefits, and the predominance of a philosophy of scarcity-poverty in a world of relative abundance. (Another line of reasoning concerns wrongness of the structure of production of actual public goods.)

Each such line of reasoning rests or is premised upon a normative basis on which the judgment (or "determination") of over- *vis-a-vis* underproduction is reached. Each specific conclusion requires a premised normative basis on which the normative judgment rests. Absent that premised normative basis, each line of reasoning only asserts that because of this or that consideration, public spending (public goods production) is or tends to be greater (lesser) than it otherwise would be. Given the variety of considerations, it is possible for there to be simultaneous tendencies for *both* greater and lesser spending than there otherwise would be. (The determination of which is on balance the net effect is in principle an empirical matter but as such is difficult if not impossible to conclusively establish.) If public good spending is a function of the action and interaction of a group of variables, it is true of the effect of the operation of each variable that public good spending is greater (lesser) than it otherwise would be *given* the operation of the other variables. Add thereto a particular normative premise, and it is possible to conclude normatively that with respect to any one variable there is over(under)production of public goods *given* the operation of the other variables and the adopted norm. The first statement is a matter of positive public choice theory; the second, of normative public choice theory. And both are conditional and problematical, being constrained by the necessity of assuming as given the operation of the other variables, the second statement even more so, because it is also constrained by its assumption of the particular normative premise.

There is a difference, then, between arguing (1) that deficit finance lowers the tax-price of public goods (assuming aside problems of discounting future taxes) and thereby tends to increase the production of public goods and (2) that deficit finance results in an overproduction of public goods. The former is positive; the latter is normative; and both are conditional and problematic insofar as they are related to the operation of variables other than deficit finance. The same is true of all the other variables ensconced in the various lines of reasoning purporting to conclude that there is over(under)production of public goods.

The same argument also applies to the related line of reasoning concerning fiscal illusion and distortion consequent to complex and indirect tax structures and cost-benefit perceptions. Positive public choice theory would say that complex *vis-a-vis* simple tax structures might (do) produce different patterns and/or higher-lower levels of spending; and that cost-benefit perceptions are influenced by relative prices, including tax-prices. But in introducing such terms as "errors in perception," "some idealized 'true' assessment of alternatives," and "distorting effects of specific fiscal institutions on collective outcomes" [pp. 129, 130, 132], BW thereby convert the analysis from positive to normative. They posit the existence and determination of nonillusory and true (undistorted) perceptions and thereby what is proper public goods production in respect to which overproduction takes place.

The argument also can be applied to a further line of reasoning by BW to the effect that overproduction of public goods results from the demographic change toward a large proportion of elderly taxpayers who presumably tend to be less interested in future tax liabilities *vis-a-vis* present deficit finance. It is one thing to articulate in a positive manner the incentive structure of debt finance, including the demographics of the life-cycle; it is another to reach the conclusion of overproduction of public goods. The latter requires, *inter alia*, the normative assumption of a base population distribution with respect to which production of public goods is neither insufficient nor excessive.

2. *Political Competition*. Another central theme of BW relates to the fact that politicians spend (or propose to spend) money in order to attract votes and avoid the imposition of taxes (and/or propose tax cuts) for the same reason. [p. 94] In other words, there is an activity called political competition and the politicians who compete for office (and thereby the uses to which the offices may be put) tend to compete in part through spending and tax proposals and (with a view toward reelection) policies which they hope will induce the citizenry to support them. But it is one thing to describe the political process in these terms, indeed, it is heuristically useful to do so; it is quite another to reach the conclusion that thereby taxes are too low and/or spending too high. The former is positive public choice analysis; the latter is normative public choice analysis reached, say, by the introduction of a normative premise of either a balanced budget and/or lower public spending and/or a politics without such competition. Accordingly, the line (s) of reasoning which result in the conclusion of *under*production of public goods find in the combination of a different perception of the operation of political competition and some normative basis as to the correct level and/or relation of taxes and spending a quite opposite result.

3. *Institutions and Rules*. BW exhibit as their positive *forte* a variety of profound and important insights into how the institutions and rules of politics work. They stress that political choice and politician behavior are, as a matter of fact, channeled by institutions and by institutionalized norms, or rules. [pp. 6, 7 and passim] They recognize that the application of any set of policy rules is not invariant over alternative decision-making institutions. [p. 78] They understand

that the size and composition of public budgets in a competitive democracy are products of the "translated preferences of a subset of politicians' constituents and the constitutional-institutional rules that constrain the political system." [p. 98] (It is in this context that politics is a matter of competition for votes, often trading in the coin of high-spending and low-taxing.) They are aware that monetary (and fiscal) authorities' responsiveness to easy *vis-a-vis* sound money pressures is constrained by the operation of the institutional reward-incentive system in government and politics. [pp. 118, 119, 123] They are aware, too, that particular budgetary institutions can influence specific budgetary outcomes [p. 124] and that political time horizons can be short or long and depend on institutional (for example, election periodicity) arrangements. [p. 159] I do not intend to depreciate these positive insights when I say that they can be generalized in the propositions that (a) decisions tend to be a function of power structure, (b) behavior tends to be a function of rules, and (c) the operation of rules tends to be a function of power structure. But it is quite another, and a normative, matter to interpret and evaluate these tendencies in terms of some basis as to what the power structure, rules, and/or tax-spending performance should be. And that is precisely what BW also do in *Democracy in Deficit*. I do not, I repeat, deny them this opportunity. I do urge that the statements of the positive content of their analysis can and must be distinguished from the normative content. Any institution of democratic (or any other) politics can be made to appear dysfunctional by the adoption of a different structural, procedural, and/or performance premise. (Also it is potentially misleading to speak—as in the quotation from p. 98—of subsets of constituents, as if the normative ideal by which the extant system fails would represent equal preference valuations, in a world of hierarchical systems.) Positive analysis examines what transpires independent of and as a necessary prelude to judgment and evaluation.

4. *Inflation and Institutional Change.* Another line of BW's reasoning is that inflation produces institutional change. The widespread inclination to blame private firms for raising their prices leads to greater government controls (whereas, in BW's view, the inflation is due to government itself.) Deficits and inflation induce growth of government *and* growth of government induces further deficits and inflation. Inflation affects the level and structure of private investment. [Pp. 62, 63, 65, 69, 111 and passim] Moreover, inflation produces a reallocation of resources to activities producing gains from

adjusting to inflation [p. 62] and into employments not maintainable without further inflation. [p. 105]

My view of these considerations by now should be obvious. It is one thing to identify these changes—subject to verification as to fact and relative importance *vis-a-vis* other, competing tendencies; it is quite another to consider them adverse and distortive of the arrangements which would otherwise exist. It is positive public choice analysis to say that inflation produces institutional change. To say or imply that the institutional change is undesirable requires an antecedent normative premise as to the respective rightness and wrongness of both the institutional arrangements which otherwise would exist and the induced changes therein, and that is a matter of normative public choice theory, similarly with the assessment of blame for inflation and deficits per se, and of the allocation of resources.

The same analysis applies to discussions of biases concerning prevention and control of inflation *vis-a-vis* unemployment. It is possible to see in the operation of public choice processes both kinds of biases, although BW perceive the operative one to be against prevention and control of inflation and toward stimulating employment. [p. 103] This is essentially an empirical matter, although one laden with the possibilities of normative perceptions. The positive public choice fact, one which BW's normative public choice analysis denigrates, is that inflation and unemployment are now explicit matters of political choice. Whether the political marketplace is weighted in favor of unemployment [p. 167] is judgmental, a matter on which BW and, say, Leon Keyserling, Ray Marshall, and/or George Meany likely disagree. In any event, the question of the proper weight is normative. I think that it is a matter of positive analysis to say that BW introduce into their public choice analysis a quite conservative brand of economics; indeed, they affirm the old-time fiscal (and monetary) religion of balanced budgets, minimal public debt, and the like. The difference between positive public choice theory and BW's normative public choice theory is (and this is a positive proposition) their version of economic conservatism in which certain rules and myths play a normatively functional role. Although their view is constrained (I do not say burdened) by the fiscal-monetary religion which they bring to positive theory, it is indeed precisely with regard to the operation of the old-time myth and rules that BW may make their most specific contributions to positive public choice theory.

For example, BW may be supposed to believe (I have heard Buchanan speak to this effect) that the gold standard myth operated (in what was for many informed conservatives its principal function) to limit political behavior and choice. BW do stress that the fixed exchange rate system was a similarly functioning constraint on political processes. [p. 123] The news, as I write this article, includes stories of the fall in the exchange rate of the dollar against various foreign currencies and of the political (domestic and international) consequences thereof, especially with regard to anti-inflation *vis-a-vis* full employment policies. The point I want to make is that there is a difference between studying and documenting the actual role of these alternative international monetary systems and their associated symbols with regard to domestic public choice processes *and* arguing that one or another likely function and/or performance consequence is desirable.

III. IN CONCLUSION

I do not object to economists being concerned with normative theory (although I do urge that normative premises be made explicit). I do urge that there is a difference between positive and normative public choice theory (as difficult as drawing the distinctions may be in practice) *and* that there is much to be gained from the study of both strictly positive and normative public choice theory. I would further recognize, indeed urge, that the conduct of positive public choice theory is fraught with opportunities for the intrusion of subtle normative premises and difficulties of other sorts as well. But that is another story.

Reference

Buchanan, James M. and Richard E. Wagner. *Democracy in Deficit*, New York: Academic Press, 1977.