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3.

Politics And The Economic Nexus

I do not, gentlemen, trust you.

—Gunning Bedford of Delaware, Federal Convention of 1787

... free government is founded in jealousy and not in confidence.

—Thomas Jefferson, Kentucky Resolutions of 1798

Economic Theory And Economic Man

Our purpose in this book is to derive a preliminary theory of collective choice that is in some respects analogous to the orthodox economic theory of markets. The latter is useful for predictive purposes only to the extent that the individual participant, in the market relationship, is guided by economic interest. Through the use of this specific assumption about human motivation, scholars have been able to establish for economic theory a limited claim as the only positive social science. The most controversial aspect of our approach to collective-choice processes is the assumption that we shall make concerning the motivation of individual behavior. For this reason it seems useful to discuss this assumption as carefully as possible. We may begin by reviewing in some detail the companion assumption made by the economic theorist.

The first point to be noted is that economic theory does not depend for its validity or its applicability on the presence of the purely economic man. This man of fiction, who is motivated solely by individual self-interest in all aspects of his behavior, has always represented a caricature designed by those who have sought to criticize rather than to appreciate the genuine contribution that economic analysis can make, and has made, toward a better understanding of organized human activity. The man who enters the market relationship as consumer, laborer, seller of products, or buyer of services may do so for any number of reasons. The theory of markets postulates only that the relationship be *economic*, that the interest of his opposite number in the exchange be excluded from consideration. Wicksteed's principle of "non-Tuism" is the appropriate one, and his example of Paul's tent-making is illustrative. The accepted theory of markets can explain behavior and enable the economist to make certain meaningful predictions, so long as Paul does not take into account the interest of those for whom he works in repairing the tents. Paul may be acting out of love of God, the provincial church, friends, or self without affecting the operational validity of the theory of markets.^{[27](#)}

It is also necessary to emphasize that economic theory does not try to explain all human behavior, even all of that which might be called "economic" in some normally accepted sense of this term. At best, the theory explains only one important part of

human activity in this sphere. It examines one relationship among individuals in isolation. No economist, to our knowledge, has ever denied that exchange takes place which is not “economic.” Some individual buyers deliberately pay to sellers higher prices than is necessary to secure the product or service purchased, and some sellers deliberately accept lower prices than buyers are willing to pay. The theory requires for its usefulness only the existence of the economic relation to a degree sufficient to make prediction and explanation possible. Furthermore, only if the economic motivation is sufficiently pervasive over the behavior of all participants in market activity can economic theory claim to have operational meaning.

Even if the economic forces are not predominant enough in human behavior to allow predictions to be made, the formal theory remains of some value in explaining *one* aspect of that behavior and in allowing the theorist to develop hypotheses that may be subjected to conceptual, if not actual, testing. Reduced to its barest essentials, the economic assumption is simply that the representative or the average individual, when confronted with real choice in exchange, will choose “more” rather than “less.” The only important question concerns the strength of this acknowledged force. An equally logical theory could be constructed from the opposite assumption that the average individual will choose “less” rather than “more.” However, to our knowledge, no one has proposed such a theory as being even remotely descriptive of reality.

Economic And Political Exchange

This brief review of the behavioral assumption that is implicit in orthodox economic theory serves as an introduction to the question that is vital to our analysis: What behavioral assumption is appropriate for a theory of collective choice? What principle analogous to Wicksteed’s principle of “non-Tuism” can be introduced to help us to develop meaningful theorems concerning the behavior of human beings as they participate in collective as contrasted with private activity?

Both the economic relation and the political relation represent co-operation on the part of two or more individuals. The market and the State are both devices through which co-operation is organized and made possible. Men co-operate through exchange of goods and services in organized markets, and such co-operation implies mutual gain. The individual enters into an exchange relationship in which he furthers his own interest by providing some product or service that is of direct benefit to the individual on the other side of the transaction. At base, political or collective action under the individualistic view of the State is much the same. Two or more individuals find it mutually advantageous to join forces to accomplish certain common purposes. In a very real sense, they “exchange” inputs in the securing of the commonly shared output.

The familiar Crusoe-Friday model may be introduced for illustrative purposes, although its limitations must be fully acknowledged. Crusoe is the better fisherman; Friday the better climber of coconut palms. They will find it mutually advantageous, therefore, to specialize and to enter into exchange. Similarly, both men will recognize the advantages to be secured from constructing a fortress. Yet one fortress is sufficient

for the protection of both. Hence they will find it mutually advantageous to enter into a political “exchange” and devote resources to the construction of the common good.

The most reasonable assumption about human behavior that is suggested by this simple model is that the same basic values motivate individuals in the two cases, although the narrowly conceived hedonistic values seem clearly to be more heavily weighted in economic than in political activity. Initially, however, we might assume that the representative or the average individual acts on the basis of the same over-all value scale when he participates in market activity and in political activity.

Political theorists seem rarely to have used this essentially economic approach to collective activity.²⁸ Their analyses of collective-choice processes have more often been grounded on the implicit assumption that the representative individual seeks not to maximize his own utility, but to find the “public interest” or “common good.”²⁹ Moreover, a significant factor in the popular support for socialism through the centuries has been the underlying faith that the shift of an activity from the realm of private to that of social choice involves the replacement of the motive of private gain by that of social good.³⁰ Throughout the ages the profit-seeker, the utility-maximizer, has found few friends among the moral and the political philosophers. In the last two centuries the pursuit of private gain has been tolerated begrudgingly in the private sector, with the alleged “exploitation” always carefully mentioned in passing. In the political sphere the pursuit of private gain by the individual participant has been almost universally condemned as “evil” by moral philosophers of many shades. No one seems to have explored carefully the implicit assumption that the individual must somehow shift his psychological and moral gears when he moves between the private and the social aspects of life. We are, therefore, placed in the somewhat singular position of having to defend the simple assumption that the *same* individual participates in both processes against the almost certain onslaught of the moralists.

The Paradox Explained³¹

How is the apparent paradox to be explained? Why has the conception of man been so different in the two closely related disciplines of economic and political theory?

The first answer suggested is that man is, in reality, many things at once.³² In certain aspects of his behavior he is an individual utility-maximizer, in a reasonably narrow hedonistic sense, and the classical economist’s conception of him is quite applicable. In other aspects man is adaptive and associates or identifies himself readily with the larger organizational group of which he forms a part, including the political group. By the nature of the constraints imposed upon the individual in each case, a representative or typical man may, in fact, often switch gears when he moves from one realm of activity to another.³³ As the following chapter will demonstrate, there are reasons to suggest that the assumption of individual utility maximization will not be as successful in pointing toward meaningful propositions about collective choice as about market choice. However, the recognition that man is, indeed, a paradoxical animal should not suggest that an “economic” model of collective choice is without value. In any case, such a model should be helpful in explaining *one* aspect of political behavior; and only after the theory has been constructed and its propositions

compared with data of the real world can the basic validity of the motivational assumption be ascertained.

The real explanation of the paradox must be sought elsewhere. Collective activity has not been conceived in an economic dimension, and an analysis of the behavior of individuals in terms of an economic calculus has been, understandably, neglected.³⁴ This emphasis on the noneconomic aspects of individual behavior in collective choice may be partially explained, in its turn, by the historical development of the modern theories of democracy. Both the theory of democracy and the theory of the market economy are products of the Enlightenment, and, for the eighteenth-century philosophers, these two orders of human activity were not to be discussed separately. The democratic State was conceived as that set of constraints appropriate to a society which managed its economic affairs largely through a competitive economic order, in which the economic interests of individuals were acknowledged to be paramount in driving men to action. The collective action required was conceived in terms of the laying down of *general* rules, applicable to all individuals and groups in the social order. In the discussion of these general rules, serious and important differences in the economic interests of separate individuals and groups were not expected to occur. Differences were foreseen and the necessity for compromises recognized, but these were not usually interpreted in terms of differences in economic interest.

As the governments of Western countries grew in importance, and as economic interests began to use the democratic political process during the nineteenth century to further partisan goals (as exemplified by the tariff legislation in the United States), the continuing failure of political theory to fill this gap became more difficult to explain; and, as more and more areas of human activity formerly organized through private markets have been shifted to the realm of collective choice in this century, the lacuna in political theory becomes obvious. In the context of a limited government devoted to the passage of general legislation applying, by and large, to all groups, the development of an individualist and economic theory of collective choice is perhaps not of major import. However, when the governmental machinery directly uses almost one-third of the national product, when special interest groups clearly recognize the “profits” to be made through political action, and when a substantial proportion of all legislation exerts measurably differential effects on the separate groups of the population, an economic theory can be of great help in pointing toward some means through which these conflicting interests may be ultimately reconciled.

An individualist theory of collective choice implies, almost automatically, that the basic decision-making rules be re-examined in the light of the changing role assumed by government. There should be little reason to expect that constitutional rules developed in application to the passage of general legislation would provide an appropriate framework for the enactment of legislation that has differential or discriminatory impact on separate groups of citizens. Perhaps largely because they have not adopted this conceptual approach to collective choice, many modern students have found it necessary to rely on moral principle as perhaps the most important means of preventing the undue exploitation of one group by another through the political process. To many scholars the pressure group, which is organized to promote a particular interest through governmental action, must be an aberration; logrolling

and pork-barrel legislation must be exceptions to normal activity; special tax exemptions and differential tax impositions are scarcely noted. These characteristic institutions of modern democracies demand theoretical explanation, an explanation that the main body of political theory seems unable to provide.[35](#)

The Scholastic philosophers looked upon the tradesman, the merchant, and the moneylender in much the same way that many modern intellectuals look upon the political pressure group. Adam Smith and those associated with the movement he represented were partially successful in convincing the public at large that, within the limits of certain general rules of action, the self-seeking activities of the merchant and the moneylender tend to further the general interests of everyone in the community. An acceptable theory of collective choice can perhaps do something similar in pointing the way toward those rules for collective choice-making, the constitution, under which the activities of political tradesmen can be similarly reconciled with the interests of all members of the social group.

Economic Motivation And Political Power

Some modern political theorists have discussed the collective-choice process on the basis of the assumption that the individual tries to maximize his power over other individuals. In at least one specific instance, the individual who seeks to maximize power in the collective process has been explicitly compared with the individual who seeks to maximize utility in his market activity.[36](#) Here it is recognized, however, that there exists no real evidence that men do, in fact, seek power over their fellows, as such.[37](#)

Superficially, the power-maximizer in the collective-choice process and the utility-maximizer in the market process may seem to be country cousins, and a theory of collective choice based on the power-maximization hypothesis may appear to be closely related to that which we hope to develop in this essay. Such an inference would be quite misleading. The two approaches are different in a fundamental philosophical sense. The economic approach, which assumes man to be a utility-maximizer in both his market and his political activity, does not require that one individual increase his own utility at the expense of other individuals. This approach incorporates political activity as a particular form of *exchange*; and, as in the market relation, mutual gains to all parties are ideally expected to result from the collective relation. In a very real sense, therefore, political action is viewed essentially as a means through which the “power” of all participants may be increased, if we define “power” as the ability to command things that are desired by men. To be justified by the criteria employed here, collective action must be advantageous to all parties. In the more precise terminology of modern game theory, the utility or economic approach suggests that the political process, taken in the abstract, may be interpreted as a positive-sum game.

The power-maximizing approach, by contrast, must interpret collective choice-making as a zero-sum game. The power of the one individual to control the action or behavior of another cannot be increased simultaneously for both individuals in a two-man group. What one man gains, the other must lose; mutual gains from “trade” are

not possible in this conceptual framework. The political process is in this way converted into something which is diametrically opposed to the economic relation, and into something which cannot, by any stretch of the imagination, be considered analogous.³⁸ The contributions of game theory seem to have been introduced into political theory largely through this power-maximizing hypothesis.³⁹

Madisonian Democracy And The Economic Approach

Robert A. Dahl, in his incisive and provocative critique, has converted the Madisonian theory of democracy (which is substantially embodied in the American constitutional structure) into something akin to the power-maximizer approach discussed above.⁴⁰ On this interpretation, Dahl is successful in showing that the theory contains many ambiguities and inconsistencies. It is not our purpose here to discuss the interpretation of Madison's doctrine. What does seem appropriate is to point out that the Madisonian theory, either that which is explicitly contained in Madison's writings or that which is embodied in the American constitutional system, may be compared with the normative theory that emerges from the economic approach. When this comparison is made, a somewhat more consistent logical basis for many of the existing constitutional restraints may be developed. We do not propose to make such a comparison explicitly in this book. The normative theory of the constitution that emerges from our analysis is derived solely from the initial individualistic postulates, the behavioral assumptions, and the predictions of the operation of rules. The determination of the degree of correspondence between this theory and the theory implicit in the American Constitution is left to the reader. Insofar as such correspondence emerges, however, this would at least suggest that Madison and the other Founding Fathers may have been somewhat more cognizant of the economic motivation in political choice-making than many of their less practical counterparts who have developed the written body of American democratic theory.

There is, in fact, evidence which suggests that Madison himself assumed that men do follow a policy of utility maximization in collective as well as private behavior and that his desire to limit the power of both majorities and minorities was based, to some extent at least, on a recognition of this motivation. His most familiar statements are to be found in the famous essay, *The Federalist No. 10*, in which he developed the argument concerning the possible dangers of factions. A careful reading of this paper suggests that Madison clearly recognized that individuals and groups would try to use the processes of government to further their own differential or partisan interests. His numerous examples of legislation concerning debtor-creditor relations, commercial policy, and taxation suggest that perhaps a better understanding of Madison's own conception of democratic process may be achieved by examining carefully the implications of the economic approach to human behavior in collective choice.

Economic Motivation And Economic Determinism

The facts of intellectual history require a digression at this point for a brief discussion of a critical error that may have served to stifle much potentially productive effort in political theory. Charles A. Beard supported his "economic" interpretation of the

American Constitution in part by reference to Madison's *The Federalist No. 10*. Beard's work and much of the critical discussion that it has aroused since its initial appearance in 1913 seem to have been marked by the failure to distinguish *two* quite different approaches to political activity, both of which may be called, in some sense, *economic*. The first approach, which has been discussed in this chapter as the basis for the theory of collective choice to be developed in this book, assumes that the individual, as he participates in collective decisions, is guided by the desire to maximize his own utility and that different individuals have different utility functions. The second approach assumes that the individual is motivated by his position or class status in the production process. The social class in which the individual finds himself is prior to, and determines, the interest of the individual in political activity. In one sense, the second approach is the opposite of the first since it requires that, on many occasions, the individual must act contrary to his own economic interest in order to further the interest of the social class or group to which he belongs.

Beard attempted to base his interpretation of the formation of the American Constitution on the second, essentially the Marxist, approach, and to explain the activities of the Founding Fathers in terms of class interests. As Brown has shown, Beard's argument has little factual support, in spite of its widespread acceptance by American social scientists.⁴¹ The point that has been largely overlooked is that it remains perfectly appropriate to assume that men are motivated by utility considerations while rejecting the economic determinism implicit in the whole Marxian stream of thought. Differences in utility functions stem from differences in taste as much as anything else. The class status of the individual in the production process is one of the less important determinants of genuine economic interest. The phenomenon of textile unions and textile firms combining to bring political pressure for the prohibition of Japanese imports is much more familiar in the current American scene than any general across-the-board political activity of labor, capital, or landed interests.

The most effective way of illustrating the distinction between the individualist-economic approach and economic determinism or the class approach (a distinction that is vital to our purpose in forestalling uninformed criticism) is to repeat that the first approach may be used to develop a theory of constitutions, even on the restrictive assumption that individuals are equivalent in all external characteristics.

We are not, of course, concerned directly with the history of the existing American Constitution or with the integrity of historians and the veracity of historical scholarship. This brief discussion of the confusion surrounding the Beard thesis has been necessary in order to preclude, in advance, a possibly serious misinterpretation of our efforts.

In Positive Defense

This chapter will be concluded with a somewhat more positive defense of the use of the individualist-economic or the utility-maximizing assumption about behavior in the political process. There are two separate strands of such a defense—strands that are

complementary to each other. The first might be called an ethical-economic defense of the utility-maximizing assumption, while the second is purely empirical.

The ethical-economic argument requires the initial acceptance of a skeptical or pessimistic view of human nature. Self-interest, broadly conceived, is recognized to be a strong motivating force in all human activity; and human action, if not bounded by ethical or moral restraints, is assumed more naturally to be directed toward the furtherance of individual or private interest. This view of human nature is, of course, essentially that taken by the utilitarian philosophers. From this, it follows directly that the individual human being must undergo some effort in restraining his “passions” and that he must act in accordance with ethical or moral principles whenever social institutions and mores dictate some departure from the pursuit of private interests. Such effort, as with all effort, is scarce: that is to say, it is economic. Therefore, it should be economized upon in its employment. Insofar as possible, institutions and legal constraints should be developed which will order the pursuit of private gain in such a way as to make it consistent with, rather than contrary to, the attainment of the objectives of the group as a whole. On these psychological and ethical foundations, the theory of markets or the competitive organization of economic activity is based. For the same reason, if it is possible to develop a theory of the political order (a theory of constitutions) which will point toward a further minimization of the scarce resources involved in the restraint of private interest, it is incumbent on the student of social processes to examine the results of models which do assume the pursuit of private interest.

As is true in so many instances, Sir Dennis Robertson has expressed this point perhaps better than anyone else:

There exists in every human breast an inevitable state of tension between the aggressive and acquisitive instincts and the instincts of benevolence and self-sacrifice. It is for the preacher, lay or clerical, to inculcate the ultimate duty of subordinating the former to the latter. It is the humbler, and often the invidious, role of the economist to help, so far as he can, in reducing the preacher’s task to manageable dimensions. It is his function to emit a warning bark if he sees courses of action being advocated or pursued which will increase unnecessarily the inevitable tension between self-interest and public duty; and to wag his tail in approval of courses of action which will tend to keep the tension low and tolerable.[42](#)

Once it is recognized that the institutions of collective choice-making are also variables that may be modified in important ways so as to change the tension of which Robertson speaks, the word “economist” in the citation can be replaced by the more general “social scientist.” If, as Robertson continues a few pages later, “that scarce resource Love ...” is, in fact, “the most precious thing in the world,”[43](#) there could be no stronger ethical argument in support of an attempt to minimize the necessity of its use in the ordering of the political activity of men.

The ultimate defense of the economic-individualist behavioral assumption must be empirical. If, through the employment of this assumption, we are able to develop hypotheses about collective choice which will aid in the explanation and subsequent

understanding of observable institutions, nothing more need be thrown into the balance. However, implicit in the extension of the behavioral assumption used in economic theory to an analysis of politics is the acceptance of a methodology that is not frequently encountered in political science. Through the use of the utility-maximizing assumption, we shall construct logical models of the various choice-making processes. Such models are themselves artifacts; they are invented for the explicit purpose of explaining facts of the real world. However, prior to some conceptual testing, there is no presumption that any given model is superior to any other that might be chosen from among the infinitely large set of models within the possibility of human imagination. The only final test of a model lies in its ability to assist in understanding real phenomena.

Models may be divided into three parts: assumptions, analysis, and conclusions. Assumptions may or may not be “descriptive” or “realistic,” as these words are ordinarily used. In many cases the “unrealism” of the assumptions causes the models to be rejected before the conclusions are examined and tested. Fundamentally, the only test for “realism” of assumptions lies in the applicability of the conclusions. For this reason the reader who is critical of the behavioral assumption employed here is advised to reserve his judgment of our models until he has checked some of the real-world implications of the model against his own general knowledge of existing political institutions.

It is necessary to distinguish between two possible interpretations and applications of the general model embodying the assumption that the individual participant in collective decisions attempts to maximize his own utility. In the first, we need place no restrictions on the characteristics of individual utility functions; the model requires only that these utility functions differ as among different individuals (that is to say, different persons desire different things via the political process). This is all that is required to develop an internally consistent praxiological theory of political choice, and through the employment of this theory we may be able to explain something of the characteristics of the decision-making process itself. With this extensive model, however, we cannot develop hypotheses about the results of political choice in any conceptually observable or measurable dimension.

To take this additional step, we must move to the second interpretation mentioned above, which is a more narrowly conceived submodel. In this, we must place certain restrictions on individual utility functions, restrictions which are precisely analogous to those introduced in economic theory: that is to say, we must assume that individuals will, on the average, choose “more” rather than “less” when confronted with the opportunity for choice in a political process, with “more” and “less” being defined in terms of measurable economic position. From this model we may develop fully operational hypotheses which, if not refuted by real-world observations, lend support not only to the assumptions of the restricted submodel but also support the assumptions implicit in the more general praxiological model.

It cannot be emphasized too strongly that the moral arguments against man’s pursuit of private gain, whether in the market place or in the collective-choice process, must be quite sharply distinguished from the analysis of individual behavior. Orthodox

social and political theorists do not always appear to have kept this distinction clearly in mind. Norms *for* behavior have often been substituted for testable hypotheses *about* behavior. We do not propose to take a position on the moral question regarding what variables should enter into the individual's utility function when he participates in social choice, nor do we propose to go further and explore the immensely difficult set of problems concerned with the ultimate philosophical implications of the utilitarian conception of human nature. As we conceive our task, it is primarily one of analysis. We know that one interpretation of human activity suggests that men do, in fact, seek to maximize individual utilities when they participate in political decisions and that individual utility functions differ. We propose to analyze the results of various choice-making rules on the basis of this behavioral assumption, and we do so independently of the moral censure that might or might not be placed on such individual self-seeking action.

The model which incorporates this behavioral assumption and the set of conceptually testable hypotheses that may be derived from the model can, at best, explain only one aspect of collective choice. Moreover, even if the model proves to be useful in explaining an important element of politics, it does not imply that all individuals act in accordance with the behavioral assumption made or that any one individual acts in this way at all times. Just as the theory of markets can explain only some fraction of all private economic action, the theory of collective choice can explain only some undetermined fraction of collective action. However, so long as some part of all individual behavior in collective choice-making is, in fact, motivated by utility maximization, and so long as the identification of the individual with the group does not extend to the point of making *all* individual utility functions identical, an *economic-individualist* model of political activity should be of some positive worth.