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PUBLIC CHOICE THEORY

VOLUME I

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Public Choice Theory
Volume I

Homo Economicus in the Political Market Place

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Public Choice Theory
Volume I

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Introduction

Public choice – or the economics of politics – is a relatively new science located at the interface between economics and politics, founded in 1948 by Duncan Black, who died in 1991 without ever achieving full recognition as the Founding Father of the discipline (Tullock, 1991). Its practitioners seek to understand and to predict the behaviour of political markets by utilizing the analytical techniques of economics, most notably the rational choice postulate, in the modelling of non-market decision-making behaviour.

Public choice, thus defined, is a positive science concerned with what is or what conditionally might be. Its normative counterpart, concerned with what should be, is social choice, the subject-matter of separate volumes in *The International Library of Critical Writings in Economics Series*, and an important topic in moral philosophy. Its dedicated journal is *Public Choice*, introduced by Gordon Tullock in 1966 and now ranked among the thirty most important journals in social science worldwide. Its intellectual home is The Center for Study of Public Choice, now located at George Mason University in the Commonwealth of Virginia.

The public choice research programme was launched in 1948 by Duncan Black's paper on the rationale of group decision-making. This paper showed that, at most, only one motion, before a committee or an electorate, can secure a simple majority over every other motion. Specifically, if voter preferences are single-peaked over issue space a unique equilibrium exists in the motion most preferred by the median voter. For Black, this result was the political science counterpart of competitive market equilibrium in his own discipline of economics. In 1950, Kenneth Arrow incorporated this insight into his now famous, more general paper outlining a difficulty in social welfare. Although Arrow's paper is directed to social and not to public choice it served to warn public choicers not to rely upon Black's result in environments where single peaked preferences well may not hold, and where voting cycles may prevail.

In 1957, Anthony Downs moved public choice from its early beginnings in analysing committee voting and direct elections to its subsequent preoccupation with democracy and representative government. In a far-reaching contribution, he laid the foundations for a major research programme which applies rational choice theory to every aspect of the political market place. Downs skilfully moved the median voter theorem from the committees of Black's insight to the more complex environment of representative government, thus offering a falsifiable theory of democracy that has attracted a significant volume of empirical research.

Even in establishing the notion that political markets, under favourable circumstances, may reflect the policy preferences of the median voter, even in forcing the rational choice analysis of the economist into virgin territory, Downs sowed seeds of doubt that subsequently developed into important areas of research. In an environment where information is complex and costly to acquire, economizing members of the electorate may choose to remain rationally ignorant. If so, the median preference may be a chimera, and the notion of a voter-induced political equilibrium may be an elusive 'will-o-wisp'. In such circumstance, other political actors may fill the vacuum and replace the voter as the pivot of the political process. In particular, interest groups merit scrutiny.

In 1965, Olson analysed the behaviour of interest groups from the rational choice perspective, offering public choice insights that have transformed our understanding of political markets. He noted that it is usually costly to establish interest groups; that existing groups have decisive advantages in political market competition; that groups offering concentrated benefits are more effective than those offering dispersed benefits; that small groups are more effective than large groups; and that groups that can coerce supply are more effective than those that cannot. Thus, the logic of collective action suggests that competition between pressure groups does not simply reinforce an underlying, voter-directed political equilibrium. Rather, it predictably distorts the political equilibrium in favour of policies preferred by effective interest groups, policies that provide concentrated benefits for a few financed by dispersed taxes on the many (Gwartney and Wagner, 1988).

The classics of public choice so far reviewed centred attention unequivocally on voting and/or lobbying in unconstrained environments. However, in 1962, Buchanan and Tullock shifted the public choice perspective away from the environment of parliamentary democracy envisaged by Downs to that of constitutional republicanism envisaged by the authors of *The Federalist* almost two centuries earlier. *The Calculus of Consent* differed sharply from the other classics in its emphasis upon methodological individualism and catallaxy (contractarianism) within the protected core of its research programme (Lakatos, 1978). It shared with the other texts the emphasis upon homo economicus and rational choice assumptions which already had separated public choice from the mainstream political science programmes. By directing attention to the difference between choices over rules and choices subject to rules, the book provided the framework for the constitutional political economy research programme.

Together, the five books outlined above constitute the basic core of public choice theory, the foundations on which the research programme in public choice is grounded. As the articles selected for these volumes demonstrate, the public choice programme is both theoretically and empirically progressive as it reaches out to the closing years of the twentieth century and to the promising new century that beckons beyond.

1. Alternative Perspectives in Public Choice

Like all intellectual developments, public choice has given birth to a new generation of scholars and research institutions, together with distinctive approaches and methods that do not always correspond to those adopted by the 'founding fathers' (Mitchell, 1988). Three schools of thought have emerged as dominant, but quite different contributors to the public choice research programme, each worthy of separate review, namely Rochester, Chicago and Virginia.

Rochester

The leading intellectual in the Rochester school of positive political theory is William Riker who first signalled his presence in 1962 with a game theoretic critique of Down's *Economic Theory of Democracy* (1957). By ignoring the then fashionable behavioural school in favour of rational choice theory, Riker indicated that he was stepping outside conventional political science to embrace the challenge from economics on its own terms. By employing game theory, Riker indicated that conflict and conflict resolution was an integral part of public choice, a view that Buchanan certainly has been reluctant to accept. By 1973, Riker and Ordeshook felt able to define politics as 'the mystery of how social choice evolves out of individual preferences' (Riker and Ordeshook, 1973, p. 6). Their book demonstrated that the mystery would be resolved by mathematical political science buttressed by the use of rigorous statistical method. Once again, this choice of methods would not be endorsed by Buchanan, the joint leader (with Gordon Tullock) of the Virginia School.

The Rochester school, which embraces, *inter alia*, Riker, Ordeshook, Brams, Hinich, Aranson, McKelvey, Fiorina, Ferejohn, Shepsle and Weingast, consistently applies positive political science to the study of elections, party strategies, voting agenda manipulation, coalition formation, legislatures and bureaucracy. Until the early 1980s, most of the work was theoretical and abstract, largely devoid of institutional detail, perhaps in revulsion against the institutionalist predilections of conventional political science, perhaps because of the Rochester preoccupation with spatial voting models (Enelow and Hinich, 1984). Throughout the 1980s, however, Shepsle and Weingast shifted direction and initiated an influential programme of research into the institutions of the US legislature and the federal bureaucracy. Drawing heavily upon recent research findings in the new institutional economics, these scholars together with their various co-authors have blended political science with economics to the extent that it is extremely difficult to unravel the primary focus. So far, this latter Rochester programme has been extremely chauvinistic, directed almost exclusively at US institutions and surprisingly narrow, ignoring state institutions and the complex interactions of the compound republic. No doubt the programme will broaden and deepen as its research momentum accelerates.

The Rochester research programme, for the most part, eschews normative discussion. Most of its practitioners, whatever their own philosophies, report neutrally on such matters as cyclical majorities, inefficient log-rolling, interest group politics, bureaucratic discretion and the like. Some, like Shepsle (1982), are extremely skeptical about constitutional reform. Others like Fiorina (1983) are openly hostile to studies that find fault with the federal bureaucracy. Riker and Aranson are notable exceptions to the apolitical neutrality of this programme. Technically, of course, the Rochester school is correct in separating science from moral philosophy. Sometimes, however, this scientific purity makes for dull reading.

Chicago

The Chicago political economy research programme (CPE) was a relatively late starter, launched by George Stigler's seminal 1971 article on economic regulation. Stigler retained the intellectual leadership of the programme until his death in 1991, supported by such leading Chicago economists as Becker, Peltzman, Landes and Posner. Despite the lengthy pedigree of the Chicago School – Knight, Viner, Simons and Friedman – in normative as well as positive policy discussion – CPE is overtly positivistic, asserting for the most part that 'what is is technically efficient', that economists can observe, explain and predict, but cannot influence the course of history, and that attempts to change the world, by and large are futile and wasteful of scarce resources (Rowley, 1992, pp. 38–41).

CPE is a body of literature which analyses government from the perspective of price theory and positive economics (Mitchell, 1989; Tollison, 1989). It views government primarily as a mechanism utilized by rational self-seeking individuals to redistribute wealth within a society. Homo economicus is modelled almost exclusively in this programme as an expected wealth maximizer. Those who acknowledge other arguments in his utility function – altruism, ideology, patronage and the like – are viewed with grave suspicion, categorized even as sociologists (Reder, 1982). CPE thus denies all credibility to the public interest theory of government, indeed mocks the East Coast academies for their stubborn adherence to such a concept. Yet, by outcome rather than by any explicit public interest design, political markets are viewed as technically efficient mechanisms for satisfying the redistributionist preferences of members of the decisive interest groups. This outcome is reported without emotion by scholars who view themselves to be flotsam in the shifting tide of events.

Drawing upon the methodology applied by Chicagoans in their analyses of private markets, CPE has applied tight prior equilibrium theory (Reder, 1982) in its study of transfer politics. The thrust of the theory is toward instantaneous and durable equilibrium, with political markets always clearing. In equilibrium, no individual can raise his expected utility (wealth) without reducing the expected utility (wealth) of at least one other individual. Political agents (brokers) clear political markets without invading them as principals. They are driven by constraints and not by preferences. There is no role for ideology in the CPE research programme.

The auxiliary hypotheses of the CPE research programme ensure that political market equilibrium is both tight and instantaneous. First, it is assumed that individuals are price-takers rather than price-makers; that there is little or no discretionary power in political markets. Second, it is assumed that the prices at which individuals agree to transact are market clearing prices consistent with optimizing behaviour. Third, it is assumed that such prices reflect all economically relevant information; that individuals engage in optimal search in political markets. Fourth, it is assumed that all constraints on economic behaviour are efficient; that they also reflect utility maximizing behaviour on the part of those who create or modify them.

The auxiliary conditions imposed by CPE do not produce equilibria based upon perfect foresight. Random disturbances cannot be accommodated; nor will uneconomic information be utilized. Individuals respond, however, by adjusting to stochastic analogues of deterministic general equilibrium. The technical efficiency characteristics of the latter carry over to the stochastic equilibria. A particular feature of CPE, as of the Chicago School in general, is the presumption that propositions derived from tight prior equilibrium theory are the only valid propositions of the research programme. CPE thus appraises its own research, and that of others, by a standard that requires the findings of empirical analysis to be consistent with the implications of standard price theory (Reder, 1982). Ultimately, this presumption must give way against relentlessly adverse evidence. But it can take a very long time, given the malleability of statistical techniques, and the high cost of major programmes of statistical analysis.

As readers of these volumes will discover, CPE has offered a number of influential insights into public choice, most of which are at odds with the findings of the Virginia School. Voters are well-informed; bureaucrats are efficiently controlled by the legislature; and the common law legal system is economically efficient. These results must seem strange to the Milton Friedman who wrote *Capitalism and Freedom* (1962). But Milton Friedman, perhaps wisely, has maintained some distance from the CPE research programme, and has sided of late more closely with the writings of the Virginia School. Whether CPE continues its courtship with the political market-place in the post-Stigler era remains to be seen, as does the viability of its theories as they are increasingly exposed to statistical analysis.

Virginia

The Virginia School, with its early roots in the economics of Frank Knight and Henry Simons at the University of Chicago (Mitchell, 1988) is the most far-reaching programme in public choice, provocative because its practitioners do not hesitate to step across the divide separating public choice from moral philosophy. Under the intellectual leadership of James M. Buchanan and Gordon Tullock, the Virginia School has established itself in active opposition both to orthodox neoclassical economics and to conventional political science. It has challenged, *inter alia*, Keynesian macroeconomics, Pigovian welfare economics, conventional public finance and the veneration of majoritarian democracy.

Its emphasis on constitutional political economy places it at odds with the research thrust both of Rochester and Chicago, as does its preoccupations with methodological individualism and catallactics. Widely viewed as an ideologically conservative programme, because of the pre-eminence of Buchanan and Tullock, the Virginia School also manifests a classical liberal wing (Rowley and Wagner, 1990). Neither slant finds much favour among mainstream scholars of economics and political science who typically fall on the left-of-centre side of the ideological spectrum and who rely upon government intervention as a welfare-enhancing feature of the desired welfare state.

From the outset, Virginia scholars viewed their research as a scientific counter-balance to the onslaught by neoclassical economists targeted against capitalism. Throughout the period 1945 to 1962, Keynesian macroeconomists, Pigovian welfare economists and Musgraveian public finance scholars had led an unrelenting attack on the efficiency of markets and had mounted a major programme of research exploring the appropriate responses by benevolent democratic governments. Even such old-style Chicago economists as Milton Friedman (1962) and Ronald Coase (1960) had been placed on the defensive by this 'blitzkrieg', devising ever more exotic methods of government intervention whereby the discretionary power of government might be minimized, while accepting that externalities, public goods and information problems eviscerated many private market solutions. Even Harold Demsetz (1989), whose writings stressed the importance of a comparative institutions approach, had no theory of government from which a scientific programme could be launched.

In a 'tour de force', Buchanan and Tullock (1962) provided the missing theory and put the advocates of market failure on the defensive (Goetz, 1991). If externalities, public goods and information problems afflicted private markets, they ravaged a political market place that offered massive indivisibilities and only limited exit options to afflicted citizens. The scene was set for a programme of scientific endeavour that exposed government failure coupled to a programme of moral philosophy that supported constitutional reform designed to limit government, even to the role of the night watchman state. Small wonder that as the programme's reputation spread, it failed to endear itself to scholars who had rendered themselves dependent on the subsidies of big government and whose lucrative careers in many instances were linked to advising either agents of the compound republic or their private sector adversaries.

The Virginia School does not centre attention primarily on the vote motive as the fulcrum of the political market-place, in part because of the paradox of voting implicit in rational ignorance and rational abstentions in large numbers elections (Rowley, 1984), in part because of the lengthy period between elections (Mitchell, 1988), and in part because of agenda control problems (Romer and Rosenthal, 1978). Instead, a great deal of analysis is focused on interest groups, rent-seeking, the legislature, the executive, the judiciary and the federal bureaucracy. The results of such scientific inquiry rarely show the political market in a favourable light. Only through constitutional interventions do the Virginians see much prospect of utility-enhancing institutional reforms (Buchanan, Rowley and Tollison, 1987).

In its scientific contributions, the Virginia School analyses government, from the perspective of price theory, as a vehicle used by rational, self-seeking individuals to redistribute wealth (Rowley, 1992). In this respect, the protected core of its research programme closely resembles that of Chicago. Yet, its central hypotheses – suggestive of universal government failure – could not be more different. In explaining this divergence, important differences in the auxiliary statements of the two programmes must be identified. Virginia, unlike Chicago, does not assume that individuals are always price takers in political markets; significant discretionary power is anticipated. Virginia does not assume as generally as Chicago that political markets clear instantaneously and completely.

Virginia does not assume that decision makers in political markets are always fully informed about the present; nor that they always transform uncertainty about the future into certainty equivalence. Virginia does not assume that political equilibria are generally perceived to be durable, does not excise human error from its theory of political market behaviour and does not ignore institutions in favour of 'black box' theory. Small wonder that its hypotheses differ from those of a school that applies unmodified private market theory to political market analysis.

2. A Virginia School Overview of Public Choice Theory

The articles selected for these volumes reflect all significant perspectives in public choice and are not biased in favour of the Virginia School. Readers will discriminate between the differing perspectives for themselves, helped perhaps by the lens provided in Section 1. Ultimately, following the logic of Karl Popper (1959) and Imre Lakatos (1978) the evidence itself will determine which if any of the perspectives dominates and in which circumstances. The proof of the pudding, after all, is in the eating.

In this overview of public choice theory, therefore, I feel free to outline a Virginia School perspective, confident that the reader will contradict the vision from the literature as necessary. Not all of the current Virginia perspective originated among Virginia scholars; the test is whether it has been assimilated, not its original source. What follows then, to the best of my understanding, is the current status of Virginia School thinking on public choice theory. This perspective is not set in stone, but has adjusted and will continue to adjust as the research programme advances. In my view, the research programme itself is both theoretically and empirically progressive at this time (Rowley and Thorbecke, 1993).

The Vote Motive

Early analysts of public choice (Downs, 1957) believed that the vote motive rigorously controlled political markets. Downs suggested that political parties were vote seekers, formulating policies to win elections, rather than seeking political victory in order to implement preferred policies. From this perspective, he deduced the 'median voter theorem' which indicated that rival political parties would be driven by vote considerations to converge in policy space to a unique and stable political equilibrium which reflected the policy preferences of the median voter. This equilibrium offered no discretion to political parties, unless they had no serious aspiration to govern. As such, it was attractive to those wedded to majoritarian political outcomes, though it was anathema to conventional political scientists because it was predicated on self-seeking behaviour.

In any event, the median voter theorem turned out to be less than robust, dependent on a stringent set of assumptions that coincided only rarely in real political markets:

1. the election must be contested only by two political parties;
2. the policies at issue must collapse into one dimension of left–right space;
3. voter preferences must be single-peaked over policy space;
4. political parties must be able and willing to move across policy space;
5. political parties must be well-informed regarding voters' policy positions;
6. voters must be well-informed regarding the policy positions of political parties;
7. voters must not abstain in significant numbers from voting at elections; and
8. voters must punish governments that deviate from successful electoral manifestos.

Once these assumptions are relaxed, individually or severally, to take account of the realities of political markets, the median solution is much less dominant, especially where the distribution of voter preferences is skewed or multi-modal (Rowley, 1984). In some circumstances, the mean predictably dominates the median (Romer and Rosenthal, 1979); in others the political equilibrium cycles in single or in multi-dimensional issue space (Black, 1948; Arrow, 1951); in yet other circumstances, there is no equilibrium as the parties become immobilized at separate positions in policy space (Rowley, 1984). In consequence, the grip of voter majorities over the election manifestos of competing parties must be viewed as much looser than Downs was willing to acknowledge.

The assumption, central to Downs, that the competing political parties (or presidential candidates) are mobile over policy space has been challenged by Enelow and Hinich (1984). Their counter-hypothesis is that political parties are immobilized in the short run by the recent history of their political behaviour. Major spatial movements are impeded by credibility constraints imposed by the electorate. In such circumstances, parties advertise to consolidate the voter preference distribution around their respective positions in policy space rather than to inform voters of significant policy adjustments. If Enelow and Hinich are correct, and information is to be viewed as persuasive, even the concept of revealed voter preferences is rendered suspect and, with it, the underlying connection between political equilibrium and majoritarian politics.

The probability that an individual vote will prove to be decisive in a major election is minute – less than one in ten million in US presidential elections (Stigler, 1971). This implies that the differential expected benefit to any voter from voting decisively in an election is also trivial. Only some notion of civil duty, or a miscalculation of probabilities, will drive the rational voter to the polls. Only an active consumption interest will motivate the rational individual to become informed about the political market. Otherwise, he will remain rationally ignorant, whether or not he casts his electoral vote, relying upon opaque ideology indicators to determine his electoral strategy. This paradox, more than any other, opens up opportunities for interest groups to seize control of the political process, and to manipulate the media to their own sectional advantage.

Elections are discrete events in a continuous political process. The vote motive, at its most powerful (Tullock, 1976), is only as influential as elections are in controlling the behaviour of political parties throughout the successive periods of incumbent government. There are good reasons to doubt the robustness of this relationship. One potential weakness lies in the ability of political parties to full line force a bundle of policy proposals upon the voter in an election, thus protecting relatively unpopular policies by wrapping them up with attractive policy proposals. A second potential weakness is the irrelevance to political parties of long-term voter preferences that extend across several elections, and a consequential tendency towards myopia in political decision-making (Lee, 1987). A third such weakness is the rate of voter memory decay which protects governments from the full electoral consequences of deviating, while in office, from political pledges. Severally and jointly, these potential weaknesses loosen the voter's grip and open up opportunities for interest groups to direct and to dictate the processes of politics (but see Peltzman (1990) for a different viewpoint).

The Special Interests

A special interest issue is one that generates substantial personal benefits for a small number of constituents while imposing a small individual cost on a large number of other voters (Gwartney and Wagner, 1988). As Madison recognized in *The Federalist* (Number 51, 1787) a majoritarian system of representative government is biased toward the adoption of special interest policies, even when such policies are generally harmful to the citizens at large. The separation of powers and the bicameral legislature were written into the US Constitution to curtail this bias. The ninth and tenth amendments were designed to protect individuals from the excesses of the federal and state governments. Arguably, these constitutional constraints have failed to hold firm against special interest pressures. Parchment has ceded victory to guns within the governance structure erected by the US Founding Fathers (Wagner, 1987).

Special interests emerge, to take advantage of rational ignorance within the electorate and limited information available to the legislature, to obtain advantages for members more than commensurate with their relative combined voting strength. Their success depends on their ability to offer political gains (votes or wealth transfers) to politicians who broker policies beneficial to the intense, concentrated interests of the few and detrimental to the broad, diffused interests of the many. Legislatures infiltrated by special interests typically manifest weak party allegiances and relatively high incumbent success ratios in the election process.

The logic of collective action (Olson, 1965) suggests that competition among interested groups introduces significant bias into political markets. Such bias is a consequence of unequal access to political influence, reflective of the differential impact of the free-rider problem on the formation and effective mobilization of various kinds of interest groups. Because many of the benefits to be derived from effective interest group lobbying have publicness characteristics (cannot be denied to non-contributing members) free-riding in the supply of lobbying is not necessarily negatively related to the overall value of benefits (but see Becker (1983) for a different view). Much more significant for the avoidance of free-riding is the ability of the interest group either to coerce members into supplying or to privatizing sufficient benefits as to induce supply for self-seeking purposes. There is no reason to suppose that these abilities are equally dispersed across the universe of potential coalitions.

In such a perspective, if the common objectives of a potential interest group have pronounced publicness characteristics, the free-rider problem will hinder group formation and will weaken group pressures. For the large coalition, in the absence of coercion mechanisms (available for example to trade unions and professional associations) this characteristic can be devastating. If large pressure groups are to be politically effective, they must organize themselves primarily for private purposes, offering selective benefits to the membership, while attaching their potential objectives essentially as a bundled by-product. The by-product solution explains the existence and relative success of organizations active on the part of the elderly, abortion issues, the environment, etc., all of which are plagued by publicness characteristics.

Smaller, more cohesive, organizations may engage successfully in collective action, without recourse either to coercion or to selective benefits, by taking advantage of their special interest in limiting the free-riding threat. Olson (1965) predicted that such interest groups, which can be categorized loosely as business interests, will be differentially successful in the political market-place and, in particular, will tend to dominate consumer interests. In this manner, interest groups may introduce significant bias into political markets, even where the conditions necessary for the median voter theorem to hold otherwise are in place. Those best able to mobilize will deflect legislative action by campaign contributions designed either to compensate politicians for a loss of votes or to fund them in manipulating rational ignorance within the electorate as a means of attracting voters who otherwise might be alienated by special interest policies. (But see Becker (1983) for a different view.)

The Bureaucracy

The bureaucracy of government, responsible for the implementation of policy, is located in the executive branch of government, though it is dependent on the legislative branch for budget appropriations and subject to its oversight authority. Bureaus are largely dependent on block appropriations and derive little of their revenues from the sale of output at a per unit price. Bureaucrats cannot legally appropriate any residuals from the budget as personal income, though they can expropriate it indirectly for travel, office perquisites and other discretionary spending. The Virginia political economy programme rejects categorically the Weberian notion of the public official as being dedicated either to the government interest or to some concept of the public interest in directing a bureau's behaviour (Rowley and Elgin, 1985).

Instead, the senior bureaucrats who exercise authority over the budget are viewed as self-seeking maximizers of individual utility which is defined as some balance between expected wealth, ideology, patronage, discretionary power and ease of management (Tullock, 1965; Downs, 1967; Niskanen, 1971). Budget maximization is employed as a plausible proxy for these various objectives (Breton, 1974; Niskanen, 1971). Senior bureaucrats commit a total output in return for a total budget appropriation. They seek the maximum budget compatible with satisfying this output commitment.

Bureaucrats enter the political market-place on the demand side typically as special interests unconstrained by free-rider considerations (Rowley, Shughart and Tollison, 1987). They are differentially well-informed on the likely responsiveness of legislators to specific initiatives. They are rationally well-informed concerning the policies that their bureaus will administer.

Predictably, in such circumstances, bureaucrats favour non-transparent policy initiatives, not only to conceal special interest allocations from electoral scrutiny, but also to maximize their own discretionary power in the provision and distribution of commodities subject to their control (Crew and Rowley, 1988). In Niskanen's theory, bureaus typically dominate the legislature in budget negotiations, extracting the total surplus from the government. Typically, they also extract excessive appropriations from the legislature and supply an excessive output, usually in an inefficient manner (Niskanen, 1971).

From the perspective of policy implementation, bureaus are agents of the government (the President as well as the legislature) (Rowley and Elgin, 1985). Despite the existence of executive branch monitoring, and of surveillance by committees of the Congress, a significant principal agent problem persists, in part because of attenuated property rights, in part because of the multiplicity of principals required by the separation of powers and the bicameral legislature (Rowley and Vachris, 1990). In consequence, senior bureaucrats exercise discretionary power and are vulnerable to special interest pressures as well as to their own ideologies. Such discretion may frustrate both the vote motive and the interest group equilibrium, though it is subject to budgetary constraints. (But see Wittman (1989) for a different view.)

The Legislature

The individuals who broker the legislative market in policies are politicians and, increasingly, their extensive staffs. They pair demanders and suppliers of legislation, those who want a law or transfer the most with those who object the least. Typically, they concentrate on legal arrangements that benefit well-organized and concentrated groups for whom the pro rata benefits are high at the expense of diffuse interests, each of which is taxed a little to fund the transfer or legislation (Tollison, 1988).

The political brokers are at the heart of the legislative process, searching out equilibria, with varying degrees of error, reflective of the preferences of the principal actors, conditioned by the constitutional and other rules that define their particular market-place. Competition among the brokers and the contestability of brokerage positions constrain the ability of individual politicians to make manifest their own ideologies, to purvey rather than simply to broker policies. Nevertheless, ideology plays a role, as does error, in political market process (Rowley, 1992). Fundamentally, political markets broker transfers. If wealth is created, for the most part, it is an unintended consequence of transfer activities (Stigler, 1988; Tollison, 1988).

Politicians expend real resources in specific wealth transfer markets in return for brokerage fees which typically take the form of some mixture of campaign contributions, post-political career remuneration and promised votes. The size and continuity of such brokerage fees depend significantly upon the perceived (and actual) durability of legislation, which itself depends upon constitutional interpretations and the specific rules and institutions of the legislature. Durability becomes a prized attribute for most self-serving politicans since interest groups evidently will not bid very much for any statute if that statute is expected to last only through the current legislative session and then to be repealed (Tollison, 1988). Interest groups and politicians thus have a common interest in promoting institutional arrangements that enhance the durability of laws.