

pair of glasses, the correct prescription lenses will clarify and bring our vision into focus. Similarly, without sound economic theory to guide us, the complex world of economic phenomena appears as a blur. With the aid of sound economic theory, however, the economic world begins to make sense.

To make sense of the modern economic world, we need to understand both the workings of the unhampered market process (and the consequences of intervention) and the nature of the political process. The workings of market processes have received careful attention in the writings of Austrian economists such as Ludwig von Mises, F. A. Hayek, and Israel Kirzner. On the other hand, the nature of political processes has been articulated by "public choice" scholars such as James Buchanan and Gordon Tullock. In *To Promote the General Welfare*, Richard Wagner, chairman of the department of economics at George Mason University (the home of both the Center for the Study of Public Choice and the Center for the Study of Market Processes), combines the insights of both Austrian and public choice economics to analyze the policies of the welfare state.

With the decline of the socialist model of economic organization, the battleground for classical liberals has shifted. The main debate today centers around environmental policy and welfare reform. In fact, the new defense of socialism that appears to be emerging takes one of two tracks or combines them into a new agenda—the necessity of state control to protect against environmental destruction and/or the necessity of expanded state action to protect the least advantaged and provide opportunity to the less privileged.

For example, Robert Heilbroner in his now-famous *New Yorker* article ("After Communism," September 10, 1990) holds out the possibility of socialist action on the environment, and Alan Ryan in his Fall 1990 *Dissent* essay ("Socialism for the Nineties") suggests that expanded social services and the provision of public goods in Western democracies demonstrate the theoretical possibility and practical desirability of socialism. The model for the post-Communist world is not laissez-faire capitalism, but the democratic welfare state, as Francis Fukuyama has argued in his reflections on "the end of history."

To Promote the General Welfare should prove to be one of the most important scholarly works in

**TO PROMOTE THE GENERAL WELFARE:
MARKET PROCESSES VS.
POLITICAL TRANSFERS**

by Richard E. Wagner

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Economic theory is analogous to a pair of corrective eyeglasses. Whereas the world appears unclear and indistinct without a

this debate. Wagner provides: 1) a framework of study that should be emulated in future examinations of the issues, 2) a survey of the existing empirical literature on the failure of the welfare state to deliver on its promises, and 3) systemic suggestions for reform that go to the heart of the problem of majoritarian democracy and its relationship to the productive sector in civil society.

Wagner begins with the recognition that there exists a wide divergence between the justification for state welfare programs and the results of these programs. As he points out, "despite the explosion in spending by the welfare state . . . the number of people whose money income would place them below the poverty line has generally increased since the War on Poverty began." This sad state of affairs isn't limited to the War on Poverty but permeates all "Great Society" programs. How could such policy failures emerge from seemingly well-meaning initiatives?

It is this divergence between rationale and reality that Wagner hopes to explain to the reader. A key factor, he points out, has been the substitution of political rationales for economic ones in organizing social affairs: "The divergence between the justifications for the programs of the welfare state and the actual consequences of those programs—divergences that have by now been documented for a large variety of regulatory programs—are an understandable and predictable outcome of an institutional order that can be characterized as a majoritarian democracy, or an unlimited democracy."

Whereas traditionally governmental failures have been excused as due to a lack of political will or a paucity of sufficient information, Wagner argues that there are *structural* reasons for governmental incompetence. According to prevailing theory, if well-meaning governmental action fails, the remedy is to try harder, gather more information, or appoint better officials. This explanation, however, misunderstands the Achilles heel of governmental action—the nature of the institutional settings and the incentives they provide to individuals.

The problem that faces government officials is one of *knowledge* and *incentives*. "The problem of knowledge," Wagner points out, "is the same in questions of public policy as in questions of business. In both cases, someone must reach a judgment about whether a potential use of resources

will be more or less valuable than the alternative use of resources that would have to be sacrificed for the project in question to be undertaken." But while the problem is essentially the same, individuals in private and public sectors "face different incentives to exercise caution in estimating benefits and costs and to act quickly in incorporating and reacting to new information."

To argue his point, Wagner employs a notorious example of business failure: the Edsel Ford produced the Edsel with the expectation of turning a profit, but when the car turned out to be a failure, profit and loss incentives assured that production was halted quickly.

But the profit and loss pressures faced by businessmen are not faced by government officials: "For instance, what if the Edsel had been a government product, say the outcome of a public policy similar to the federal government's creation of Amtrak? Would production have been halted as quickly? Or would there have been efforts to continue the program, such as requiring government contractors to use Edsels? Any such measure would make the Edsel look more successful, at the expense of an increased burden on taxpayers. Government regulation would have been used to cover up an added tax burden that was used to subsidize the government's Edsel."

The point of the example is to suggest the reciprocal connection between the knowledge and incentive components of public policy. "The incentive to acquire knowledge and the judgment to identify something as knowledge in the first place depend upon the institutional setting within which people act." The lack of incentive and the corresponding inability of government officials to access and utilize the contextual knowledge of the market (knowledge that is embedded within the price system and that provides the basis for economic calculation) produces a situation of *structural ignorance*. Officials who find themselves in such a situation do not simply throw up their hands and say: "I don't know what to do." Rather, they base their decisions on political rationales since economic criteria are weak or nonexistent.

The logic of political processes under majoritarian democracy is to concentrate benefits on the well-organized and well-informed interest groups and disperse costs on the unorganized and ill-informed mass of voters. As a result, the policy failures of the welfare state are not mistakes, but

rather the "result of the rational pursuit of interest and not really a failure from the perspective of those whose interests are controlling the choice at hand."

Better public policy, Wagner argues, is not a mere matter of better selection of officials or improved methods of generating information; it requires a political reformation. "So long as government is organized according to majoritarian principles," Wagner concludes, "its participation in economic life will contain important forces tending to erode liberty and property, because successful politicians and special interests can profit from the supply of legislation that has these effects." Only through institutional and constitutional reform in a manner that accentuates the positive activities of government while restricting the negative activities will public policies emerge that are "supportive of the free society that the American constitutional order promises."

To Promote the General Welfare is an outstanding contribution to the literature on the welfare state. Richard Wagner convincingly demonstrates how the current array of welfare programs, and their destructive consequences, are the logical result of the political framework of majoritarian democracy. In addition, the book offers wise counsel for all who seek not only to understand the world, but to change it in a direction that favors individual liberty and economic prosperity. □

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