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Virginia Political Economy: A View from Vienna

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Introduction

George Mason University provides a unique institutional environment for exploring the relationship between the "Virginia" or Public Choice school of political economy and Austrian economics. The strength of this relationship becomes particularly apparent if we consider the branch of public choice economics associated with James Buchanan. The other branch of the Virginia school, which derives its research program mainly from Gordon Tullock, is, I would argue, more consistent with the neoclassical paradigm than the Austrian one, though of course there is much Austrians can learn from the Tullockian branch of public choice analysis. As Buchanan (1986a, p. 26) states:

> I think it is accurate to say that my own emphasis was on modeling politics-as-exchange, under the acknowledged major influence of Knut Wicksell's great work in public finance. By comparison (and interestingly because he was not initially trained as an economist), Gordon Tullock's emphasis (stemming from his own experience in, and his reflections about, the bureaucracy) was on modeling public choosers (voters, politicians, bureaucrats) in strict self-interest terms. There was a tension present as we worked through the analysis of that book [*The Calculus of Consent*], but a tension that has indeed served us well over the two decades since initial publication.

There are other important links, for example, by way of Sweden (via Wicksell, who undoubtedly also influenced the Austrians) or London (via the LSE cost tradition and Hayek), but the best way to get from Vienna to Virginia is by way of Chicago. Frank Knight, the great Chicago school economist, is an important link between Buchanan and the Austrians.

The tempestuous relationship between Knight and the Austrians on capital and interest theory is well documented, but on the nature and significance of economic science Knight and the Austrians are, I will argue, close indeed. The Chicago school today does not derive its methodological inspiration from Frank Knight so much as from Milton Friedman and George Stigler. It is the Virginia school, exemplified by Buchanan, which inherited and extended the Knightian tradition. This displaced Knightian tradition, with its emphasis on action within an uncertain world, is what students and colleagues of Buchanan are exposed to in his classes, his writings and seminars. And it is against this Knightian background that one can best see the "Austrian" strengths of the Virginia school.

Frank Knight and Subjectivist Economics

I was fortunate enough to have the opportunity to take courses with two of Knight's most prolific students, Kenneth Boulding and Buchanan, during the spring semester of 1986. Boulding as it happens was visiting George Mason University as a Robinson Professor and as a guest of the Center for the Study of Conflict Resolution. He taught a "great books" class in economics while Buchanan was teaching his course on constitutional economics. Knight's influence on Boulding and Buchanan was apparent throughout the courses. Boulding often referred fondly to Knight, describing him as "an engine of creativity without a clutch." Buchanan taught his class in what I understand is the typical Knightian fashion,[1] by analyzing Adam Smith's deer and beaver model and deriving the "simple economics of natural liberty" (cf. Buchanan 1987b).

It is no accident that Boulding and Buchanan advanced very similar arguments about the inadequacies of standard economic analysis. Standard economics is trapped within a static framework that can not deal with the important issues of political economy. As a result, modern economics seems to be losing its ability to shed light on economic problems and in the process losing the meaning of its mission. To correct for these problems, both Boulding and Buchanan have advocated rethinking and restructuring the foundations of economic analysis. Boulding in *The Image* (1961) advances a general theory of knowledge distribution and conveyance that is quite consistent with the Austrian understanding of the nature of choice and the discovery process of the market. He says, "If we are to have a theory of economic behavior or a theory of economic dynamics an explicit recognition of the importance of the image is necessary" (1961, p. 97). Buchanan in *Cost and Choice* (1978) and *What Should Economists Do?* (1979), and in particular in the essay "Natural and Artifactual Man," has also advanced the thesis that sound economic reasoning must be based on a subjectivist understanding of human action.

As Knight argued in his essay, "What is Truth in Economics?":

> Concrete and positive answers to questions in the field of economic science or policy depend in the first place on judgments of value and procedure, based on a broad, general education in the cultural sense, and on "insight" into human nature and social values, rather than on the findings of any possible positive science. *From this point of view the need is for an interpretive study* (verstehende Wissenschaft) *which, however, would need to go far beyond any possible boundaries of economics and should include the humanities as well as the entire field of the social disciplines* (1956, p. 177, emphasis added).

Both Boulding and Buchanan have also gone far beyond the usual disciplinary boundaries in their research, and both have advanced a non-positivistic approach to economics in much of their work.[2] The Knightian aspects of Buchanan's thought, which he shares with Boulding, are also the aspects he shares with the Austrian school.

Elements of Public Choice

The basic principles of public choice follow from a direct application of economic reasoning to political activity. By examining politics as an exchange process, analogous to the market, public choice theorists have been able to render government policies intelligible. This is most evident in the analysis of the deficit financing, but public choice insights apply to the general pattern of political activity as well. Governmental bias toward short-term policies, the nature of the voting process, the role of special interests and the economics of bureaucracy are intertwined to produce an alternative understanding of political processes that is both logically coherent and more persuasive than the standard public interest view of the legislative process.

Any theory of collective or public choice must account for the fact that "government is a mechanism, like markets, through which individuals act collectively to improve their private utility" (Samuels 1980, p. 57). The institution of government will be used, within the political exchange process, to promote the interest of those in charge of the apparatus of government. Economic policy, therefore, can not be modeled with the assumption that government is operated by a benevolent despot. Recognition must be made of the fact that politicians, like the rest of us, are purposive actors pursuing their own self-interest.

The fundamental concept of the economic way of thinking is to explain how it is that under a system of freedom of exchange and production individuals pursuing their own self-interest will be led to promote the interest of "society" as a whole. The task of the economist, from an Austrian perspective, is twofold: (1) to render economic phenomena intelligible in terms of purposive human action, i.e., to get at the meaning individuals attach to their actions, and (2) to trace out the unintended consequences, both desirable and undesirable, of human actions. When analyzing political exchange, the economist's task is not altered. Rather, he must take on the same twofold task with respect to the different institutional environment and its incentives structure. The traditional "public interest" view of government fails to account for the nature of political action and instead focuses on putting "good" people in office. But public-spirited individuals are at a comparative disadvantage in political markets.

Certainly one of the chief goals of any politician has to be to obtain election or re-election. The politician, therefore, must seek votes. Political markets are characterized by the interaction of rationally ignorant voters and rationally less ignorant special interest groups. In the market for goods and services individuals choose between consumption bundles, and there is a direct link between their expenditure and the benefit they receive. Individuals voluntarily decide to buy some goods and forego others, they bear the costs and reap the benefits of their actions. In the political market, though, voter rewards are less direct (and often nonexistent). The expected marginal benefit of casting a vote or being informed on the issues is very small because an individual's vote is only decisive in the unlikely case of a tie prior to the final vote. But the cost of being informed on political issues is high. For example, if the state of Virginia were to pass a bill raising the salaries of state university professors by $1000 per year, the cost to individual voters to be informed on the issue would most likely be greater than the expected benefit. The bill might increase an individual's state income taxes by $5 per year, but the time and effort expended to be informed on the issue and block its passage would be greater than $5. On the other hand, university professors may well have a lot to benefit from passage of the bill and it will be in their interest to be knowledgeable about and work for the passage of the bill. Political exchange, then, is characterized by such activity and vote-seeking entrepreneurs will find it in their interest to cater to the well-organized and informed. This is the logic behind the governmental bias toward concentrated benefits and dispersed costs.


Frank Knight

Buchanan and the Burden of Public Debt

Buchanan, since his discovery of Wicksell's principle of just taxation, has challenged his fellow economists to stop treating economic policy as if it were implemented by a benevolent despot. Instead, economists should examine the political exchange nexus within which policy decisions are made. Buchanan employed these ideas in his research in public economics—welfare economics and public finance—and challenged traditional economists to postulate a theory of the state that was consistent with the workings of politics. In this regard Buchanan was influenced by earlier Italian theorists of public finance. "Real rather than idealized politics, with real persons as actors—these were the building blocks in the Italian constructions, whether those of the cooperative-democratic state or the ruling class-monopoly state" (Buchanan 1986b, p. 356). Exposure to the Italians, Buchanan argues, enabled him to escape the utilitarian mindset that dominates the field of public economics.

Public Principles of Public Debt (1958) was Buchanan's first book. This book applied the general understanding of political processes he had begun to develop, along with an insistence that economic analysis must discuss the relevant choice alternatives that real individuals face, to demonstrate the fallacies of the Keynesian orthodoxy. The Keynesian revolution, and specifically Abba Lerner's development of the concept of "functional finance," provided intellectual justification for abandoning the balanced budget orthodoxy (cf. Lerner 1987). With the acceptance of this new view, deficit financing came to be regarded as a tool for demand management instead of the result of budgetary mismanagement.

Buchanan questioned the main propositions of the "new" orthodoxy that: (1) creation of public debt does not transfer a real burden through time to future generations, (2) the analogy between private debt and public debt is fallacious, and (3) there is an important distinction between internal and external public debt. His argument was essentially a methodological criticism that hit at the core of Keynesian fiscal policy. First, Buchanan argued that there was no recognition on the part of the fiscal theorist that the government he is proffering advice to is made up of individuals within a political process, not some "organic" group. Secondly, this focus on the organic group produced a level of aggregation in the new orthodoxy that strained the imagination, violated the political norms of a democratic society, and fundamentally misconstrued the nature of the debt burden. Buchanan's argument against aggregation focused on the fact that groups, such as a nation, do not reap gains or suffer losses. Individual decision-makers in their capacity as government officials or political entities enjoy the benefits or suffer the losses of actions. "It is misleading to speak of group sacrifice or burden or payment or benefit," Buchanan states, "unless such aggregates can be broken down into component parts which may be conceptually or actually imputed to the individual or family units in the group" (1958, p. 36). By confining their focus to the aggregate unit, fiscal theorists were unable to address the problem of who will have to pay for the creation of public goods and when payment will be made. "The fact that making guns 'uses up' resources in years of war tells us nothing at all about *who* must pay for those guns, and *when*" (Buchanan 1986b, p. 366). The problem with fiscal theory, therefore, was a misunderstanding of the basic principles of opportunity cost and economic decision-making.

The controversy over Buchanan's book led him to re-examine the doctrine of cost. *Cost and Choice,* Buchanan's most Austrian book, was the result of his attempt to clarify the issue of the burden of public debt. The main problem with most fiscal theorists was that they were viewing debt burden in terms of commodities rather than in utility terms, he argued. As a result, they failed to understand how the burden of public debt is shifted from one group of individuals to another.

E. G. West (1987) has tried to clarify Buchanan's position in the debt controversies of the 1960s by concentrating on the meaning of cost. "In retrospect," he argues, "Buchanan's position in the debt controversy would have been considerably clarified had he used his most recent separation of subjective cost into 'choice influencing' and 'choice-influenced' cost" (p. 109). Both concepts of cost are subjective, reckoned in the utility, not the commodity dimension. Choice influencing costs are born solely by the decision-maker at the moment of decision and cannot be shifted on to others. Choice-influenced costs differ mainly in that they are shifted to the future. The subjective opportunity cost of present day decisions is the cost in the future when the consequence of those decisions must be reckoned with. The burden of current deficit financing is, therefore, passed on to the future generations who have to pay the taxes.

Public Policy of the Public Debt

The issue of public debt has not received much attention from modern Austrian economists.[3] But the debt problem might be one of those issues, like the stagflation of the 1970s, that could lead to paradigmatic revolution and it seems that Austrians might have something to say on the social consequences of deficit financing, and possible solutions to the problem. Buchanan's analysis on the debt burden provides a natural "in" for a subjectivist analysis of the economic coordination problems associated with mismanaged fiscal policy. Buchanan, in fact, has addressed many of these issues in *Democracy in Deficit* (1977), co-authored with Richard Wagner, though the analysis may be said to underestimate the social consequences of inflation and monetization of the debt. Wagner and Robert Tollison (1987), however, building on the earlier analysis of Buchanan and Wagner, as well as the Austrian theory of the inflation process, recognize the macroeconomic coordination problems that result from activist monetary and fiscal policy. They do not limit themselves to discussing the "shoe-leather" costs of inflation, but recognize that, since new money works its way through the economic system by incremental changes in the relative price structure, changes in the nominal money supply can have real effects on the distribution of resources and property in an economic system (pp. 188-191).

Perhaps the most promising area for merging the public choice perspective on the political economy of deficit financing with Austrian macroeconomics concerns the issue of capital consumption through public debt and positive solutions to this problem. Public choice theory, in the hands of Buchanan and his followers, has been able to understand why we are faced with the current fiscal dilemma, but it is not clear that it offers viable solutions to the problem. Public choice theory might be in the same situation with respect to the debt issue that Mises and Hayek found themselves in the 1930s with respect to business cycles. They were able to understand why the Great Depression occurred, and, in fact, were able to provide an explanation of the cluster of errors that characterize monetary disturbances, in general, that was quite convincing. But they did not provide a policy solution that was viable given the nature of the political control of money. As a result, Keynes's economic ideas were accepted and implemented. Buchanan and public choice economics might confront a similar problem in the 1990s in regard to public policy of the public debt.

James Bennett and Thomas DiLorenzo (1983) have shown that many government expenditures occur in the off-budget sector. Off-budget enterprises allow the elected official "to preach fiscal conservatism to his constituents while simultaneously increasing the size and scope of the public sector" (Bennett and DiLorenzo 1983, p. 33). The constitutional constraints proffered by Buchanan, such as a balanced budget amendment to the constitution intend to change the rules of the game, the constraints within which political exchange processes occur, so that the natural proclivities of politicians to spend rather than tax are checked. Given the ability of politicians to go off-budget, a balanced budget amendment may be a necessary condition for fiscal reform, but it is certainly not a sufficient one. A federal tax limitation would also have to be passed. But even if both a balanced budget and federal tax limit amendments were passed, politicians could still procure resources for spending through money creation. This again is a point where combining Virginian and Austrian themes could add something to the practical policy discussions.

While in the 1930s the Austrians did not offer any radical policy solutions to the economic problems, it seems that later theoretical developments have laid the ground for a positive cross-fertilization of a public choice understanding of politics and Austrian research on money and banking. Research by Lawrence H. White (1984) and George Selgin (1987) has demonstrated, both theoretically and historically, the viability and desirability of a monetary system of competitive note issue. Such a system would reduce monetary disturbances by taking away the government monopoly of money and prevent the government from raising funds through the hidden tax of inflation. Recognizing that historically government monopoly over note issue has grown from government's need to finance its expenditure (usually military), free banking theory removes the possibility of the political manipulation of the monetary system that public choice theorists have documented (Wagner 1986 and Grier 1986). By combining public choice analysis of the deficit with free banking theory, Austrians can offer a positive solution to the problems created in the political struggle over fiscal and monetary policy.

Social Contract Theory, Perfect Competition and the State

The *locus classicus* in public choice theory is *The Calculus of Consent* (1962), co-authored by James Buchanan and Gordon Tullock. As its subtitle suggests, the book explored "the logical foundations of constitutional democracy." Buchanan and Tullock sought to explain the existence or potential existence of democratic institutions as the result of contractual agreements among the participating

individuals.

Any theory of constitutions, they argued, must rely on the postulates that the society is composed of free individuals, or at least ones free from deliberate political exploitation, and that the state can be used for deliberate political exploitation. "Were it not for the properly grounded fear that political processes may be used for exploitative purposes, there would be little meaning and less purpose to constitutional restrictions" (Buchanan and Tullock 1962, p. 13). They attempted to defend the Madisonian ideal of constitutional democracy. "The determination," they wrote, "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" (p. 25).

Buchanan's influence on this project, as pointed out above, was to emphasize politics as exchange. He has continued in this research direction which he calls constitutional economics ever since. Buchanan has made contributions in constitutional economics to both our understanding of the preconstitutional and post constitutional stages. He has discussed how it is that individuals would come to agree to a constitution and what are the likely outcomes of political activities within certain constitutional constraints. Both projects have been aided by Buchanan's use of game theoretic models. These constructs were useful to the public choice school in their contractarian discussion of the reason of rules and the economic theory of anarchy.

In the early 1970s, perhaps influenced by the political and social turbulence of the previous decade or the writings of libertarian anarchists, Tullock and Buchanan focused their attention on the economics of the original contract—the leap out of the Hobbesian jungle. Tullock had a manuscript circulating for some time on the economics of war and revolution, later published as *The Social Dilemma* (1974), and it stimulated discussion that led to the publication of two small volumes of essays: *Explorations in the Theory of Anarchy* (1972) and *Further Explorations in the Theory of Anarchy* (1974). It should be mentioned that besides Buchanan and Tullock, Winston Bush was also a major contributor to this literature (Bush 1976).

Economic exchange and production depends upon enforceable and exchangeable property rights. The absence of such rights would lead to a destruction of production and exchange. Public choice theorists attempted to explain the origin of these rights, which underlie market exchange and production and maintain social order. They questioned any explanation based on natural rights, and sought instead to build a contractarian justification. Buchanan et. al., therefore, embraced the theoretical construct of the Hobbesian jungle, where there was no "mine or thine" and the life of man was "solitary, poor, nasty, brutish and short" and sought to explain the process by which the leap out, by way of a social contract, is achieved. This exercise reached its most advanced discussion in Buchanan's *Limits of Liberty* (1975). This book serves as the theoretical backdrop for much of Buchanan's later work in constitutional economics, such as his two books with Geoffery Brennan, *The Power to Tax* (1980) and *The Reason of Rules* (1985).

But was the effort successful? Were their goal to explain the origin of real-world property rights, the Hobbesian apparatus would certainly be inappropriate. They admit that this construct is ahistorical and that the social construct serves as a mental experiment. It is fair to ask, however, how useful such experiments involving ahistorical "start-states" are. The Hobbesian jungle can be a trap for political theory analogous to the one economists have set for themselves with their equilibrium end-states. As Tullock puts it, "there is no implication that some time in the ancient past, man lived in a 'state of nature' .... Indeed, insofar as we can tell man developed from an ape which *was already social.* Hobbes's 'war of all against all' was *not part of human history,* although we can make use of it for analytical purposes" (1974, p. 9, emphasis added).

The Hobbesian construct misleads the theorist in treating man in an atomistic, rationalist fashion, even while we admit that man is a social animal, conditioned by his culture and language. The primary task for the social theorist, it could be argued, is not to construct the leap out of this imaginary jungle into society, but to recognize the fact that man is already "thrown-in" to a social life-world. Mises's discussion of Ricardo's Law of Association and social cooperation or Hayek's various treatments of common law might provide a more fruitful framework.

This seems apparent if we consider that the analogy Buchanan draws between the emergence of norms through the social contract and economic theory is the model of perfect competition. In his essay "Ethical Rules, Expected

Values and Large Numbers," Buchanan (1977) argues that the dilemma of large numbers in ethical systems is directly analogous to the free-rider problem and inversely analogous to the theory of perfect competition. Whereas in ethical situations the desired change is toward smaller groups or structuring the rules of the game so that small group results emerge, in the model of perfect competition efficient outcomes rely on large number dilemmas. The analogy may cause problems if we view the market as a competitive discovery process.

The large number of other participants in the perfect competition model prevents any one individual buyer or seller from affecting price; a similar situation prevents any one individual from altering ethical rules. In perfect competition price is treated as a parameter; in large number social models, ethical rules are a parameter. The perfectly competitive model, since everyone is assumed to be a price taker, can not explain how markets adjust through price changes (cf. Israel M. Kirzner 1973; 1979; 1985). If everyone is a price taker how does price change? Standard economics solves this problem by postulating the extra-economic entity: the Walrasian auctioneer, who insures that supply meets with demand. Similarly, the large number social dilemma faces the same problem. If everyone is assumed to treat ethical rules as given, how is it that rules ever emerge or change? Buchanan seems to postulate an extra-human entity: the sovereign, who ensures that rules are enforced and order is maintained. There is no way that the individuals within the model can develop rules; they must rely on something outside of the model. But if the model was supposed to explain the emergence of rules then should not the model be able to explain the emergence of rules within the model?

Recent research has shown that cooperation can emerge in these large number dilemmas without recourse to an external authority. The prospect of reciprocity can overcome many of the problems that large numbers appear to present. The problem with the earlier public choice analysis was that it was limited to one-run prisoner's dilemma games, where it was easy to see the individual short-run benefit of non-cooperation. If the game is modeled as an iterative process, though, cooperation seems to be the most truly self-interested behavior (Robert Axelrod 1984). This idea of social cooperation without command has also been discussed by David Lewis (1969), Michael Taylor (1976), Edna Ulman-Marglit (1977) and, most recently, Robert Sugden (1986) and Ulrich Witt (1986). As Tullock himself has pointed out, "Black market dealers and professional gamblers are very, very careful to keep a good reputation because it is their reputation for prompt payment which makes it possible for them to continue in business. They are, indeed, probably more careful about prompt performance than a businessman who can make a contract which will be enforced by the courts" (1972, p. 69). The reason for this, as he explains, is what Adam Smith called the discipline of continuous dealings (Tullock 1985). Tullock states,

> It is likely that almost all interactions between human beings can be drawn as prisoner's dilemmas because it is possible for one party, or all parties, to make a one-time gain by cheating. In practice, almost no one ever thinks of this opportunity in a competitive market in which he intends to remain for a while because the cost of getting a reputation for cheating is too high.... Under these circumstances, the cooperative solution is usually an optimum (1985, p. 1079).

Even under the strictest assumptions of self-interest the prisoner's dilemma problem can be overcome in practice.

Cooperative behavior and the ethical norms that govern human behavior can be more fruitfully discussed as a result of purposive human action, though not of human design. Norms governing social cooperation are not so much arrived at through rationalistic calculation as they are discovered in the process of social interaction and accepted. Robert Tollison has summarized the important contribution the Austrians can make in this regard to public choice theory:

> Spontaneous orders embody the outcome of individual problem solving over time. Constructed orders involve the product of individual reason in drawing up a social contract. The latter approach parallels much current work in public choice theory, for example, all the concern given to John Rawls. The Rawlsian decision maker is every man and thus no man; his reason is sufficient to deduce the first principles of every society. What is missing in this highly rationalistic approach is the superman who is supposed to possess the incredible amount of information necessary to choose first principles and yet be blinded by a veil of ignorance to his future. While all this makes for great intellectual fun, like it or not there is just no substitute for spontaneous orders, and a major importance of the Austrians is their stress on seeking more innovative ways in which individuals can pursue their own private ends to the benefit of everyone (1978, p. 130).

Indeed, men do not meet behind the Rawlsian veil of ignorance and reach unanimous agreement (conceptual or not) concerning the rules which govern human interaction. This fiction is not only historically inaccurate, it may be analytically inappropriate for understanding the human condition.

The conventions that govern human behavior arise through the socialization process of human evolution. Traditional values are conveyed in the social language of the community. We, as human beings, do not leap out of some pre-social environment by contracting with the sovereign. There is no primordial Hobbesian jungle. Instead, man is a social being who comes to consciousness, language and rationality from within an already-cooperative order.

Gordon Tullock

The Post-Hayekian Realm

In a talk at the Institute for Humane Studies's 25th anniversary shortly after he was awarded the Nobel Prize, Buchanan analyzed what he termed the delusion of the Kennedy administration and the disillusionment of the Reagan administration. The delusion of Kennedy was a result of viewing political agents as benevolent despots, and the "pretense of knowledge" that characterized the Keynesian revolution and Paretian welfare economics. Theories went from the university blackboards at Harvard, MIT and Yale to the economic policy drawing boards in the federal bureaucracy, in the utopian belief that there implementation would rid the world, through the judicious use of Science, of economic disturbances. Twenty-five years later, however, the traditional Keynesian model has suffered intellectual bankruptcy (brought on by the stagflation of the 1970s), and there appears to be no clear-cut alternative to lay claim as the "new" macroeconomics (cf. Arjo Klamer 1983). On the other hand, the Reagan administration, with its promise of a new age, has produced no structural changes in the political arena (cf. Milton and Rose Friedman 1984). The disillusionment results from the apparent empirical generalization that principle always loses out to expediency in Washington. Washington is just the bastion of rent seekers. Moreover, if we take into account the fact that much of the public choice analysis of rent seeking is confined to the static model of perfect competition, then the costs of rent seeking might be even higher than traditional public choice theorists have suggested (cf. DiLorenzo 1987).

Buchanan suggested that the solution might lie in the intellectual pursuit in the "post-Hayekian realm of ideas." We must, as Buchanan argues, dare to "dream attainable dreams, and to recover the faith that dreams can become realities" (1986c).

The brilliance of Buchanan lies in the questions he asks, or leads others to ask. Characteristically, he ended his Nobel lecture with a question: "How can we live together in peace, prosperity and harmony, while retaining our liberties as autonomous individuals who can, and must, create our own values?" (1987a, p. 250). This question, informed by the public choice revolution, might present a serious problem for the traditional classical liberal faith in democracy. Classical liberalism is a doctrine which defends the right of private property, upholds the principles of noninterventionism and advocates the night watchman ideal of limited government. This vision of the "good" has informed thinkers from Adam Smith to Thomas Jefferson. Economists such as F. A. Hayek, Milton Friedman and Buchanan are modern proponents of classical liberalism. Their work, however, may point beyond itself to an alternative vision of the "good society," a vision which accounts for the contradiction between the idea of democracy and the practice of democracy.

Hayek has recently come to the position that government monopoly over money has led to the monetary corruption we have witnessed in this century. "The basic tools of civilization—language, morals, law and money," Hayek argues, "are all the result of spontaneous growth and not of design, and of the last two organized power has got hold of and thoroughly corrupted them" (1979, p. 163). Hayek has advocated the elimination of monopoly in money (cf. 1978), and this has led to young scholars pursuing research that was unthinkable a decade ago.

The positive argument for denationalization of economic affairs centers on the Austrian understanding of the competitive market process as a discoverer and conveyor of dispersed and local knowledge. But this argument can be generalized beyond strictly defined economic concerns, and be applied to understand the coordinating role that institutions like language, moral traditions or law play in society.

The negative case against government monopoly over such institutions, therefore, has two aspects. First, even assuming he is a benevolent despot the government official, regulator or planner does not possess the knowledge necessary to plan the socio-economic system. Secondly, political agents are not benevolent despots; they are, like the rest of us, concerned with promoting their own self-interest. Thus, for reasons stated above, the practice of democracy can not live up to the ideal of democracy. Legislation, more often than not, is the result of special interest group efforts and not of policies intended to promote the public interest.

Both the knowledge and public choice arguments have been used to support deregulation and privatization of monetary affairs, but until recently Hayek's arguments have not been applied to other social institutions. Scholars such as Viktor Vanberg (1986) and Randy Barnett (1985; 1986) are extending the insights of Buchanan and Hayek to critically analyze the moral and legal order of the liberal society. Their research, along with that of many others who have been dually influenced by Buchanan and Hayek, might provide the intellectual framework "to change history in the direction of a society that combines liberty of person, prosperity and order" (Buchanan 1986c).

Conclusions

Austrian economists have much to learn from the work of the Virginia School. Buchanan, especially, has left a legacy of research projects that affect both our understanding of the nature and significance of political economy as well as practical problems of public policy. By merging public choice insights with Austrian analysis—a framework in which Buchanan fits quite comfortably—Austrians can improve their understanding of political economy and buttress their case for individual liberty. Some Austrians, such as Murray Rothbard, have argued that Buchanan and Tullock have misunderstood politics because they model the political process as if it consisted of voluntary exchanges (cf. Rothbard 1977). While Rothbard is correct in pointing out the coercion of political activity, he does injustice to the contribution Buchanan and Tullock have made to political economy. The Virginia school holds that political exchange processes are fundamentally different from voluntary market processes; politics involves the use of force to transfer privilege from one group to another. There is no a priori reason, though, why this understanding of politics as power cannot be incorporated into a politics as exchange paradigm. It simply requires the theorist to recognize the institutional environment in which political activity takes place and where political economy decisions are made. Political action, like economic action, is purposive and the social analyst must pierce the surface and get at the meanings of the agents, and from these meanings the theorist must trace out the unintended (both desirable and undesirable) consequences of human actions. In this regard, Buchanan, and Virginia political economy in general, has provided indispensable insights into our quest for "attainable dreams."

Notes

I would like to acknowledge Don Lavoie and Kurt Schuler for helpful comments on an earlier draft. Responsibility for existing errors is, of course, my own.

[1] Boulding justified the length of time we spent discussing Adam Smith's deer and beaver model in his class by explaining that Knight spent half of his history of thought class discussing the history of religion and the other half analyzing deer and beaver.

[2] Boulding, who is known for his wonderful sense of humor, once commented in a conversation that the only reason everyone became a logical positivist is because no one wanted to be accused of being an "illogical negativist." This statement takes on a new significance if we reflect on the sickly state of the present day economic conversation.

[3] This is perhaps because, for better or worse, the majority of younger Austrians have some leaning toward radical libertarianism and examining the public debt seems to them like examining the books of the Mafia. See however the note by Roger Garrison (1984) on empirical testing of the relationship between deficits and inflation, and his review of Robert Eisner, Garrison (1987). Also see Boettke and Ellig (1987), and Sennholz (1987).

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