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A subjectivist's solution to the limits of public choice

Reasserting the Austrian foundations of subjectivist political economy

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Abstract In light of Wittman (1995) and Caplan (2007) this paper contends that the rational-choice approach to political science ("Public Choice theory") has reached a dead end. By critiquing their treatment of rationality, knowledge assumptions, and views of the democratic process, an alternative is presented based on the core insight of the "Epistemic Primacy Thesis". This subjectivist approach to political economy is introduced in light of an existing debate between the compatibility (or otherwise) of Austrian economics and Public Choice theory.

Keywords Entrepreneurship · Government failure · Public choice · Rational choice · Subjectivism

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> "If the Public-Choice approach will continue to contribute to the advancement of knowledge, that depends on meeting the requirements of epistemic choice" (Ostrom 1997, 91)

In his review of Wittman (1995), James Buchanan said "it is useful we have economists such as Donald Wittman…who push their enterprise to maximal limits" (Buchanan 1996). This is in response to Wittman's claim that "almost every model of government failure explicitly or implicitly requires biased ignorance of the voters"

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(Wittman 1995:18), and his resulting challenge to political economists to restate their positions without implying voter irrationality.[1] More recently Caplan (2007) pushed those limits even further, by supporting the view that voters are indeed irrational. Although this follows an empirical debate between the two (Caplan 2005a, 2005b, Wittman 2005a, b), they are theoretically aligned in what we may call "neoclassical" Public Choice.

If we view "Public Choice theory" as the application of economic methods to the study of political science (Mueller 2003, 1), providing we accept that there are alternative schools of economic thought there could subsequently be alternative "schools" of Public Choice. Traditional, "neoclassical" Public Choice theory follows the methodological contours of mainstream economic theory, viewing voters as rational agents that maximize their utility subject to constraints, and a survey of leading field journals such as *Public Choice* demonstrates the association with the empirical techniques of the conventional economics profession. This article takes the Austrian school of economics as being a distinct paradigm (see Boettke 1994, Vaughn 1994), and attempts to contribute to the existing literature on the association between Austrian economics and Public Choice theory. This paper argues that whilst the Virginian branch of Public Choice is *not* synonymous with Austrian economics, Austrian school economists have made plenty of epistemically sophisticated contributions to political economy.

The article will proceed as follows. The first part is devoted to introducing the notion of a subjectivist political economy, and how this is distinct from the existing Public Choice literature. Section 1 outlines the scope for a subjectivist political economy, and rejects that view that this can exist as the "other side of the coin" to traditional Public Choice. Section 2 focuses on the similarities and differences between Public Choice theory—especially the Virginian school—and Austrian economics, concluding that the two cannot be intellectually grafted together. Section 3 looks in detail at why this is the case, by reasserting the "Epistemic Primacy Thesis", which posits that knowledge problems are more fundamental than incentives problems, and that the unique contribution of Austrian economics is to focus on the issue of omniscience ahead of motivation. The second part of the article utilizes this discussion to critique two seminal examples of neoclassical Public Choice—Wittman (1995) and Caplan (2007). Section 4 looks at their rationality assumptions and argues that epistemic and instrumental rationality must work in tandem. Section 5 argues for a middle ground between assumptions of omniscience and assumptions of irrationality. Section 6 challenges the view that democratic processes are efficient, by comparing mean and median preferences. Section 7 concludes.

1 The scope for a subjectivist approach to political economy

In the introduction to a special edition of *The Review of Austrian Economics* devoted to this association, Boettke and Lopez (2002) claim that "market process scholars should feel at home using public choice analysis to study politics, and public choice

[1] Economists seem surprisingly reluctant to acknowledge that a demonstration of biased ignorance need not automatically imply irrationality (Evans and Friedman 2011). This point is returned to.

scholars should feel at home using market process analysis to study the economy" (p.111). There are certainly similarities between the approaches. In contrast to prevailing treatments of democratic decision-making, in the seminal Public Choice text, *The Calculus of Consent* Buchanan and Tullock put the individual at the fore (Buchanan and Tullock 1962, p.11–15).[2] Boettke and Lopez (2002) also show that they use Austrian terms such as "praxeiological" and cite Mises favourably.[3] But despite Buchanan and Tullock's obvious admiration for Austrian school economists such as Mises, these similarities seem at best trivial—one could point to similar statements about non-Austrian economists. In the more substantive part of Boettke and Lopez's analysis, they point out that naïve views of political economy often attribute omniscience and benevolence on the part of policy makers. They go on to say, "Public Choice economics as developed in the 1950s and 1960s…adopted a hard-headed economics which challenged the benevolence assumption, but left the omniscience assumption alone" (Boettke and Lopez 2002, 112). This offers the promise of a "complete" approach to political economy, "in simplest terms, a combined Austrian-public choice approach to political economy would relax both assumptions" (Boettke and Lopez 2002, 112).

In the same journal, Ikeda (2003) takes a different approach, making a distinction between the intentions and outcomes of policymakers. The Austrian approach attempts to retain its value-freedom by assuming good motives, but maintaining that politics fails *from the perspective of politicians themselves.* This creates a dichotomy, "[the starting points] for Public Choice is the *divergence between announced and actual intentions*… for Austrian political economy is *the divergence between intended and actual outcomes*" (Ikeda 2003, 65). This appears to be a crucial distinction and hinges on whether democracy produces deceptive opportunism or simply honest error.[4]

Both treatments of the issue imply that Austrian economics and Public Choice theory are two sides of the same coin, and both articles advocate a "complete" theory that unites the two.[5] However it is worth considering whether they might be

[2] For this article I will take Buchanan and Tullock as being the founders of the public choice school. But as with any intellectual history it can be traced earlier—see Wagner (2003) as a guide to the roots in Italian public finance.

[3] "The similarities are highlighted also by the fact that Buchanan and Tullock use the term "praxeiological" to describe their general approach (Buchanan and Tullock 1962 p.16–30) and Buchanan references Mises in a favorable manner in his original papers developing his basic model of the voting process (Buchanan 1954)" (Boettke and Lopez 2002 p.112)

[4] Note the similarity between the "deceptive" explanation and the neoclassical approach to asymmetric information (i.e. one side of an exchange deliberately hides pertinent information from the other). By contrast the "error" explanation makes no assumption that such information *exists*, let alone is known to the participants

[5] Boettke and Lopez (2002) cite Ikeda (1997) as an example of Austrian political economy that "continues to be reluctant to relax benevolence" (Boettke and Lopez 2002, 112), despite Ikeda (1997) arguing for a marriage of Austrian economics and Public Choice to create "a general theory of political economy" that relaxes both assumptions (Ikeda 1997, 150). Subsequently, Boettke et al. (2007)) distinguish their position from Ikeda's with the following, "Ikeda's analysis incorrectly characterizes all public choice analysis as grounded in the perfect knowledge assumption and equilibrium analysis" (Boettke et al. 2007, 23[of draft]). This seems odd given that Ikeda (2004) explicitly distinguishes between Chicago and Virginian public choice, where the latter is defined in terms of partial ignorance. Therefore despite claims to the contrary there are no substantive differences between these articles, and they all adhere to the "two sides of a coin" metaphor that is challenged here.

overstating the similarities, and two reasons suggest that this is the case. Firstly, the fact that Public Choice theory is predominantly neoclassical means that it is ontologically, methodologically and epistemically incompatible with Austrian school economics. Secondly, omniscience and benevolence assumptions are not two sides of the same coin since the former are more fundamental problems than the latter. We shall look at each of these in turn.

1.1 Public choice theory and Austrian economics are ontologically, methodologically and epistemically distinct

Austrian attention to issues such as the relationship between individual action and institutional structures, the subjectivism of knowledge and expectations, the prevalence of Knightian uncertainty—are all far from the core of Public Choice analysis. To overcome this chasm some have distinguished between the neoclassical approach and a "Virginian" branch, which *is* claimed to be methodologically compatible with the Austrian paradigm. Whilst the neoclassical/Chicago pathway that unites the likes of Stigler (1982), Becker (1983), and Wittman (1995) appears uncontroversial, the Virginian label requires some attention. According to this view "as the constitutional political economy project associated with the Virginia school emerged in the 1960–1980 period, the economic approach to politics also developed in alternative directions in the hands of Chicago economists such as George Stigler and Gary Becker, and Rochester political scientists, such as William Riker" (Boettke et al. 2007, 129). Boettke et al. (2007) argue that "Virginian" political economy emerged out of the constitutional political economy project from the University of Virginia. However Persson and Tabellini (2004) is a simple refutation that the field of constitutional political economy is synonymous with a "Virginian" school that is grounded in an Austrian paradigm. Indeed in the first issue of the journal *Constitutional Political Economy* Buchanan himself defines rational choice as being "the hard core of the research program" of constitutional economics (Buchanan 1990, 1).

The existence of an Austrian-friendly "Virginian" school rests on the claim that since its founding Public Choice theory went down two separate tracks,

> "Standard public choice analysis followed the path of mainstream economics. The Virginia school, however, did not follow completely in line with the mainstream but certainly the Chicago School of public choice analysis did—with the result that many of the institutional inefficiencies of government action are often not recognized because the equilibrium analytics do not permit their examination" (Boettke1995, 19)

One shouldn't overlook that from the inception a certain tension existed between the intellectual perspectives of the founding fathers—Buchanan and Tullock. According to Buchanan, "My own emphasis was on modeling politics-as-exchange, under the acknowledged major influence of Knut Wicksell's great work on public finance. By comparison… Gordon Tullock's emphasis 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*]" (Buchanan 1986, 26). In addition to this, what we understand as the "Chicago" or neoclassical style has evolved since the 1950s and 60s. Buchanan and Tullock were both trained in the Chicago manner, but as Gordon Tullock mentions in his preface to *The Simons'*

Syllabus, "one aspect of the modern Chicago School, the emphasis on empirical testing, is essentially post-Simons" (Simons 1983, iv). In other words after the founding of Public Choice the Chicago school became progressively more formal and quantitative. One might conclude that "Virginian" political economy is simply staying true to the roots of the Public Choice movement, siding with Buchanan versus Tullock. Buchanan goes against the neoclassical tenets of stable preferences, maximizing agents, equilibrium analysis. Indeed he has made significant contributions to subjectivist political economy (Buchanan 1989, Buchanan and Vanberg 2002) not to mention a telling contribution to subjectivist economic theory (Buchanan 1969). According to Buchanan neoclassical economics is a closed system,

> "there is no creation of *new* value potential in the model. The idealized competitive market works so as to "squeeze out" all of the value potential that is ultimately defined by the coexistence of preferences, endowments and technology…the participants in the economy, in their varying roles, choose *reactively* to exogenously generated changes in one or more of the parameters of the system" (Buchanan & Vanberg 2002, 122)

By contrast *creative* choice occurs when those parameters are disrupted by an act of imagination, and is inevitable so long as action takes place over time.

Two articles by Buchanan, co-authored with Victor Vanberg, provide excellent examples of how Buchanan skirts with (but doesn't actually adopt) an epistemically-*driven* theory of political economy. In Vanberg and Buchanan (1989) the authors make a distinction between (complementary) "interest" and "theory" explanations. They acknowledge that Buchanan's own work, like that of Rawls fits under the "interest" label, and provide examples such as veils of ignorance as means to cope with conflicting interests.[6] Indeed this is the contractarian approach that Buchanan was so instrumental in pioneering, but notice how the assumptions employed, such as agents being "perfectly knowledgeable about working properties of alternative rules" do not satisfy those giving serious attention to genuine ignorance. To the extent that they criticize the rent-seeking literature (p.171) they are criticizing typical public choice, and attempting to forge a new path. But this new path—the "theories" approach—is based on *dialogue*, and the likes of Habermas and Akerman.[7] In this case agreement derives from a discovery process rather than compromise, but note that a discovery process must be engaged in *prior* to a battle of interests. In Vanberg and Buchanan (1991), they again draw upon a distinction between interest-problems and knowledge-problems (p.129) and the resulting contractarian and discourse perspectives. But note that when they talk about "incentives for investment in constitutional knowledge" (p.134) they are relying on a neoclassical conception of information accumulation (see Evans and Friedman 2011). In short, they posit that those who are *incentivized* to invest in constitutional knowledge will accumulate it.[8]

[6] Note that they cite Hayek's suggestion of deliberately creating uncertainty as a means to combat vested interests (footnote 10)

[7] For an application of Akerman's work to subjectivist political economy see Evans (2009)

[8] The interesting point here is that Vanberg and Buchanan claim that the mechanism that attempts to "solve" the incentive problem *exacerbates* a knowledge problem—the greater the uncertainty over the impact of constitutional changes, the harder it is for epistemic agreement. Whereas the solution for the interest dimension is to increase uncertainty about particular effects, the solution for the theory dimension is to increase the level of mutually shared information (Vanberg and Buchanan 1989, p.170)

Whilst Buchanan's subjectivist style of political economy is indeed compatible with the Austrian school, it is not an exhaustive summary of his work. So although Virginian political economy "has been influenced by Austrian economics' process view of the market economy" (Sutter 2002, 20) and "… has always been grounded in the exchange paradigm rather than the maximization approach" (Boettke et al. 2007, 135), it is hard to label it as being "Austrian". The main problem with this classification is the lack of detailed evidence to support the claim that there is a distinct "Virginian" school of thought in the first place (for example a list of citations). To be sure intellectual histories of the unique environment at Virginia exist (Boettke 1987, Wagner 2004) but there is a difference between an epistemic community and a school of thought. Indeed the *existing* literature has not sufficiently made the following case (i) that the Virginian label has been applied to *existing* works in political economy that is methodologically compatible with Austrian economics (Wagner 1989 is an often touted example but even the likes of Vincent Ostrom and Douglass North would fall outside the limits of what most Austrian economists would be happy to label as ontologically, methodologically and epistemologically "Austrian"); (ii) why other Public Choice theorists who have held faculty positions in Virginia (e.g. Gordon Tullock, Robert Tollison, Roger Congleton, Thomas Strattman) are *not* "Virginia" school; (iii) or, if they *are*, then how can this be labeled "Austrian" given that such scholars have more in common with traditional Public Choice theory than the Austrian school. Ultimately there may be a plausible argument that Virginia is some sort of frontier between the two approaches, but it is hardly a locus.[9]

Consider the fact that when Wohlgemuth (1995) makes a "distinction between a Chicago school and a Virginia school of public choice" (p.74), he explains in a footnote, "the first can be characterized as a plain translation of conventional neoclassical equilibrium theory. The second does indeed imply a partial turn away from mainstream neoclassical economics, stressing unequal distributions of power and some institutional settings" (p.89). It is unclear whether or not a distinction along these lines is compatible with the distinctions drawn elsewhere (in which case whom should we follow?), but they certainly fail to mention any distinctly "Austrian" characteristics.[10]

Arguably the biggest similarity between Austrian economics and Virginian political economy is that unlike the Chicago branch Virginians retain a theory of government failure. But despite the same policy implications, there is insufficient similarities in the methods of scientific enquiry to conclude that they are one and the same, "it does not regularly analyze political markets from the perspective of disequilibrium, nor does it employ the radical subjectivism of the Austrian school in its analysis of Public Choice" (Rowley 1994, 288). These policy implications should not seduce economists to downplay the ontological, methodological and epistemological differences—an "Austrian"

[9] It is quite possible that the "Virginia" label catches on to represent what we here understand to be Austrian-style political economy, however the term as it is currently used does not perform this function, and the reason I use the term "subjectivist" is an attempt to steer away from geographical and protagonistic labels, and focus on the ideational content of what is being classified.

[10] Wohlgemuth (1995) cites Pasour (1992), Tollison (1989) and Wiseman (1990) as those who've made the distinction, but whilst they can be defined as "Virginian" they are hardly "Austrian". As a further telling indication, although Kindleberger and Aliber (2005) mention that "The Chicago school assumes that the market participants are always more intelligent than the authorities, in large part because the authorities are motivated by short-term political objectives" (p.181) they fail to mention the alternative Austrian-style public choice explanation relating to the knowledge problem.

approach can't simply be grafted on to the existing conclusions of even Virginian-style political economy.[11]

If the Boettke and Lopez (2002) plea to "marry" Public Choice and Austrian theory overreaches, even focusing solely on the Virginian style of Public Choice is too optimistic. Boettke et al. (2007) serves well as a rallying cry (or possibly as a statement of intent), but it is too much of a revisionist history of thought. Indeed even a prime example of an "Austrian"-infused Public Choice scholar—Vincent Ostrom—acknowledges the lack of epistemic content even in *early* Public Choice theory,

> "the place of common knowledge and communities of shared understanding in decision situations was neglected [in early Public Choice]" (Ostrom 1997, 102).

1.2 The epistemic primacy thesis

The second reason why Austrian economics and Public Choice theory are not sufficiently compatible to survive an intellectual graft is what might be referred to as "the Epistemic Primacy Thesis"). In Boettke and Lopez's (2002) terms the prospective union is based on attention to both imperfect knowledge and imperfect motives. For Ikeda (2003) the union is based on adherence to both unintended consequences and deceptive opportunism. However not only does Austrian economics *already* provide both of these issues, it demonstrates that they are not of equivalent analytical importance. Public ignorance, interest groups and other "Public Choice" ideas are contained in the works of the early Austrians (Boettke et al. 2004), and they did not ignore assumptions about benevolence. We might take Keynes to embody the "naïve" view of public officialdom, "moderate planning will be safe if those carrying it out are rightly oriented in their own minds and hearts to the model issues" (Keynes 1980).[12] Of course at the time Mises and Hayek were making a strategic decision to assume good intentions on policy makers so that they could demonstrate that rational calculation is impossible in a socialist commonwealth—although they did relax this on occasions. For example Hayek talk about planners sometimes being "bad"

> "the main merit of the individualism which he [Adam Smith] and his contemporaries advocated is that it is a system under which bad men can do least harm. It is a social system which does not depend for its functioning on our finding good men for running it, or on all men becoming better than they now are, but which makes use of men in all their given variety and complexity, sometimes good and sometimes bad, sometimes intelligent and more often stupid" (Hayek 1948, 11–12)

And Mises and Hayek both acknowledged that statesmen would ignore long run problems to secure public support:

> "The whole system is the acme of the short-run principle. The statesmen of 1940 solve their problems by shifting them to the statesmen of 1970. On that

[11] Similarly Austrians should be reluctant to rely on empirical studies that show the harmful consequences of minimum wages (a policy implication they agree with), if they would otherwise be critical of the methods employed.

[12] This was written by Keynes in a letter to F.A. Hayek, cited in Boettke 1995, p.16.

date the statesmen of 1940 will be either dead or elder statesmen glorying in their wonderful achievement, social security." (Mises 1998, 847)

"But what politicians can possibly care about long run effects if in the short run he buys support?" (Hayek 1977)

But at some fundamental level the richness of the Austrian analysis is to show how institutional factors make talk about motives *erroneous*. In other words, the reason Austrian scholars have concentrated on relaxing the omniscience assumption rather than benevolence is because epistemic factors take primacy over motivational ones.

The original Public Choice claim for innovation was to assume behavioral symmetry between public and private agents. But the Austrian response is to deem behavioral assumptions (i) redundant (behavioral assumptions are self-evident postulates rather than part of the analysis); and (ii) irrelevant (people can only act in accordance with the information at their disposal, and this is governed by the institutional structure). The epistemic primacy thesis asserts that issues relating to benevolence, incentives and interests are corollaries (and not counterparts) to omniscience, knowledge and ideas. According to Don Lavoie the "problem of knowledge" articulated by Mises is not simply the other side of the coin to James Buchanan's "problem of motivation", but is more fundamental (Lavoie 1985)—as Israel Kirzner expands, "unless one could imagine that Mises' calculation problem has somehow been solved, questions of motivation… cannot even be asked" (Kirzner 2006, 30). This view is based on the idea that without market institutions such as prices and profit and loss accounting there is no "meaningful sphere of economic coordination" (Kirzner 2006, 38)—i.e. no "economy"—that even *has* a motivation problem to solve.

It may seem plausible that the reverse of the "epistemic primacy thesis" is true—that if policymakers are malevolent then it makes no difference whether they possess sufficient knowledge. But consider whether the reverse of Kirzner's claim holds: "unless one could imagine that Buchanan's motivation problem has somehow been solved, questions of knowledge… cannot even be asked". The epistemic primacy thesis posits that this *doesn't* hold, and the discipline of Constitutional Political Economy in large part explains why; it provides institutional mechanisms with which to constrain malevolence and "allow bad men to do least harm" (Mueller 1996).[13] Typical measures involve competing jurisdictions (Tiebout 1956, Sinn 1992), whilst James Buchanan (together with Victor Vanberg) also emphases the use of "veils":

"a principle remedy for the interest-based obstacle to constitutional agreement involves the introduction of some means of insuring persons' inability reliably to foresee their future *particularized* interests" (Vanberg and Buchanan 1991, p. 128)[14]

[13] Note that constitutional political economy does not *solve* this problem. By defining how governments govern, constitutions both *enable* some activities (i.e. the delivery of "public goods"), and *constrain* others (e.g. predation). Striking a balance between the two is known as the *Weingast Paradox*: a government strong enough to bind itself is also strong enough to break its bonds (Weingast 1995).

[14] The chief way to do this is be removing distributional element, "each and every step toward replacing differential treatment with equal treatment, or generality, must measure progress toward achievement of the general interest" (Buchanan 1993, p.154). Buchanan also believes that concerns for *stability* will also increase the chances of adopting generality, since this reduces the probability of the compliance problem (e.g. the threat of defection) and the renegotiation problem (Vanberg and Buchanan 1989, p.162)

The genesis of Western political thought rests on the notion of a social contract, and the strategic dance between a citizenry and their rulers. Devising constraints to bind the hands of power permeates modern attention to constitutional design. By stark contrast the scientific enterprise of solving the problems caused by radical ignorance is less emphasised. If "the knowledge problem" extends to institutional mechanisms that allow knowledge *not given to any mind* to be acted upon, we see how it precedes issues of incentives. Whereas politics that is saturated with self-interest does not *necessarily* lead to bad outcomes, when saturated by ignorance it *will*. The Austrian/subjectivist approach to political economy is to jettison "choice, responsive to incentives" (Caplan 2007, 123) in favour of "cognition, responsive to perceptions" (Bennett and Friedman 2008, 243).[15]

The important thing is that the epistemic primacy thesis—and resulting attention to the endogeneity of ideas and influence of institutions—is subjectivist. As Lachmann states, subjectivism is "a research programme of the social sciences which aims at elucidating social phenomena in terms of their *inherent* meaning, i.e. in terms of their meaning to actors" (Lachmann 1990, 243). The bottom line is that scholars must take care not to attribute the wrong motivations and meanings on the part of the people under study, and subjectivity takes motivations as revealed through action. Rather than cast aspersions as to the character and personality of policy makers, attention is drawn to the cognitive limitations they face as a consequence of their institutional environment.

A classic (and sophisticated) example of Austrian economic thought applied to political economy is *The Road to Serfdom,* in which Hayek claims that totalitarianism is "a logical consequence of the institutional incentives of the attempts to centrally plan an economy… the arbitrary employment of power is a consequence, not a cause, of the desire to plan the economy scientifically" (Boettke 1995, 912). Even if policy makers are wholly benevolent they can only ever act on their immediate interests, and this is a result of epistemic choice, "the choice of conceptualizations, assertions, and information to be used and acted upon in problem-solving modes" (Ostrom 1997, 91). In contrast to neoclassical Public Choice, a comparative institutional approach supports the notion of government failure by showing how epistemic choice is severely curtailed in political settings. According to Boettke, "unlike the market process…democratic politics does not engender the incentives and information for its own error detection and correction… rather than spontaneous direction, politics requires conscious adaptation, and there are epistemological limits to this procedure" (Boettke 1995, 21). And this epistemological limitation provides perverse incentives to political actors, "knowledge generated in the political context may enable individuals to survive in the competitive environment of politics, but it does not lead them to exploit the opportunities for gains from economically beneficial trades and eradicate economic inefficiencies" (Boettke et al. 2007, 131)—a point that has also been developed by Holcombe (2002), Lopez (2002) and Mackenzie (2008).

A preeminent example of a work of political economy that adheres to the epistemic primacy thesis is *After War* (Coyne 2007), which shows that with the best will in the world planners cannot export democracy through military intervention. Whether US corporations

[15] Note that despite the claim of being two sides of the same coin and of behavioural symmetry, Austrians tend to study examples of public sector malevolence more often than private sector (e.g. corporate) wrongdoing.

use such a conflict to further their private interests is completely secondary to the knowledge problem generated by central planning.[16] And indeed whether US military officials were surprised by the difference between their intended and actual outcomes, or whether they merely hid their intended outcomes, are two alternative (and perhaps contradictory) hypotheses. Also, whereas neoclassical public choice is institutionally hollow, Austrians are concerned with the causal role of ideas on shaping incentive structures, "where Hayek differs from the extreme public choice interpretation of the incentives within politics is how ideas (by changing the social infrastructure) can change the incentives that officials face in policy decisions" (Boettke 1995, 911). Introducing an epistemic element to the accumulation of political knowledge entails attention to epistemic communities and other institutions that generate common knowledge and shared understanding. This can only take place if preference formation is to some degree endogenous, "rather than taking ideological preferences to be exogenous, which is the assumption of standard economics and political economy" (Ikeda 2003, 71). This is in direct contrast to the Chicago approach, as Wittman assumes that "advertising, political speeches, and so on do not affect voters' preferences" (Wittman 1995, 3 fn.2).

The epistemic primacy thesis can also be extended to the distinction between ideas and interests. A thoroughgoing subjectivism doesn't create an either/or between ideas and interests; it provides a meta-level of analysis, since "ideas provide the social infrastructure within which individuals pursue their own interest" (Boettke 1995, 9), or "ideas tell a man what his interests are" (Mises 1956, 138). Mancur Olson understood that interest-explanations might be supplemented by attention to epistemic factors, "so it appears that a balance of power or stalemate among the organized interests can leave an opening for new ideas. When the different organized powers or interests more or less offset one another, ideas may make a big difference" (Olson 1989, 46). Austrian school economists have a history of not only stressing the important causal process of ideas on policy, but that the economic ideas held by the general public tend to be erroneous. Caplan and Stringham (2005) is a noteworthy account of Mises' understanding that the general public are hopelessly ignorance about economic understanding, and this has been corroborated empirically (Delli Carpini and Keeter 1996). Indeed Caplan (2003) fleshes out the importance of ideas on economic policy with his notion of the "Idea Trap". The trouble with his approach is that the possibility of reform is left as an exogenous or accidental event, since "better policies… are endogenously unlikely to be tried" (Caplan 2003, 183). Evans (2009) utilizes the concept of "constitutional moments" to suggest how ideas can break through to generate economic reforms, but again acknowledges the preconditions of extreme events (or crisis). Aligica and Evans (2009) provide a more rigorous epistemic grounding for the study of transition processes, documenting the spread of neoliberalism in Eastern Europe and the way in which ideas influenced policy changes. To some extent the real "idea trap" is that which binds the political economist to think in neoclassical terms, and a more subjectivist approach provides the framework to transcend this constraint and understand how ideas matter.

[16] It is also worth adding the Hurricane Katrina and Enterprise Africa! Projects run through the Mercatus Center at George Mason University as being examples of the subjectivist political economy I describe. I am aware that others would label these studies as examples of "Virginian" political economy, but this suffers from the problems raised in Section 2.

2 "Epistemic" and "instrumental" rationality work in tandem

Having set out the theory behind a subjectivist approach to Public Choice, we can now deal with the posited "dead end" of the neoclassical tradition. Following its chief source of influence, Public Choice theory is also known as "rational-choice" political science, demonstrating the importance of the concept of rationality.[17] Thus when Caplan focuses on the empirical content of the assumption of voter *rationality* (Caplan 2001a, 2001b, 2002, 2007), there is a danger of subscribing too much attention to a controversial premise—the possibility exists that much of the debate comes down to a semantic misunderstanding.

One of the most fundamental insights of Public Choice is the concept of concentrated benefits and dispersed costs. According to Demsetz:

> "The steel industry and its workers… are willing to act because the benefits from protection are concentrated on the relatively few who invest and work in the industry. Their incomes are significantly affected. The larger costs of their protection are borne in dispersed fashion by the much more numerous population of taxpayers and consumers. The dilution of costs renders its bearers politically ineffective" (Demsetz 1982)

Given the ineffectiveness of dispersed groups, "It is irrational to be politically well-informed because the low returns from data simply do not justify their cost in time and other resources" (Downs 1957, supra note 10, at 259). However this is the Chicago branch of Public Choice theorizing, and imposes cost-benefit calculation upon people regardless of their subjective preferences for being informed (see Evans and Friedman 2011 for a critique of "rational" ignorance).

We can make a distinction between two conceptions of rationality. *Epistemic* rationality is displayed when someone believes propositions that are supported by evidence (and refrains from believing propositions that are not supported by evidence). *Instrumental* rationality is displayed when someone takes the appropriate means to accomplish their ends. The first point to note is that whilst the former is routinely used when assessing the rationality of someone's beliefs, the latter is used to assess his or her actions. Indeed it is important to stress the distinction between action and beliefs[18]:

> "Rationality of thought and rationality of action are two different things. Rationality of thought does not always guarantee rationality of action. And the latter may be present without any conscious deliberation and irrespective of any ability to formulate the rationale of one's action correctly. The observer, particularly the observer who uses interview and questionnaire methods, often overlooks this and hence acquires an exaggerated idea of the importance of irrationality in behavior." (Schumpeter 1942, p.259, fn.11)

However some philosophers deny the distinction between two forms of rationality, claiming that "epistemic rationality is a species of instrumental rationality, viz.

[17] Note that Ostrom points out that "the leading contributors to the Public Choice tradition have never confined themselves to a "core" built on extreme rationality assumptions" (Ostrom 1997, 90). Having said that neoclassical Public Choice theories tend to *assume* that agents hold rational expectations (Becker 1976, 246)

[18] It is worth explicitly stating that Caplan makes a clear distinction between the rationality of action and of belief.

instrumental rationality in the service of one's *cognitive* or *epistemic* goals" (Kelly 2003, emphasis in original). However the distinction between epistemic and instrumental rationality rests on the subjectivist notion that people's goals are heterogeneous, and that it doesn't hold that (i) all rationality is the pursuit of one's goals, and (ii) epistemic rationality is the goal of believing propositions that are true. Academics might be predisposed towards such an epistemic goal, but we cannot take it for granted for all people and across all issues.[19]

> "the instrumentalist conception of epistemic rationality fails to do justice to the intersubjectivity of epistemic reasons. For individuals will typically differ greatly with respect to which subject matters are matters of indifference and which are not. That is, individuals will differ greatly with respect to *which* cognitive goals they possess. Among my cognitive goals is the goal of having true rather than false beliefs about the nature of epistemic rationality. But this is no doubt an extremely idiosyncratic goal relative to the general population: very few people, I suspect, have some goal which would be better promoted in virtue of having true beliefs about the nature of epistemic rationality." (Kelly 2003)[20]

The neglect of the distinction between different forms of rationality pervades Public Choice theory more generally. Wittman argues that, "behind every model of government failure is an assumption of extreme voter stupidity, serious lack of competition, or excessively high negotiation/transfer costs" (Wittman 1989, 1421). As Caplan says, "if the mean error were not zero, then workers would by definition not have *rational expectations*, and would therefore be called *irrational* (or "stupid") rather than merely ignorant"(Caplan 2005a, 4). Caplan views rational expectations as an empirical assumption and therefore tests for it.[21] He finds that the public's beliefs are systematically biased (Caplan 2002), but increased education narrows the gap between laymen and experts (Caplan 2001a). Caplan's

[19] Consider the following, "Whether Bertrand Russell was right- or left-handed, … these are matters of complete indifference to me. That is, I have no preference for having true beliefs to having no beliefs about these subjects; nor, for that matter, do I have any preference for having true beliefs to false beliefs. There is simply no goal–cognitive or otherwise–which I actually have, which would be better achieved in virtue of my believing true propositions about such subjects, or which would be worse achieved in virtue of my believing false propositions about them." (Kelly 2003) The claim here is that often the general public's attitude towards political trivia is the same, whether they admit it either to surveyors or themselves.

[20] We can also challenge this view with an example. Consider the following: At 3 pm Everton will play a football match, but it will not be available to watch on television until 10 pm. Since I would like to watch the delayed broadcast without knowing the score I avoid listening to the radio. Suppose my lodger returns home and inadvertently tells me that Everton lost 2–1. The fact that my "goal" is to be in a state of ignorance about the score in no way affects that I believe that this information is true—I have epistemic reasons to believe my lodger even though it *impedes* my declared goal. Whether or not I have a goal that would be better achieved were I to doubt the proposition does not affect my epistemic reasons for believing it. This contradiction shows why epistemic rationality cannot simply be reduced to a part of instrumental rationality—the two work in tandem.

[21] Attributing rational expectations to survey data is problematic for a number of reasons. If we take an individualistic approach it is impossible to apply rational expectations to a single survey question (error terms can't "cancel out" if there's only one). Yet most survey data solves for statistical bias by increasing the sample size of participants rather than creating a longitudinal study. This leads to attributing rational expectations to a group, which creates theoretical and practical issues. Firstly we lose the heterogeneity of agency that a subjectivist approach would require, being forced to impart the same behavioural assumptions on all "agents". Secondly how do error terms cancel if the "true" answer is zero? What if there is a binary question and an odd sample size? If an additional person enters the room does the group suddenly possess rational expectations?

argument is notable because it utilizes both forms of rationality. By arguing that voters are irrational (for having systematically biased beliefs) but that this irrationality is rational given the low incentives for acquiring knowledge, he's switching between epistemic and instrumental meanings. His notion of "rational irrationality" can be expanded to say that people are *instrumentally* rational but *epistemically* irrational. Thus contra Wittman, Caplan is in agreement with Austrians that voters are *purposeful yet biased*; he just uses neoclassical terminology to make his point. In short, Caplan is willing to label what he considers to be false beliefs "irrational" because he imparts the instrumental goal of truth avoidance, concluding that they are rational after all.

There are (at least) two major weaknesses in this argument. Firstly, there is the logical parody, "when we undertake comparative statics, we cannot differentiate between Caplan's rational irrationality and rational rationality. In both cases, individuals respond rationally" (Wittman 2005a, b, 26).[22] The second flaw with Caplan's use of rationality is the assumption that epistemic *irrationality* is a good (i.e. that it has a downward sloping demand curve). The argument rests upon an assumption that we want to indulge in irrational beliefs,

> "Both [radical ignorance and rational irrationality] treat cognitive inadequacy as a choice, responsive to incentives. The difference is that rational ignorance assumes that people tire of the search for truth, while rational irrationality says that people actively avoid the truth"
>
> Caplan 2007, 123

The alternative view is subjectivism (people do not have truth about these issues as a goal) or radical ignorance (that people err in their quest for truth).[23] We can concur with Jon Elster's claim that although (epistemic) irrationality is "widespread and frequent [but] not inevitable … we want to be rational" (Elster 2007, 232). Contra Caplan, *radical* ignorance does not easily fit within a cost-benefit framework, since it "refers to our unawareness of the existence of the relevant knowledge that we could know at zero cost" (Ikeda 2003, 67)—"it is the nature of ignorance that we don't know what we don't know" (Friedman 2005, xiv, see also Evans and Friedman 2011). Consequently the subjectivist framework requires means/ends analysis that refrains from judging other people's ends, as Schumpeter points out,

> "irrationality means failure to act upon a given wish. It does not refer to the reasonableness of the wish itself in the opinion of the observer. This is important to note because economists in appraising the extent of consumers' irrationality sometimes exaggerate it by confusing the two things. Thus, a factory girl's finery may seem to a professor an indication of irrational behavior for which there is no other explanation but the advertiser's arts. Actually, it may be

[22] Note that Wittman attacks Caplan with recourse to instrumental rationality "am I irrational because I won't eat rabbit?" (Wittman 2005, 29)

[23] As Bennett and Friedman (2008) put it, "Caplan hopelessly confuses ontology and epistemology by asserting that the public *wilfully* refuses to accept the economists' accurate free-market policy ideas—as if the public has any idea what those ideas might be, let alone that they are true" (p.198), they go on to add, "Caplan has mistaken simple… ignorance of economic theory—with *deliberate* (rational) *avoidance of the truth* (irrationality)" (p.198).

> all she craves for. If so her expenditure on it may be ideally rational in the above sense" Schumpeter 1942, 258 fn.9

In other words there needs to be some epistemic factor that links means and ends rather than elevate the political economist to the role of judge. For the subjectivist, if people have a demonstrated preference for being politically aware then the real issue is *given that people have a preference for being politically aware, why are they so biased?* The answer has to be found in the prevailing cognitive context and thus involves a comparative institution approach. This can be seen in how we can accept that people posses erroneous beliefs, yet remain "rational", since "false beliefs can be grounded on strong reasons, and in that sense are rational" (Boudon 2003 p.1).

2.1 The middle ground between omniscience and stupidity

As previously alluded to, economists have a hard time finding a middle ground between assumptions of omniscience versus stupidity. Partly this is down to their assumptions about learning—in particular, how new information is acquired. Evans and Friedman (2011) outline a theory of "browse" as distinct from the neoclassical theory of "search", arguing that the former is a more accurate description of how people update their beliefs. Their argument rests on the notion of Knightian uncertainty, and how there's no ontological support for the assumption that underlying probability distributions (upon which the neoclassical approach to information rests) are known. It's an analytical convenience that cannot be adopted onto real categories of action. There are two main reasons why "browsing" can explain the systematic nature of biased error without resorting to dubious notions of irrationality. Firstly, browsing occurs through *filters*, and there is no reason to believe that these filters would be unbiased. Typically they might well be through political advertising itself,

> "Political advertising may impose negative externalities on voters by providing biased appraisals of the likely outcomes of policy proposal and the risks involved" (Congleton, 1986)

In addition to this information tends to be filtered though the media, within which there is a well-established bias for bad news (indeed this fact alone provides an alternative explanation to Caplan's so-called "pessimism bias", see Bennett And Friedman 2008).

One of Wittman's main arguments is that despite lacking incentives to be well informed, democracy produces effective mechanisms to deliver information at low cost to the voter. However although politicians provide information, it's absurd to believe that this isn't systematically biased. The median voter model has remarkable use but suffers on account of being a simple continuum. The neoclassical assumption that interest groups on the left and the right of the political spectrum compete neglects the fact that apolitical ideas will be systematically underrepresented in political debate. The political spectrum runs from Liberal to Conservative, and you need a second dimension to capture classical liberalism. Hence Wittman's entirely right that politicians and lobby groups are effective at providing information, but it's *systematically biased information*. He capably shows that heuristics mitigate a lack of knowledge, but Austrians and Caplan show that these heuristics are faulty. The reason is that these heuristics are epistemic constellations, i.e. ideologies:

> "ideologies appear to be the most effective lenses for making sense of politics, since their scope lets one screen in more information than can someone using a simpler heuristic. The ideologue almost always knows what to think" (Friedman 2005, p.xxii)

It only takes a simple model of idea dissemination to realise that public opinion is shaped by "second hand dealers" (Hayek 1949). According to Mises, "the masses, the hosts of common man, do not conceive any ideas, sound or unsound. They only choose between the ideologies developed by the intellectual leaders of mankind" (Mises 1998 p.864). This being so, it seems intuitive that political ideas are systematically biased towards favouring political intervention. Although free-marketeers such as Hayek spend a long time speculating why people hold erroneous beliefs, as Friedman reminds us, "in reality, of course, it is Hayek who is—as an economist, as an Austrian economist, and as a free-marketeer—the anomaly" (Friedman 2005, p.xli). Socialism is the "default" option from which reasonably educated adults are more likely to gravitate away from than towards. "Without training in economics, one wouldn't have reason to doubt that state action is an appropriate remedy for "capitalist excesses" (Friedman 2005, p.xlii), which, of course, fits perfectly with Caplan's empirical evidence (Caplan, 2001a)

The second attribute of a more epistemically sophisticated model of learning—-supporting that view that the default policy option is intervention—is that information accumulation is non linear. By this, we merely mean that economics is a counterintuitive discipline; having greater awareness of economic issues does not necessarily improve judgment.[24] As Boettke puts it, "the teachings of economics are counterintuitive. (Who would intuit that a law to raise wages might instead cause unemployment?)" Boettke, 1997, p.12). Contra conventional wisdom the problem isn't public ignorance but public misinformation—it's not that they know nothing (in which case survey responses would be blank), but that they hold faulty mental models, "the problem is not that people know so little economics. The problem is that they know so much that aint so" (attributed to Frank Knight, cited by Martino 2005).

The reason for this lies in the nature of economic knowledge—that it is built upon counterfactual reasoning—Unlike the natural sciences, the accumulation of knowledge in the realm of political economy is complex, social scientists "must use, in place of laboratory experiments, a different form of controlled experimentation: experimentation through counterfactual thinking. This entails imagining what is, by definition, difficult for us "to see": what is (to us) complex…where laboratory experimentation is not possible, science gets more difficult" (Friedman 2005 p.xi). Bastiat's *Broken Window Fallacy* is the classic example, but the phenomenon runs throughout economics,

> "a little economics can easily lead to the paradoxical and preposterous conclusions we have just rehearsed, but that depth in economics brings men back to common

[24] It is curious that Caplan acknowledges the counterintuitive nature of economic theory, given that it provides a major argument against his thesis (Caplan 2007, p.32)

sense. For depth in economics consists in looking for all the consequences of a policy instead of merely resting one's gaze on those immediately visible."

(Hazlitt 1946 p.179)

Indeed attention to counterfactual reasoning is an integral part of the Austrian tradition, "When Friedrich Wieser created the notion of "opportunity cost", he replaced the traditional view that value comes from objectively defined inputs, with the subjective case that it stems from imagined alternatives" (Aligica and Evans 2009). This suggests that economic illiteracy is due to the counterintuitive nature of counterfactual reasoning, which is in contrast to the obvious, "seen" effects of protectionism, "The soundness of the market-price proxy stems from precisely what differentiates it from the heuristics people use in politics: it simplifies a complex reality, but *without the help of our chronically defective powers of counterfactual reasoning*" (Friedman 2005, p.xxvvii)[25]

This doesn't mean things are hopeless, but the solution lies in economic education that replaces faulty causal (scientific) reasoning, rather than developing factual knowledge that is useful only for passing tests of political trivia. An epistemic turn is required in Public Choice because you can't have a model of learning without it, "the manner in which people pursue their self-interest *in the world of politics* depends on their tacit or explicit (heuristic or cultural) theories about which acts of legislation would benefit them. These theories, then, are the causal variables that determine people's political behaviour" (Friedman 2005 p.xxi). According to Ikeda, "ideology plays a crucial role, for it is the regulators' *belief* in the workability of interventionism that prompts them to respond to the shortage, not by remove the price control, but with further intervention" (Ikeda 2003, p.70). Similarly, "public policy is only possible within a cognitive framework that relates the goals to be achieved to the available means and other data relevant for a particular decision" (Busch and Braun 1999:1).

Consider Caplan's comments on applying his rational irrationality model to Dani Rodrik.[26] Rodrik struggles to explain the unpopularity of reforms, "Once one makes allowances for the likelihood that the counterfactual—no reform—produced even worse results in the short run, the consequence of reform look pretty good" (Rodrik 1996). Caplan's answer is simple: the general public misunderstand economics and therefore vote for counterproductive policies (Caplan 2001b). Although I don't challenge the claim that voter's causal reasoning is systematically incorrect, a supporting explanation lies in the fact that counterfactual reasoning is not widespread. If you require non-economists to make a distinction between the seen and the unseen, you'll be disappointed.[27]

The neoclassical assumption of rational ignorance (i.e. no bias) only applies to a situation where people have no idea whatsoever about a particular issue and are making a random guess (such agents would almost by definition be a social). By

[25] Schumpeter takes this even further, "the typical citizen drops down to a lower level of mental performance as soon as he enters the political field. He argues and analyzes in a way which he would readily recognize as infantile within the sphere of his real interests. He becomes a primitive again. His thinking becomes associative and affective." (Schumpeter 1950, *Cap, Soc, Dem* p.262)

[26] "Rodrik and Economic Policy Reform" *EconLog* April 25th 2007

[27] Also, there's a status quo bias in politics that doesn't seem to exist in markets (Boettke, Coyne and Leeson 2007 p.138)

contrast, as soon as you ask questions regarding issues that people have *some* degree of familiarity, we are in a world of radical ignorance (i.e. systematic bias). Whilst it is the case that one might expect such bias to diminish as one accumulates more information and experience, even this cannot be taken for granted. It ultimately depends on the *interpretation* of such information acquisition, and this is a function of prevailing theoretical lenses.

Economists such as Caplan set the default knowledge assumption to omniscience, which is how they can conclude that people who don't know the truth must be consciously avoiding it. For subjectivists the default is radical ignorance—i.e. that people don't know what the "truth" is (see Bennett and Friedman 2008, p.218).[28] Indeed the most plausible interpretation of survey data is that non economists aren't aware of the teachings of basic economics[29] In 2008 a Gallup survey reported that 53 % of Americans wanted price controls on gasoline, whilst 79 % of respondents opposed gas rationing.[30] The inconsistency between the policy and inevitable consequence of the policy suggests that either (i) the causal reasoning is chronically deficient (ii) respondents to hypothetical questions suffer little cost to arbitrary and contradictory answers.[31]

To sum up, voters browse their way though radical ignorance, they don't search through rational ignorance nor choose "wilful perversity".[32]

2.2 When democratic processes satisfy preference intensity they are through market institutions

As the application of economics to political science, Public Choice can be defined as "the economic study of nonmarket decision-making" (Mueller 2003, 1).[33] From its inception this research agenda was defined in terms of its distinction from market institutions, "the coin of the realm in politics is different than that in economics… The political process generates incentives and learning that are entirely different than what is exhibited in the competitive market process" (Boettke et al. 2007, 138). We accept that bureaucratic businesses exist, and so too political entrepreneurs, so what separates economics from politics? Wittman's claim is that Public Choice scholars have implicitly defined economic institutions as those that deliver efficient results, and political institutions as those that deliver inefficient ones. Wittman argues that *both* are efficient, but accepts they are different. We can make a simplistic distinction between the market activity and democratic activity where the former is driven by

[28] "It beggers belief to assume that people are protectionists out of a perverse refusal to fairly weight the arguments for free trade if they don't even know what free trade is" (Bennett and Friedman, 2008 p. 212).
[29] Which is perhaps so obvious it is almost a tautology!
[30] "Majority of Americans Support Price Controls on Gas", May 28, 2008, see http://www.gallup.com/poll/107542/Majority-Americans-Support-Price-Controls-Gas.aspx [accessed April 15th 2009]
[31] This example was brought to my attention by Jeremy Horpedahl, who proposes a "Mueller Test" that does the following: if a survey respondent supports a policy that would require an increase in government spending, provide a follow up question that states that such an increase in spending would need to be funded through higher taxation. When this test was originally applied by Mueller (1963), the policy support fell dramatically. This suggests that the popularity of policies that economists would deem welfare-reducing is partly down to the respondent ignoring trade-offs when confronted with a hypothetical question.
[32] This phrase is what Bennett and Friedman (2008, p.211) attribute to Caplan (2007)
[33] Indeed in 1966, Gordon Tullock became the founding editor of *Papers in Non-Market Decision Making* - the journal that was later renamed *Public Choice*

calculation (using the price system) and the latter driven by voting. Note that in the idealized case the former is a theory of *mean* preferences (i.e. willingness to pay is important), whereas traditionally, in theory, the latter is a theory of *median* preferences. In market activity the "mean voter" wins, rather than the median.

> "The number of votes matters more than the intensity of any one vote because each vote is equally weighted. In the market process, though, the entrepreneur is concerned with the intensity of buyer preferences because it determines the willingness to pay. Economic actors need to know how much buyers want this or that particular good or service; political actors need to know how many voters desire this or that particular policy. The two questions are categorically different from one another."(Boettke et al. 2007, 140)

This distinction between mean (which captures intensity of preference) and median voter is crucial to understand the economic approach to politics, and fundamentally undermines the position of neoclassical public choice.

This is where the subjectivist roots of Buchanan are helpful: his exchange paradigm provides a potential solution for Wittman, and one he takes willingly. However, Wittman's examples of "efficient" outcomes of political activity all involve a way of moving from median to mean preferences—to utilize exchange mechanisms. But if we solve intransitivity with willingness to pay, the lame duck effect with informal trading, and point to the use of logrolling to deliver socially optimal outcomes, we *reinforce* the point that voting is less likely to allocate resources to their highest value use (as compared to explicit market exchange). Wittman is relying on (imperfect) proxies for market prices—i.e. on exchange mechanisms that are untied to genuine markets—to claim that democracy is efficient!

Consider Radford (1945), which investigates a Prisoner of War camp and finds that in the absence of formal money an effective system of exchange emerges using commodities such as cigarettes as currency. It would be bizarre to conclude that the article is demonstrating the efficiency of POW camps, as opposed to the ubiquity of economic exchange and the natural and spontaneous use of financial intermediaries. A Wittman reading of Radford might imply that POW camps are as efficient as typical markets. An alternative interpretation is that economic activity has impressive resilience and even when outlawed has a surprising capacity to emerge and coordinate resources. Hence when Wittman claims, "the art of politics is making good trades" (Wittman 1995, 159) he conflates markets with democracy. Trading is the economic phenomenon that makes political activity more efficient than it otherwise would be.[34]

3 Conclusion

Although Wittman (1995) and Caplan (2007) are both arguing from within the tent of Public Choice, this tent is not a homogenous school of thought. The neoclassical

[34] This is meant as a theoretical critique of Wittman, rather than a critique of government planning. Depending on the goals of those who use the democratic process the benefits of abandoning market exchange may well exceed the costs. However it is worth reiterating that non-market decision making is likely to give rise to negative unintended consequences dues to the fundamentally less conducive atmosphere to knowledge discovery as compared to decentralized markets. I thank an anonymous referee for pushing me to clarify this argument.

arguments about rationality are valid, but only with regard to how they've defined their terms. But a growing literature has raised serious objections to the positivist research program more generally, warning that it might lead to a dead end (Lakatos, 1978, Caldwell, 1982, McCloskey 1985). For political economists to actually analyze dynamic effects such as unintended consequences, "they must, at least tacitly, transcend the equilibrium framework from which they may have begun" (Ikeda 2003, 72). This is because "the logical extension of neoclassical analysis makes it impossible to discriminate between efficient and inefficient policies" (Boettke and Lopez 2002, 114), generating the unhelpful tautology that "what exists is efficient".

To go back to the James Buchanan quote that started this article, the neoclassical approach has taken Public Choice beyond the maximum limits of economics, to become a hyper-logical parody. By taking Wittman to his logical conclusion Caplan has brought us full circle. "Rational irrationality" can be viewed as a type of rationally ignorant behavior, and part of an approach pleading for a rigorous epistemic foundation. But this can't be easily grafted onto existing Public Choice theory. Radical ignorance and rational ignorance are different concepts and serve as competing hypotheses to a number of empirical situations. Similarly whether we posit that public officials are deceptive opportunists or merely make honest errors creates two alternative lenses through which to conduct analysis. As soon as we wish to apply this framework, choices (and contradictions) emerge.

This paper has suggested which choices to take. The unique contribution of the Austrian/subjectivist approach to political economy is to acknowledge the epistemic primacy thesis and place knowledge problems as the keystone of analysis. Contra Wittman and Caplan democracy is not efficient and the public do not hold irrational beliefs. Rather, between omniscience and stupidity there lies the epistemic heartbeat of political economy.

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