

Political economy and the science of association: A suggested reconstruction of public choice through the alliance of the Vienna, Virginia, and Bloomington schools of political economy

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Abstract We argue that in order to answer the challenges that James Buchanan put to contemporary political economists, a reconstruction of public choice theory building on the work of Buchanan, F.A. Hayek and Vincent Ostrom must take place. Absent such a reconstruction, and the significant challenges that Buchanan raised will continue to go unmet.

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James M. Buchanan challenged political economists to answer a puzzle concerning the justification and fate of classical liberalism as both an ideal and a practical program for political and social organization.¹ Buchanan (1991) argued that the classical liberal ideas of the 18th century Scottish Enlightenment thinkers, such as David Hume and Adam Smith, and other classical political economists in the 19th century, had put forth a bold political and social agenda. They had argued that the system of liberal governance could simultaneously achieve individual liberty, prosperity, and peace. Further, Buchanan argues, the empirical record of the 19th century appeared to confirm these bold claims of the classical liberal political economists about freedom and prosperity. Yet, Buchanan argues it was precisely at this critical juncture when the classical liberal idea proved vulnerable to critique. Why?

¹Also see Boettke, “Fearing Freedom” (2013b) for a discussion of Buchanan’s challenge to contemporary classical liberals.

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Buchanan suggests two answers. First, he argues that “the vision of classical political economy fail[ed] to capture the imagination of more than a few generations of intellectual leaders” because the notions of liberty, prosperity, and peace are incomplete without a clear notion of justice. Without an explicit treatment of justice, in both Aristotelian senses of commutative (discussion of rules) and distributive (discussion of resource allocation), the classical system was left open to critique.

Second, the “nightwatchman state” ideal “of the great classical economists was never fully realized” (1991, 244). Liberal policies were enacted in the 19th century but the system as a whole was never fully realized because political agents were never fully constrained from moving beyond such polices. A failure to distinguish between the rules of the game, and political strategies within the game resulted in a misdiagnosis of the potential and limits of political and social organization. The state structure was rarely if ever constructed in a manner that provided the appropriate framework for the economy to function up to its full potential. Also, since there was a failure to keep clear the distinction between the establishment of the framework (rules of the game) and strategic play within the rules, the appropriate constraints on political action were not erected. Limiting political manipulation to questions of the framework was forsaken and instead political manipulations within the framework were unleashed.

Furthermore, this failure to clearly distinguish between structure of the rules and political strategies within the rules reinforced the inability to rein in the interest motivated political groups and individuals who used justice-driven moral demands as cover for their exercises in distributional politics. It is not surprising, Buchanan writes, “that efforts to redress economic results toward enhanced distributional equity should have become the cover for interest-driven efforts to gain distributional advantage” (1991, 245). The political dynamics of modern democracy leads to the “churning state” where questions of justice are transformed into negative-sum games among competing special interests.

In order for effective change to take place and for contemporary democratic societies to move from the “churning state” to something more akin to the classical liberal ideal, Buchanan postulates that there must be an emerging consensus at the constitutional level on two fundamental observations of political and economic life. First, there must be a convergence of opinion about the relative inefficiency of politics. This requires removing romantic blinders many have about politics, which is why public choice analysis and their emphasis on “politics without romance” is necessary. Second, there must emerge a new consensus about the power of the market to work things out. In short, a general willingness to leave things alone in the economy and to insulate the economy from political interference must be adopted by the general public. The citizenry, Buchanan insists, must come to understand how the forces of voluntary agreement and association work themselves out.

Failure to understand the above can be detrimental to creating and maintaining a liberal society. Buchanan’s appraisal of the practicality of liberalism in the contemporary world is that the citizenry has in fact not only failed to understand, but in doing so, has lost its capacity to self-govern. We have, instead, become “Afraid to Be Free” (2005). No longer do we need to worry, Buchanan argues, about the excessive claims on behalf of managerial socialism or the meddling preferences of the Nanny State. What threatens the liberal project today is that the public desires parental socialism,

where individuals call for the state to remove personal responsibility. We are demanding to be taken care of by our government. Individuals who are afraid to be free cannot by definition be self-governing. And this leaves little space in our political discourse for the forces of voluntary agreement and association to work themselves out. The forces of spontaneous order have been replaced by top down planning in more and more areas. We may have lost our faith in the socialist god in 1989, but we have not regained our faith in *laissez-faire*, leaving us with no faith in our own abilities to self-govern our own lives, let alone our polity.

Buchanan's conclusions are pessimistic. The sickness in political structures has bred a sickness in the people. While pessimistic, it also conforms to Tocqueville's prediction of the atrophy of the human spirit concerning the self-governing capacity of the citizenry when the state is unleashed from its constraints.

Our paper argues that Buchanan's answers to the classical liberal puzzle he identified—namely how classical liberalism's failure to (1) develop an adequate theory of justice, and (2) to distinguish forcefully enough between the analysis of the constitutional framework of society and the analysis of activity within that given constitutional framework resulted in the creation of the contemporary "churning" or "rent-seeking" state, which in turn destroyed the capacity of individuals to live as self-governing citizens in a free society—requires a reconstruction of public choice theory. The currently dominant approach in public choice leaves no room to solve these issues because of its current alignment with the Chicago-style economics and Rochester-style rational choice politics tends to focus analysis of the efficiency of existing arrangements. As George Stigler (1992) argued, any long enduring institution must be deemed efficient otherwise it would not have persisted. To put this simply, a \$100 lying on the sidewalk is not inefficient if it costs \$101 to reach down to pick it up.

Change is indeed not costless, but the political economist need not deny the necessity of change, nor remain silent about the dysfunctions that have been identified using basic economics, and the opportunities for improvement. Stigler's teacher Frank Knight reportedly remarked 'To call a situation hopeless is the equivalent to calling it ideal.'² And, since obviously the world in which we live our human lives isn't ideal, it is also not hopeless. Reform is possible; change can happen.³

What we want to suggest is that the potential answers to these questions should draw inspiration not only from the Virginia school of political economy that is identified with Buchanan but also from the Austrian school of economics and Bloomington school of political science. In making this argument, we will draw not only from the work of F. A. Hayek but also from the work of Vincent Ostrom. While

² See Buchanan and Tullock, *The Calculus of Consent* (1999[1962], 203).

³ The concept of equilibrium, while essential in our analytical reasoning, often can become an intellectual straightjacket when utilized as it often is in modern neoclassical economics. The classical economists and early neoclassical economists of the Austrian tradition relied on a notion of equilibrium that was more akin to that used in evolutionary biology—a use that is consistent with novelty, change and adjustment. See David Simpson, *The Rediscovery of Classical Economics* (2013). See Richard Wagner, *Mind, Society and Human Action* (2010), and Boettke, *Living Economics* (2012a). The distinction between "mainline" and "mainstream" economics and political economy can also be usefully referenced here to distinguish between long standing ideas about the "invisible hand" in classical and early neoclassical thinkers, and more modern technical presentations of the "invisible hand" in the Arrow, Hahn, Debreu system of competitive general equilibrium.

this paper itself may not provide the definitive answers to Buchanan's problems, we do hope it suggests an important way forward for the Vienna to Virginia research and educational program in political economy that relies on a stop off in Bloomington (avoiding Chicago and Rochester) to reinvigorate the Virginia political economy research program.

1 A short course in the historical sociology of the Vienna to Virginia saga in the development of contemporary political economy

There is already a natural alliance between Virginia and Vienna. The historical links and intellectual sociology of the two schools illustrates the natural fit between the two very similar schools of thought. The Austrian school not only influenced Buchanan in his work from early in his career but also is closer to Buchanan's approach than that of the contemporary Chicago approach to economic analysis.⁴ Further, the very survival of the modern Austrian tradition is closely linked to the development of the Virginia tradition.

The Viennese program in economics as represented in Carl Menger and Eugen Bohm-Bawerk received further refinement by Mises and Hayek in the first half of the 20th century. The mature Austrian research program was laid out in treatise form by Ludwig von Mises in *Human Action* (1949) and in the more contemporary journal article form by F. A. Hayek and collected in *Individualism and Economic Order* (1948). For all practical purposes, work since that time in methodology, method, and application has been a restatement of the basic positions developed in those works.

Circa 1950–1980 the Austrian school was so at odds with the contemporary economics profession in method and ideological sentiments, and it is a miracle that the school of thought has a modern presence in the academy at all. Kirzner especially worked quietly not only as a researcher but also as a teacher and organizer of student and scholarly conferences at New York University. In this role Kirzner continually recruited fresh new minds to the research program and teaching agenda. Ludwig Lachmann and Murray Rothbard also played a large role in keeping the Austrian tradition alive during this period.

The Austrian resurgence, however, would also not have been possible without two figures outside of the Austrian camp: Robert Nozick and James Buchanan. Nozick's *Anarchy, State and Utopia* (1974) legitimated the limited government libertarian political philosophy within intellectual discourse in a way that it hadn't been since prior to the WWII. Moreover, Nozick's invisible-hand explanation methodology laid out in the beginning of his book pointed directly to the analytical contributions of the Austrian school on issues such as the impossibility of economic calculation under socialism, the Austrian theory of the trade cycle, and the theory of spontaneous order. Winning the National Book of the Year award is never bad publicity for an author and the set of ideas he is promoting.

James Buchanan in works such as *Cost and Choice* (1969), *LSE Essays on Cost* (1981), and *What Should Economists Do?* (1979) accomplished this same

⁴ See the lecture by Buchanan on the Chicago School Old and New from 2010—http://www.youtube.com/watch?v=7_atDsc06r4. Buchanan is already citing Mises and Hayek on methodological and analytical points of agreement in the early 1950s, see, e.g., Buchanan (1954).

legitimizing function for the methodological program of the Austrians as what Nozick had done for the ideological position. The importance of having someone within the upper echelons of the economics profession such as Buchanan defend methodological individualism, methodological subjectivism, and process analysis cannot be overlooked in the sociology of academic life. In addition, the practical importance of having a major professor in the economics profession willingly accept and encourage students to study with him and pursue doctoral research on these topics cannot be forgotten. Buchanan was the mentor and colleague not only of a new generation of public choice scholars, but also a new generation of political economists who would blend public choice and Austrian economics: Richard Wagner, Richard McKenzie, Randall Holcombe, Thomas DiLorenzo, and Viktor Vanberg to name a few. In addition to directly working with those interested in various aspects of the Austrian tradition, Buchanan during the 1970s and 1980s would single out Kirzner's work on the entrepreneurial market process to highlight to readers in his articles, and he would promote the work of such younger Austrians as Karen Vaughn, Mario Rizzo, and Don Lavoie.

Outside of Buchanan's endorsement only the UCLA economists Armen Alchian and Harold Demsetz (price theorists) and Axel Leijonhufvud and Robert Clower (macroeconomists) had anything positive to say about the contributions that Mises and Hayek had made to economic science (and most of the praise was limited to Hayek) during this time period. This had a very practical implication circa the early 1970s when the Austrian revival was orchestrated by organizations such as the Institute of Humane Studies (IHS) for those contemplating careers as economists. Students discouraged by the failed economics policies of the 'Great Society' and military policies of the Vietnam War, found hope in the promise of a libertarian society. Within those ranks several of them were intellectually excited enough to study further the science of economics in the hope of gaining a better understanding of the underlying forces in economic life that explained the failure of the Keynesian system and the operations of a free market economy. This was important because IHS, in promoting the Austrian school, kept the research program and methodology of both Vienna and Virginia alive for young students at a time where most university economics departments departed heavily from such questions and approaches in economic research.

But where would they go to study? Chicago was the most obvious option, but the ability to study further refinements of subjectivism and market process theory were very limited there (Mario Rizzo was the lone graduate to do so, though at that time he did focus on law and economics). NYU with Israel Kirzner was an obvious choice, and many talented young scholars flocked to do so in the 1970s and 1980s; but Kirzner was isolated in the department and the rest of the program was not just indifferent but grew overtime increasingly hostile to the Austrian approach. Still Kirzner was able to attract Lachmann as a visiting professor, and he eventually secured faculty appointments for Gerald O'Driscoll, Mario Rizzo, Lawrence White, and finally Peter Boettke. However, only Rizzo was able to secure a permanent faculty post with tenure. Post doc fellows were also an important part of the NYU program under Kirzner and included individuals such as Richard Langlois, Roger Garrison, and Bruce Caldwell, and foreign scholars such as Uskali Makii, Stefan Boehm, and David Harper. The PhD products of the NYU Austrian program include

Don Lavoie, Richard Fink, George Selgin, Stanford Ikeda, Daniel Klein, and Glen Wittman. The NYU program is still in operation, but with Kirzner's retirement, only Rizzo remains as a permanent faculty though David Harper has an administrative/faculty post as the director of the Masters Program and clinical professorship. William Easterly has also recently joined the NYU faculty, and while intellectually supportive of the market-orientation of Hayek, he does not work within the Austrian program. NYU is, and has been for close to 20 years, an extremely formalistic program in economics with a strong emphasis on mathematical theory and econometric theory—two areas far removed from the methodology and the methods of the Austrian school of economics.

More hospitable environments for graduate students with a strong interest in Austrian economics were provided at VPI (and then GMU) and UCLA. UCLA products include Gerald O'Driscoll, Larry White, and Jack High—all of whom worked closely with Leijonhufvud. But there can be little doubt that the programs at VPI and then GMU (both owed their existence to Buchanan's intellectual leadership) were the most open to the idea of Austrian economics as a progressive research program in contemporary economics and political economy. Since the mid-1980s, for example, the number of PhD theses accepted at GMU that addressed the idea of the Austrian school has exceeded the number of dissertations on the same topic written at all other universities since Carl Menger first assumed his chaired professorship at the University of Vienna. In the 1970s, Richard Wagner used Mises's *Human Action* as a text in the core microeconomic theory course at VPI. Besides pushing for the exchange versus allocation paradigm in economics and political economy, Buchanan also openly embraced the radical subjectivist ideas of G.L.S. Shackle and in particular Shackle's *Epistemic and Economics*, which challenged the core behavioral model of neoclassical economics. The Robbinsian model of the economic problem of society was challenged by Buchanan both for its exclusive focus on the seemingly technical question of society's allocation of scarce resources among competing ends as opposed to the exchange relationships and the institutional framework within which these exchanges take place, and for its conception of the individual choice problem as closed as opposed to open-ended. Despite the critical exchange between Buchanan and Kirzner over Buchanan's "What Should Economists Do?" (1964) article that was published in the *Southern Economic Journal*, Buchanan and Kirzner were natural allies in the 1960s–1970s fight for an alternative rendering of the neoclassical project in economics and political economy that was not only radically anti-Keynesian (in its focus on microeconomics), but also radically anti-mechanistic (with the focus on subjectivity and creativity in the analysis of individual choice, and the exchange process as opposed to equilibrium states in the analysis of markets). Buchanan's students such as Randall Holcombe were present at South Royalton; Buchanan's student and future colleague Richard Wagner organized conferences examining the contributions of Carl Menger and wrote articles and books extolling the virtues of the Austrian research program; and Buchanan himself headlined several conferences as a keynote speaker representing the Austrian program and its importance for contemporary research in economics and political economy. Buchanan and Gordon Tullock explicitly acknowledged their intellectual debt to Mises and Hayek in their works.

So as a matter of historical intellectual sociology, the road from Vienna to Virginia was driven by James Buchanan and his efforts (originally with G. Warren Nutter) to

“save the books” of classical liberal political economy starting at the Thomas Jefferson Center for Political Economy at UVA in the 1950s–1960s and continuing with the establishment of the Center for the Study of Public Choice at VPI in the 1970s and then GMU in the 1980s to today.

As a result the modern Austrian tradition is steeped in research programs that directly attempt to answer Buchanan type questions. The younger generation of Austrian economists coming out of GMU continue to work on issues Buchanan put particular importance on such as the rules of the game (see for example, Coyne 2007), and the ability of individuals to self-govern (see for example, Stringham 2003 and Leeson 2007). Both of which are needed in further research to answer Buchanan’s puzzle.

2 Tocqueville and self-governance

At the center of Buchanan’s puzzle and subsequent answers is the importance of a self-governing society. A sense of justice and understanding of a market economy is crucial for a liberal tradition. The failures are due to a blind romantic faith in politics and lack of understanding of how spontaneous orders produce our desired wants through the market system.

In his chapter “What Sort of Despotism Democratic Nations Have to Fear,” in *Democracy in America*, Alexis de Tocqueville argues that an intrusive government that attempts to protect and relieve its citizens “from the trouble of thinking and all the cares of living” results in a sort of “orderly, gentle, peaceful slavery” (1966, 692). Majoritarian Despotism is the outcome of a conscious effort of the government in power to address every social problem and ease the burden of individual responsibility. But by assuming parental authority, the government does not unburden its citizens, but instead delivers them into a state of “perpetual childhood.” It is in this manner that the “sickness of the state” can generate a “sickness in the people” and the “whole moral and intellectual conditions of a people are placed at risk” (Ostrom 1997, 26).

While Hayek argued that a liberal society did not require men to become better than they are for it to function (see Hayek 1948, 11–14), he did acknowledge that a vibrant and fluid market economy did depend “on the existence of independent individuals who can take the initiative in the continuous process of re-forming and redirecting organizations” (1960, 124). He developed this argument in the context of a discussion of managers and shareholders, and the ultimate importance of assigning clear rights of residual claimancy to individuals who can make the pivotal business decisions and critical stages of the operation of doing business.

Hayek’s argument for a social order that strived to minimize coercion was never one that exalted individual liberty above all other values. In fact, one must remember that few of the main thinkers in the context of the Vienna to Virginia transformation were natural right theorists.⁵ Mises and Hayek were utilitarian thinkers, though rule

⁵ Among the Austrian economists, only Murray Rothbard adopted that perspective and he explicitly rejected public choice analysis as ill-founded in *Power and Market* (1970) on the grounds that given the coercive nature of politics one cannot analyze politics as exchange.

utilitarians and not act utilitarians. As such their political economy work focused on identifying the rule structure of governance that would result in a multiplicity of desirable consequences. To name those we mentioned in this essay—liberty, prosperity, and peace. And like their classical predecessors, they argued that private property was the critical and fundamental institution to build around the structure of governance. As David Hume argued, the foundation of civilized society is to be found in stability of possession, transference by consent, and the keeping of promises.

But the argument that emerges from these writers was never one of unbounded freedom of the individual. Instead, their vision was of a society of free responsible individuals. The individual has not only the freedom, but also the burden of choice. He must bear the consequences of his decisions. Individual responsibility is the flip-side of individual freedom. And, as Hayek feared, with the decline of respect for individual freedom, the belief in individual responsibility will also decline. With that decline, however, the ability of a people to constitute a self-governing citizenry will also decline. Civil society will cease to have its ability to provide the bedrock foundation for a working democratic society. Tocqueville's concern with Democratic Despotism proves to be eerily prescient.

Hayek and Buchanan share both the concern with the redistributionist state and the character of a citizenry that is 'afraid to be free,' and both find the solution in the exercise of constitutional reconstruction. Their differences, however, lay in the relative emphasis they put on spontaneous order theory and social contract theory. While Buchanan is one of the strongest theorists of spontaneous order in contemporary political economy within an established framework of property rights and contract law, he argued against attempts to apply spontaneous order reasoning to the basic framework of society itself. His theoretical confidence in the benign nature of spontaneous order weakened considerably when the topic turned to endogenous rule formation.⁶ For that topic, Buchanan was much more comfortable with the more rationalistic exercise of social contract theory and the production of the rules that would govern society through agreement behind a veil of ignorance.

Since the concern of Hayek is how actors learn within alternative social environments, he emphasized their cognitive capacities and limits, whereas to Buchanan the concern was the interests of actors in their context of choice he emphasized in his analysis of the choice of rules the draining of private interest from the deliberation. Endogenous rule formation focuses on the mutual learning and adjustment that takes place as actors strive to avoid conflict and realize gains from cooperation. The social contract conception of agreement on the rules emphasizes the fairness of the rules since no party to the agreement would be able to consider their relative status in the post social contract state due to the veil of ignorance. At the backend of both exercises, however, they end up with a similar vision of the political structure conducive to a free and responsible people—a constitutionally limited democratic government organized in a manner that has a variety of built-in checks and balances to discipline the predatory powers of the state. Fiscal federalism and a monetary system based on rules (not discretion) along with secure property rights and open

⁶ For a discussion of the issue of the endogenous formation of the framework see Boettke "Anarchism and Austrian Economics" (2012b) and Boettke "Entrepreneurship and the Entrepreneurial Market Process" (2013a).

entry provides the basis for the economic policy of freedom in both Hayek and Buchanan's work.

In Buchanan's rendering of the basic problem of political economy he distinguishes between the protective state (provider of secure property rights and the enforcer of contracts), the productive state (provider of essential public goods), and the redistributive state (provider of special privileges to pressure groups). And the puzzle is how one can empower both the protective and the productive state without unleashing the redistributive state. Buchanan's answer was to find structures which utilized the forces of competition as much as possible (even in the realm of public goods) and to reduce the incentives of political decision-makers to cater to the special pleading of pressure groups by establishing term limits, election by random lottery, a bi-cameral legislation, and explicitly establishing rules eliminating discriminatory politics.

The failure to successfully bind the powers of the state unleashes not only the predatory power of the state, but creates the opportunity for special interest groups to use the state to benefit their members at the expense of others. The state must deliberately discriminate between groups. Moreover, since the rule of law cannot promise economic equality in results, but only that policies cannot be designed to specifically benefit a particular group, the natural tendency to democratic politics is away from the rule of law. As Hayek put it in *The Road to Serfdom* (1945, 79) "To produce the same results for different people, it is necessary to treat them differently." Equality in economic outcomes requires constant intervention by the government and violations of the rule of law. And a state so empowered will also be inundated by demands from the population to shield them for the vagaries of economic life. Rather than establishing a framework of rules that enable competition, the demand by the people can easily turn into one of protection from competition. A self-reinforcing process is set in motion that unlocks any constitutional checks on the expansion of government both in terms of its scale and scope, and the citizenry under its rule increasingly atrophies the skills required for self-government and instead not only demand to be, but need to be, governed. As this process continues to spiral away from the classical liberal ideal of a society of free and responsible individuals, the ability to creatively imagine solutions to our social dilemma that minimize the necessary acts of coercion declines precipitously.

The Bloomington tradition also plays an important role in this discussions of self-governance. Vincent Ostrom in *The Meaning of Democracy and the Vulnerabilities of Democracies* (1997, 202) argues that the functioning of a true democratic society starts first with individuals capable of being self-governors, and then being able in the course of coping with the inevitable conflicts that arise in the interdependent relationships of a vibrant society finding solutions in an assortment of civil association arrangements. Citizenship in a democratic society requires an ability to work within these civil associations and to work out problems while constantly being open to new ways of thinking and innovations in practice. As Ostrom puts it, the self-governing citizen has the capacity to admit that he doesn't know the Truth, while constantly struggling to understand truth. Once the ability is diminished or lost, democratic societies prove vulnerable to the despotism that Tocqueville warned. The Ostroms' work provides further insight, both theoretically and empirically on the very same issues both Hayek and Buchanan highlight.

3 Reconfiguring political economy

The field of political economy has experienced a revival after Buchanan's Nobel Prize in 1986. Work in public choice is no longer on the periphery of mainstream economics and political science, but instead much closer to the core concerns. Leading researchers in economics such as Acemoglu, Persson, Tabellini, Besley, and Shleifer have made contributions to the field of public choice.

In this literature, the older contributions of Buchanan, Tullock, Olson, and sometimes, even occasionally, Hayek are mentioned but the style of research, in its questions and form of presentation, would resemble the Chicago school contributions of Stigler, Becker, and Peltzman in the economic approach to politics, and the Rochester school contributions of Riker, Shepsle, and Ferejohn in rational choice politics.

This contemporary work is very important and has improved our understanding in several areas of interest—e.g., the relationship between government structure and fiscal policy, the impact of colonial origins on subsequent economic development; the empirical relationship between constitutional government and economic growth and development; the electoral rules that address principle/agent problems, and the mechanism for the selection of principled agents for political office. But it does not address either of the problems that Buchanan raised at the beginning of this essay. The uniquely Virginia approach to public choice of Buchanan, and certainly the Austrian flavor of some of the core Virginia contributions has been lost.

In order to address these problems raised by Buchanan, political economy needs to be reoriented (Boettke et al. 2007). The current models within the mainstream work of public choice do not adequately address the structure-induced behavior in politics or the cognitive capabilities of actors within politics, which are both necessary to address Buchanan's concerns. The reason for this stems from their intellectual commitment to maximizing behavior and equilibrium theorizing, i.e. their use of the value paradigm as opposed to the use of the exchange paradigm (Kohn 2004), which can be found in Buchanan and within the Austrian school (Boettke and Leeson 2003). The problem with always viewing the market or political sphere in equilibrium, and thus a state of affairs where action has ceased, is that it leaves us blind to the processes by which equilibrium is achieved in the first place. This presents a major roadblock for the ability of this type of theorizing to answer Buchanan's questions.

While both the value and exchange paradigms are grounded in the neoclassical framework (Boettke and Lopez 2002), the distinction is found in the assumptions of the institutional structure of the system and cognitive abilities of the actors. The value paradigm usually views the actors as purely *Homo Economicus* and they are the major mover intellectually within the models. The exchange paradigm, on the other hand, has the actor's cognitive abilities as often very limited, and sometimes even crippling. This leaves the institutional structure to do the heavy lifting, i.e. agents often err, and so whether or not we get the efficient outcome depends upon whether or not the institutional structure guides the actors in that direction.⁷

⁷ In the most recent *NBER Reporter 2* (2013) for the political economy group, Alberto Alisina makes a similar point when he states that "in order to understand the world around us, we need to go beyond the assumption of "homo economicus" maximizing his welfare in isolation in an institution-free world. See <http://www.nber.org/reporter/2013number2/2013no2.pdf>.

This can be seen with an example. Suppose a \$100 bill is found on the sidewalk. This is an unexploited opportunity. Economic theory would tell us this bill couldn't lie on the sidewalk very long without being picked up. Still, this theory also tells us how to recognize the gains from trade currently not being exploited and thus why we should not see unexploited opportunities, i.e. in the Walrasian concept of the market, markets clear and thus we are always in equilibrium. But, in reality we see these inefficiencies all over the place.

The Chicago models essentially assume these inefficiencies away. The \$100 bill is not actually there because it would cost more than \$100 to bend down and pick it up. In other words, if there were a lower cost to doing so, it would have been done. This holds within the political sphere as well. A policy that is, must be efficient under the value paradigm or else the big bill would have been picked up, i.e. the more efficient policy.

The exchange paradigm, in contrast, permits the existence of structural ignorance, along with rational choice, to describe the political structure under which actors make decisions (see for example, Kirzner 1985). \$100 dollar bills are on the sidewalk. Finding them, however, requires knowledge that makes actors alert to their existence. Whether they will be alert to them or not is a result of a specific institutional context.

Both methods use rational choice to analyze questions within political economy. The difference is that in the exchange paradigm individuals are not lightning fast calculators or pleasure and pain—they are instead learning agents—and institutions are analyzed for not only the incentives that they produce for the actors to operate within, but for the ecology of learning that they create for individuals as opposed to the general equilibrium model where institutions play practically no role. The concentration is on a learning process through time rather than on incentive compatibility at a specific point in time.⁸

If the questions we wanted to address were limited to those that could be answered within the framework of structure induced equilibrium analysis, then a natural intellectual alliance would be to take Virginia questions and analyze them using the tools of Chicago price theory with the result being the Rochester style political economy. It is, however, our claim that Virginia political economy should be saved from the pull of the Chicago/Rochester approach in favor of an Austrian/Bloomington approach with its corresponding emphasis on entrepreneurship, competitive dynamics, and institutional diversity.

Buchanan's challenges on the vulnerability of classical liberalism on the one hand and societies demand for paternalistic care and protection on the other are not completely addressable within what has emerged as the current public choice framework. The moral and intellectual states of the citizens within society are not addressed. How political, legal, and social structures produce endogenous preferences among people has only recently been addressed within rational choice model, but

⁸ One of the intellectual difficulties here is that rather than a rejection of the analytical importance of the equilibrium construct to economic and political economy theorizing, the argument here is one of relative emphasis. We find particularly useful Richard Wagner's (2010) discussion about foreground and background. His argument is that in standard neoclassical economics, the equilibrium conditions are in the foreground of the analysis, while the processes that give rise to that equilibrium state of affairs are in the background. In the reconstructed political economy we are discussing, the analytical focus is reversed with the process analysis taken the foreground and the equilibrium conditions as the background.

questions of building shared communities of understanding, systems of accountability, the building of mutual trust within the organization of political life are often left to those political scientists not working within the rational choice framework. These things are exogenous to the rational choice models that dominate research in public choice. The art and science of association in a free society is not adequately addressed.

Vincent Ostrom argued that “the epistemic and cultural contingencies of life are at least as important as the economic and political conditions narrowly constructed” (1997, 114). But Ostrom’s judgment on the state of modern political economy went further than just that we had to be open to epistemics and culture. “My sense is that the more innovative contributions to the Public Choice tradition of research have come from contributors who were concerned with a better understanding of basic anomalies, social dilemmas, or paradoxes, rather than applying a single abstract model of economic reasoning to non-market decision making. The latter concern becomes an exercise in the application of an orthodox mode of analysis in price theory; the former opens important new frontiers of inquiry.” And he concludes that “The future of Public Choice will be determined by its contributions to the epistemic level of choice in the cultural social sciences and to the constitution of the epistemic order with which we live and work” (1997, 114–115).

To open Public Choice analysis to the epistemic level of choice is to embrace the Austrian side of the political economy argument—the challenge to the assumption of omniscience, the recognition of the cognitive limitations of men, and the examination of how alternative institutional configurations impact the learning environment of individuals acting within that institutional setting. To explain how mutual gains from trade are realized, complex coordination is achieved, competing interests are reconciled peacefully “we must explain,” as Hayek argued long ago “by what process [individuals] will acquire the necessary knowledge” (1948, 46). This requires leaving the value paradigm for the exchange paradigm once again.

4 Conclusion

Rather than the Chicago/Rochester/Virginia intellectual alliance that dominates traditional public choice with its rare and even then begrudging and reluctant reference to the awkward historical connection to thinkers such as Mises and Hayek, political economy could be reconfigured on a Vienna-LSE-NYU/Bloomington/Virginia intellectual alliance. Subjectivism in value, cost, and expectations in individual decision making within a variety of contexts as well as viewing politics as exchange and as opportunities for constitutional craftsmanship would all move from the realm of the idiosyncratic preferences of an individual researcher, to the analytical core of political economy (Boettke 1987 and 2012a, 42–65; 139–171; 241–261).

This alliance would have the advantage of creating space for an examination of the spontaneous process of sociability where the artisanship of self-government is learned. Questions concerning civil society and civic association, self-governance and endogenous rule formation, the role of ideology and conceptions of utopia, and the relationship between economic/financial institutions, political legal institutions, and social/cultural institutions, would now be at the forefront of political economy

analysis. We have to find governance structures through constitutional craftsmanship which enable democratic societies to ward off the unlimited pursuit of strategic opportunism. To allow democratic society to be trampled underfoot by opportunism is to subject ‘society’ to the deception, self-deception, violence, discriminatory coercion, and the constant threat of predation and the reality of betrayal. With that we would lose our capacity to become self-governing citizens in a society of free and responsible individuals. Modern political economics has done little to advance our understanding of this basic social dilemma, but a reconfigured political economy can provide the framework for seeing how there are Hayekian answers to Buchanan’s questions on the basic puzzles of the liberal society, and they start with the restraining of the natural proclivity to expand the scale and scope of government via our redistributive impulse, and instead make rule culturally and commercially for the spontaneous and creative powers of a free civilization.

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