

Michael Reksulak, Laura Razzolini and William F. Shughart II (eds.), *The Elgar Companion to Public Choice, Second Edition*. Northampton, MA: Edward Elgar Publishing, Inc., 2013. xviii + 597 Pages. USD 280.00 (cloth).

Co-Editors Michael Reksulak, Laura Razzolini, and William Shughart have assembled a fine extension of the first *Elgar Companion to Public Choice* that was published in 2003 (Shughart and Razzolini 2003). Designed to be “a valuable resource for scholars, but also one to be evaluated critically as new developments in how societies are structured materialize,” (p.11), the new volume is conscious of public choice evolving as a research program and as a set of tools for analyzing human events as they occur.

The year 2003 was significant in both regards. It marked the 40th anniversary of the inaugural conference, organized by James Buchanan and Gordon Tullock in Charlottesville in April 1963, which would spawn the Public Choice Society, the journal *Public Choice*, and the public choice research program in general. The year 2003 was also noteworthy in the policy arena. The U. S. federal government’s brief flirtation with budget surplus had come to an abrupt end. The United States Supreme Court upheld the Copyright Term Extension Act in *Eldred v. Ashcroft*. Congress had the year before enacted the Bipartisan Campaign Reform Act, banning “soft money” political donations. The tussle between constitutional restraint and ordinary politics continued to unfold, sometimes in conspicuous fashion as when the city of New London, Connecticut, using its power of eminent domain, seized Susette Kelo’s home for transfer to private real estate developers. The largest bureaucracy in human history had been assembled in the Department of Homeland Security, and the second Iraqi invasion had begun with shock and awe. Meanwhile, across the Atlantic the European Union was expanding into the Baltics, the former Eastern Bloc, and the Mediterranean. These events summoned, and began to receive, analysis by public choice scholars. In short, 2003 marked a milestone in the development of public choice scholarship while current events highlighted the ongoing relevance of public choice insights to human affairs. It was, therefore, a fitting time to take stock of public choice theory, examine its achievements, and consider its prospects for continued scholarly advancement and worldly relevance.

Several publications that appeared in print at the time did just that. In 2003, James Buchanan wrote a retrospective essay detailing the origins and development of public choice economics (Buchanan 2003). Buchanan argued that public choice is best described as a research program, not as a subdiscipline of economics. He downplayed the common way of defining public choice as the intersection between economics and political science (a definition that Springer repeats on the journal’s homepage). Instead Buchanan emphasized public choice as a research program in the Lakatosian sense, one with a hard core of propositions surrounded by testable implications, and one that developed (or not) relative to alternative research programs in a manner of competitive scientific progress. In this respect, Buchanan (2003) emphasized public choice as one methodology for doing social science, one whose subject matter could, in principle, span the entire range of collective human action.

Other prominent publications at the time included the third edition of Dennis Mueller’s masterful textbook, *Public Choice III* (Mueller 2003), and of course the initial *Companion*. In reviewing the initial *Companion for Public Choice*, Oster (2003, p.248) emphasized the inclusion of both positive and normative analysis, describing the volume as “a comprehensive discussion of the far-reaching literature in [rational choice]” that also added “some provocation in the mix.” Also in 2003 appeared the two

volume, one-million word *Encyclopedia of Public Choice* edited by Charles K. Rowley and Friedrich Schneider. The *Encyclopedia's* Preface describes public choice as a “fruitful interchange of economics, political science and moral philosophy on the basis of an image of man as a purposive and responsible actor who pursues his own objectives as efficiently as possible” (Rowley and Schneider 2004, p.i).

Taken together, these publications convey the richness of public choice as a research program boasting multiple facets: as a social science grounded in methodological individualism and comparative institutions; as a collection of great works; as an intellectual history; as an inquiry that is at once predictive science and moral philosophy; and, yes, as bodies of specialized work in a variety of subject areas situated on the boundaries of multiple scholarly disciplines. Now, a decade later, the 2013 *Companion* seizes the opportunity to assess and update progress that the research program has made in the intervening decade. The 2013 *Companion* addresses all the facets of public choice mentioned above, and by doing so it demonstrates the continuing scholarly vitality and worldly relevance of public choice.

In the opening essay, co-editors Reksulak, Razzolini, and Shughart (henceforth RRS) set the tone. Public choice is defined as it was in April 1963 in Charlottesville: the analysis of non-market decision making, where rationally-acting individuals employ a variety of mechanisms to aggregate their individual choices into collective actions. Though rooted in models of economic choice, public choice requires different models because non-market decisions proceed beyond the context of money-denominated prices and profit/loss signals. Having specified and tested such models, comparisons can be made between the relative attributes of market and non-market institutions. Observed differences are due not to different motivations of characters of individuals in the respective settings, but “because the constraints on self-interested behavior are different” (p.3). As such, the public choice approach has successfully stood the test of time and its predictions “have been shown repeatedly to outperform models based on vague notions of ‘justice,’ ‘fairness’ or ‘society’s welfare’” (p.4). According to RRS, the 2013 *Companion* aims to make the case for this claim.

The volume is organized into six parts containing 29 chapters. Following the introduction by RRS, Part I features two essays by leading public choice scholars and former editors of *Public Choice*. Chapter 2 by the late Charles Rowley is an intellectual history that curiously shares its title with Buchanan (2003), “Public Choice: The Origins and Development of a Research Program.” Rowley impressively weaves discussions of seven major figures and their major insights together with contemporaneous reactions among other scholars while evaluating the lasting impacts of those works. In several instances, Rowley also pins down the origins of major contributions, for example staking Duncan Black’s claim to certain insights that are usually attributed to Kenneth Arrow. Yet for all its depth and breadth, Rowley’s essay falls short of providing a basis for understanding how public choice supports the various strands and schools of thought beneath its rubric. With a penchant for political processes per se, he focuses on social choice, Virginia Political Economy and the Rochester School, to the neglect of experimental, Bloomington and Chicago contributions. Despite this slant, the chapter is a good start and helps lay a foundation for the rest of the volume.

In Chapter 3, Michael Munger assesses the mutual influence exerted between public choice and political science. While the two generally study the same subject matter, they differ in their positive and normative stances and in the relative importance of certain concepts to the disciplines. This chapter is not a literature review; it is what might be called a problem review. Munger seeks to compare and contrast how scholars in political science and public choice approach a common set of problems. To get

there, Munger first describes four schools or approaches within political science: political philosophy, functional and institutional theory, behaviorism, and rational choice. Some political scientists in the first three camps have been critical of applying the instrumental self-interest postulate to political choice, deploying two distinct arguments: that people are (or should be) altruistic in politics, and secondly that people are demonstrably not rational in their observed political choices. Munger turns the tables on the second argument and shows that it strongly vindicates the core presupposition of public choice methodology:

[N]on-market collective decisions suffer from a variety of ‘failures’ analogous to so-called ‘market failures’. Among these are the weak incentives to acquire information, the perverse incentives to distort vote choice, the collective action problem in group organizations, and the information asymmetry and principal-agent difficulties in bureaucratic organizations. In short, if by ‘rational’ one means fully informed and motivated to achieve maximum results, the public choice theorists have long argued that political actors lack both information and incentives (p.45).

Outcomes in politics differ from those in markets not because people transform when crossing between the two choice settings, nor because political actors are assumed to be morally deficient or inherently incapable. The basic point is that political institutions impart different incentive structures than market institutions do. A somewhat deeper implication follows: methodological symmetry is more subtle and controversial than it might seem. As Munger frets, “it is hard to see why [these critics] see limited incentives to vote, inaccurate information about candidates, and the use of crude ideological cues as proof that political choices are somehow irrational” (p.46). As for the rational choice tradition in political science compared to public choice, there is greater overlap. Yet even here Munger draws attention to some interesting fissures. One in particular is the concept of rent seeking, which is on the front lines in public choice but is missing in action in rational choice political science. His explanation leaves the reader hanging, perhaps to suggest that there is more work to be done. Or, as Gordon Tullock once quipped, it is “Back to the Bog” as usual for scholars studying rent seeking (Tullock 1988).

Other chapters in the *Companion* offer updated surveys of standard public choice material, including Thomas Stratmann on campaign finance; John Matsusaka on direct democracy; Robert Fleck and Andrew Hanssen on judges; Robert Ekelund and Robert Tollison on religion; Arye Hillman on rent seeking; Lawrence Kenny on public education; Alan Hamlin on constitutional political economy; Geoffrey Brennan and Michael Brooks on expressive voting; Paul Rubin and Joanna Shepherd on the legal system; and more. Each of those chapters offers a useful entry point into the public choice literature on their respective topics.

A handful of chapters cover material that is less traditionally associated with public choice. Uwe Cantner and Michael Wohlgemuth suggest some ways of incorporating evolutionary economics into public choice, with a potentially interesting, yet still undeveloped, focus on political entrepreneurship and institutional change. Mwangi Kimenyi and Olumide Taiwo apply public choice, with an emphasis on comparative institutional analysis, to tribal systems. Tribes consist of homogenous, indigenous people that have territorial rights and typically are governed by unwritten rules. Kimenyi and Taiwo show how systems of governance evolve to ensure order, protection and other goods shared collectively within tribes. It is a good example of governance institutions emerging through local practice as opposed to being centrally designed through legislation.

Part VI of the volume further attests to the ongoing relevance of public choice with three chapters devoted to the public choice analysis of global relations. Roland Vaubel distinguishes public choice from the political science field of international relations (IR). A fundamental distinction between the two is the unit of analysis. In IR the unit of analysis is the nation state, while in public choice the focus is on individual actors—i.e., voters, politicians, lobbyists, bureaucrats, and others. From the public choice perspective nations do not form international agreements and treaties, politicians do. In doing so, politicians are subject to influence and incentives in a manner similar to within-nation political processes. However, international agreements feature additional layers of organizational structure between final actors and voters, which raises monitoring costs while decreasing feedback mechanisms. This exacerbated principal-agent setting means lobbyists have potentially greater influence over international agreements than they do over within-nation decisions. The insights in this chapter could be pushed even further. Just as nations do not form treaties, countries do not trade with each other, firms and consumers do. When there are disputes in international exchanges, the parties can efficiently resort to private dispute resolution produced competitively by organizations that themselves operate through collective action processes. In international trade, more so than in international relations, governance without government presents itself as a natural subject matter for public choice analysis.

Also in Part VI, Christopher Coyne and Adam Pellillo survey the economics literature on conflict to demonstrate how public choice is used to analyze war and peace. Throughout the chapter, Coyne and Pellillo emphasize the explanatory role of institutional variation. In particular, whether a nation's people are predominantly at war or at peace depends on the quality of its political, legal and economic institutions. The authors present theoretical arguments and empirical evidence to understand the effects of governmental form, regime uncertainty, military strength, time consistency, democratization, and capitalism on various forms of conflict. The chapter lights a path toward a comprehensive research agenda that encompasses war and peace, both intra- and inter-nationally, in the analysis of non-market collective decision making.

In the final chapter, Daniel Arce shows how the public choice research agenda has kept stride with the increase of global terrorism over the last two decades. Terror organizations face collective action problems that make them natural subjects of study for public choice scholars. Arce reviews how scholars (publishing primarily in conflict and international relations journals) have analyzed the organizational structure, recruiting and training strategies, and financing of terror groups to solve their collective action problems. Likewise, counter-terrorism efforts are typically produced by national governments, again natural public choice topics. Arce demonstrates how terror and counter-terror activities entail public good and externality problems, making them amenable to standard models of strategic interaction and free riding that have been workhorses throughout the history of public choice analysis. Counter-terror activities also are typically produced by large government agencies, thus posing agency problems such as to what extent politicians and bureaucracies use the threat of terror to reduce actual terror risk, their own political risk, and the combination of the two.

Overall, the 2013 *Companion* is useful to scholars both as specialists in the specific topics covered and as generalists interested in surveying the field. The *Companion* renders convincing the dual claim that public choice has advanced as a research program in recent years and that its ongoing relevance to human events continues strongly. It has been a fruitful decade.

That being said, the volume also points to areas where there remain opportunities to further extend public choice analysis. This point is captured well in the chapters on fiscal policy by J. Stephen Ferris and on monetary policy by Rob Roy McGregor. For such broad and salient areas of policy, public choice has perhaps a surprisingly long way to go in both. Part of this has to do with basic methodological differences between public choice and applied macroeconomics. While the micro-foundations revolution has instilled a form of methodological individualism into RBC and DSGE models, there is a fundamental difference vis-à-vis the methodological individualism that is at the hard core of public choice. The individuals in macro models are not the purposive actors seeking out their own objectives, as described by Rowley and Schneider above. Rather, they are deterministic functions seeking optimal solutions from constrained maximization problems. This substitutes the analyst's objectives for the subject's, as Buchanan argued a half century ago (Buchanan 1964). In this sense, public choice is "what economists should do," namely seek to explain comparative institutional performance given rationally self-interested individuals acting through collective action mechanisms. By contrast, today's macro models aim to maximize social welfare. This should not necessarily be taken as a critique but as an objective observation. Scholars in applied macroeconomics are simply interested in different sets of questions than scholars in public choice. As such, scholars in the respective fields have developed analytical tools well suited to analyzing "their" questions but perhaps not those of others. At this level, public choice might be as foreign to macro as it is to neoclassical welfare economics.

As a closing thought, readers will detect currents of normative discussions in the *Companion*, but these are always informed by the positive analyses that receive the most emphasis in the volume. Public choice is often associated with government failure, politics without romance, and in general demonstrating how government operates to advance select private interests rather than the public interest. As the Editors stress in the Preface, these critiques are not inserted as assumptions or repeated as doctrine. The normative stances of public choice lie not at the hard core of public choice but on its testable peripheries. As the Editors conclude,

Focusing on constraints rather than behavioral motivations does not mean modifying one's theory as circumstances require. That would be unscientific. It demands the hard work required to identify the specific institutional features of all kinds of markets, both private and public – for ordinary goods and services, for votes, for crime and punishment, for religion, for economic and social regulation and so on – that lead to different outcomes as self-interested, utility-maximizing individuals interact with one another. Only in that systematic manner can a naive 'public interest' theory be shown to be mistaken. (p.4).

Insofar as public choice implies government failure, it is by the consistent application of a well-defined methodology to human events, the predictions of which are subject to empirical scrutiny and modification.

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