

THE MARKET, YES; DEMOS, NO

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A Puzzle in Bauer's Vision of Social Reality

Peter Bauer expressed great confidence in the ability of ordinary persons, the peasants and small holders, to look after their own affairs, and, in so doing, to exhibit the necessary entrepreneurial talents to ensure a viable and productive market economy. Bauer might well be labeled as a laissez-faire optimist. He seemed to be convinced that ordinary people, if they are simply left alone and to their own devices, and without overt interference from others, including governments, would use resources wisely and productively.

At the same time, Bauer was what we may call a democratic pessimist. He did not think that persons are capable of organizing themselves politically so as to ensure the establishment of the constitutional-institutional framework required to allow the market to function properly. On each and every occasion when we personally met for discussion, Peter accused me of being unduly optimistic about the human prospect. He held out little hope that persons could organize themselves democratically and, at the same time, allow markets to work well.

This two-pronged stance, that toward markets on the one hand and toward political democracy on the other, is puzzling, at least to me. Perhaps the reason for my reaction stems from my inability, relative to Bauer, to separate fully my normative hopes from my positive evaluations. Perhaps my attitude has been, and remains, naively American, whereas Peter's attitude here was peculiarly Hungarian. I, personally, would find it difficult to live with the observation that the world is headed into perdition of its own making while, at the same

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time, holding little or no hope that we can make things better. I say that this attitude seems peculiarly Hungarian since it is shared by both Peter Bauer and Tony de Jasay.

Prospects for Change

I admired Peter Bauer for his courage in sticking to the simple verities, and I shared with him the notion that we do not need fancier science, whether analytical or empirical, to know the institutional parameters that are required to ensure economic growth and development. Our differences were strictly on the prospects for change. Peter seemed to think that the relative successes of some societies, owing to the institutional framework having been put right, was perhaps due to historical accident rather than any conscious intent. In this respect, Bauer should have been a fellow traveler with Hayek, especially the Hayek of the later years, although to my knowledge Bauer did not pay much attention to the processes of cultural evolution.

His premium example was Hong Kong under British suzerainty, the setting prior to 1997. Successive British governments were interested in a prosperous and growing Hong Kong and were content to restrict control to the enforcement of protection for person, property, and contract. Although he was not a public choice scholar, Bauer sensed, perhaps intuitively rather than analytically, that ordinary majoritarian democracy was necessarily a game without a core and that Pareto optimality was not found in party platforms. He was not a small-d democrat, and his criteria for tolerable political order were defined in terms of how political power is exerted rather than who exercises such power.

Interestingly, again to me, was the fact that Bauer did not seem at all concerned about the necessary inequality in political power and influence that must be present, even in the stylized ideal of the minimal state, in all settings that become explicitly nondemocratic. Perhaps he recognized, along with Pareto, that there will always be distinctions between the rulers and the ruled, even in nominally democratic regimes. But, in democratic regimes, there is at least the pretense of ultimate equality.

Individual Behavior in Markets and Politics

Let me return to the earlier puzzle. Why did Bauer place such faith in the decisionmaking of ordinary folk in the marketplace and so little

faith in the ability of persons in political roles? I noted that he may well have had some intuitive sense of the formal structures that generate pessimistic results in collective choice settings. The conflict between individual and group interests, the large-number prisoners' dilemma (PD), is familiar territory here. But Bauer's emphasis was, I think, on another difference between individual behavior as a participant in markets and as a participant in politics.

Think of a collective action setting in which, for any reason, there is no conflict between individual and group interests in the standard sense. No large-number PDs are possible; an individual cannot gain differential advantage by confessing, free riding, shirking, cheating, or reneging on his agreed-on sharing commitment. Or, to put the example in terms of a simple matrix, all positions are along the diagonal; no off-diagonal positions are within the possible. Individuals may, in this setting, disagree among possible outcomes on the basis of criteria of their own evaluation, but the group-individual conflict is not present in the usual sense.

Peter Bauer would, I think, have emphasized that, even in this pared-down setting of collective action, individual choice would remain quite different than it is in the market. The fact that the outcome is chosen collectively rather than individually guarantees that a wedge is inserted between the act of choice and its consequences. Individuals do not really choose in the meaningful sense of the term, at least not among outcomes of the process. And the disjuncture here means that no identified individual is responsible for whatever emerges from the selection process. The straightforward logic of opportunity costs does not apply. That which is forgone by the individual's act of participating in the process, of voting, is not the opportunity loss of one outcome or the other.

In this setting, it becomes much less costly for the individual to act in accordance with unexamined ideological persuasions rather than any comparisons of outcomes by criteria of measurable interest. I know from personal discussions that Peter would have no truck with the claims, advanced by George Stigler and others, that ideological motivations carry no explanatory weight.

Conclusion

I began by identifying what seemed to me a puzzle in Peter Bauer's position—his apparent faith in the efficacy of individual freedom of choice in the marketplace accompanied by a near-total absence of faith in the efficacy of individual freedom of choice in democratic

governance structures. In the course of developing these thoughts, however, perhaps the puzzle disappears. Perhaps Peter was the one who kept the blinders off when examining collective action, whereas I cling, perhaps naively, to an uncritical faith, or hope, that reforms, which must of necessity be politically orchestrated, remain within the possible. In any quest for such reforms, however, we must heed the warnings, by Peter Bauer and others, lest we plunge off the cliffs into this century's fatal conceit.