

The Private Interest Theory of Politics: Liberal or Authoritarian?

John Quiggin

Many liberals have accepted the private interest theory of politics as an explanation of the political obstacles to economic reform. John Quiggin, an Australian-born Visiting Associate Professor of Agricultural and Resource Economics at the University of Maryland, argues that the private interest theory rests on assumptions that conflict with liberal values.

IN studies of the economic analysis of political processes, it is customary to begin with the claim that there are two schools of thought on the subject. The first, described as the 'public interest' theory, is said to hold that political actors are motivated by benevolence and a desire to promote the public good. No representatives of this school are ever cited. Attention is then turned to the 'private interest' theory, which assumes that political actors pursue their own individual interests. Not surprisingly, it is the latter theory that is invariably used as the basis for analysis.

The rise of the private interest theory has been closely associated with the resurgence of free-market economic ideas, and it is natural to see it as a liberal theory. However, I shall argue that it constitutes a break with the classical liberal democratic tradition (as represented by J. S. Mill) and that it has much in common with Marxist theories of the state and with authoritarian views originating with Machiavelli and Hobbes.

J. S. Mill on Democracy and Markets

The foundation of Mill's (1861) theory were utilitarianism and methodological individualism. Although Mill stressed the fact that people display a mixture of self-interested and altruistic behaviour, he assumed that they were the best judges of their own interests, and concluded from this that the utilitarian ideal of 'the greatest happiness of the community' would be best served by democracy. In view of the inefficiency of direct democracy, Mill elaborated a system of representative democracy. His work was concerned with, first, the problems of majority rule, and second, the problem of ensuring that representatives kept faith with their constituents.

Mill regarded these problems as soluble. The central problems of a democratic society lay, not in ensuring that the rulers pursued the best interests of the ruled, but in determining where those best inter-

ests lay. The core of Mill's theory was the belief that only in a liberal political order, characterised by freedom of speech and political activity, could truth be advanced and error exposed.

Mill's support for free markets was not of a piece with his support for political freedom, but was derived from the belief, supported by classical political economy, that market arrangements yielded higher social utility than any feasible alternative. Later variants of the liberal political tradition, such as Fabian socialism and Keynesianism, rejected this view while remaining essentially within the political framework laid down by Mill.

Because the outcome of debate cannot be prescribed in advance, Mill's version of liberal political theory does not provide a secure basis for liberal (or any other) economic institutions. The basic belief is that free discussion and democratic processes will yield rational outcomes in the long term. Hence, no particular set of views, such as liberal economic theories, can be given any special standing. In contrast, a major project for some advocates of the private interest theory, such as James Buchanan, has been the creation of a special constitutional status for liberal economic institutions, to protect them from the vagaries of majority rule.

For economists, Mill's framework implies that the appropriate task is to determine those economic arrangements that will advance social welfare, so that the process of open debate and democratic decision-making will, in the long run, move society towards those arrangements. It is this approach that is often caricatured as the 'public interest' theory. But, as can be seen from the outline above, it does not depend in any way on an assumption that politicians and bureaucrats are altruists.

Marxist and Public Interest Theories Compared

For most of the 20th century, the main challenge to liberal democratic theory has been the Marxist theory

of the state, advanced by such thinkers as Gramsci, Miliband and Poulantzas. There are many variants of the theory, but the main tenets are these:

- politics is about struggle between economic classes. The state acts in the interests of the capitalist class as a whole, and arbitrates differences among 'fractions' of capital;
- political ideas (except Marxism) are 'ideologies' designed to rationalise class rule; and
- the masses acquiesce because of 'false consciousness' associated with submission to a dominant or 'hegemonic' ideology.

In the Marxist framework, opposing arguments are not errors but represent class interests. The appropriate response is not to refute these arguments but to show how they are derived from one's opponents' class interests. Correct analysis is the exclusive property of the working class (or rather its intellectual representatives), and, given the right class position, the truth is self-evident. Marxist theory is thus openly antithetical to liberal democracy.

Marxism flourished in a period when the general trend in both ideas and policy was socialist. It appealed especially to intellectual and social elites, who adopted socialist ideas more rapidly, and more completely, than society at large. These groups were frustrated by the slow pace of change and the failure of avowedly socialist parties to undertake a fundamental transformation of capitalism.

Marxist political theory is now confined to an academic fringe, but there has been no resurgence of political liberalism, at least among elites. Instead, Marxism has been replaced by an interest group model based on the work of such theorists as Sam Peltzman and Gordon Tullock. As with Marxism, there are many variants of the interest group model, some of which are more sophisticated than the version that has achieved dominance in the broader economics profession and the policy-making elite. For example, the popular version insists that political behaviour is motivated by narrow egoistic concerns, whereas a number of public choice theorists have considered broader models of motivation. As I am concerned here with the political implications of the theory, I shall focus attention on the popular version.

The private interest theory resembles the Marxist theory in several respects. The key tenets are these:

- the state responds to the pressure of organised interest groups, typically tight coalitions of producer groups. Logrolling between these groups produces an outcome that benefits them collectively at the expense of taxpayers and consumers;

- political ideas (except free-market ideas) are ideologies designed to rationalise policies serving different interest groups; and
- voters acquiesce because of 'rational ignorance', which leads them to take little interest in politics and makes them easily subject to manipulation by political interests.

It follows that arguments for government intervention in the economy should be refuted, not by welfare analysis, but by demonstrating how they are produced by dominant interest groups.

The appeal of the private interest theory is similar to that of the Marxist theory, and is similarly greatest among elites. In its early phase, the theory appealed to economists and others who rejected the general expansion of government up to the mid-1970s. As free-market ideas came to dominate the intellectual and policy elites, the theory explained the limited success of free-market governments in reining in the public sector's share of the economy.

Empirical and Theoretical Weaknesses of the Private Interest Theory

In fact, the private interest theory is not very well-adapted to explaining broad political outcomes of this kind. It may explain why some interest groups receive greater benefits from tariffs and regulations than others. But it has essentially nothing to say about the political feasibility of across-the-board liberalisation (or socialisation). Even in the more limited domain, its empirical record is unimpressive (see Quiggin, 1987, and the references cited there).

Private interest theorists failed to predict the substantial deregulation and privatisation that occurred in the 1980s. Moreover, these changes refuted most of their explanations of the earlier growth of government. These explanations were typically based on two kinds of argument. The first, essentially static in nature, claimed that the size of the public sector in political market equilibrium would be larger than the socially-optimal level. The second kind of argument asserted that the public sector exhibited an inherent tendency to expand. An example of this argument is Mancur Olson's (1982) model of the accumulation of interest groups (but it should be noted that Olson is careful to avoid any facile equation between the accumulation of interest groups and the growth of government).

None of these models involves any significant role for ideas or beliefs about the working of the economy. But it is impossible to explain the postwar growth of government without reference to the perceived failure of market institutions in the interwar period and the appeal of Keynesian ideas. Similarly, the retreat of government in the 1980s must be largely explained, first, by the failure of Keynesian demand

management to live up to expectations created by its advocates, and second, by the resurgence of free-market ideas, especially within the economics profession.

Although private interest theorists claim to be methodological individualists, the most popular variants of the theory ignore individuals in practice and treat interest groups as the real actors. The shift from individualism to an interest-group model is usually defended by reference to Mancur Olson's *The Logic of Collective Action* (1965). Olson argued that the collective interests of particular groups would be promoted only if individuals would benefit from contributing to actions aimed at furthering those interests. Hence, small concentrated interests are likely to be better represented than large diffuse interests. A number of problematic issues in Olson's work, such as the notion of selective incentives, are generally overlooked, as is Olson's own more sophisticated treatment of the role of ideas. Moreover, groups that are organised to pursue highly diffuse benefits, like the environmentalist movement, are uncritically included in interest groups analyses.

Implications for Liberal Democracy

My main concern, however, is with the implications of the private interest theory for a liberal democratic order.

Weakening democracy. The purely political implications are not drawn out or agreed on, but generally consist of abridgements of democracy, in two main ways. First, as already noted, the model yields suggestions for constitutional limitations on the power of government. Second, it suggests other changes that would make the system less democratic and supposedly less vulnerable to interest-group pressure. In the current debate, the most notable such change is the proposal for longer terms for governments, thus insulating them from electoral pressures. The idea enjoys widespread support among the political elite. The underlying assumption is that everyone who counts knows what the correct policies are, and 'political will' alone is required to implement them.

To some extent theories of government are self-fulfilling prophecies. If it is generally accepted that democratic politics is nothing more than a battleground for competing interest groups, then reality will come to resemble this model. An example is the conscious attempt to manipulate the so-called political business cycle (a strategy closely associated with the idea of extended terms of office). The idea is to seek election on the basis of electorally attractive policies. On winning office, the government dumps these policies in favour of allegedly correct policies. As the next election approaches, the rigour of the program is relaxed, and if all goes well re-election is secured on the basis of improving conditions. This strategy implies a degree of contempt for the voters, which naturally arises from seeing them as 'ignorant

and greedy' (this is how Samuel Brittan [1975:146] characterised Walter Bagehot's view of them in his attacks on proposals to enfranchise the British working class). A noteworthy exception to the general consensus that the democratic electorate is an unfortunate obstacle to rational policy-making is Roger Douglas, formerly New Zealand's Minister of Finance, who argues that 'Successful structural reform does not become possible until you trust, respect and inform the electors' (1990:5).

An important part of the political business cycle strategy is the making of election promises with the intention of abandoning them after the election. The sophistication of targeted election campaigns is such that even as promises are made, coded messages are given out to assure elites that the promises will not be honoured. The untrustworthy nature of political promises has long been proverbial. But the interest group theory makes a positive virtue of dishonesty: since election promises are merely bribes to interest groups, they should be broken wherever possible. This approach is clearly antithetical to liberal democratic values.

Debasing free speech. An even more fundamental departure from the classical liberal tradition is represented by interest group theorists' disdain for ideas, a disdain whose long lineage goes back through Marx to Machiavelli and Hobbes. When the view that ideas are a cloak for vested interests forms part of a critical analysis of the state by intellectuals, it may be useful, though it yields the curious spectacle of professional dealers in ideas arguing strenuously that ideas and argument are of no importance. But when this analysis informs the thinking of political and bureaucratic elites, it becomes positively dangerous.

If ideas do not matter, free speech is at best a luxury and at worst a distraction. Even if speech is not actually suppressed, it is debased. When political debate is seen as a charade by its participants, it naturally becomes one. Furthermore, it implies that if the system cannot be changed by reason, some form of 'short sharp shock' is required. The result is a cult of ruthlessness (the catchphrase here is 'tough decisions'). Since opposition to one's policies is interpreted as a sign that interest groups are being hurt, it may be taken as evidence of that those policies are correct. The appropriate response is then not to persuade one's opponents but to override them. The absence of a serious attempt at persuasion is one of the most striking features of the recent resurgence of free-market policies. Politicians who support these policies have frequently chosen to campaign against them (a line of conduct consistent with the interest group theory). Even where some form of campaign has been mounted, the theme has often been that of necessary austerity ('there is no alternative') rather than the positive virtues of the market.

Not all interest group theorists have espoused this approach. The most important exception is James Buchanan. Unlike many advocates of efficiency-oriented policies, Buchanan (1989) takes seri-

ously the notion that if policies are truly efficient, they must yield Pareto-optimal improvements (i.e. improvements from which there are gainers but no losers) and so should be able to command universal consent. However, Buchanan argues that the ordinary workings of democratic politics do not permit potential gains from trade to be realised, and that it is therefore necessary to enshrine limits on interest group activity in a constitutional framework. But his argument that liberal institutions would command universal consent only in a constitution-making setting rather than in a democratic legislature is not convincing; in the recent period of socialist retreat, it has been common for legislatures to introduce market institutions into societies that have socialism enshrined in their constitutions.

Roger Douglas presents a case for radical reform within a democratic framework. Like Buchanan, he assumes that an across-the-board assault on interest group privileges will lead to a Pareto-optimal improvement. Hence, a short sharp shock will arouse less opposition than piecemeal reform, and will receive unanimous endorsement *ex post* (1990:3). And as already noted, Douglas stresses the need not to sell the voting public short with the assumption that they are (rationally or otherwise) ignorant. The main problem with this position arises when the short sharp shock turns into a long march. As the realisation of Pareto-optimal improvements is postponed, there is an increasing temptation to fall back on the interest group model as grounds for dismissing distributional concerns altogether.

Conclusions

The cynical appeal of the private interest theory of politics cannot be denied, but it should be resisted.

Contrary to the predictions of interest group theorists, the intellectual predominance of free-market ideas has been translated into political outcomes, just as the previous predominance of socialist ideas was reflected in the expansion of government. However, in a liberal democratic order, no victory is ever final. The resurgence of free market ideas was largely a response to the failure of socialist and mixed economies to live up to expectations. Can free markets succeed where socialism failed?

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Responses to this article by Professor Gordon Tullock of the University of Arizona, and John Hyde, Executive Director of the Institute of Public Affairs, will be published in the Winter 1991 issue of Policy. Policy

A LETTER FROM THE EDITOR

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Michael James
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