

sector, in any plausibly realistic way. Over more than a century, from the mid-19th through the mid-20th century and beyond, control over economic decisionmaking was increasingly transferred to the political sector without *any* understanding of how politics actually works. Economies in Western nations came to be socialized, in large or small proportions, in the near-total absence of any model of how the state operates. No one seems to have bothered to ask the obvious question: What is the state? How does it work? What is politics all about?

Camelot Will Not Return

Much...becomes possible once the dogma is discarded that profits and self-interest are somehow immoral, and that the public sector is somehow pure and selfless. Africa has paid dearly to learn otherwise.

at all surprising that the failures of markets to match up to idealized standards of performance seemed to offer adequate reasons for politicization. Why not regulate or nationalize an industry if, as unregulated, it seemed not to work ideally? Why not, indeed, if politics was implicitly assumed to work perfectly, in contrast to markets? Socialism did indeed go forward under what F. A. Hayek has called a “fatal conceit.”

More recently, politics has finally begun to be realistically and scientifically understood. Beginning in the 1960s, the public choice school of economics put forward the hypothesis that politicians, voters, bureaucrats, and lobbyists act in their own self-interest when participating in the public sector, just as they do when pursuing their private lives. This hypothesis has provided a powerful tool of explanation and analysis of the workings of politics. We now have in place the scientific and technical tools needed to make meaningful comparisons between the operation of an industry in an unregulated, privatized setting and the workings of the same industry in a regulated or controlled setting. We can now carry out comparative institutional analysis, making informed predictions about the properties of alternative decision structures.

As public as well as scholarly attitudes about the workings of politics have shifted over the last quarter-century, we might have anticipated that some practical consequences would follow. The grounds for the debate have been modified. Now the mere allegation, or even demonstration, of market failure is no longer sufficient to establish a *prima facie* case for government regulation or control. As late as the early '60s, economists were making that kind of argument all over the place. But such a case now requires some explicit analytical or empirical support to the effect that the politicized alternative to the nonregulated market will work better. The argument between those who defend the market and those who defend politicized economic decisionmaking is now scientifically joined.

There is hardly a country in the world today, whether a free society or authoritarian, that is not actively considering or moving to depoliticize aspects of its economy. Deregulation and privatization in the United States and the United Kingdom have been joined by similar moves in Latin America and Africa, and even China and the Soviet Union are testing the market waters. These changes have not occurred in an intellectual vacuum.

Economists since 1776—the date of publication of Adam Smith’s *Wealth of Nations*—have provided a progressively more sophisticated model of how a market economy, a nonpoliticized economy, works. That is, if you simply have a legal umbrella that protects property and enforces contracts, and you allow private individuals to make economic decisions about what to produce, how to combine inputs, and so forth, we roughly know on the basis of economic theory of more than two centuries how that system works.

In contrast, however, only in the last two decades have we even commenced to model politicized economies, or the public

The illusory and romantic bias toward politicization has been eliminated, at least in the academic debate.

The current push toward privatization arises precisely because so many sectors of the economies of both developed and developing countries over the decades came to be politicized with little or no basis in comparative research. But let me be clear: nothing in modern public choice theory allows the conclusion that the unregulated, privatized operation of an industry is necessarily superior, in some *a priori* sense, to politicized or regulated operation. The implication to be drawn from public choice theory is that the politicization/privatization debate should be resolved on a pragmatic, case-by-case basis, with organizational decisions being made only after careful comparison of the alternatives.

Over the century during which politicization proceeded apace with no such comparison, driven largely if not totally by a romantic image of government—aided and abetted, of course, by the self-seeking interests of would-be political managers, functionaries, office-holders, and bureaucrats—an excessively large number of industries were brought under the public-sector umbrella. And if we now make scientifically based comparisons, we should anticipate that industries politicized over this period will increasingly be privatized.

The difficulties in achieving widespread privatization must, nonetheless, be recognized. First of all, although the grounds of debate in the academy and even in journalistic circles have shifted, there is not yet clear evidence of change in the general public's attitudes. Large numbers of citizens hold fast to the romantic image of politics, and the observed record of governmental failure has not yet been sufficiently long-lived to seriously impinge on attitudes.

More important is the barrier represented by the simple self-interest of current beneficiaries of politicized economic activity. These groups cannot succeed in mounting very convincing arguments for staying with politicized operation, but they can build upon the public's fear of the unknown and the uncertain. They cannot restore the romantic vision of politics and governmental control, but they can, and they surely will, attempt to depict the privatization alternative in grotesque terms. The market operation of postal, rail, communication, airline, transport, and other sectors will be painted in romantic images, but with *negative* rather than positive implications.

As public choice theory tells us, the interests threatened by privatization and deregulation are concentrated, and they can be predicted to exert disproportionate influence in national legislatures. By contrast, the interests that are served best by privatization—consumers of the goods and services produced by the industries that might be depoliticized—are not concentrated. Consumers are many and widely dispersed, and there is little in the way of organized lobbying effort behind attempts to privatize and deregulate. So, taking strictly an interest-group model of politics, it is difficult to predict much success along these lines.

On the other hand, ideas do have consequences, and especially over time. We can predict that pressures toward privatization will continue, and in some areas, in favorable circumstances, some reforms will take place, as indeed they have already occurred around the world.

In casual discussion recently, someone remarked that public choice theory involved something akin to a Copernican revolution in our conception of politics and the state. My first

reaction was to think that this remark was a bit of exaggerated rhetoric. But as I thought about it further, I commenced to see the appropriateness of the analogy. It is very difficult for any of us, even those of us who have worked in public choice for a long time, to rid ourselves fully and completely of the influences of the romantic model of the state and the political structure. It is difficult even to talk of the state in other than monolithic terms. Even scholars who think of the state as malevolent are as trapped by the romantic-monolithic paradigm as those who consider the state benevolent.

The fact is that the state is not, has never been, and cannot be a monolithic entity. The state is an *order*, which generates patterns of outcomes as a result of interdependent but separate choices by many persons, each of whom acts in a particular role and each of whom seeks to maximize his utility subject to the constraints he faces. The state in this sense is analogous to a very complex market, and it needs to be modeled as such if we are to understand its operations.

Once this genuine revolution in thinking about politics has fully seeped into our minds, we are led immediately to think of reforms in the set of constraints that individuals face in their roles as political actors, as public choosers. We are necessarily led to constitutional economics, or constitutional political economy, to introduce two terms that describe best what I have been doing in recent years.

The turn to privatization throughout the world stems primarily from empirically observed failures in the working of politicized economies that have overreached themselves everywhere. Public choice theory has not necessarily been a causative force in this shift in thinking but has come along and provided an intellectual foundation enabling people to understand what they observe.

The ideas of public choice theory must, however, extend beyond understanding of why politicization works less effectively than promised by the romantically driven models of politics and public administration. The ideas of public choice theory must be extended to the examination of alternative sets of constraints, alternative constitutional structures, that may be introduced to channel the private utility-maximizing behavior of political functionaries in the direction of the general interest. What we desperately need at this stage in our history is someone with insights comparable to the great Adam Smith, but whose attention is focused on the politicized sector of the economy.

But a start has been made. I can be very pessimistic when I look at many aspects of our current economic policy and as I contemplate post-Reagan political economy. But I am optimistic when I compare the discussion and dialogue in the 1980s with that which might have taken place in the '60s or even in the late '70s. Ideas do indeed have consequences, the fatal conceit has been exposed, and the romantic notion will not return. Camelot will not return. □

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WAITING FOR KREMLINGATE

BY ADAM GARFINKLE

Many Americans like to "understand" foreign leaders by seeing them as versions of more familiar figures, and so Mikhail Gorbachev has been likened to a number of well-known political personalities. Some see him as a Russian John Kennedy, younger than his forebears, enthusiastic, prodding his people to new frontiers with "new thinking." Others who remember the Great Depression compare Gorbachev and *perestroika* to FDR and his New Deal, a pragmatist turning a decrepit and disheartened society toward new goals.

Still others see a smarter, well-tailored Nikita Khrushchev, a man who seems so much more pleasant in retrospect than he really was, thanks mainly to the unimaginative, turgid dullness of Brezhnev, Chernenko, and Andropov. In that company, by the way, Gorbachev looked good even before *glasnost*. Gorbachev himself subtly links his star to Lenin's—that is, to the Soviet godhead. But few believe that.

On the more suspicious side, a friend of mine likens Gorbachev to Jesse Jackson—sly, plotting, glib, dissimulating, unscrupulous, 1,000 percent political, and decidedly ambivalent in his attitude toward Jews. Finally, one observer has likened Gorbachev to Louis XVI, a reformer bound to be overwhelmed by what he has let loose and cannot control, all to his own considerable peril.

This latter image comes closest to being interesting. From an old-fashioned imperial point of view, the new Soviet leadership is doing what may turn out to be inexplicably stupid things. It imagines that it can exploit the economic potential of the information revolution and other new technologies without radically decentralizing the economy and relying on market mechanisms. It imagines that it can allow political pluralism and still maintain the hegemony of the Communist Party. It imagines that it can release national energies in the Baltic states and elsewhere, not to speak of Eastern Europe,



and then shut it all down at reasonable cost if it exceeds the limits of tolerance. It may even imagine that it can accept defeat in Afghanistan without really affecting the thinking of other Soviet clients and their oppositions.

Political elites sometimes do act like lemmings; liberals and their lapsed conservative imitators in the United States proved that in the late '60s and early '70s. Few Americans know who Louis XVI was, so if we must have a Gorbachev analogy, better to put it in more contemporary terms: Gorbachev is the Russian Richard Nixon.

Think about it. Brilliant in foreign policy, but with a country fixing to come apart at home. Trying to end a debilitating insurgent war inherited from the previous regime. Loves detente and arms control. Trying to co-opt left opposition, giving rise to right opposition. People love him and hate him, but no one is neutral; the old guard from which he comes is resentful. The economy is erratic; nobody works. Groups want to secede from the union (black nationalists, native Americans, Alabama; Lithuania, Latvia, Estonia, Moldavia, Ukraine, Armenia, Kazakhstan, Jews...one could go on). There are promises of lower military spending, higher spending "for the people." A superficial concern for the environment is hip.

And, speaking of hip, there are hippies in the streets—beads, long hair, dreamy expressions, abhorrence for authority, drug culture, even the same music. (Sometimes it seems we exported the stuff and it's just taken 20 years getting through customs.) And amid a lot of noise about new beginnings, nothing is really changing for the better, people start seeing through the images, and leadership begins to reach too far.

But there are differences, one being especially important. We the People could get rid of Richard Nixon, who spoke of law and order out of one side of his mouth and violated it with the

other. With some pain and a few detours we put ourselves back on an even keel without fatal damage to our political institutions; and we lost no foreign empire for the wear, because we had none to lose.

But in the Soviet case, frustrations have built up for a very long time. Social heterogeneity is of the old-fashioned patchwork variety rather than the melting-pot one. There is a foreign empire to lose. Russia has never been ruled by law but always by men; there is no check against uncontrolled upheaval, no anchor of accepted political value to cling to in hard times to restore balance. In short, it is impossible to save the Soviet system by half-measures; it must either return to the many poverties of a strict totalitarianism, or it must leap to revolution.

What will the Kremlin do when it finally understands this? To what measures will Mr. Gorbachev resort when he encounters the limits of his timid reformism?

It is by no means clear that the current delusion will persist, but if it does, if Mikhail Gorbachev is the Russian Richard Nixon, I shudder to contemplate Krem-lingate.

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