CHAPTER 21

PUBLIC CHOICE AND AUSTRIAN ECONOMICS

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Introduction

Austrian economics is a school of thought, while public choice is an area of inquiry, so an obvious direction for this chapter is an evaluation of the Austrian school's approach to the subject matter of public choice, much as one might analyze the Chicago school's approach to industrial organization or the Marxist approach to labor economics. To do this, one must identify, first, which economists belong to the Austrian school and, second, what constitutes work in the area of public choice. In both cases, one could be more or less inclusive regarding what constitutes the Austrian school and what constitutes public choice. Boettke and Leeson (2004) addressed this issue, taking a relatively inclusive approach. This chapter is deliberately less inclusive than Boettke and Leeson's analysis, not necessarily because a less inclusive approach provides a better taxonomy but rather because it offers different insights when analyzing public choice within the Austrian school.

There is no fine line that divides members of the Austrian school from those outside the school, so the work consistent with Austrian ideas that this chapter discusses sometimes notes that it is written by a member of the school, sometimes notes that it is written by someone not considered a part of the Austrian school, and sometimes leaves some ambiguity on that question. With regard to identifying work that qualifies as public choice, the dividing line used in this chapter is stricter. The substantial body of work both within and outside the Austrian tradition that discusses public-sector resource allocation falls within the broad category of public-sector economics. Public choice is a subset of public-sector economics that analyzes collective decision-making processes. Comparing this chapter with the more inclusive approach taken by Boettke and Leeson (2004), the biggest difference is that they classify some work in public-sector economics that does not analyze collective decision-making processes as public choice, whereas this chapter's stricter definition of public choice would place those works within the area of public-sector economics but not public choice. Specific cases will be mentioned, but it is worth repeating that nothing in this analysis argues that the less inclusive definition used here is the correct one. Rather, this less inclusive approach offers some insights that a more inclusive approach might overlook.

Similarities and Differences

The main subject here is the work that Austrian school economists have undertaken in the subdiscipline of public choice, but public choice and Austrian economics share two other connections that add interest to the topic. One is that since the mid-1980s, there has been a concentration of scholars interested in the area of public choice, and a concentration of members of the Austrian school, at George Mason University. Much of what falls under the heading of Austrian school public choice has been produced by scholars who have received their degrees at George Mason or who are on the faculty at George Mason—or both. This cross-fertilization of public choice and Austrian economics at George Mason has been the driving force in public choice analysis within the Austrian school. Second, both public choice and Austrian economics have reputations for drawing conclusions that point toward limiting the scope and power of government. From a policy perspective, members of the Austrian school and scholars working in the area of public choice will often find themselves as allies.

With so much in common, one might conjecture that the Austrian school would have a well-developed research program in public choice, but at least through the first decade of the twenty-first century, when one takes a narrow view of what falls within the boundaries of public choice, this does not appear to be true. While one can find many examples of Austrian school economists producing work in public choice, that work rarely uses as its foundation the Austrian school public choice literature that preceded it. Work in Austrian public choice tends to cite non-public choice Austrian work, coupled with public choice work not done in the Austrian tradition. Most Austrian public choice tends to use the general Austrian approach to economics to critically examine mainstream ideas in public choice, rather than building on earlier Austrian public choice literature to develop a distinctive Austrian approach to public choice. Austrian public choice is, in this regard, not a self-sustaining research program. Meanwhile, despite work being done in public choice by members of the Austrian school, Austrian public choice has not had much apparent impact on the more mainstream ideas of public choice.

Boettke and Leeson (2004) argue that Austrian economics and public choice share many core ideas, including methodological individualism, the rational choice model of human behavior, and an emphasis on dynamic processes of adjustment rather than equilibrium outcomes. While there is some truth to this, on the first point, methodological individualism is common throughout economics and not unique to the Austrian school.

This amounts to saying that both the Austrian school and public choice economists take an economic approach to politics. On the second point, Austrian school analysis of government has often slighted the rational choice approach and assumed benevolent behavior on the part of public-sector actors to focus on problems of economic calculation, so the common element here is more tenuous than Boettke and Leeson suggest. On the third point, while the focus on process rather than equilibrium outcomes is true of some public choice scholars, the equilibrium approach is firmly entrenched in much work in public choice. It would be more accurate to say that a subset of public choice work focuses on processes rather than outcomes. The Austrian approach to economic analysis has more in common with constitutional political economy than public choice more broadly considered in this regard. The less inclusive approach taken here does consider work in constitutional political economy to be a part of public choice, but even here, there is not much work done by scholars in the Austrian school that falls under the heading of constitutional political economy. While Boettke and Leeson make some valid points regarding areas of commonality between public choice and Austrian economics, a deeper look reveals that there is less commonality than they suggest.

Certainly, the degree of commonality between the Austrian school and public choice analysis is a significant issue in considering whether Austrian public choice is developing into a self-sustaining line of research. But a self-sustaining line of research builds on earlier contributions, and looking at things this way, it would be hard to argue that Austrian school public choice is a self-sustaining subdiscipline within the Austrian school more broadly defined.

The lack of a self-sustaining literature in Austrian public choice may partly be a result of the relatively short time that the modern Austrian school has been active. There was very little academic research being done by the Austrian school in the 1950s and 1960s, before a revival of the school in the 1970s. While this is not the place to recount the recent history of the Austrian school—Vaughn (2000) gives a good summary—one might argue that the Austrian research program began a substantial growth in the 1980s and 1990s. In the resurgence of the school, one might expect that the earliest research would be more focused on the core issues of economics, to build a foundation for the ideas that differentiate the Austrian school from other schools of thought, and for that reason subfields such as public choice have only recently been of interest to many in the Austrian school.

Does Austrian public choice have the potential to develop into a self-sustaining subdiscipline within the broader Austrian school? One might argue that there is no reason for it to do so and that the most productive way Austrian school economists can contribute to public choice is to react to the work done by others in the area. As noted further below, the general Austrian view on the ineffectiveness of government resource allocation works against pushing scholars to more carefully analyze the public-sector decision-making process. There may be a tension between the way the Austrian school analyzes government and the way the subdiscipline of public choice does. One way to see this is to look at one of the strongest areas of commonality that the subdiscipline of public choice shares with the Austrian school.

An Area of Commonality: Limiting the Scope and Power of Government

The subdiscipline of public choice and the Austrian economics school of thought have a common bond in that in many—but not all—cases in both tend to argue that limiting the scope and power of government will be welfare-enhancing. This common conclusion comes from different sources in public choice and Austrian economics, so the similarity here is more apparent than real, and taking a closer look reveals a significant difference between the Austrian and public choice approaches to analyzing government.

The Austrian argument for limiting government starts with the insight, going back to Mises (1951), that rational economic calculation cannot occur outside the market mechanism and without market prices. The decentralized decision-making of the market allocates resources more efficiently than government partly because of the efficiency of the market, as Hayek (1945) notes, but in the Austrian framework, the fact that the rational allocation of resources by government is not possible is the more significant factor.

The public choice argument for limiting government comes from an analysis of the problems inherent in collective decision-making institutions. Before the public choice revolution, economists commonly worked out the conditions for policies that would lead to an optimal allocation of resources and then would tacitly assume that government would implement those policies. A market allocation of resources was compared to an ideal—and in the real world unobtainable—allocation of resources, and if the market fell short of this theoretical ideal, the conclusion was that some government policy could improve the allocation of resources. As Buchanan (1975) notes, public choice analysis shows that while in many cases the market allocation of resources will fail to meet some theoretical ideal standard, the same will be true for government allocation of resources. Thus, one must compare public-sector and private-sector resource allocation on an equal footing, using the same methods. Public choice does that, and the common public choice conclusion favoring limits on government is a result of analysis showing that using the same methods that economists use to evaluate private-sector resource allocation, resource allocation through government is likely to produce a result inferior to that of the market. Ultimately, the public choice approach compares government allocation of resources with market allocation of resources by evaluating which is more inefficient in particular circumstances: market failure or government failure.

Often, public choice analysis does not make a direct comparison. It simply analyzes a government decision-making mechanism—for example, how bureaucracies allocate resources or how resources would be allocated under majority-rule voting—without comparing how markets might allocate those same resources. Microeconomics does the same thing, for example, by looking at the way monopolies affect resource allocation without directly comparing how government might allocate those same resources. The point is that public choice analysis is the analysis of collective decision-making processes and that when public choice analysis compares public and private resource allocation, it compares how a collective decision-making process would allocate resources with how a market would allocate them.

In the Austrian school approach, public choice problems are secondary to knowledge problems. Even with the most public-spirited actors, the knowledge problem causes government policies to produce unintended undesirable consequences, and as Ikeda (1997) notes, the undesirable result of one government policy often leads to demands for more government intervention to remedy that undesirable result, which produces more undesirable results and more government intervention. Government expands, becoming increasingly inefficient because of the problems of rational resource allocation outside of markets. This Austrian approach is based solidly on Mises (1951) and Hayek (1944) and explains why, even with the best of intentions, resource allocation through government cannot have a rational basis, why it works against the public interest and yet tends to expand over time. Essentially, the Austrian school says that government interference to try to improve the allocation of resources cannot work, whereas the public choice approach analyzes how government involvement in the allocation of resources actually works.

Ikeda (2003) says that the difference between Austrian and public choice approaches to government is that the public choice approach emphasizes a divergence between the announced and actual intentions of political actors, whereas the Austrian approach emphasizes a divergence between intended and actual outcomes. In the public choice approach, interest groups, politicians, and government bureaucrats support particular positions and work to further particular outcomes, claiming that what they are advocating is in the public interest, but in fact, they are promoting policies that further their own interests, typically at the expense of the general public interest. In government, the invisible hand works against, rather than in support of, the public interest. There are incentives inherent in public-sector institutions that lead people, acting in their own self-interest, to act against the general public interest. The Austrian approach assumes that people participating in the political process intend to further certain goals, but because of knowledge problems, their policies produce unintended consequences that prevent them from accomplishing what they had intended. Ikeda (2003, 67) says, "*Government failure from the Austrian perspective refers therefore to the failure of an intervention to produce the outcome sought by its proponents*" (emphasis in original).

Ikeda (2003) goes on to note that while this can apply regardless of the motives of political actors, Austrian analysis has often assumed that those acting in the public sector are people of goodwill who want to further the general welfare, not necessarily because the assumption is true but to emphasize the knowledge problems that exist in trying to allocate resources to produce a particular result through government planning rather than through markets. This Austrian approach to government intervention essentially assumes away the types of problems analyzed by public choice scholars and concludes that even if these public choice problems did not exist, government intervention in a market economy is still undesirable because of the impossibility of government planning to allocate resources rationally.

The public choice approach assumes self-interested behavior to focus on the incentives that actors face in the public sector. Brennan and Buchanan (1980) argue that even if people in the public sector do not always act in their narrow self-interest, this assumption is desirable when looking at the design of political institutions, so that public choice theory can be used to design political institutions such that they cannot be used opportunistically by unprincipled people. Hayek (1944) argued that "the worst get on top" in government, so the assumption of self-interested behavior seems reasonable from that perspective. If the institutional structure of government allows selfish people to exploit it, self-selection will push the most selfish people into positions of government power.

While both the Austrian school and public choice economics tend to support the market allocation of resources and point toward the desirability of limited government, the Austrian school does so because of the recognition of the knowledge problems associated with allocating resources outside of the market mechanism, whereas public choice does so because of the inefficiencies inherent in the incentive structure of the public sector. The similarity in the two types of critiques is that both tend to argue an efficiency advantage of private-sector over public-sector resource allocation. A big difference, however, is that while one could imagine redesigning public-sector institutions to make individual incentives more compatible with the public interest by taking a public choice approach, the Austrian knowledge problem cannot be overcome, because the market prices required for rational economic calculation cannot exist when the allocation of resources is centrally planned.

The Austrian conclusion that government interference with the market's allocation of resources must be counterproductive stands in the way of moving toward a public choice analysis of how government actually allocates resources. Ikeda (1997) makes this argument most clearly, noting that government interventions have unintended negative consequences, which result in a demand for additional government interventions to mitigate the negative consequences, so a mixed economy inevitably slides toward a larger public sector and an increasingly inefficient allocation of resources. Good intentions produce bad results. This conclusion removes some of the appeal of analyzing how self-interested public-sector actors might work within political institutions to allocate resources. If the outcome is undesirable even with everyone acting with the best of intentions, there is not much point in taking the analysis further.

The degree to which one views this Austrian approach to the economic activities of government as standing in the way of a further development of Austrian public choice depends on how broadly one defines public choice. Boettke and Leeson (2004) broadly define it as the economics of politics, and seen this way, the Austrian approach, as described here, would qualify. But the Austrian school tends not to examine the collective decision-making process that goes into producing public-sector outcomes, and the Austrian emphasis on the knowledge problem tends to direct the Austrian school's analysis of politics in a different direction.

If an Austrian analysis of the public sector points to the conclusion that, even with the most well-meaning actors in the public sector, government cannot effectively allocate resources, there is little incentive for the researcher to examine the collective decision-making process in more detail. For that reason, there may be limited interest among Austrian school economists to develop a distinct approach to public choice, although they may want to analyze mainstream work in public choice to show why even the government-failure approach to public choice may be overly optimistic.

Public choice and Austrian economics tend to be critical of government resource allocation but for different reasons. The reasoning behind the Austrian criticism may serve as a barrier that limits the interest of Austrian school economists in analyzing collective decision-making processes—that is, in analyzing public choice issues.

James Buchanan and the Foundations of Austrian Public Choice

Prior to the cross-fertilization of public choice and Austrian economics at George Mason University in the 1980s and 1990s, it is difficult to identify much work that might qualify as Austrian school public choice. One might be tempted to cite Ludwig von Mises's book *Bureaucracy* (1944), but Mises focuses on the problems of economic calculation in bureaucracies rather than looking at issues of collective decision-making. The book has a minimal amount of public choice content. One might also consider Friedrich Hayek (1944) and Joseph Schumpeter (1954), as Boettke and Leeson (2004) do, but there are arguments on both sides here, as the next section notes. A narrow definition of public choice would exclude them. Richard Wagner, a student of James M. Buchanan and a faculty member at George Mason, has also done a substantial amount of public choice work in the Austrian tradition and will be considered below. Much earlier, Buchanan started his work in public choice with a distinctly Austrian slant, emphasizing the political process and subjectivism in his work.

Buchanan cofounded the Center for Study of Public Choice (hereafter referred to as the Public Choice Center) at Virginia Tech in 1968 and was its general director when he moved with it to George Mason in 1983. Buchanan's (1969) book *Cost and Choice* explains the subjective nature of cost and draws out implications from that in a critique of mainstream ideas, including welfare economics and cost-benefit analysis. This book clearly puts Buchanan in the Austrian tradition, although it is not a public choice book. Buchanan and Tullock's (1962) *The Calculus of Consent* is perhaps the first book that fits into both the Austrian and public choice camps. It is a work in public choice, beyond a doubt, and one of the seminal works that established public choice as a distinct subdiscipline. Buchanan and Tullock examine the political process, looking at political exchange through logrolling and vote trading, and examining the institutional structure of politics to distinguish constitutional and postconstitutional decision-making. Their emphasis on the political process, rather than on political outcomes, certainly makes the analysis in *The Calculus of Consent* consistent with Austrian ideas, whether or not one wants to classify this as Austrian public choice.

Buchanan's Austrian-oriented work goes back much further than that. Buchanan (1949) argues for an individualistic approach to the analysis of public finance, Buchanan (1954a) compares the process of voting versus market decision-making for choosing outcomes, and Buchanan (1954b) looks at Arrow (1951) from a process-oriented view. From his earliest work in public choice, Buchanan's ideas are consistent with a process approach to politics, which appears consistent with the market-process approach to markets employed by the Austrian school. Buchanan (1964) argues that economists should focus on the exchange process more than on resource allocation produced by equilibrium outcomes. Sandmo (1990) notes that methodologically, Buchanan falls outside the mainstream, making minimal use of mathematical modeling, never publishing an empirical article, and rarely even citing empirical work.

Thus, it is easy to see that Buchanan's work lays the foundation for the development of an Austrian-oriented analysis of public choice. In addition to his written work, Buchanan brought the Public Choice Center to George Mason, which encouraged the cross-fertilization of public choice with the Austrian school. Buchanan is rarely identified as a member of the Austrian school, but he surely is sympathetic to Austrian ideas. If Austrian public choice predates the coexistence of the Austrian group and the Public Choice Center at George Mason, it would be found in Buchanan's work and in the work of his student Wagner. Once Buchanan and his Center arrived at George Mason in the early 1980s, the environment was ripe for the cross-fertilization of ideas of the two groups.

Austrian Public Choice before the 1980s

Austrian school analysis of public choice might have come from two directions. Scholars interested in public choice could adopt an Austrian approach, or scholars who took an Austrian school approach to economics could extend their interest toward an Austrian analysis of political decision-making. Buchanan's work might be viewed as coming from the former direction, as he has been a public choice scholar from the beginning and sympathetic to Austrian methods. Indeed, it is possible to categorize much work by scholars not typically associated with the Austrian school as at least consistent with the tenets of Austrian economics, and some examples are discussed later in this chapter. Another approach to identifying work falling into the Austrian public choice framework would be to look at work that analyzes government decision-making done by people generally recognized as belonging to the Austrian school. Looking at both types of work, it is convenient to divide it into work done before 1980 and that done after, in other words, before and after the traditions were cross-fertilized at George Mason.

Consider a few early possibilities written by people who might be associated with the Austrian school. Despite the claim of Boettke and Leeson (2004), Hayek's

(1944) *The Road to Serfdom* may not qualify as Austrian public choice, because while it is critical of government intervention, it does little to analyze government decision-making processes. Schumpeter's *Capitalism, Socialism, and Democracy* (1954) would come closer to a public choice analysis, in that Schumpeter was concerned that those who received the greatest benefit from capitalism would not protect it from its detractors, so that capitalism faced the threat of being voted away. Even here, there is relatively little analysis of collective decision-making. These books may have been catalysts for an Austrian view of public choice, but taking a narrow view of what constitutes public choice, they do not seem to qualify, themselves, as Austrian public choice. Mises's *Bureaucracy* (1951), as noted earlier, emphasizes the knowledge problem and has little public choice content. Among the pre-1980 Austrians, perhaps the work that comes the closest to being Austrian public choice is Hayek's (1960) *The Constitution of Liberty*, which can be seen as a precursor to modern constitutional political economy.

Mancur Olson's work seems to fit the mold more closely. Olson (1965) wrote about the organization of interest groups, emphasizing the process by which concentrated interests had an advantage in organization, and Olson (1982) developed a very process-oriented view of the rise and decline of nations, in which young political systems do not have well-organized interest groups, so entrepreneurial individuals engage in productive activity rather than rent seeking. As societies mature and interest groups become more entrenched in the political system, rent seeking displaces profit seeking, which leads to the decline of nations. Nobody would identify Olson as a member of the Austrian school, but his work appears consistent with the Austrian tradition.

Similarly, William Baumol (1990; 1993) conjectures that people are entrepreneurial in all societies but that institutional differences push entrepreneurial people in some societies toward productive activities, whereas in other societies, where people get ahead through political favoritism rather than productivity, entrepreneurial individuals engage in destructive activity. Indeed, Baumol has had a long-standing interest in entrepreneurship (see Baumol 1968), like those in the Austrian school and unlike the mainstream economics profession. The bulk of Baumol's work certainly could not be classified as Austrian, but some of his work on politics, institutions, and entrepreneurship appears very consistent with Austrian public choice.

Before 1980, it is difficult to identify work done by individuals who are solidly accepted as members of the Austrian school that would qualify as public choice. Meanwhile, some work in public choice does approach government decision-making from a political-process perspective, analogous to the market-process approach that Austrians use in their analysis. Buchanan and Olson are fairly consistent in this regard, and some of Baumol's work also fits. Perhaps this work is better viewed as laying the foundation for the development of Austrian public choice, because these scholars are not normally considered part of the Austrian school.

Mises (1944), Hayek (1944), and Schumpeter (1954) qualify as Austrians (although Austrians often view Schumpeter as outside the school). But while these works analyze politics, they do not analyze the collective decision-making process in any detail. Taking a narrow view, as this chapter does, leaves those works outside the subdiscipline of public choice, even though the broader view of Boettke and Leeson (2004) includes them.

The George Mason Connection

The coexistence of a group of Austrian school economists and public choice scholars at George Mason dating back to the early 1980s has played an essential role in the Austrian school's approach to public choice. Buchanan, along with Gordon Tullock and several other faculty members at the Public Choice Center relocated from Virginia Tech to George Mason and brought the Center with them in 1983. Before that move, the Austrian school had a minimal interest in the subject matter of public choice.

The Austrian presence at George Mason predated the arrival of the Public Choice Center by only a few years. Richard Fink moved to George Mason from Rutgers in 1980 and, with Karen Vaughn and Jack High, started the Center for the Study of Market Processes. Don Lavoie joined that group a year later, and while none of the original founders remains with it, the Center (renamed the Mercatus Center in 1999) and a group of faculty supportive of the Austrian school have been a major presence at George Mason ever since. One reason the Austrian school and public choice have had a connection at George Mason is that some of the key faculty members associated with the Austrian school in 2011 received their doctorates at George Mason, where, as students, they were exposed to both the ideas of public choice and the ideas of the Austrian school. The George Mason Ph.D.s on the George Mason faculty include Peter J. Boettke, Peter Leeson, and Christopher J. Coyne. In addition, Wagner, who moved to George Mason in 1988, is a public choice scholar with strong Austrian leanings.

Most graduate students in economics have little or no exposure to the ideas of the Austrian school, so because of the presence of such a substantial contingent of Austrian-oriented faculty at George Mason, which also houses the Public Choice Center, it is not surprising that so much of what could be considered Austrian school public choice has been produced by George Mason Ph.D.s and faculty.

Austrian Public Choice after 1980

One scholar who comfortably fits into both the Austrian and public choice camps is Wagner. Wagner (1966) integrates entrepreneurship and interest-group politics as public choice is beginning to emerge as a separate subdiscipline. Wagner (1977) integrates political incentives into a model of macroeconomic policy, laying an early foundation for the analysis of political business cycles. Gwartney and Wagner (1988) discuss problems that result from the political allocation of resources and consider constitutional remedies. Their institutional approach might be considered consistent with Austrian economics, although viewed by itself rather than as a part of Wagner's research program, the book would appear to be more of a work in public choice than one in Austrian economics. Wagner (1989) clearly combines the Austrian market process approach to economics with a public choice analysis to show that there is a divergence between the stated goals of transfer programs and their results. He explains this with Austrian arguments about the difficulties of economic calculation without market prices and public choice arguments about incentives in public-sector decision-making. Wagner (2006) depicts the public and private sectors as integrated institutions that interact with each other and argues that more decentralized political institutions lead to a more robust, less fragile political economy.

Wagner (2007; 2011) takes a very Austrian approach to the analysis of political decision-making, arguing that political decision-making is more of a spontaneous order than a planned order, as it is often depicted. Those at the top of the political hierarchy do not have complete control over those below them and do not have the knowledge of those below them, because knowledge is decentralized in the public sector as it is in the private sector, so hierarchical models of government decision-making do not depict the actual public-sector decision-making process. Wagner's Austrian approach to public choice, interesting in its own right, also calls into question the way the Austrian school has depicted government decision-making in the socialist calculation debate and in general. One might view Wagner's Austrian analysis of public-sector decision-making as support for the argument that earlier Austrian analyses of government do not properly fit under the heading of public choice. In addition to his written work, Wagner's position as a faculty member at George Mason since 1988 has also influenced the work of the Ph.D. students who have come through that program.

One issue that has attracted the attention of some Austrian scholars is the efficiency of government institutions, prompted by Wittman's (1989; 1995) claim that democratic decision-making allocates resources as efficiently as markets. Sutter (2002) addresses this issue from an Austrian perspective, and while he lists some other critics in his references, they are not Austrian economists, nor do they approach the subject matter in an Austrian framework. Boettke and Lopez (2002, 114) mention Wittman's work as worth considering within the framework of Austrian school public choice, and Boettke, Coyne, and Leeson (2007) argue that an Austrian approach to public choice is the most productive way to analyze the shortcomings of the arguments that Wittman and others have made about the efficiency of public-sector institutions. The issue is on the radar, so to speak, but it has generated only a small amount of work in Austrian public choice as a response.

One distinguishing feature of Austrian economics is the focus on the entrepreneur as a critical actor in markets, so it is natural for Austrian public choice analysis to examine possibilities for political entrepreneurship. Wagner (1966) lays an early foundation, and Baumol (1990) makes an important contribution to the understanding of political entrepreneurship. Lopez (2002) depicts political entrepreneurs as investing in reputational capital and representative capital, where reputational capital establishes a politician's brand name and signals the politician's reliability in establishing a consistent ideology, and representative capital allows the politician to further policies that enhance the interests of his or her constituents. Holcombe (2002b) builds on Baumol (1990) to note that political entrepreneurs can profit from squeezing efficiencies out of the political system, as Wittman (1989) suggests, but also always have the opportunity to promote policies that transfer resources from some less politically important constituents to other more important constituents, enhancing political support in the process.

Austrian economics recognizes the importance of institutions to economic activity, and one can identify Austrian contributions to the analysis of political and legal institutions. Benson (1990) discusses the evolution of legal institutions in a decentralized fashion before they were taken over by the state, and Benson (1999) develops a theory of the evolution of institutions that gave rise to the state. Boudreaux and Holcombe (1989) examine the way individuals contractually form associations that produce governance, and Foldvary (1994; 2002) discusses governance through contractual arrangements, as smaller organizations of people form governance units and those units cooperate with other organizations to provide public goods at a larger scale.

Boettke (1993) integrates Austrian insights with public choice analysis to explain the uneven path of the former Soviet Union's transition from socialism. The impossibility of rational economic planning under socialism lays a foundation for Boettke's argument, which points him to the conclusion that the old Soviet system was really a rent-seeking society that worked for the benefit of those with political power. The post-Soviet regime in Russia was unable to make a credible commitment to economic liberalization, so the rent-seeking society remained but under a different form.

Coyne (2007) also looks at transitioning societies after they are disrupted by war. He notes that in some cases, such as in Germany and Japan after World War II, democratic institutions were successfully imposed by the victors, but in others, such as Haiti and Somalia, political institutions remained poor, and so did those countries. Coyne's approach is more broadly institutional, rather than narrowly public choice.

Stringham (2005) compiles an edited volume that brings together a number of articles dealing with the way market mechanisms can work to replace activities that are normally undertaken by government and to evaluate government versus private-sector activity. While the book mentions public choice in its title, its main subject matter is orderly anarchy and the feasibility of eliminating government entirely.

Higgs (1989) gives a process-oriented discussion of the growth of government as a result of the ratcheting up of government expenditures and regulation in response to crises. After a crisis passes, government retrenches some but not to its precrisis level. Holcombe (2002a) offers a process-oriented public choice analysis of the growth of government, showing its path-dependence. Naka (2002) follows up on Olson (1982) by writing about the growth of rent seeking and interest-group politics in postwar Japan.

Leeson (2007; 2009) takes an interesting look at governance structures in pirate organizations. This work analyzes institutions and governance in a situation outside of governments, as traditionally understood, so it falls within the bounds of public choice as an analysis of collective decision-making.

To the degree that there is a contemporary Austrian school literature in public choice, the leading figures are faculty members at George Mason, led by Peter J. Boettke, Christopher J. Coyne, Peter Leeson, and Richard Wagner. This section is intended to give an overview of the type of work done in the past several decades that falls under the heading of Austrian public choice. It is not intended as an exhaustive survey. A complete survey of the Austrian school public choice literature would include many titles by those authors and by their students.

One can cite so much work that falls into the category of Austrian public choice, but a question remains of whether Austrian public choice is a self-sustaining research program or whether it is more a reaction of Austrian scholars to developments in the mainstream public choice literature. In June 2002, the *Review of Austrian Economics* devoted a special issue to "Austrian Economics and Public Choice." The nine articles in that issue should, almost by definition, be counted as Austrian public choice, and a look through the references of those articles reveals that very few of the references share the qualities of (1) being authored by someone who is associated with the Austrian school and (2) having some kind of economic analysis of government as their subject matter. Austrian public choice does not have the foundation of scholarship that has allowed new developments to be based on earlier work in Austrian public choice.

Conclusion

One could view Austrian school public choice in an inclusive way, as Boettke and Leeson (2004) do, or less inclusively, as is done in this chapter. A case could be made for either approach, but by taking the less inclusive approach, this chapter focuses on what the Austrian school would need to do to develop a self-sustaining public choice research program in which new Austrian school research in public choice would build on earlier Austrian public choice work, rather than being more a reaction to developments in mainstream public choice. An argument against such a self-sustaining Austrian public choice is that it might result in Austrian school economists talking among themselves rather than engaging the more mainstream literature; yet much of the current Austrian school public choice research is published in Austrian journals and has had a minimal impact on public choice as a subdiscipline. An argument could be made either way. On the one hand, using the Austrian framework to react to and engage mainstream public choice creates the opportunity to influence the mainstream. On the other hand, the development of a distinct Austrian public choice framework could allow that framework to be readily applied to mainstream ideas, creating a greater opportunity for influence over the long run.

As Boettke and Leeson (2004) describe it, there are substantial and long-standing areas of commonality between the Austrian school and public choice analysis. The narrower approach taken here suggests that the Austrian school has not developed its own approach to public choice the way it has, for example, in entrepreneurship, the competitive process, the role of knowledge in an economy, or macroeconomic fluctuations.

If one defines Austrian public choice as analyses of collective decision-making processes undertaken by scholars recognized as members of the Austrian school, most of that work has taken place in the past few decades and has been done by scholars who are faculty members at George Mason , Ph.D. graduates of the university, or both. The fact that this work is recent is not surprising, because public choice as a recognizable subdiscipline only goes back to the 1960s, and at that time, there were only a few active researchers who could have been categorized as members of the Austrian school.

While the Austrian school has produced some interesting and worthwhile work within the subject area of public choice, Austrian public choice does not appear to be a self-sustaining area of research within the Austrian school, at least through the first decade of the twenty-first century. Looking at the work listed in the references of Austrian public choice scholarship reveals that while the work of earlier Austrians is cited, it is extremely rare for any earlier Austrian public choice work to be cited, and the other side of this is that the public choice work that is cited is not work done in the Austrian tradition. As judged by the list of references used by scholars doing Austrian public choice, their work is built on the broader non-public choice work of the Austrian school, combined with non-Austrian public choice work.

An argument can be made that the foundations of the Austrian school work against the development of Austrian public choice analysis. The work of the Austrian school builds heavily on the role of market prices acting to coordinate the effective use of all the decentralized knowledge throughout the economy and the fact that without markets and market prices, rational economic calculation is not possible. Because the Austrian school analysis of public-sector resource allocation leans heavily on the problems that occur under even the best of circumstances, scholars working in the Austrian tradition may see a limited usefulness in engaging in an analysis of the public-sector decision-making process—in other words, engaging in public choice analysis. Following this line of reasoning, any analysis of the collective decision-making process is but a minor issue when lined up against the larger conclusion that even under the most favorable collective decision-making procedures, government intervention in the market economy will necessarily fall short of its goals and bring with it a host of negative unintended consequences.

The economic calculation argument only goes so far when analyzing the way government allocates resources. Government resource allocation is not completely irrational. People drive on government roads and arrive at their destinations. Countries in which the government produces electricity or telephone service seem to have services roughly equivalent to those in countries that provide these services through the private sector. One can also see that government works better in some countries than in others. So it is worth examining the details of how public-sector decision-making works, to better understand not only what occurs in the public sector itself but also how public-sector activity—production and regulation—affects economic activity in the private sector.

Surely public choice would offer more insight into these issues if it were to take a more process-oriented approach, if it were to recognize the knowledge problems inherent in collective decision-making, if it were to approach government decision-making as more of a spontaneous order, with unintended consequences, and if it were to depict government decision-making as more of a decentralized order where people at different levels interact with one another, rather than a hierarchical top-down organization. Even in the most hierarchical organization, every individual has some specific knowledge of time and place, and even when trying to faithfully carry out the instructions of those higher in the chain of command, every individual must interpret instructions and make independent judgments. Governments versus markets is much more nuanced than spontaneous versus planned order. There is no planned order in the sense of a central planner whose plan is faithfully implemented by those below. The subdiscipline of public choice would gain a richer understanding of government decision-making and government resource allocation if these factors were taken into account. In other words, the subdiscipline of public choice would benefit from taking more of an Austrian approach. The potential is there, but to date, the Austrian school has barely scratched the surface.

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