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Best case, worst case, and the golden mean in political economy: An introduction to a symposium on Tim Besley's principled agents? The political economy of good government

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Tim Besley's *Principled Agents* is a conceptually challenging work to both traditional welfare economics and the public choice approach identified with James M. Buchanan and Gordon Tullock. Besley's argumentative strategy is to first admit the cogency of the public choice critique of market failure theory and traditional welfare economics and then to argue that the public choice critique goes too far in its pessimism. Instead, Besley argues that based on knowledge from public choice theory, institutional selection mechanisms can be designed in politics to select for both politician motivation and for politician competence. With such a mechanism in place, good government can result.

Besley's book has great strengths and is recommended to all modern students of political economy. One of the great strengths is Besley's deep affinity for the work of James Buchanan in public finance and public choice. In this sense, Besley's work is an immanent critique of public choice, and a construction of a golden mean type argument in political economy against the naïve best case theorizing of Samuelsonian welfare economics, and the overly pessimistic worst case theorizing of Buchanan and Tullock.

We have assembled a group of leading public choice scholars to respond to Besley's challenging book. The responses all reflect a different slice of the argument on why the selection mechanism in politics might not work to produce the motivational and competence characteristics desired in politicians to get "good government." Robert Tollison discusses the merits of the principal or agent framework that Besley deploys for future research in public choice. Geoffrey Brennan discusses the important qualification to the Hume dictum that in modeling

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politics one must assume that all men are knaves. Brennan has changed his mind since his earlier work with Buchanan, *The Reason of Rules* (1985), where the Hume dictum formed the core of their defense of the economic approach to politics. He now argues that esteem is a powerful source of motivation in politics.

More challenging arguments to Besley's framework are provided by Richard Wagner, Randall Holcombe, Bryan Caplan, and Mike Munger. Wagner argues that the disciplinary mechanisms in the market to cope with principal/agent problems are more effective than those that exist in politics. While politics can be modeled as exchange, the profit and loss mechanism which disciplines behavior in the market is at best thinly mimicked in politics. Holcombe argues that the sort of motivational and competence characteristics, which Besley argues a properly designed democratic system would ensure, would be incentive incompatible. Politicians who are principled agents will be excluded from the political marketplace because, as Holcombe puts it, they have nothing to trade and, as a result, will be unable to form winning coalitions. Wagner and Holcombe's criticisms challenge the Besley enterprise from the beginning and leave in place the more traditional public choice style of political economy.

Munger and Caplan are more intellectual generous to Besley's framework but, nevertheless, ultimately find it wanting. Munger looks at the question of "interest," while Caplan looks at the question of "ignorance." Munger's argument is straightforward. In a democratic market economy, the mean income will be higher than the median income; thus, median voters will be unleashed to seek redistributive policies through the democratic system. Besley's argument is that democratic political systems will select politicians who are motivated to do the right thing and who are the most competent in doing the right thing. This line of reasoning is challenged by Munger who argues that the electoral system can be designed to accurately reflect voter preferences but that those preferences will in fact be for redistribution rather than welfare-enhancing policies. It is in the interest of the median voter to engage in state-enabled redistribution at the expense of future growth and prosperity. Simply put, the principal will not be so principled, even if by principle one means pursuing the public interest.

Caplan's argument is slightly different. He argues that voter irrationality is ubiquitous, and as such, the misconceptions of voters over their own interests will distort the accountability properties of the political marketplace. Politics disciplines so that agents (politicians) must act in manner aligned with the principals (voters). However, if what the voters perceive as their interests is confused, then being accountable to confused interests does not provide much reason to believe that "good government" will result through the tug and pull of electoral politics.

The practicality of the "golden mean in political economy" is more tenuous than what Besley argues in his plea for the political economy of good government. If these doubts have any weight, then the argument for "worst-case thinking" in political economy might have to be rethought. In "Individualism: True and False," Hayek (1948) argued that true individualism—the individualism of David Hume and Adam Smith—sought to develop a political system that did not rely on the perfectibility of man—as the false individualism of the French enlightenment thinkers did—but instead treated man with his given variety of imperfections. Given this premise, the goal was to find institutional structures that minimized the damaging consequences of human imperfections while taking advantage of them whenever possible—e.g., using the competition of the market to channel self-interest. In this case, the goal of constitutional or democratic or liberal political design was to build institutional mechanisms so that bad men could do least harm. This is, as Brennan notes, a restrictive exercise, but perhaps the restrictions are appropriate.

We are confident that the readers of *The Review of Austrian Economics* will find *Principled Agents?* and this special issue of great interest. This issue complements an earlier issue of the RAE which explored the common ground—both methodological and empirical—between Austrian economics and public choice economics (see Boettke and Lopez 2002). As indicated by our own work (Boettke et al. 2007), we believe that the continued exploration of the overlap between these subfields will yield beneficial insights and gains from exchange.

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