

## Schumpeter vs. Public Choice (part 1)

Why Schumpeter is no precursor of Downsian Public Choice and what a Schumpeterian political economy could be

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## 1. Introduction

*"No one ever knew quite what to make of this neat saturnine man with a taste for dramatic prose and theatrical gestures. He was undoubtedly brilliant – but he was perplexing"* (Robert L. Heilbroner 1953: 302 about Schumpeter).

Joseph Schumpeter is often regarded a pioneer, if not founder of Public Choice or the economics of politics.<sup>1</sup> Looking back at the development of mainstream Public Choice and looking closely at Schumpeter's own writings on democracy (but also on the limits of static equilibrium analysis), this seems rather odd. There may be a hidden irony in the history of ideas, which only few observers have uncovered in its manifold aspects.<sup>2</sup>

Mostly, Schumpeter is only *mentioned* as a precursor, but hardly ever quoted in his own words. Already Downs (1957) in probably the most influential book in its field is a telling case. He makes a far-reaching general reference: „Schumpeter's profound analysis of democracy forms the inspiration and foundation of our whole thesis, and our debt and gratitude to him are great indeed" (ibid.: 29, fn. 11). In the whole thesis, however, Schumpeter is only mentioned two times with the same quote describing his general approach of analysing social functions of politics as incidental by-products of the competitive struggle for power and office. Schumpeter's core assertions on irrationality in politics and the vital role of political leadership are not mentioned and – as we will see – they are not accepted either. And still, it has become „common to talk about the 'Schumpeter-Downs' theory of democracy" (Udehn 1996: 18).<sup>3</sup> It may be even more puzzling to find Donald Wittman (1995: 23, fn. 5) paying equally unqualified tribute to Schumpeter in his highly provocative book on the "Myth of Democratic Failure" which presents one of the most radical denials of Schumpeter's views published so far.

This paper wants to remind the reader of fundamental differences between Schumpeter's theory of democracy and mainstream Public Choice. The main motivation is not only to "get the history of ideas right". It is also to address some methodological issues, which are increasingly recognised as uneasy foundations of Public Choice (such as bounded rationality in low-cost decision environments) and point at issues, which have been largely neglected by Public Choice (such as political leadership and opinion-formation). The intention is neither to praise nor to bury Schumpeter. It is to point at issues in political economy that need to be addressed anyway and that might be addressed in a more or less Schumpeterian spirit.

In part 2, Schumpeter's approach to "Another Theory of Democracy" (1942/87: ch. xxii) is shortly presented. In part 3, it is shown that both major elements in Schumpeter's account: citizens' irrationality and politicians' leadership are not only ignored but even

<sup>1</sup> See, e.g., Becker (1958: 105; 1985: 120ff); Buchanan/Tullock (1962: 335); Coe/Wilber (1985: 28); Buchanan (1987/88: 131; 1999: 20); Mueller (1989a: 2; 1997: 6); Reisman (1990: 8, 300), Almond (1991); McNutt (1996: 2); Rose/McAllister (1992: 117); Stolper (1994: 209); Kinnear (1999: 932f), or Bernholz (2000: 4, 7).

<sup>2</sup> See Mitchell (1984), Frey (1981), Swedberg (1991), or Prisching (1995).

<sup>3</sup> See, e.g. Reisman (1990: 300) who could hardly be more misleading when he speaks of a „Schumpeter-Downs model of the political market as an economic market, as a structure of exchanges in which suppliers passively provide that which demanders most want to consume“.

turned to their almost complete opposites in Downs' "Economic Theory of Democracy" (1957) and the ensuing theories of spatial voting. It is also shown that Downs' model of "rational ignorance", while at first glance rather Schumpeterian, is strikingly different from Schumpeter's understanding of human nature in politics. In part 4, two major issues on a research agenda of political economy are presented, which may in fact claim Schumpeter as a precursor: a (cognitive) economics of bounded rationality in politics, and an (Austrian) economics of political opinion formation. Part 5 is a short outlook.

This paper will be followed by "Schumpeter vs. Public Choice (part 2)", in which modern Chicago-style variants of the economics of democracy are contrasted with Schumpeter's theory. Although the general message will stay the same - Schumpeter is no precursor of the (new) Chicago Political Economy - the argumentation will be sufficiently different to avoid tiring repetitions. Whereas Downsian approaches can arrive at some Schumpeterian results, while applying largely non-Schumpeterian methods, there are interesting cases in Donald Wittman's world where Schumpeterian arguments are used to infer strikingly non-Schumpeterian results. To see how the "classical doctrine of democracy", against which Schumpeter formulated his "other theory of democracy", is being revamped as yet "another theory" bearing the newest garments of modern economics, and to discuss the shortcomings of the shortcuts which are believed to ensure efficiency of political competition in more detail, warrants a paper on its own.

## 2. Democracy: Schumpeter's view, the classical doctrine and the neoclassical model

*"our chief troubles about the classical theory centered in the proposition that 'the people' hold a definite and rational opinion about every individual question and that they give effect to this opinion - in a democracy - by choosing 'representatives' who will see to it that that opinion is carried out"* Joseph A. Schumpeter (1942/87: 269).

It may be borne in mind that Schumpeter's discussion of democracy (1942/87: part IV) complements his predictions that capitalist civilisation will not survive (part II) and that socialist planning can work (part III). With the benefit of hindsight, both predictions turned out to be widely wrong for the time being - thus also drastically reducing the chances to empirically test his claimed non-incompatibility of socialism and democracy.<sup>4</sup> This is not the place to discuss Schumpeter's perplexing ideas about the fate of capitalism. Irrespective of his daring predictions and unconventional blend of romantic conservatism and Marxist historicism, his account of the dynamics of capitalist systems and of the unromantic mechanisms of democratic systems are of lasting value for modern economics. The question remains: how far has modern economics and, in our case: modern Public Choice, really Schumpeterian roots?

<sup>4</sup> See Schumpeter (1942/87: 284): „Between socialism as we defined it and democracy as we defined it there is no necessary relation: the one can exist without the other. At the same time there is no incompatibility: in appropriate states of the social environment the socialist engine can be run on democratic principles“. History so far has only shown that socialism (defined by Schumpeter as „an institutional pattern in which the control over means of production and over production itself is vested with a central authority“, *ibid.*: 167) and democracy can *only* exist without the other. Strong analytical reasons for their incompatibility are not only provided by hindsight (e.g. Dahl 1998); they were also provided with much more audacious foresight by Schumpeter's Austrian colleagues Hayek (1944) and Mises (1922/81).

There are two common roots. First, modern Public Choice and Schumpeter largely share the same antagonists: those who explicitly or tacitly assume (a) that people act for the common good once they enter democratic decision making, and (b) that democratic government will maximise welfare once it knows (or is told by enlightened economists) how to do so. Second, most of Public Choice would be able to endorse Schumpeter's definition of democracy as a method rather than an ideal:

“the democratic method is that institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people's vote” (1942/87: 269).

This definition serves several aims. First, it should be easier to distinguish democracy from other forms of political organisation by referring to its „*modus procedendi*“ instead of idealistic norms such as the “good” or “will” of the people (*ibid.*). But already the second reason marks a basic element of Schumpeter's theory of democracy, which is widely disregarded in most of Public Choice. He argues that:

“the theory embodied in this definition leaves all the room we may wish to have for the proper recognition of the vital fact of leadership ... collectives act almost exclusively by accepting leadership - this is the dominant mechanism of practically any collective action which is more than a reflex” (*ibid.*: 270).

Schumpeter adds that “the classical theory” of democracy “attributed to the electorate an altogether unrealistic degree of initiative which practically amounted to ignoring leadership” (*ibid.*). And the neoclassical economics of democracy?

In some respects, it reinstates more elements of the classical concept than Schumpeter's “other theory of democracy” would allow. To be sure, modern economics of democracy departs from classical idealism by *not* starting with idealistic assumptions about the *motives* of political behaviour. However, by attaching high standards of rationality to political actors, by treating political issues and preferences as given and by modelling political competition as a state in which politicians passively adapt to any given majority will, much of Public Choice largely remains within rationalistic and idealistic traditions, that sought to link democracy to given expressions of a “*volonté générale*”. As a consequence much of the eighteenth-century ideal of democracy is revamped in equilibrium terms. Schumpeter (*ibid.*: 250) defined the classical doctrine as

“that institutional arrangement for arriving at political decisions which realizes the common good by making the people itself decide issues through the election of individuals who are to assemble in order to carry out its will”.

Clearly, politicians in the Public Choice perspective do not assemble with the *intention* to carry out the people's will. But, in most demand-driven models of democracy, their intention to maximise votes usually produces the *outcome* that they are forced to carry out the will of the median voter. And more often than not these results are interpreted as “Pareto efficient” - the economist's favourite expression of “the common good”. Hence, there are reasons to suspect mainstream economics of democracy to be much more “classical” in spirit, but not in style - whereas Schumpeter's argumentation is classic (less “economic”, more “prosaic”) in style, but his departure from the classical spirit is much more radical. Two major aspects distinguish Schumpeter's theory of democracy

most clearly from the classical doctrine *and* from the modern neoclassical model: (1) political leadership and (2) irrationality in politics.

## 2.1 political leadership

In Downsian spatial voting models (but also Chicago-style efficient political markets, Arrowian social choice, or most of contractarian constitutional economics), collectives act almost exclusively through politicians who take citizens' preferences as given. Just as in the neoclassical model of "perfect" competition, prices (and homogenous goods) are given and not created in the competitive process, so are preference distributions and issues in most economics of politics. In both cases, entrepreneurship and the introduction of "new combinations" has no room. By strictly adhering to the neoclassical logic of choice, Public Choice is barred from recognising the Schumpeterian view that politicians act as entrepreneurs who create and change voters' preferences and opinions, or introduce new political products and forms of organisation. Voter preferences, Schumpeter writes, "are not the ultimate data of the process that produces government". The electorate's choice "does not flow from its own initiative but is being shaped, and the shaping of it is an essential part of the democratic process" (Schumpeter 1942/87: 282). Hence, the "psycho-technics of part management and party advertising, slogans and marching tunes, are not accessories. So is the political boss" (ibid.: 283).

As will be shown in more detail, all these essential parts of the democratic process are hardly even accepted as accessories in spatial voting models which are clearly dominated by the view of politicians as passive retailers of given voter preferences. Contrast this again with Schumpeter's view that political leadership has "only a distant relation, if any, with 'seeing that the will of the people is carried out' ... Precisely in the best instances, the people are presented with results they never thought of and would not have approved in advance" (ibid.: 278). Precisely these instances can, by their very nature, not be accounted for in demand-driven equilibrium theories of the economics of politics.

## 2.2 political irrationality

If ever there was a common "hard core" of the entire Public Choice paradigm, it would be the assumption of rational conduct of all actors involved. And if ever there was a "revolutionary" claim of Public Choice, it was to break with the notion of "bifurcated man" who, as soon as he enters the political field, would display standards of rationality which differ from those he uses in economic transactions. After all, that's what the economics of politics is all about: the universal application of the basic behavioural assumptions of homo oeconomicus.<sup>5</sup> Schumpeter in fact denies this. In sharp contrast to what would later become the hard core of modern Public Choice - *and* to what he identifies as the "requirements of the classical doctrine" (ibid.: 261), he allows for a great

<sup>5</sup> See Buchanan's (1972) critique of the bifurcated mind assumption. Buchanan is certainly right in observing that „all of public choice or the economic theory of politics may be summarized as the ‚discovery‘ or ‚rediscovery‘ that people should be treated as rational utility-maximizers in all of their capacities“ (1978/91: 42). See also Downs (1954: 4ff) or Mueller (1989a: 1).

deal of utter irrationality as a consequence of human nature and permissive circumstances, e.g., when he argues that:

“the typical citizen drops to a lower level of mental performance as soon as he enters the political field. He argues and analyzes in a way he would readily recognize as infantile within the sphere of his real interests. He becomes a primitive again” (ibid.: 262).

Lack of mental effort, of rational calculation and of consistent reasoning not only describe Schumpeter's citizen-voter who, as a "member of an unworkable committee, the committee of the whole nation" (ibid.: 261), has no personal weight in collective decision-making and who thus may take a free ride on others' decision-making (and must take a forced ride on collective outcomes). Lower levels of mental performance and pathologies of irrational crowd-behaviour even characterise Schumpeter's professional politicians, only in a somewhat milder form (ibid.: 257):

“Every parliament, every committee, every council of war composed of a dozen generals in their sixties, displays, in however mild a form, some of those features that stand out so glaringly in the case of the rabble, in particular a reduced sense of responsibility, a lower level of energy of thought and a greater sensitiveness to non-logical influences”.

It is thus obvious that Schumpeter did not subscribe to rationality assumptions usually applied in modern economic analysis. What is more, he does not apply the same rationality assumptions for explaining political and economic phenomena. Schumpeter explicitly rejects the paradigmatic core of all mainstream Public Choice theory when he declares: “There is no such thing as a universal pattern of rationality” (ibid.: 258, fn. 10). Whereas today's standard procedure of economics is to deduce different actions only as consequences of different cost-benefit ratios or different objective restraints to action, but never to change the rationality assumptions in the process, Schumpeter feels no inhibitions to do just that. As a consequence, he “came ‘dangerously’ close to treating people as having, in Buchanan's language ‘bifurcated minds’” (Mitchell 1984: 76). And it is fair to conclude that “[b]ecause of this near-bifurcation in the choice of basic axioms Schumpeter has not influenced Public Choice“ (ibid.).<sup>6</sup>

It is quite telling that Schumpeter's theory of democracy is hardly related to economic concepts (including his own, with the only exception of stressing entrepreneurship as a vital force of social development). He rather relies on the sociology of (irrational) mass behaviour by Gustave Le Bon or the sociology of (rational) bureaucracy by Max Weber. Thus, using today's categories, he presents a sociology rather than an economics of politics. And while it may be somewhat exaggerated to grant Schumpeter the dubious title „founder of irrational choice theory“ (Prisching 1995), with regard to his theory of democracy, irrationality is a crucial element, which is unduly ignored when celebrating Schumpeter as founder of a rational choice dominated economics of politics.

The differences will become clear, if we now contrast Schumpeter's theory of democracy with one of the most influential contributions to modern Public Choice.

<sup>6</sup> See also Swedberg (1991: 127): „Schumpeter, incidentally, would probably have disapproved very sharply of ‚economic imperialism‘ or the current attempts to apply the economic concept of rationality to a host of non-economic problems. According to Schumpeter, it is not possible even to solve all *economic* problems with the help of economic theory, let alone historical or sociological problems“.

### 3. Schumpeter vs. Downsian median voter logic

*“What strikes me most of all and seems to me to be the core of the trouble is the fact that the sense of reality is so completely lost”* Schumpeter (1942/87: 261).

As Holcombe (1989: 115) observed, „the median voter model in the public sector has served in much the same role as the model of pure competition in the private sector“. And as such, it can be exposed to much the same Schumpeterian critique. Schumpeter repeatedly made the point that social development, which is driven by the process of creative destruction and entrepreneurial innovation is ruled out in the model of “pure” or “perfect” competition. Indeed, “all the essential facts of that process are absent from the general schema of economic life that yields the traditional propositions about perfect competition” (1942/87: 104). Most importantly, the entrepreneur who introduces new combinations and thus creates disequilibrating forces “has no function of a special kind here, he simply does not exist” (1912/34: 76). The same is true for spatial competition models in the Downsian tradition.<sup>7</sup>

#### 3.1 “political leadership” vs. “spatial voting”

It was Downs’ aim and achievement to “treat government as an endogenous variable in general equilibrium theory” (1954: 280 and 3). By combining vote-maximising political competitors and utility-maximising voters with given preferences within a given issue-space, election outcomes could be deduced as equilibria under varying structural assumptions. In its “perfect” form of two-party competition in a one-dimensional issue space with perfect knowledge, election outcomes are completely determined by the identical programme of both parties taking the position of the median voter. Hence, vote-maximising politicians find themselves in the same position as the profit-maximising supplier in the model of perfect competition: just as the latter is reduced to a passive price-taker, the former is reduced to an impotent “policy-taker” who has to take the median voter’s preference as given and imperative. In perfect competition, suppliers have no choice; nor do consumers – or voters. But for voters, there is not even a reason to participate. Both major reasons for abstention: indifference and alienation are maximised under “perfect” political rivalry for the median voter (Davis/Hinich/Ordeshook 1970).

While the assumption that citizens vote is necessary for having a median voter (theorem) and a democracy to speak of, at the same time it violates the central assumption of rational voters’ behaviour. And, just as models of perfect competition, median voter logic begs the question: Why competition? While it is apparent that political contestants have to be exposed to voters’ effective threat of substitution (or “exit”) – otherwise they would not be compelled to move - in equilibrium (and in theory there is nothing else) there is no competition: rivaling substitutes have vanished, voting becomes meaningless.

<sup>7</sup> The model was first introduced by Hotelling’s (1929) work carrying the telling title „Stability in Competition“. Black (1948) achieved its first full formulation for direct-democratic group decision making. But it was Downs (1957) who worked out the behavioural assumptions and structural conditions, which allowed the theorem’s application to more complex cases of representative democracy.

To be sure, Downs and his followers developed the basic model in many different directions by changing particular assumptions of the strict median voter model. The basic conditions of vote maximisation based on given distributions of voters’ given preferences along a given issue-space, however, remained largely unchallenged.<sup>8</sup> But it became possible to “play” with the model under various voting procedures, and optimal locations of more than two parties facing more than single-peaked preference functions or multimodal voter distributions in a multi-dimensional issue space can be determined as more or less stable equilibrium states.<sup>9</sup>

The greatest challenge for successful model building turned out to be multidimensionality of the political issue space. It was discovered that various unstable solutions exist, which, in addition, are often not Pareto-efficient (see Mueller 1989a: 197ff). Especially parties that know with certainty which policy will attract which voters („deterministic voting“), can always top the offer made by another party along multiple issues and thus upset equilibrium stability. As a consequence, the median voter was for a long time regarded an „artefact“ of the assumption of the one-dimensional issue space (Hinich 1977). But meanwhile, with subtle technical variations of the model’s conditions towards “probabilistic voting”, stable equilibrium states were defined which, in addition, have the agreeable property of being welfare maximising.<sup>10</sup>

But as in other variations on the median voter theme, the state “appears as simply a voting rule that transforms individual preferences into political outcomes” (Mueller 1989a: 344). Competitive equilibrium still presupposes the parties’ passive adaptation to voters’ preferences and their distribution within a given interval of possible positions, which are equally identified and scaled by all actors (see Rowley 1984: 113). Another limitation is that many political issues can not be meaningfully scaled at all; they are „valence issues“, that voters value either positively or negatively but do not position in space (Stokes 1992). Already Schumpeter (1942/87: 255) argued that chances for elections to produce results which reflect “fair compromise” are

“greatest with those issues which are quantitative in nature or admit of gradation, such as the question how much to is to be spent on unemployment relief provided everybody favors some expenditure for that purpose. But with qualitative issues, such as the question whether or not to persecute heretics or to enter upon a war, the result attained may well, though for different reasons, be equally distasteful to all people whereas the decision imposed by a non-democratic agency might prove much more acceptable to them”.

<sup>8</sup> Only once does Downs (ibid.: 140) raise the question: „What forces shape this important parameter [the distribution of voters in the political space, MW]?“ And he is very frank: „At the beginning of our study, we assumed that voters’ tastes were fixed, which means that the voter distribution is given. Thus we dodged the question and have been evading it ever since. Even now we cannot answer, because the determinants are historic, cultural, and psychological, as well as economic; to attempt to analyze them would be to undertake a study vast beyond our scope“.

<sup>9</sup> See Mueller (1989a), Rowley (1984), Shepsle (1991), Enelow/Hinich (1990) or Ordeshook (1997).

<sup>10</sup> “Probabilistic voting” means that parties do not with the slightest move in a multidimensional issue space immediately loose or win clearly defined voters; instead they only change probabilities of winning or losing votes. Now, vote maximising again drives both parties toward the same position within the given multi-dimensional probability space, which is taken by the “probabilistic” median voter. The result equals that of a maximised Benthamite welfare function (Coughlin/Nitzan 1981; Ledyard 1984).

Similar reasoning led Schumpeter (ibid.: 291) to stress as a „condition for the success of democracy” that “the effective range of political decision ... has to be subject to constitutional constraints”. His views on the irrationality and irresponsibility of mass behaviour and voter conduct provide ample justification for this claim – whereas in a world of rationality and spatial voting the very idea of limiting the „issue space” and disenfranchising the median voter is rather inconceivable. This, again, may point at a communality of demand-driven spatial models of democracy and common-will driven ideals of the classical doctrine. But it may suffice here to note once more that the assumption of given voter preferences (be they deterministic or probabilistic) to which political entrepreneurs simply adapt displayed a remarkable persistence in a paradigm that marched out against the idealism of the classical doctrine.

Downs himself was among the first to observe that the selfish utility maximising actors of his model produce results that are not very different from those that the naïve idealist doctrines took for granted: “if our hypothesis is correct, the men in government achieve their own goals by carrying out those government actions which most please voters, just as entrepreneurs make profits by producing things people want” (1954: 292). Unlike many of his followers, however, Downs denies welfare-optimising, Pareto-optimal properties of his model – mainly as a result of having inquired deeper into the very characteristics of the production of political goods.<sup>11</sup> It must also be mentioned that Downs regarded the presentation of his basic logic of voting in a general equilibrium framework as “only preliminary to the later analysis of behavior when uncertainty prevails” (ibid.: 13). And in this later analysis, he does address issues such as deliberately obscured platforms, ideological immobility, the emergence of new parties, and even the role of political persuasion. In these parts, Schumpeterian themes are addressed. But while eschewing Schumpeterian notions of irrationality and leadership, Downs tries to vindicate his model in rather inconclusive ways.

An interesting case is Downs’ finding that in two-party systems it is rational (vote maximising) for both parties „to be as equivocal as possible about their stands on each controversial issue (ibid.: 136). As a result, voters may be

„encouraged to make their decisions on some basis other than the issues, i.e., on the personalities of candidates, traditional family voting patterns, loyalty to past heroes etc. But only the parties’ decisions on issues are relevant to voters’ utility incomes from government, so making decisions on any other basis is irrational” (ibid.: 137).

But for Downs only „[a]pparently the more rational political parties are the less rational voters must be, and vice versa” (ibid.: 137). He offers rather lukewarm „defences against being forced into irrationality” (ibid.: 138f), such as legal limits on parties’ exploitative power, a change to multiparty systems, the fear of the end of democracy or, very reluctantly, the concession that voting may be „less than perfectly rational as a mechanism for selecting governments”. Later (p. 275) he takes up the issue once more. If a voter cannot distinguish between the parties on basis of their platforms, “he might as

<sup>11</sup> Among others, he describes the “technical impossibility of handling indivisible goods in such a way as to reach an optimal position” (ibid.: 177), a variety of cycling problems, the attractiveness of redistribution and the impossibility of Pareto-efficient arbitrage in the absence of vote-selling (ibid.: 178ff).

well use any other basis which pleases him ... Thus a rational man may employ irrational mechanisms to decide for whom to vote” (ibid.). This behaviour is now labelled “socially irrational” and, even worse, it may induce political parties to “plan their actions and statements to influence the nonrational mechanisms they think these voters are using” (ibid.). Rational voters, therefore, are assumed (or, rather: implored) by Downs to resist these manipulative attempts by voting randomly in case of indifference, thus promoting “social rationality” because irrational votes would cancel each other in the aggregate!

In terms of the „leadership” issue, persuasion is only allowed by providing correct information, not by shaping preferences or providing false information (ibid.: 84, 87). Political entrepreneurs are first of all followers, „for they mould their policies to suit voters so as to gain as many votes as possible. Having done this, they attempt to lead all voters to believe these policies are best for them” (Downs 1954: 88). Also new parties yield precedence to the given voter distribution: they only enter *after* voters kindly make room for them in the political space (ibid.: 125, 130). As before, Downs’ politicians don’t create their markets, they please them. In terms of the „rationality” issue, we will see in parts 3.2 and 3.3, that Downs provides all the necessary reasons to jump on a Schumpeterian agenda – but he does not.

On all these occasions Downs opens doors to Schumpeterian territory. But after catching a glimpse, he refrains from entering and retreats to the safe grounds of instrumental rationality and spatial voting logic. Also his followers in spatial analysis mostly resisted further explorations into these wild territories. Downs’ spatial logic of voting under certainty created enough logical puzzles and mathematical curiosities (such as cycling) to keep Public Choice scholars busy working out technical details and variations. Just as the logical consistency and theoretical possibility of the bloodless construct of perfect competition fascinated economists more than the question how prices or goods are actually created in the market process, the question how voter positions and issues emerge has always been dominated by problems of proving the possibility of stable and unique spatial equilibria in an aseptic world (Rowley 1984: 105). Schumpeter’s (1942/87: 77) early critique of the former may also be applied to the latter: “in the process of being more correctly stated and proved, the proposition lost much of its content – it does emerge from the operation, to be sure, but it emerges emaciated, barely alive”.

To be sure, spatial voting models should not be regarded as valueless. Even the simplistic median voter model may provide empirically meaningful explanations for outcomes of direct-democratic elections on one-dimensional, ordinally scaleable issues or if two parties compete mainly in terms of one easily accessible and quantifiable issue such as tax policy (Rowley 1984: 123ff). It is certainly no accident that empirical tests of the median voter model (e.g. Holcombe 1980; Munley 1984) mostly look at referenda for which the issue space is, indeed, one-dimensional and given and where the median voter may reasonably be assumed to be the median income recipient (e.g. Inman 1978; Pommerehne 1978). But in his survey Mueller (1989a: 193) concludes that the evidence is „hardly encouraging as to the potential for predicting the outcomes of representative government with a model that treats the median voter as if he were dictator”.

This is where the Schumpeterian political economy drastically differs from the median voter logic and the principal make-up of demand-driven spatial voting models. For Schumpeter, democracy is competition for leadership and not for given voter distributions. And even if the median voter is divorced from utilitarian notions of the common good (although some Paretian interpretations are of similar quality), one can argue in Schumpeter's own words that this "still leaves us with plenty of difficulties on our hands" (1942/87: 253). These difficulties deserve being quoted at length, since they fit surprisingly well the basic characteristics of the spatial voting model:

"In particular, we still remain under the practical necessity of attributing to the will of the individual an independence and a rational quality that are altogether unrealistic. If we are to argue that the will of the citizens per se is a political factor entitled to respect, it must first exist. That is to say, it must be something more than an indeterminate bundle of vague impulses loosely playing about given slogans and mistaken impressions. Everyone would have to know definitely what he wants to stand for. This definite will would have to be implemented by the ability to observe and interpret correctly the facts that are directly accessible to everyone and to sift critically the information about the facts that are not. Finally, from that definite will and from these ascertained facts a clear and prompt conclusion as to particular issues would have to be derived according to the rules of logical inference – with so high a degree of general efficiency moreover that one man's opinion could be held, without glaring absurdity, to be roughly as good as every other man's. And all this the modal citizen would have to perform for himself and independently of pressure groups and propaganda, for volitions and inferences that are imposed upon the electorate obviously do not qualify for ultimate data of the democratic process."

As will be shown in more detail in the next part, this sketch of a moderate classical doctrine's underlying assumptions comes very close to what Downs (and most of his followers more implicitly) assume. And it is exactly what Schumpeter is not ready to accept. His assumption that these conditions do *not* exist – that "modal citizens" have no independent, clear and definite position on political issues, no independent power to put issues on the political agenda and no adequate means to voice their opinion (if they have one) – leads Schumpeter to infer the vital role of political leadership. It consists as much in shaping a "manufactured will" of the masses, as in turning latent "group-wise volitions" into political factors (ibid.: 270), thus *creating* voter distributions instead of just following them and creating voices instead of just listening to them.

In addition, political entrepreneurship is a managerial task. Political parties are not, as Downs (1954: 25f) defined, "teams ... whose members agree on all their goals". Thus treating "each party as though it were a single person" (ibid.: 26) also eliminates political leadership in this dimension which for Schumpeter was equally important. He (1942/87: 277) describes the political leader in a way in which many well-remembered (and re-elected) Prime Ministers, Kanzler or Presidents have in fact acted: they "lead party opinion creatively – shape it – and eventually rise toward a formative leadership of public opinion beyond the lines of party, toward national leadership that may to some extent become independent of mere party opinion".

Many readers may accept the view that political leadership is essential in Schumpeter's theory of democracy, whereas in spatial voting models it is not. But many, I expect, may not yet be ready to endorse the claim that Schumpeter's description of the "modal citizen", cited above, is categorically different from the representative citizen as modelled

in most of Public Choice. After all, has not Public Choice (including Downs himself) shown that rational voters are, for good reasons, vastly uninformed about political programmes and issues? It has. But that does not make it Schumpeterian. We may leave aside the internal tension that "rational ignorance" creates within spatial or median voter analysis. Suffice it to mention that now the median or any distribution of voters along any issue space is all but well defined (Hardin 1999: 11); and that the model now implies that competing political parties are driven to take exactly the position of a (median) voter who herself does not know where she stands and what she wants! Instead of inquiring into such tensions within the model, we want to show that rational ignorance, as presented by Downs (1954) and used in much of Public Choice is logically flawed in itself and presented in ways that would have made Schumpeter frown (if not laugh).

### 3.2 "irrational impulse" vs. "rational ignorance"

Throughout Downs' thesis (including his discussion of „rational ignorance“) and spatial voting models in general, party differentials are „the most important part of a voter's decision“ (Downs 1954: 40). Downs defines the party differential as „the difference between the utility income he actually received in period t and the one he would have received if the opposition had been in power“ (ibid.) – a rather demanding calculation to start with.<sup>12</sup> But that is not all. In addition, the rational voter enriches her current party differential with two future-oriented modifiers: a „trend factor“ (to account for recently improving or degenerating performances of the parties) and another performance rating – in case the current party differential is zero (ibid.: 41f). In multiparty-systems, she is also „predicting how other citizens will vote by estimating their preferences“ (ibid.: 48) since she has to know if her preferred party has a chance to end up in the winning coalition. Furthermore, she must balance each party's net position (the mean of its policies) against its spread (their variance) within the issue space („In short, voters choose policy vectors rather than policy scalars, and each vector is really a frequency distribution of policies on the left-right scale“, ibid.: 133).

Already these calculations (omitting further variables<sup>13</sup>) seem more demanding (and less entertaining) than those necessary for enjoying (and occasionally succeeding in) a game of bridge. This is said in order to restate Schumpeter's (1942/87: 261) claim that

„when we move ... into those regions of national and international affairs that lack a direct and unmistakable link with ... private concerns, individual volition, command of facts and method of inference soon cease to fulfil the requirements of the classical doctrine ... the private citizen musing over national affairs ... is a member of an unworkable committee, the committee of the whole nation, and this is why he expends less disciplined effort on mastering a political problem than he expends on a game of bridge“.

But for Downs, "rational ignorance" does not take its start from these simple assertions, but from the above-cited calculations of the party-differential, since the "preliminary

<sup>12</sup> Modern versions apply different assumptions such as prospective or retrospective, deterministic or probabilistic voting. The demands on voters' rational calculation capacities, however, do not vary remarkably (see Mueller 1989a for an overview).

<sup>13</sup> The full calculation process would also include variables such as „long-run participation values“, „the cost of voting“ and „preference for change“. For a full rendition of the logic see Downs (1954: 271f).

party differential is the basic return upon which subsequent calculations are built” (Downs 1954: 272). Which includes the rational voter’s calculations of the rational amount of ignorance he prefers to leave unhealed. “Throughout the above process he procures more information about the entities involved whenever its expected pay-off exceeds its cost” (ibid.: 272). From a history of ideas perspective, it is first of all noteworthy that Downs anticipated much of what Stigler (1961) or Arrow (1962/85) later introduced as the economics of information. Thanks to his frank verbal exposition, fundamental problems of subjecting individual ignorance to marginalistic calculations are more accessible than they are in more modern variants. Let us see how Downs’ voter determines the amount of ignorance it is rational for him to preserve (1954: 215f):

“Three factors determine the size of his planned information investment. The first is the value of making a correct decision as opposed to an incorrect one, i.e. the variation in utility incomes associated with the possible outcomes of his decision. The second is the relevance of the information to whatever decision is being made. Is acquisition of this particular bit of knowledge likely to influence the decision one way or another? If so, how likely? ... This probability is then applied to the value of making the right choice (the vote value in our example). From this emerges the return from the bit of information being considered, i.e., the marginal return from investment in data on this particular margin. The third factor is the cost of data. The marginal cost of any bit of information consists of the returns foregone in obtaining it. A comparison of the estimated marginal cost and estimated return of any bit determines whether this particular bit should be acquired”.

These calculations of “the quantity of information it is rational to acquire” (ibid.: 214) show perfectly well that most properties of the investment good “information” are already known; that is: that the investment must already have been made. This is already true for the first factor: How is a voter to know the value of making the right decision if he does not already know in advance the future “utility incomes” created by the parties in question, that is: if he does not already have the relevant information (before he acquires it)? The paradox becomes even more glaring for the second factor: How is the voter to determine if and how much a bit of information will be influencing her decision, if she does not already know its content? The absurdity of marginal optimisation of rational ignorance is more than just marginal. The problem is that the “worth of new knowledge cannot begin to be assessed until we have it. By then it is too late to decide how much to spend on breaching the walls to encourage its arrival” (Shackle 1972: 272f).

Even the calculation of the third factor makes clear that Downs’ knowledge-seeking citizen already knows what he cannot know before he invests in knowledge. As the opportunity costs of investing in political information Downs dominantly uses “the time used for assimilating data and weighing alternatives” (ibid.: 209) – which remains a relevant cost-factor for free political information. But also the returns foregone by spending time investing in political information are by no ways known *ex ante* (if they can ever be known at all, see Buchanan 1969).

The very concept of rational ignorance based on the equalisation of marginal (opportunity-) costs and benefits of investments in new knowledge is, therefore, far from being a serious qualification of the perfect information or perfect rationality assumption. It is rather transferred into logically absurd areas of “super-optimization” (Knudsen 1993: 143) or the omniscient determination of ignorance. At best it may present an “as-if”

explanation of the simple fact that with subjectively expected greater benefits of more information, more information is being asked for and with subjectively expected greater benefits of alternative uses of scarce resources, investment in information is reduced. But there is no way to rationally optimise the amount of one’s ignorance, since no one knows what he misses by not investing in new knowledge.

As in other instances, Downs (1954) seems to be aware of some inner tensions facing his rationalistic framework, which leads him to develop interesting amendments to the basic logic in order to rescue the model. This time, he retreats to probabilistic calculations building on “subjective estimates based on whatever information he has already acquired” (ibid.: 242).<sup>14</sup> Hence, our voter may already have estimated his party differential at 50 utility units (the “estimated cost of being wrong ... upon which subsequent calculations are built”, ibid.: 241) and is now “confronted” by a single bit of information (ibid.). “All a voter really knows about each bit before [!] acquiring it is (1) a list of its possible values, (2) the probability associated with each value, and (3) its cost.” Thus, in Downs’ numerical example, the voter knows in advance that he will have to sacrifice 10 units (utility foregone by not spending time or money on other uses). Now, he expects with probability 0.5 that knowing the content of the information would increase his party differential by 100 units, with probability 0.4 it will decrease it by 10 units and with probability 0.1 it will decrease it by 100 units. The expected value of knowing more is thus 36 units of enlarged party differential. Which, as such, would make the information valueless for his voting decision, since he would not have voted differently had he saved his time (or money) for acquiring that particular bit.

The reason is that Downs’ “rational voter is interested only in information which might change his preliminary voting decision ... only this information provides returns in terms of a better decision or increased confidence in the present one” (ibid.: 241). This follows indeed from pure instrumental logic; but it fundamentally contradicts psychological intuition and empirical observation.<sup>15</sup> But Downs’ story goes on. The rational voter is not guided by the overall expected value of the information is he about to acquire; rationally he consults the entire distribution of each bit before he decides. And since there was a 0.1 chance that it will shift his position to favouring the other party by 50 units, he buys it in order to avoid a loss of 40 units (after deducing the 10 units for acquiring it)!

Downs’ example not only illustrates the above-mentioned information paradox in even more lustrous detail. It also shows just how far the rational ignorance model ignores “the chapter of social psychology which might be entitled Human Nature in Politics” (Schumpeter 1942/87: 256). Clearly, in his chapters on rational ignorance Downs did not stick to his promise that “our homo politicus is the ‘average man’ in the electorate ... he

<sup>14</sup> Downs (ibid.: 241) realises that there is an infinite regress problem when starting with a party differential before investing in information. He cuts it short by assuming that there is a „preliminary estimate“ of the party differential „derived without serious consideration of the cost and returns of making the estimate“.

<sup>15</sup> As will be shown in more detail in part 5.1, psychological and empirical research both strongly indicate that people’s attitudes in selecting (sources of) information and opinion are fundamentally verificationist. Especially in politics, where such behaviour is „cheap“, it can loom large. But it has no place in Downs’ world of pure instrumental rationality. Here, people are even advised to consult newspapers, which are most apt at providing information and opinions that contradict their ideological views (Downs 1954: 214).

will not be as much of a calculating-machine-brained character as was the utilitarians' economic man" (Downs 1954: 7).<sup>16</sup>

It is only after having elaborated all details of the above basic logic of rational ignorance that Downs introduces the fact that a single voter is not decisive and that therefore the party differential will have to be discounted. Now the rational voter has to start his calculations with the "vote value" which "is compounded from his estimates of his party differential and of the probability that his vote will be decisive" (ibid.: 244). Had Downs introduced the simple fact of a single voter's factual impotence, he could easily have skipped some 40 pages dealing with "rational ignorance" and many, if not most, discussions of rational voting behaviour which right from the beginning were oriented only towards selecting a government which yields the best available utility income. Downs' categorical instrumentalism was introduced on page 7: „The political function of elections in a democracy, we assume, is to select a government. Therefore rational behavior in connection with elections is behavior oriented toward this goal and no other“ (ibid.: 7, s.a. 136, 145). It breaks down on page 245, when we learn:

„A rational man may buy information because (1) he wishes to influence the government's policies, (2) his prediction of how other voters will act indicates that the probability is relatively high that his own vote will be decisive, or (3) he derives entertainment value or social prestige from such data“ (ibid.: 245).

As a consequence, voters in any large-scale elections on which any theory of democracy should reasonably be built are buying information either because they are ignorant of the fact that millions of other voters upset their instrumental endeavours, or because they strive for aims which were so far labelled "irrational", since they are not defined by the social function of democracy!

Similar reasoning applies to Downs' chapter on rational abstention (ibid.: 260ff). Again, instrumental rationality solely aimed at selecting the "right" party which yields the higher utility income is not powerful enough (once reasonably discounted for the fact of large numbers) to give sufficient "reason" to vote as soon as costs are involved. And again, factors previously discarded as "irrational" have to do the job. It is here that Downs even comes dangerously near to introducing "classical" motives, e.g. when he argues that "[i]t is sometimes rational for a citizen to vote even when his short-run costs exceed his short-run returns, because social responsibility produces a long-run return" (ibid.: 261).

Even mainstream Public Choice, after considering the free-rider problems, found it hard to follow Downs in rationalising voting as a contribution to the public good called "making democracy possible" (ibid.), which may yield sufficient internalisable benefits "in the long run". Instead, it was forced to proceed along two lines: (a) the intrinsic or extrinsic benefits derived from being (known to be) a voter who performs her civil duty

<sup>16</sup> Another consequence is that the more indifferent voters are (starting with low initial party differentials), the more willing they should be to invest in political information, whereas partisan voters would be most rationally ignorant, since it takes much more costly adverse information to change their minds - which remains the only rational reason for them to acquire it (ibid.: 243). This inference is the exact opposite to empirical research in public opinion formation, as presented with an overwhelming amount of evidence, e.g., in Zaller's (1992) studies on "The Nature and Origins of Mass Opinion".

(“ethical voter hypothesis”, e.g. Riker/Ordeshook 1968, Pennock 1989: 26f) and (b) the satisfaction of being able to just express one's opinions (“expressive voter hypothesis”, see Brennan/Buchanan 1984). Both hypotheses entail “irrational” voter behaviour if Downs' yardstick of instrumental rationality is applied; since both claim that “neither the act of voting nor the direction of the vote can be explained as a means to achieving a particular political outcome” (Brennan/Buchanan 1984: 187).

### 3.3 From Schumpeter to Downs – and back to Schumpeter: consequences for Public Choice

The consequences – not only for Downs' reasoning, but for Public Choice at large – are rather uncomfortable. Voters are both “rationally ignorant” and “rationally absent” if rationality is aimed at achieving the highest utility incomes from selecting political alternatives. But obviously, citizens have some (if poor) information about politics, they have political opinions and many, if not most, of them vote. There are two main reasons: either they are irrational (lured in the absurd belief that an individual voting decision affects outcomes) or they vote and have political opinions for better reasons than those derived from Downsian instrumental rationality. These better reasons, again, must be something like entertainment value, social prestige or even moral convictions.<sup>17</sup> Adding elements of “mass behaviour”, “impulse” and “affection”, we would, after a long and tiresome journey through economic calculations of “party differentials” and “vote values” end back in Schumpeterian territory. And we might indeed have found strong enough reasons to substitute a chapter of social psychology on “Human Nature in Politics” for the voter as homo oeconomicus.

And the very same reasons might lead us to make more allowances for Schumpeter's vital fact of political leadership. If voters do not position themselves on the drill grounds of given issue spaces after having gone through painstaking calculations of party differentials; if they are indeed driven by such malleable forces as entertainment value, social prestige or perceived demands of social duty, political leaders have much more leeway in pushing through their own agendas and creating their own electorate.

It is along these two lines that Public Choice may be finds its way back to Schumpeter's early findings; or rather: it may be challenged to take up his prime issues of bounded rationality and political leadership and integrate them in a more advanced, and empirically testable theory.

### 4. Schumpeterian Public Choice: towards another theory of democracy

*„If ... the straightjacket of neoclassical public choice is left behind and a more open view of political economy is adopted, it becomes clear that Schumpeter's writings still have very much to offer“* Bruno S. Frey 1981: 140.

<sup>17</sup> Downs himself has lately criticised Public Choice for treating individual preferences and values as given, individual motivations as solely selfish and restrictions as solely external to the individual. Much more than before, he stresses the functional qualities of shared moral values and conventions (see Downs 1991).



Parts of Public Choice have already embarked on this journey towards a more Schumpeterian political economy: (1) Non-homo-o-economicus determinants of voter behaviour have been endorsed by economists who accept bounded rationality (rather than super-optimising rational ignorance), “sociological” forces (rather than independently determined reasons to act) and even “moral dimensions” as relevant for voting behaviour under the special conditions of low-cost decisions.<sup>18</sup> (2) Non-adoptive determinants of political competitors have also been recognised by a number of Public Choice scholars who discuss the art of political manipulation, opinion leadership, decision framing, political innovation and reform and other aspects of supply-side political activity.<sup>19</sup>

However, the more general models of electoral competition and its vote-maximising equilibria still remain very much in the Downsian tradition of analysing voters as rational calculators of party differentials and parties as passive brokers of given (median) voter preferences in a given issue space. In addition, there has been a remarkable renaissance of rationalism, tight prior equilibrium and political efficiency which, by pulling in the opposite direction, tries to offset any tendencies in a “sociological”, “psychological” (or, for that matter: Schumpeterian) direction: the new Chicago Political Economy. As already announced, these approaches will be discussed in our follow-up paper. The present paper focuses on two areas of research, in which Public Choice may develop another theory of democracy that could, indeed, be Schumpeterian to some degree.

#### 4.1 towards a (cognitive) economics of bounded political rationality

Downs (1954) was the first to introduce explicitly a “narrow concept of rationality” (ibid.: 6). Its narrowness lies not so much in his definition of rationality of conduct, but of connecting it with a rationality of ends. The first entails standard assumptions drawn from Arrow (1951) such as the individual’s ability to rank all alternatives in an ordinal and in a transitive way, to always chose the alternative that ranks highest on the preference ordering and to always make the same decision when confronted with the same alternatives (ibid.). The second element claims that “rational behavior in connection with elections is behavior oriented towards this end [the selection of a government] and no other” (ibid.: 7). Hence, Downs insists on applying end-oriented, instrumental rationality, which leads politicians to select policies which procure the highest voting share, and voters to select politicians which procure the highest utility income.

As Downs himself has more or less inadvertently shown towards the end of his study, rationality of behaviour and his idea of rationality of ends do not always go together well. In the face of impotence or indifference, party differentials can hardly be assumed to rank highest on the preference ordering of voters; and rational calculation on their basis make no (rational) sense as soon as opportunity costs are involved. Theoretical and empirical research meanwhile provides ample material that questions political rationality on both fronts: the instrumentality of voter behaviour and the rationality of behaviour as such.

<sup>18</sup> E.g. Frank (1988), Brennan/Lomasky (1989), Kirchgäsner/Pommerehne (1993), Brennan/Hamlin (2000).

<sup>19</sup> E.g. Frohlich/Opppenheimer (1978), McLean (1987), Buchanan/Vanberg (1989), Dunleavy (1991), Williamson/Haggard (1994), Johnson/ Libecap (1999), or Wohlgemuth (2000a, 2001).

#### Non-instrumentalistic elements in voting behaviour

We have already shown that the very decision to vote at all must be primarily based on reasons such as doing one’s duty or enjoying the inconsequential speech act of expressing one’s preferences. Voting cannot reasonably be an instrumental act aimed at choosing higher “utility incomes”. It is the act as such (irrespective of election results) that may yield benefits from self-respect or respect of others – and both at very low costs.

Similar reasons hold for the decision to invest in political information. Again, there is no instrumental link between the quality of a vote and its value of “making the right decision” in Downsian terms of party-differentials. Thus, again, reasons must be found outside the “basic logic of voting”. One reason may be the entertainment value of political news, scandals and opinions.<sup>20</sup> Another reason may be the reputational value of being regarded a good entertainer or a knowledgeable person. Hirschman (1989) presents good reasons for having opinions as elements of individual well-being: „not to have an opinion is tantamount to not having individuality, identity, character, self“ (ibid.: 75), and: „vacillation, indifference, or weakly held opinions have long met with utmost contempt, while approval and admiration have been bestowed on firmness, fullness and articulateness of opinion“ (ibid.: 76).

And if individuals’ strive for reputational utility in the sense of Kuran (1995)<sup>21</sup>, they are even “more dependent on society in political contexts than in the realm of ordinary consumption” (ibid.: 162). This dependence, in turn, begs recognition that political opinions rest to a large extent “on beliefs shaped by *public discourse*, which consists of the suppositions, facts, arguments, and the theories that are communicated publicly” (ibid.: 18). As we will show in part 4.2, it is exactly under these premises that the meaning of democracy as an opinion forming process can be established, in which political entrepreneurship has an important role.

Different reasons *why* political knowledge is acquired and political opinions are formed and expressed also change the process *how* citizens become informed – again differing sharply from Downs’ assumptions of instrumental rationality. Remember that Downs’ “rational voter is interested only in information which might change his preliminary voting decision” (1954: 241); information that confirms his decision would have no instrumental value. But after discounting the instrumental value of political information

<sup>20</sup> See Hardin (1999: 8): „I may have reason to acquire knowledge because it gives me pleasure, but ... the fact that I will benefit from policy X does not give me a reason or incentive to know about or to understand the implications of policy X unless ... I can somehow affect whether policy X is to be adopted“.

<sup>21</sup> Kuran (1995: 24ff) distinguishes 3 kinds of utility an individual can derive from publicly expressing an opinion: the „intrinsic utility“ which flows from the social outcomes of a collective decision, the „reputational utility“ which is derived from the social approval of others (and, if dominant, creates „preference falsification“, see below) and the „expressive utility“ which is based on an individual’s self-respect and self-assertion (and counteracts „preference falsification“). While these utilities make a difference in *what* opinions are publicly articulated, they all provide reasons *that* political opinions are in fact entertained. As Kuran (ibid.: 41) notes, standard economics tends to regard intrinsic utility as the sole driving force of individual action. Reputational and expressive utilities are rarely integrated in the rational choice model. Which is fatal for the economic analysis of voter behaviour, where only the other kinds of benefits can in fact be attained!

to next to zero and letting motives such as “entertainment value” and “reputational value” of being informed take its place, a substantially different (and much more realistic) behavioural pattern emerges. This pattern can be built around (a combination of) psychological and economic-sociological theories. As an example of the first category, the theory of “cognitive dissonance” suggests itself, which was developed by Boulding (1956) and Festinger (1957) and interpreted for economists by Akerlof/Dickens (1982). The latter summarise the results of cognitive-psychological research:

„First, persons not only have preferences over states of the world, but also over their beliefs about the state of the world. Second, persons have some control over their beliefs ... they can also manipulate their own beliefs by selecting sources of information likely to confirm ‘desired’ beliefs. Third, ... beliefs once chosen persist over time“ (ibid.: 307).

Applications of these propositions to a theory of political behaviour should prove most promising for a Schumpeterian, theory of democracy in which the manipulation of beliefs would be a prominent feature (Brady/Clark/Davis 1995). Whereas Schumpeter stressed the fact that voter-citizens are objects of manipulation by political leaders, the (conscious or unconscious) attempts of individuals to avoid cognitive dissonance by selecting confirming and comforting information also deserves recognition in his “chapter of social psychology” (1942/87: 256). Selective perception and storage of information in accordance with established preconceptions or perception-filters is a pattern persistently found by psychological research (Rosenberg 1991, Rabin 1998). As Kuran (1995: 173) summarises: “our beliefs govern what we notice in the first place. We perceive selectively, noticing facts consistent with our beliefs more readily. This bias imparts resistance to our beliefs by shielding them from counterevidence”.

The attempt to verify and not falsify one’s preconceived opinions is not only “all-too-human” in general, it is also “all-too-cheap” in politics. Ignoring alternative (sources of) information and opinions and thus being led into self-assuring delusions must be expected to be particularly pronounced in areas of “cheap talk” instead of consequential individual decisions (Kirchgässner/Pommerehne 1993, Caplan 1999). While such behaviour would be costly on the economic marketplace, on the “marketplace of ideas” it is not. It may even be rather rewarding since it reduces the “psychological costs” of dissonance (Weissberg 1996: 113) and the “reputational costs” of disagreement.

The fact that political knowledge for most citizens is not so much an instrument to achieving private gains but much more for achieving personal comfort and social approval, creates self-reinforcing and self-justifying tendencies of investments in political knowledge. There is ample empirical evidence that citizens exchange opinions and political information most likely with people who already share their political preferences (Huckfeldt/Sprague 1995). And there is equally compelling evidence that people tend to *express* opinions which they expect to be generally accepted within the group in which they find themselves – even if they may hold different opinions as their inner secret (“preference falsification”, Kuran 1995, see also 4.2).

Finally, it should come as no surprise that serious deviations from Downsian instrumental rationality are also found in empirical analyses of the voting decision itself. If already the participation at elections, the information selected, and the opinions expressed before the

election were based on such elements as social demands, ethic impulse or the aim to please, the decision what to vote for should not be motivated much differently. To be sure, the cunning voter may, in the anonymity of the voting booth, “vote his pocket book” or party differential, even if in public he may pretend to be driven by more socially rewarding motives. But even this cleverness would be inconsistent; it may cause more inner strain than pleasure to live a bifurcated political Jekyll-and-Hyde life and it will certainly fail to produce different political results. If the individual vote makes no difference, voting for the most respected party in one’s group of peers, or voting for the most likely winner do no harm. And if they produce any good feelings (be that “inner peace” or “outer peace”), these emotions should dominate the instrumental “voting in my private interest” as prescribed by the homo oeconomicus model.

These considerations find support in empirical studies (see Udehn 1996: 78ff; Nannestad/Paldam 1994: 223ff; Mueller 1989a: 367ff for overviews). In referenda, expenditures that benefit specific groups are also supported by members of groups who would have to pay the bill; voters are more responsive to general economic conditions than to their own economic condition (“sociotropic voting”, Kinder/Kriewiet 1981). In addition, many voters seem to be more strongly affected by “symbolic politics”, traditional voting patterns, ideologies, moral convictions and socialisation than by regards to their economic self-interest (Sears/Lau/Tyler/Allen 1980). A strong support for the influence of communication communities (neighbourhoods, families, churches) is also found in many studies (Butler/Stokes 1974, Huckfeldt/Sprague 1995).

It remains problematic to interpret this evidence. An “ethical voter interpretation” could produce, by non-Downsian means a rather Downsian result. In terms of modern constitutionalism, it can be argued that the factual “veil of insignificance” (Kliemt 1986) of voter behaviour achieves much of what a hypothetical “veil of ignorance” might be able to produce. The latter presupposes that citizens not knowing their social position in a future society will vote for generally fair rules (since they might apply to themselves). The former may work even if people know what their personal interests are; but the insignificance of their personal vote would make them more inclined to vote for a “common good”. As a consequence, Public Choice may once again come dangerously near to the basic presumptions of the classical doctrine.<sup>22</sup>

Another interpretation, however, arrives at a very different valuation of the same facts. Much in a Schumpeterian spirit, Brennan/Lomasky (1989) argue that voters can afford to indulge in most short-sighted, irresponsible, ideological expressions of romantic or malicious ideas. In the aggregate they may take most costly decisions, but the individual voter faces no costs as consequences of her single decision. As anonymous voter she can act in ways she would never dare to take if she were accountable for her decisions. Schumpeter (1942/87: 262) makes the same point when he expects that the voter, due to

<sup>22</sup> These implications are addressed by Mueller (1989b: 86): “the normative case for democracy would be greatly strengthened. What would be weakened are the methodological foundations of public choice. If voters do vote using something like their ethical preferences, they vote more or less in the way the traditional ‘public interest’ approach presumed voters and politicians acted. But much of the advance public choice claims to have made over the public interest approach is presumed to have come from the replacement of the public interest behavioral postulate by the selfish utility maximization postulate”.

„the absence of effective logical control over the results he arrives at ... will relax his usual moral standards ... and occasionally give in to dark urges which the conditions in private life help him to repress“. But „it will be just as bad if he gives in to a burst of generous indignation“, since this „will make it still more difficult for him to see things in their correct proportions or even see more than one aspect of one thing at a time“ (ibid.)

Already at this stage – without having to introduce “policy failure” arguments from the rent-seeking or bureaucracy theory – Brennan/Lomasky (1989) arrive at a strong denial of the democratic processes’ rationality. As a consequence of high arbitrariness of voting decisions, “what emerges through democratic procedures may not be the will of the majority, and may not have been desired by a single voter” (ibid.: 44). Thus having effectively destroyed instrumental rationality of both voter behaviour and the democratic process, Brennan/Lomasky still maintain that voters are at least “not predominantly irrational” – even if “they vote as they do for reasons that have little to do with an intention to affect outcomes”. Others, such as Caplan (1999) or Akerlof (1989) argue that also individual irrationality, illusions and systematically biased beliefs are just what an economic opportunity cost reasoning would lead one to expect, since democracy sets the private cost of socially costly irrationality at zero. We will now take a look at the rationality issue as such.

#### Non-rationalistic elements in voting behaviour

Usually economists do not, as Downs did, extend their concept of rationality beyond the realm of means applied to achieve whatever ends. Individual ends pursued can be of any kind, *de gustibus non est disputandum*. But it is assumed that these ends (whatever they may be) are pursued rationally, i.e. by choosing those alternatives which rank highest on a given preference scale and can be achieved under given constraints of scarce resources. This limitation of the rationality postulate is very reasonable in itself, since it avoids making presumptuous or paternalistic judgements about people’s aims and values. However, it also brings the analysis closer to truistic statements: if any end is allowed, it is hard to identify ends-means relationships which are not “rationally chosen” in view of these ends as long as they are not known or postulated.<sup>23</sup>

We can not here go deeper into these methodological matters. Instead, we will show that even if rationality is bound to the choice of alternatives for achieving a wider range of ends, this does not create bounded rationality in the sense of Simon. Anomalies and “irrationalities” remain even if rationality of ends is dropped.

Cognitive science and experimental psychology has meanwhile been able to substantiate much of what Schumpeter simply took for granted when he, e.g., suspected that the voter’s “power of observation and interpretation of facts, and his ability to draw, clearly

<sup>23</sup> This is exactly Downs’ position: „Even though we cannot decide whether a decision-makers ends are rational, we must know what they are before we can decide what behavior is rational for him. Furthermore, in designing these ends we must avoid the tautological conclusion that every man’s behavior is always rational because (1) it is aimed at some end and (2) its returns must have outweighed its costs in his eyes or he would not have undertaken it“ (1954: 6).

and promptly, rational inferences” are very limited, that his “thinking becomes associative and affective” and would “tend to yield to extrarational or irrational prejudice and impulse” (1942/87: 256 and 262). We cannot here discuss the manifold details of the experimental evidence and their often not unequivocal interpretations.<sup>24</sup> But the overall evidence contradicting Bayesian (or, for that matter Arrowian and Downsian) standards of rational behaviour and learning, is quite impressive.

Much of the evidence can be explained in terms of Simon’s model of bounded rationality. Due to limited cognitive capacities of the mind, individuals rely on rather simple behavioural heuristics and “rules of thumb” which generally “satisfice” learned levels of aspiration, instead of engaging in case-by-case optimisation based on a comprehensive consultation of data and alternative modes of behaviour (Simon 1957; 1978; 1986)<sup>25</sup>. More striking evidence of decision anomalies, biases and mistakes may be explained with “prospect theory” (Kahnemann/Tversky 1984) which claims, among other things, that individuals choose schemata of arranging the outside world which at the moment are most available rather than most “rational”, “objective” or “fruitful”. Such conditions can be exploited by others who manipulate individual decisions by ways of “framing” the context of a decision and thus producing biased results in the framers’ interest (ibid.).<sup>26</sup>

The power of the experimental results on behavioural anomalies and framing effects depends to a large extent on the experimental make-up. It has been rightly argued that one has to be careful in drawing inferences from observing anonymous decisions of isolated individuals playing experimental games in which errors are costless (e.g. Wittman 1995: 41; Smith 1985). Such objections carry much weight when, e.g., financial investment decisions are put to laymen in experiments, that fail to recreate elementary characteristics of such markets - such as the financial stakes, the division of labour or the competitive pressures which help avoid or creatively destroy at least some anomalies (e.g. Thaler 1987). But the peculiarities of *voter* decisions are very well reproduced by experiments with costless errors, anonymous decisions, lack of competitive selection and of a division of labour which would allocate property rights (voting rights) to those who are more specialised, experienced and knowledgeable and who may thus be less vulnerable to anomalous behaviour.

This is exactly what Schumpeter would have expected, who links weaker mental performance with weaker incentives and weaker market forces. Also the “framing” issue

<sup>24</sup> See Tversky/Kahnemann (1987), Kahnemann/Tversky (1984), Quattrone/Tversky (1988), Frey/Eichenberger (1991), Wahlke (1991), Rosenberg (1991), Thaler (1987), Lau/Sears (eds., 1986). In the follow-up to this paper, we will take a closer look at cognitive and social psychology, which is attacked by Wittman (1995: ch. 5) who claims either its overall uselessness compared to the rational optimisation paradigm or its compatibility with the latter.

<sup>25</sup> Different models of „bounded“, „procedural“ or „rule-following“ rationality have been proposed which share most of Simon’s basic assertions. See, e.g. Hayek (1968/78), Fiske/Taylor (1984), Selten (1990), Vanberg (1993) or Denzau/North (1994).

<sup>26</sup> See Quattrone/Tversky (1988) for applications in the political field - including the famous experiment, in which participants were almost indifferent when confronted with policies producing 92% employment or 98% employment – while strongly favouring policies leading to 2% unemployment over those leading to 8% unemployment..

is, of course, just another way to express the major element of Schumpeter's theory of democracy which links "the weaker ... logical element in the process of the public mind" with the "greater ... opportunities for groups with an ax to grind" (1942/87: 263). These groups of political entrepreneurs "are able to fashion, and, within very wide limits, even to create the will of the people" (ibid.). In modern language: if individuals in situations such as produced by experiments and general elections, are susceptible to anomalies, framing and manipulations of contexts, there will be political (mis-) leaders who know the "art of manipulation" (Riker 1986) and use it.

Not all political leadership need be manipulative. Much will be simply formative in a rather innocent way. An important case where political "leadership" and "framing" in a neutral meaning are active and, in fact, indispensable, is the formation of public opinion.

#### 4.2 towards an (Austrian) economics of political opinion formation

„Public opinion“ is no issue in Downsian economics of democracy and Public Choice theory at large. There are good reasons for this. Public opinion is one of the "most controversial, ambiguous, and nontransparent concepts in the social sciences" (Splichal 1999: 1). To make things worse, what most definitions of public opinion do, after all, have in common, contradicts the Downsian or spatial politics perspective more than once: Public opinion is exactly *not* (1) an additive aggregation of (2) isolated individuals' given preferences on (3) given issues. We now present these elements of public opinion in order to highlight some aspects which would be essential for a Schumpeterian theory of democracy, but cannot be dealt with in a spatial politics framework (see Wohlgemuth 2000b for a more comprehensive account).

##### qualitative and cognitive components of public opinion

Private opinions are more than the private preferences, which usually serve as data of economic equilibrium models. As Vanberg/Buchanan (1989: 50) pointed out, preferences consist of a combination of evaluative and cognitive components. They depend on interests in results (what one wants) as well as on theories about the effects of certain actions (what one thinks). The combination of idiosyncratic, subjective penchants and interests (evaluative component) with equally subjective, but fallible and possibly erroneous conceptions, expectations or theories (cognitive component), holds for preferences for economic as well as for political alternatives.

In some respects, the creation of political preferences relies even more strongly on the cognitive component. Preferences for daily consumption-goods can mostly be a matter of taste, thus being unreflective and not affording any justification („de gustibus ...“). The formation of political preferences, however, cannot dispense with „speculative or explanatory views which people have formed about ... society or the economic system, capitalism or imperialism, and other such collective entities, which the social scientist must regard as no more than provisional theories“ (Hayek 1952/79: 64). The citizen who wishes to express an opinion does this with reference to some conjectures about cause and effect (however inappropriate they are in the eyes of „expert“ observers).

Alternatives „do not usually have the courtesy to parade themselves in rank on the drill ground of the imagination“ (Boulding 1956: 84). The "value image" or the „ordering on the scale of better or worse“ of given alternatives, ibid.: 47), which in most of economics of politics exclusively motivates political actors, is only a part of the image which guides human action. And it is not a part which can be properly isolated from other aspects of the image, such as, most of all, the „relational image“ (i.e. the subjective hypotheses on causal systems and regularities in the outside world). This is most important when the static view of democracy as an aggregation of given preferences or pure value orderings is abandoned in favour of a dynamic view of democracy as a process that helps create and change of opinions or value images combined with relational images.<sup>27</sup>

Even after combining individual preferences, interests or tastes with hypotheses, theories and (mis-) conceptions to private opinions, public opinion is not their mere aggregation. As already Lowell (1913: ch. I) pointed out in his classical treatment, the impact of individual opinions on public opinion depends on qualitative rather than quantitative criteria. Whereas in elections the number of votes is only counted but not weighed, contributions to public opinion also depend on the intensity with which preferences are felt, the verve with which they are expressed and the persuasiveness with which the theoretical part of opinions is presented. Thus, a committed minority opinion can override a less interested, less active, less convinced or less convincing majority in the process of public opinion formation and articulation.

##### public opinion as a result of „opinion falsification“

Individual political opinions are not „given“ as exogenous „data“. They emerge and change as results of human interaction and deliberation. In the words of Simon (1983: 75): „We are not monads ... our values, the alternatives of action that we are aware of, our understanding of what consequences may flow from our actions - all this knowledge, all these preferences - derive from our interaction with our social environment“. This interaction creates feedback- and propaganda mechanisms that lead to the creation and stabilisation of public opinions.

Kuran (1995) describes public opinion as the result of social interaction or, more precisely, social pressure. Public opinion is not the aggregation of private preferences, but the „distribution of public preferences“ (ibid.: 17), that is, of publicly articulated views that can differ significantly from what individual's preferences would be in the absence of social pressures. Individuals appraise their own opinion articulation by reference to their estimate of opinions held by those with whom they presently communicate. As a result, individuals

<sup>27</sup> See Wohlgemuth (2000b) for a more detailed discussion of the differences between these two concepts of democracy. The one defines democracy as a „procedure for passing from a set of known individual tastes to a pattern of social decision making“ (Arrow 1951: 2). The other defines democracy as „a process of forming opinion“ (Hayek 1960: 108). In the Arrowian (or Downsian) understanding democracy is a mechanism to aggregate given preferences in a given issue space; and its task is to guarantee the logically consistent rule of a given will of the majority. In the Hayekian (or Popperian) understanding democracy is a process of the formation and discovery of changing opinions on changing issues; and its task is the replacement of incompetent leaders, the creation of knowledge, and the contestability of majority opinions.

engage in what Kuran calls „preference falsification“, that is, preferences are opportunistically „falsified“ by those who carry their true preferences as their inner secret. This notion of “falsification” relates to „truth“ in the sense of their public *expression* being honest („true“) or dishonest (“false”).

As Kuran himself points out, public discourse helps shape private preferences *and* private knowledge (ibid.: 346). But knowledge as embedded in human’s “relational image” is subject to a different kind of falsification. Theories about the world can be right or wrong. Individual experience and inter-subjective exchanges of arguments and evidence can lead to the „falsification“ of previously held views in the sense of learning about flaws or sheer errors of views and theories formerly held to be “true” or at least “sufficient”. A wider concept of “opinion falsification” (see Wohlgemuth 2000b) should thus embrace both: the disguise of true feelings (“preference falsification”) and the discovery of false beliefs (“theory falsification”). It is, therefore, the fear of social isolation and the longing for social prestige, but also the exposure of the embedded theories to falsification by arguments and experience that lets public opinion „rule“ within socially interacting groups.

To be sure, the claim that communication leads to the reconsideration of political beliefs has to remain a modest one and a far cry from Popperian ideals of falsificationalism. As we have seen, social and psychological pressures also have their impact on belief formation. Especially when it comes to political beliefs, cognitive dissonance, selective perceptions and the innate tendency toward self-assuring delusions must be expected to be especially pronounced, since they form the background of “cheap talk” rather than individual decisions. But still, parts of the market-analogy can be applied to political opinion formation: When exchanging political opinions, citizens (and politicians) anticipate the social terms of trade and wish to „sell“ their view. This can induce them to (a) pick “buyers” who most probably support the same basic views, (b) adjust their own views to those one found in a given “market” of opinions or (c) improve the quality of their “product” by backing an opinion with more convincing evidence or logic. The fear of reputational losses, like a seller’s fear of pecuniary losses, urges individuals to constantly check which opinions and modes of behaviour are approved and which are disapproved of in their environment (Noelle-Neumann 1993: 37ff; Kuran 1995: 27). This, in turn, leads into self-reinforcing „frequency-dependency-effects“ as major propagation-mechanisms of public opinion (Witt 1996; Huckfeldt/ Sprague 1995).

Such theories about the inter-relatedness of private and public opinion may be an integral part of a “neo-Schumpeterian” economics of democracy. They may replace Le Bon’s “psychology of the crowds”, which Schumpeter (1942/87: 256ff) used to illustrate “Human Nature in Politics” – well aware of their “vulnerable points” such as their “narrowness of the factual basis” (ibid.: 257). Instead, interactive processes of “image reformulation” (Boulding 1956) or “preference falsification” and the „hidden complexities of social evolution“ (Kuran 1995: ch. 17) triggered by these processes can be valuable contributions to a Schumpeterian agenda.

These models would not only further substantiate important shortcomings of political discourse if compared to the articulation and satisfaction of private preferences on

competitive *markets*. They can also help to formulate some modest virtues of democracy if compared to other realistic methods of *political* decision making. After all, Schumpeter’s theory of democracy also seeks “to clarify the relation that subsists between democracy and individual freedom” (1942/87: 271). While Schumpeter (much like Hayek) claims no necessary relation between majority rule and personal liberties, he (again, like Hayek), acknowledges the value of the “freedom of discussion for all”, which quite naturally follows from the principle that “everyone if free to compete for political leadership” (ibid.: 271f). Under these premises, it is possible to engage in comparative institutional analysis of political systems and argue in a rather Austrian spirit, that democracy can be a “discovery procedure” of such knowledge and opinions as, without resort to it, may not be known or at least not be utilised (see Wohlgemuth 1999).

A more typically Schumpeterian contribution to such an “Austrian” economics of politics can be found in a third deviation from standard assumptions of Downsian Public Choice: political leadership.

#### **political entrepreneurs and the creation of issues**

Just as goods (the objects of interactive price-formation) are not given in a market process, political issues (the objects of interactive opinion-formation) are not given in the political process. Issues have to be discovered or created and then pushed on the agenda. This activity entails costs and affords skills since the public’s attention is fundamentally scarce and ephemeral; it cannot deal with many issues at a time. „Society’s political agenda evidently has a limited ‘carrying capacity’“ (Kuran 1995: 46). Like competition on open markets, competition of ideas and opinions is driven by entrepreneurs.

As Sunstein (1996) shows, many political movements owe the attention to their cause, often associated with a surprisingly strong and sudden change of attitudes of the general public to so-called „norm entrepreneurs“, to opinion leaders who deliberately aim at inducing a swing in opinions and values. In Kuran’s theory, a similar role is attributed to „activists“ with „extraordinarily great expressive needs“ (Kuran 1995: 49) who dare formulate dissenting views and introduce new issues even in face of an apparently hostile or indifferent public. In Boulding’s (1956) chapter on the Sociology of Knowledge, changes in private and public images come about “through the impact on society of unusually creative, charismatic, or prophetic individuals” (ibid.: 75); as “bearers of viable mutant images” - they are “the true entrepreneurs of society” (ibid.: 76).

Political entrepreneurs take advantage of the fact that on many issues no strong and articulated opinions (preferences and theories) exist in the first place. The stock of views and knowledge about some issues is devaluated in the course of time and new problems arise, which cannot be assessed by recurring to established knowledge and ideological shortcuts. With the increasing complexity of political activities and environments the number of issues increases for which there is no public opinion ready at hand, no “issue space” exists and citizens have no idea where to position themselves. With the increasing range of political and legal issues, activities, and alternatives public opinions must become increasingly selective. The German sociologist Niklas Luhmann (1970/75: 16)

concludes (with a tacit innuendo on Public Choice) that the political system is integrated through attention rules rather than decision-rules.

With Luhmann (ibid.: 18f) one may describe the evolution of public opinions much in terms of product life cycles. An issue's „career“ usually starts with a latent phase, during which only a chosen few affected by, or intrinsically interested in, a specific political problem know and discuss the issue. At that point it can not yet be assumed that politicians, media and least „the man on the street“ are willing or able to „take issue“. Some of the latent issues, however, succeed in attracting attention after political entrepreneurs (professional politicians or private agitators) have successfully invested in time, resources and personal contacts.

With a bit of luck and skills these entrepreneurs achieve that the issue is taken up by larger „retailers“ who are used to deal with changing issues in the process of transforming them into political demands and, at the end, into laws and regulations. At this stage, the issue becomes part of „normal politics“: an „issue space“ is created; the media and citizens can take a position, discuss the issue, and expect that others are familiar with the major positions of the contending camps. Often, but not always, the discussion produces a generally accepted point of view, a public opinion that is characterised by a sufficiently large overlap of individuals' images. Only now public opinion „rules“ within large groups within society by means of fear of isolation, preference falsification and knowledge consolidation. And now is the time for adherents of the current common understanding to transform the issue into the political production of platforms, laws, and regulations. If the issue does not reach this stage, it may well lose momentum; it may end up having only ceremonial value as an inconsequential expression of good will.

Among the „issue entrepreneurs“ and „retailers“ in this process parties, interest groups, and the media are the most prominent. And very much like their counterparts in capitalist society, they perform an entrepreneurial function, which is „to reform or revolutionize the pattern of [political] production by exploiting an invention“ (Schumpeter 1942/87: 132). They overcome the resistance of those who cherish „the routine tasks which everybody understands“ (ibid.) by pushing through new issues on the limited agenda that public opinion is able to keep. And, not unlike competition for consumers of any other good, competition among „issue entrepreneurs“ allows at best *temporary* „pioneer“ profits that can be cashed in by innovative creators of new issues. Profits from a monopoly of issue presentation and interpretation tend to disappear with the entry of other opinion makers.

Thus, as already indicated in part 2, it is especially in the field of political (opinion) leadership and (issue) entrepreneurship that Schumpeter's analysis of the capitalist process can be usefully applied also for a more comprehensive analysis of the process of competition for leadership.<sup>28</sup>

<sup>28</sup> Another application along these lines would be to draw from Schumpeter's discussion on „plausible capitalism“ (ibid.: ch. iv) and enter a similarly structured discussion of favourable conditions for „plausible democracy“. In Wohlgenuth (2000a) this was done discussing two political „Schumpeter hypotheses“ for the relations between entry barriers in politics and the incentives and opportunities for political entrepreneurs to invest in long-term positive-sum reforms.

## 5. Outlook

*“Most of the creations of the intellect or fancy pass away for good after a time that varies between an after-dinner hour and a generation. Some, however, do not. They suffer eclipses but they come back again, and they come back not as unrecognizable elements of a cultural inheritance, but in their individual garb and with their personal scars which people may see and touch”* Schumpeter (1942/87: 3)

Mainly by ignoring the „vital fact of leadership“ and by not accepting typical citizens as „primitives“ (Schumpeter 1942/87: 270 and 262), the modern economics of politics left both crucial elements of Schumpeter's „other theory of democracy“ largely unexplored. Especially today's economics of political competition, which is still dominated by spatial voting models in the median voter tradition, can not claim to have Schumpeter as a precursor. To the contrary, we have even found occasions in which modern Public Choice, in terms of fundamental assumptions or of equilibrium results, looked strikingly similar to the classical doctrine, against which Schumpeter's whole thesis was directed.

Hence, it is time to stop referring to the „Schumpeter-Downs theory of democracy“ or celebrating Schumpeter as a pioneer of today's Public Choice. But is it time for today's pioneers to start developing a neo-Schumpeterian political economy instead? A radical brake with Public Choice and a new start with an old book by Schumpeter would be a fatal enterprise – its costs being certainly high and its benefits highly uncertain. As Mitchell (1984: 77) argued:

*“Whatever Schumpeter's contributions to the study of politics, they assume the form not of positive theory in any strict sense, but a ‘vision’ ... a sort of ‘conceptual framework’ profusely illustrated by historical examples and emotively-inspired generalizations about humans ... Schumpeter did not set forth anything resembling a systematic, modern positivist theory of democracy”*

This is not the best recommendation for academic entrepreneurs who set out to succeed in today's academic world. But new combinations of modern (more or less „economic“) theories of democracy and some of Schumpeter's visions and conceptual frameworks may be able to succeed and, in fact, to help Public Choice out of a sterility and stagnation which some critics are beginning to observe.<sup>29</sup>

Perhaps the most urgent and at the same time most difficult task for Public Choice still is to make sense of voter behaviour. Instrumental rationality based on calculations of „utility incomes“ derived from „party differentials“ leads to inner contradictions and provides a poor basis for explanation and prediction. Instead, it seems imperative to take on board cognitive psychology and communication theory in order to get more convincing explanations of how and why citizens vote, how and why they create and communicate their political opinions. In the realm of low cost decisions, homo oeconomicus finds not enough reasons to act as he should and the economist finds not enough reasons to expect the same results „as if“ the homo oeconomicus was still out

<sup>29</sup> See, e.g. many contributions to Rowley/Schneider/Tollison (eds. 1993), to Monroe (ed., 1991), or the controversial discussion of Green/Shapiro (1984) in the Critical Review, vol. 9 (1995). See also Udehn (1996) or Quiggin (1986).

there. If the defences, which still hold rather strong in the economics of economics, brake down in the economics of politics, Public Choice is in trouble. But instead of giving up the field, it seems advisable to seek allies, e.g., from theories of bounded rationality, cognitive dissonance, prospect theory, belief formation or preference falsification. These theories are much in line with Schumpeter's "vision", but they provide "conceptual frameworks" which are more robust and more reconcilable with economic analysis than Schumpeter's classic-style generalisations.

The second major topic on the Schumpeterian agenda, political leadership, seems to be less difficult to introduce with new combinations within the overall research programme of Public Choice. However, mainstream neoclassical theory's problems to integrate entrepreneurship and innovation into its conceptual frameworks hardly spur optimism that political entrepreneurs may soon be accorded a vital role in Public Choice. Here, above all the assumptions of given preferences and given "issue spaces", together with the view that democracy is a static aggregation method, effectively block the entry of the political leader. However, other economic paradigms such as Evolutionary and Austrian economics, but also Institutional Economics and Industrial Organisation have provided a large stock of theories that may, to a certain extent be generalised and (with caution) also applied to the political field (see Wohlgemuth 2000a, 2001).

The difficult choices that "neo-Schumpeterian" new combinations in Public Choice would have to make are, again, best described in Schumpeter's own words quoted from a letter written only a few months before his death<sup>30</sup>:

"The main difficulty in the case of economics is to give full scope to the socio-psychological and sociological view without sacrificing at the same time the purely analytic filiation of scientific ideas, which asserts itself all the same."

<sup>30</sup> Schumpeter (2000: 393; letter to William A. Weisskopf, dated November 18, 1949).

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