THE FATAL DECEIT OF PUBLIC POLICY: CAN AUSTRIAN AND PUBLIC CHOICE ECONOMICS COMPLEMENT EACH OTHER?

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I
INTRODUCTION

In the past few decades many economists who situate themselves in the Mengerian Tradition have tried to come to grips with the following question: what is the relationship between Austrian Economics and Public Choice? Can a common ground be established between the two? To the extent that the Virginia school of Public Choice emerged out of the Chicago public finance tradition[1] (James Buchanan was a student of Frank Knight), one would doubt that —except for a broadly shared classical liberal outlook— the two research programmes can have many things in common. In their book *An Austro-Libertarian Critique of Public Choice* economists Thomas di Lorenzo and Walter Block (2016) demonstrate, in fact, how scholars within this tradition rely on too much neoclassical formalism that leads them to part company with both Austrians and Libertarians at the level of positive and normative analysis. Similar criticisms were brought forward by Murray Rothbard (1960), Hans Hermann Hoppe (1993; 2001; 2004) and Joseph T. Salerno (2014). Rothbard, in particular, was appalled at the attempt by Buchanan and Tullock to use the framework provided by

[1] There exist indeed very important foundational differences between the Austrian and Chicago school that span, among other things, across methodology, capital and business cycle theories and the field of Law and Economics. For a concise analysis of these differences see Murphy (2014).

neoclassical economics (built upon mechanical physics and embedded in a positivist methodology that insists on the importance of starting with unrealistic assumptions for constructing models that possess predictive value) to build a value-free political analysis that, in contrast with “orthodox political theory”, viewed the state, ultimately, as just another type of voluntary agency within the broader division of labour[2]. For this reason, Rothbard (2011: 932) concluded that “this ‘economic approach’ to politics far from the great advance they think it is… is the death knell of all genuine political philosophy.”

Despite all these conceptual errors, however, as Peter Boettke and Edward J. López (2002:112) point out, Public Choice, intended as the extension and application of the economic way of thinking to the study of collective decision-making, has stressed the importance of methodological individualism as well as a “commitment to the unification of the social sciences on the foundation of a rational choice model”. At its very basis, “The public choice school of economic thought”, writes Walter Block (2005), “is dedicated to the notion that political choices and decision making may be profitably studied using the tools of economic analysis”, an idea that can indeed find resonance in the work of most Austrian economists. In Human Action, Ludwig von Mises (1949), in fact, presents Economics as a part of a broader social science (Praxeology) that is devoted to the study of all processes of human action and interaction (thus including both political action and interaction). “Ludwig von Mises”, in the words of Jesús Huerta de Soto (2009: 251), “was one of the most important forerunners of the School of Public Choice, which studies, using economic analysis, the combined behaviour of politicians, bureaucrats and voters. This approach,

[2] On page 19 of The Calculus of Consent, Buchanan and Tullock (1962) state: “The market and the State are both devices through which co-operation is organized and made possible... The individual enters into an exchange relationship in which he furthers his own interest by providing some product or service that is of direct benefit to the individual on the other side of the transaction. At base, political or collective action under the individualistic view of the State is much the same. Two or more individuals find it mutually advantageous to join forces to accomplish certain common purposes. In a very real sense, they ‘exchange’ inputs in the securing of the commonly shared output”.

which today has reached a high level of development under the auspices of theorists like James M. Buchanan (winner of the Nobel Prize for Economics in 1986), fits in perfectly with the broad praxeological conception of economics developed by Mises, who considered that the goal of our science was to build a general theory of human action in all its varieties and contexts (including, therefore, political actions)".

In his *Estudios de Economía Política,* Jesús Huerta de Soto (2004) stresses, in particular, Mises (1944) book on *Bureaucracy* as a modern precursor of Public Choice. In this book, Huerta de Soto underlines, Mises (1944) develops, as a by-product of his theorem of the impossibility of rational economic planning under socialism, a comparative theoretical analysis between profit management and bureaucratic management. In *The English Constitution* Walter Bagehot (1873: 165) aptly observed that while "a bureaucracy tends to under-government, in point of quality; it tends to over-government, in point of quantity" for "functionaries are not there for the benefit of the people, but the people for the benefit of the functionaries." What Mises accomplished was to ground Bagehot's empirical observation on sound economic reasoning, placing the blame on the methods in use within the government sector and not in the individuals themselves: "The fault is not with the men and women who fill the offices and bureaus. They are no less the victims of the new way of life than anybody else. The system is bad, not its subordinate handymen" (Mises, L 1944: 17).

In spite of the above disagreements among various Austrian economists regarding the complementarity of both approaches, the following essay will try to underline the importance of grounding the insights of Public Choice within the theoretical framework developed by the Austrian school when it comes to analysing public policies. The basic argument is that Austrian Economics provides the only correct foundation of Public Choice Economics and that the latter's empirical consideration regarding narrow political interests on the part of politicians and bureaucrats, if supplemented by the essentialist and dynamic depiction of the market process that characterizes the Mengerian tradition, can provide an important analytical framework that allows to weigh the incentive structure of different political arrangements as well as (and this is more important still) a thymological tool that enables one to see the invisible intentions behind proposed public policies. As a thymological tool Public Choice analysis, grounded on the Austrian dynamic conception of the market process, might prove of extreme value both to entrepreneurs (who can better anticipate the evolution of public policies and therefore employ their ingenuity to anticipate such circumstances) and to historians (who will be able to engage in a more realistic process of revisionism)[3].

The paper will be divided into five sections. In section 1 we will briefly define and examine what is meant with the term public policy and define both its nature and scope. Section 2 will dive into an analysis of Public Choice and show how it revolutionised the way in which social scientists in general and economists in particular have approached the democratic political process. Section 3 will highlight some of the main drawbacks of the neoclassical model of equilibrium on which Public Choice rests and show how the Austrian theory of the market process, driven by competition and entrepreneurship, provides a more solid foundation for analysing, for example, the behaviour of legislators, rent-seeking actors and the voting public. Section 4 will analyse the topics of Competition and Monopoly as well make an excursus into the real historical origins of Antitrust to show how the use of a unified Austrian-Public Choice framework can enrich our understanding from both a theoretical and historical perspective. A conclusion will end the paper.

II
THE NATURE AND SCOPE OF PUBLIC POLICY: THE FATAL CONCEIT

Before diving into an analysis of the Public Choice and Austrian traditions, we need to answer the fundamental question of: what is

[3] Let's remember how Mises (1949: 58) linked, through praxeology, the function of entrepreneurs (acting man) with that of historians: "Acting man looks, as it were, with the eyes of a historian into the future." Huerta de Soto (2012: 23) adds an interesting subtlety: "A Historian is a man who looks at the past, as it were, with the eyes of an entrepreneur".

the distinguishing nature of public policy? Following the treatment given by Óscar Rodríguez Carreiro (2017) in his doctoral thesis "Las Políticas de La Industrialización" public policy may be defined in broad terms as an action or set of actions carried out by the state in order to solve problems that are deemed to be of social importance. In this sense, the distinguishing feature between normal governmental policies and public policies is the fact that the latter refer to a long and intentional process composed of a series of actions that is carried out in order to solve a problem of public interest that is (thought to be) already in existence. In the words of Christoph Knill and Jael Tosun (2011: 374), "Policies are government statements of what it intends to do or not to do, including laws, regulations, decisions, or orders. Public policy, on the other hand, is a more specific term, which refers to a long series of actions carried out to solve societal problems. Hence, (public) policies can be conceived of as the main output of political systems".

Given this definition one can see therefore that public policies exhibit at least three important attributes. Firstly, they are passive. What this means is that the problems to be solved emerge outside the political realm and are not (supposedly) created by the process of public policy formulation and implementation. Secondly, they involve intentionality (the establishment of an end) and time (the process involves a series of actions in order to be conceived and implemented). Finally, the plan that is formulated appeals (at least in its rhetoric) not to a specific interest of time and place, but to general interests which are considered to be conducive to the public good. Influenced by the birth of cybernetics in the second half of the 20th century, authors such as Lasswell attempted on the basis of this triad — adaptation-intentionality-public good— to create a completely integrated theory that incorporated both descriptive and technical information. In 1951 Lasswell came up with his model of the policy cycle which was later revised by other authors. According to Howlett and Ramesh, (2003: 13) the policy cycle is composed of five linear stages: 1) problem identification and agenda-setting; 2) policy formulation; 3) public policy designation and approval; 4) policy implementation and finally 5) policy evaluation (Howlett and Ramesh, 2003:13).

This way of conceiving public policy formulation, however, is not only simplistic but — ultimately ignores the extent to which society cannot be organized in a mechanistic way. Proponents of public-policy fall thus in what Friedrich Hayek (1988: 27) would call the fatal conceit which is the wrong and pretentious belief that "man is able to shape the world around him according to his wishes." It is important to note that Hayek's critique is independent of the motivations behind public policy formulation as well as the way in which they are thought out and brought about for, even in a case of a benevolent despot who recognizes a social problem and sets himself the task of resolving it through the use of coercive commands, will lack the relevant knowledge of time and place needed to ascertain the most economical solution among the potential alternatives (from the point of view society). Even economists such as Vilfredo Pareto (1897) and Enrico Barone (1908) who in a first approximation believed that one could coordinate society's divergent economic plans through the resolution of a complex system of simultaneous equations, were forced to admit that the only way to gather the relevant knowledge to correctly formulate and resolve such equations would be to let the market order do its job freely without external obstacles (Huerta de Soto, J, 2011: 115-117). In Pareto's (1897: 233-234) own words "As a practical matter… if all these equations were actually known, the only means of solving them would be to observe the actual solution which the market gives."

Ultimately organizing society according to one's wishes ends up destroying the social order. As Mises (2015:296-297) would say in *Socialism*: "To seek to organize society is just as crazy as it would be to tear a plant to bits in order to make a new one out of the dead parts… All attempts to coerce the living will of human beings into the service of something they do not want must fail. An organization cannot flourish unless it is founded on the will of those organized and serves their purposes." A similar point was made in 1849 by Gustave de Molinari when he went after the democratic socialism of Jean-Jacques Rousseau (1712-1778) as well as the monarchical absolutism of Joseph De Maistre (1753-1821). According to the Belgian anarcho-capitalist neither of the two philosophers understood the spontaneous order of society and the market: "If it were true that society were not naturally organized, if it were true that the laws which govern its motion were to be constantly modified or remade, the legislators would necessarily have to have an immutable, sacred authority. Being the continuators of Providence on earth, they would have to be regarded as almost equal to God. If it were otherwise, would it not be impossible for them to fulfil their mission? Indeed, one cannot intervene in human affairs, one cannot attempt to direct and regulate them, without daily offending a multitude of interests" (Molinari, G, 1849: 43).

III
POLITICS WITHOUT ROMANCE: THE CONTRIBUTION OF THE PUBLIC CHOICE SCHOOL TO THE ANALYSIS OF PUBLIC POLICY

The Hayekian and Misesian argument against central planning and interventionism (the former centred more on the impossibility of centralizing knowledge which is disperse, subjective and tacit while the latter on the impossibility of generating economically meaningful prices in a setting where the intellectual division of labour is hampered) ignores the benevolence of the people in charge. This is not because it deems such information unimportant but, as Randall Holcombe (2014: 47) has pointed out, "rather because even if one assumes that everyone in government is public spirited and tries to do the best they can to further the public interest, they still cannot do it, because without market prices rational economic planning is not possible." To the extent that the Austrians wanted to arrive at formulating the foundational problem that underlies any socialist community, they granted the socialists that planners would be completely public spirited. It was the focus of the writers within the sub-discipline of public choice to investigate whether —even if one grants that agents involved in the political decision-making process possess perfect knowledge— that assumption was theoretically sound to begin with. Sanford Ikeda (2003: 65) summarised well the starting points of these two research programmes: while Austrian Political Economy focuses on the "divergence between intended and actual outcomes", Public-Choice centres upon the “divergence between announced and actual intentions”. According to Richard Wagner (1989: 46-47), in fact, Public Choice theory can be seen as “a proposition about inferring intentions from outcomes…”

Before the Public-Choice revolution of the 1950’s and 60’s, as suggested by the way in which thinkers such as Lasswell intended the nature and scope of public-policy formulation and implementation (see section 1), the basic idea was that analysing people’s behaviour within political institutions was something that concerned political science rather than economics. The consequence of such credo was the birth of what is now known as the public interest view of political action. This view, writes William F. Shugart II, portrays public servants “as benevolent “public servants” who faithfully carry out the ‘will of the people’… tending to the public’s business, voters, politicians, and policymakers are supposed somehow to rise above their own parochial concerns.” Applied to the field of economics this view had some very negative consequences. Starting in the beginning of the 20th century many economists —such as A.C. Pigou for instance— which had been trained in neoclassical welfare economics began to theorize on the many ways in which markets diverged from an ideal, optimal solution. Market failures, as these were called, were situations, according to these economists, in which the invisible hand of the market did not channel resources to their optimal use as established from the graphical and numerical information contained in the supply and demand graphs of mathematical economics. Examples of market failures according to Vani Borooah (2003) included: 1) imperfect competition or market power 2) externalities, 3) public goods and 4) asymmetric information. The Theory of Market Failure coupled with the public interest view gave rise to the following triad: Markets are Imperfect; 2) Perfection is the goal; 3) Therefore, the government must intervene in order to correct market failures (Di Lorenzo and Block 2016: 1).

According to Eamon Butler (2013), the Public Choice critique of the public interest view has its origins in the 18th century. David Hume, for instance, already in his 1752 essay on Parliament denounced the greedy and self-interested behaviour of government officials and urged his fellow citizens, when it came to setting down the rules of the game, to protect themselves by viewing such officials as unscrupulous men to begin with. Other predecessors of the Public Choice movement during this age were Marquis de Condorcet and Jean-Charles Boda who conducted studies of the perverse incentives and outcomes of democratic processes (Butler, E 2013). The real birth however of what would then become the Virginia school of political economy occurred in the 1940's and 1950's with the works of Duncan Black (1948), Kenneth Arrow (1951) and Anthony Downs (1957) on the failure of democratic processes to live up to its expectations and translate, unequivocally, citizen's preference scales into the political voting platform. By grounding the study of public policy on the neoclassical view of profit and utility maximization on the part of individual decision-makers, the studies by the latter economists brought James Buchanan and Gordon Tullock to conceive of their research agenda as the de-romanticized study of politics —or of non-market decision making, as it was initially called. Their main innovation was not to have pointed out that politicians are self-interested, but that people involved in collective decision-making —whether in their capacity as voters, legislators or bureaucrats— are essentially the same as those involved in the unfolding of choices in the (private) market. For this reason, if one assumes individuals to be rational as well as guided by economic self-interest when they deal with one another through the process of the market one must also assume the same when such individuals interact through the political process. Postulating this "behavioural symmetry" between market and political agents led these leaders of the public choice revolution to recognize that one must analyse politics as an exchange process in which different actors interact so as to improve their well-being (Horwitz, S 2013). Or, to phrase it in the words of Samuel Warrens (1980: 57), to recognize that "government is a mechanism, like markets, through which individuals act collectively to improve their private utility".

Consequently, just like in the analysis of the market economy where the analyst seeks to explain the coordinating and welfare enhancing process that continuously takes place by appealing to the nature of production, consumption and distribution in an institutional environment that respects private property and freedom of exchange, the public choice theorist —contrary to the public interest view of government which focused on putting the right people in command— has attempted to make political agents intelligible in terms of purposive human action and show the unintended consequences of such actions in the context of political markets (Boettke, P 1987). The immediate effect of this new focus was to destroy the automatic resort to public intervention on the basis of blackboard identified market failures and ultimately, by exposing social scientists and economists to the imperfection of politics that resulted from both the missing information and the distorted incentive structure which prevails in the formation and enforcement of collective decisions, to set forth a theory that identified governmental failure as a much more recurrent, severe and long-lasting problem in modern democracies. As James Buchanan (2003: 4) himself wrote: "Public choice… came along and provided analysis of the behaviour of persons acting politically, whether voters, politicians or bureaucrats. This analysis exposed the essentially false comparisons that were informing so much of both scientific and public opinion. In a very real sense public choice became a set of theories of governmental failures as an offset to the theories of market failures that had previously emerged from theoretical welfare economics." The new triad thus became 1) Government is imperfect; 2) Perfection is the goal; 3) Thus privatization of government services should be extended as much as possible and bureaucrats be replaced with private, profit-seeking entrepreneurs (Di Lorenzo and Block 2016: 1).

IV
THE AUSTRIAN THEORY OF POLITICAL ENTREPRENEURSHIP AND THE SEARCH FOR CAUSAL – REALIST FOUNDATIONS OF PUBLIC CHOICE

One of the foundational concepts of Public Choice is that of "rent-seeking". Although the label was coined by Anne Krueger (1974) the concept of rent-seeking originated with Gordon Tullock (1967) and refers to that process in which economic agents employ scarce economic resources not for the production of valuable consumer goods but to earn or preserve positions of rent (Bassani, M and Mingardi, A 2015: 267). In the words of Gordon Tullock (2002:43) rent-seeking is defined as "the use of resources for the purpose of obtaining rents for people where the rents themselves come from some activity that has some negative social value." Classic examples of rent-seeking include the lobbying of an individual or firm for a subsidy, a tariff on imported goods or for higher regulations on potential competitors: in all of these actions the political arena is used by various competing groups as an instrument to benefit themselves at the expense of others (Henderson, D 2011).

Although the concept of rent-seeking tries to give a realistic economic foundation of the interaction between special groups and government officials, it suffers from many problems related with its foundations in neoclassical price theory. As has been mentioned above the basic analytical tool used by public choice economists in their study of political institutions is that developed across the years by the neoclassical school grounded in Marshallian equilibrium theory. Markets, according to Buchanan, Tullock et all are, in fact, considered to be perfectly competitive[4] and both firms and economic agents are depicted as rational profit/utility maximizing functions who react passively to the given state of affairs. When applying this model to the economics of political decision-making in general and to the practice of rent-seeking in particular, thus, whether implicitly or explicitly these authors neglect the importance of entrepreneurship and real competition in driving resource allocation through the political arena. By postulating a world made up of economic men who have automatically absorbed all the relevant information regarding which ends are worth pursuing and how best to achieve them, the function of entrepreneurial competition is simply wished away. For, as Hayek (2002) stressed multiple times, in a world in which everybody knew all the relevant present

[4] A perfectly competitive market, according to Paul Heyne, Peter J. Boettke and David Prychtiko (2003: 213) is characterized by the following five characteristics: 1) a large number of buyers and sellers, 2) full and perfect information of the relevant data on the part of all market participants, 3) the sale of homogenous products on the part of sellers, 4) costless mobility of economic resources and 5) the price taking function of market participants.

and future data of economic activity from the start, the market process of entrepreneurial competition would simply be redundant and wasteful. To bring this point home Hayek (2002: 9) used the following analogy*:* "In sporting events, examinations, the awarding of government contracts, or the bestowal of prizes for poems, not to mention science, it would be patently absurd to sponsor a contest if we knew in advance who the winner would be."

The absence of entrepreneurial creativity and of real competition can be seen in the way standard public choice analysis depicts the interactions between interest groups and politicians. As noted by Di Lorenzo (1988) political entrepreneurship in the public choice literature is depicted in a market like fashion: interest groups, on the one hand, make up the demand side of the market for wealth transfers, while the tax paying voters form the supply side of such markets. In this scenario, lured by what might be called political profits, the function of politicians, much like any firm in the market, is to passively react to the existing discoordination between suppliers and demands and act as a successful middleman between interest groups and tax paying voters. From the point of view of the Austrian school of Economics this view, however, presents two major flaws. Firstly, to talk about the market for wealth transfers is to misconstrue or ignore the essential characteristic of the market economy: voluntary exchange among all market participants. If suppliers (tax paying voters) are forced to comply with demanders (interest groups) via government coercion, no free market can be said to exist. The peril of viewing things this way is ultimately to ignore and underestimate the distinct essence of political rent-seeking vis a vis the profit-seeking that takes place in a market setting. For, as Sandford Ikeda (2003) has boldly pointed out, "The difference between profit-seeking and rent-seeking is akin to that between peaceful trade and armed robbery. Both require time, energy, and skill, but one creates wealth while the other destroys it; one encourages peaceful cooperation, the other undermines it." According to McCaffrey and Salerno (2011: 553) from a Praxeological and Misesian point of view, in fact, political entrepreneurship, in contrast to market-based entrepreneurship, "consists in the direction of coercively obtained resources by the state toward processes of production which would not otherwise have taken place."

The characteristic word in such definition is "coercive". This confusion between what the sociologist Franz Oppenheimer (1908) called the economic means and the political means of acquiring wealth, is indeed widespread in the public choice literature and derives from the belief that, since the political process in general and the interaction between politicians, bureaucrats and interest groups in particular, can be successfully studied using the assumptions, methods and tools used to analyse and describe the market process, mutual gains from trade can be had through government just as much as through the market. In the words of Buchanan and Tullock (1962: 23): "The economic approach, which assumes man to be a utility — maximizer in both his market and his political activity, does not require that one individual increase his own utility at the expense of other individuals. This approach incorporates political activity as a particular form of exchange; and, as in the market relation, mutual gains to all parties are ideally expected to result from the collective relation".

Secondly it is not true that real life entrepreneurs, whether they be political or not, react to given and exogenously determined market conditions. As Di Lorenzo (1988: 66) has stressed "in a world of uncertainty, producers are constantly searching for and creating profit opportunities by advertising, offering new or different products, and other activities aimed at stimulating the demand for their goods or services… Similarly, political entrepreneurs do not just passively respond to interest-group pressures; they also try to stimulate the demand for "their services", i.e., the provision of wealth transfers." Understanding both the essential difference between political and economic entrepreneurship as well as the creative and ultimately ingenious way in which political actors attempt to increase their "market share" (for example by amplifying emergency situations) is important in order to build public-choice economics on more realistic foundations and to avoid underestimating, as a consequence, "the destructive effects of politics" (Di Lorenzo, 1988). For not only does politics come up with counterproductive solutions to 'perceived' social problems, but itself seeks to create, and denounce 'social problems' that are not so or that did not exist prior to its interventions, with the purpose of extending, ultimately, its tentacles over society and the market.

This aspect was exposed very well by Joseph Alois Schumpeter (1942) when he openhandedly criticized the 18th century classical doctrine of democracy. This view held that the democratic arrangement is the only one capable of bringing about the common good because it allows the people to decide through the appointment of elected representatives motivated solely by the purpose of implementing the popular will. Central to this doctrine were thus two key ideas: first the popular will is considered as autonomous, or strictly speaking, as reflecting an underlying, original, effective and mostly rational volition on the part of the individual; secondly the elected representatives are seen simply as passive enforcers of such exogenously determined will. This, however, as Schumpeter acknowledged, was wishful thinking. For as citizens move from the sphere of family and business life and enter into that of politics, he noted, they progressively lose sense of reality. This comes as a result of the fact that the national and or international interests which occupy primacy within the political process have little or no relation with their private concerns, actual wants and the day to day practical knowledge that they possess. To the extent that having a sense of reality or a "constrained vision" —to borrow an expression from Thomas Sowell (1987)— is essential to foster responsible action and to form an active will, its absence, according to the Austrian economist not only breeds irresponsibility but ultimately makes it impossible for any effective volition to form. As Schumpeter (1942: 261) put it: "This reduced sense of reality accounts not only for a reduced sense of responsibility but also for the absence of effective volition. One has one's phrases, of course, and one's wishes and daydreams and grumbles: especially, one has one's likes and dislikes. But ordinarily they do not amount to what we call a will —the psychic counterpart of purposeful responsible action. In fact, for the private citizen musing over national affairs there is no scope for such a will and no task at which it could develop."

This situation, characterized, so to speak, by the absence of "the rationalizing influence of personal experience and responsibility" ultimately creates an enormous profit opportunity for political actors to fabricate a will that best suits their interests: "Human

Nature in Politics being what it is, they [politicians] are able to fashion and, within very wide limits, even to create the will of the people. What we are confronted with in the analysis of political processes is largely not a genuine but a manufactured will. And often this artefact is all that in reality corresponds to the volonté générale of the classical doctrine. So far as this is so, the will of the people is the product and not the motive power of the political process" (Schumpeter, 1942: 263). Not surprisingly, given the depth of his analysis, James Buchanan (2001) in a lecture describing his intellectual pilgrimage, referred to Schumpeter as one of the most notable predecessors and contributors to the public choice framework. Yet, unlike Buchanan himself, Schumpeter correctly understood that the nature of political entrepreneurship lies in the non-consensual extraction of resources from the private sector and their redirection toward the satisfaction of political ends: "the state has been living on a revenue which was being produced in the private sphere for private purposes and had to be deflected from these purposes by political force." For this reason, he concluded: "The theory which construes taxes on the analogy of club dues or of the purchase of the services of, say, a doctor only proves how far removed this part of the social sciences is from scientific habits of mind" *(*Schumpeter, 1942: 198).

V
APPLYING THE AUSTRAN-PUBLIC CHOICE FRAMEWORK: COMPETITION; MONOPOLY AND ANTI-TRUST

One of the most fruitful applications of both the Austrian and Public choice paradigms has been made in the fields of competition, monopoly and anti-trust (Di Lorenzo, T and High, J 1988). Until the 20th century, the dominant definition of monopoly was the one inherited from the English tradition of common law jurists of the 16th and 17th which saw its major expression in Lord Edward Coke. The definition of monopoly thus given by these common-law jurists was unequivocal: "monopoly is a grant of special privilege by the State, reserving a certain area of production to one particular individual or group" (Rothbard, M 2009: 669). It is important to stress that this view was also the common one among economists for generations and generations. From Adam Smith (1776) up to Frank Knight (1921) who formulated the static model of perfect competition, with few exceptions, the standard view among economists was that the market was by its own nature —to the extent that it allowed the freedom of entering and existing different contractual relationships— competitive (Rothbard, M 2012). Competition was thus viewed in terms of processes as opposed to end states and the only thing therefore that could hamper this process of continuous rivalry for human betterment was institutional state interference. The following passage — an article on monopoly published in the Penny Cyclopedia in 1839— is telling: "It seems then that the word monopoly was never used in English law, except when there was a royal grant authorizing some one or more persons only to deal in or sell a certain commodity or article. If a number of individuals were to unite for the purpose of producing any particular article or commodity, and if they should succeed in selling such article very extensively, and almost solely, such individuals in popular language would be said to have a monopoly. Now, as these individuals have no advantages given them by the law over other persons, it is clear they can only sell more of their commodity than other persons by producing the commodity cheaper and better" *(*Stigler, G 1973: 6).

This view however was held insufficient by many intellectuals at the turn of the past century, as big businesses were establishing themselves in the market. Economists thus began to talk about the detriments of market power such as that possessed by natural monopolies. The concept of a natural monopoly puts emphasis on the size, grandeur and power that big firms can acquire within the market, as a result either of Economies of Scale, Network economies or a control over essential facilities such as water, gas, or oil. All these processes indicate that, as output increases and as a company gets bigger, the average costs of production decrease dramatically. Example of these 'natural' monopolies have been attributed to big brands like Boots, the leader in the pharmaceutical industry, or to the Italian owned firm Luxottica, a great player in the sunglasses sector. Throughout many of the past centuries, however, legal monopolies have been the most detrimental; one could take the Ancient Roman Aedile that practiced the policy of the Annona (establishing total control over the supply of grain since 494 BC) , the old British East India company (that controlled foreign Indian trade after the royal charter of the 17th century), the Compagnie de Ouest in France after 1908s act or the American Postal Services since 1871.

Unlike the atomistic firms under a perfectly competitive market that are simply 'quantity-adjusters', in fact, natural monopolies can be extremely beneficial to consumers, in that their power to influence their markets lies in the capacity to reduce average costs and prices and therefore serve the consumer better and more cheaply. According to Jeffrey Perloff (2012: 343) this was the case of Henry Ford: his "Methods of organizing production using assembly lines and standardization allowed him to produce cars at lower cost than rival firms", ending up transforming the lives of common American men. It was also the case throughout the industrial second half of the 19th century of the robber barons like John Rockefeller who in 1897 outcompeted his rivals by bringing the price of petroleum from 30 to 5.9 c per gallon, or with magnate Cornelius Vanderbilt, the steam engine entrepreneur, who lowered his steamboats fare by 95%. Product development, market innovation, increased output and lower prices were indeed the general result of these "natural monopolies". "During the 1880s", writes historian Thomas Woods (2004: 99), "output of 'monopolistic' industries grew seven times faster than the overall economy. And prices in these industries were generally falling —even faster than the 7% rate of decline that occurred in the economy as a whole." In a more recent article Thomas Woods (2012) urged common sense citizens to thus consider these monopolists as "benefactors of mankind to be praised, not villains to be condemned".

However, in defense of anti-trust legislation during the early 20th century, a phenomenon called 'predatory pricing' was attributed to these large scale enterprisers for it was believed, that in a free market big businesses had continuously offset their competitors by selling goods below market costs (thereby incurring in temporary losses) until these competitors would be pushed out of business; once these were gone, prices were back up again. This historical claim however was demolished by Dominick Armentano (2007) who, after analyzing the antitrust cases of the Standard Oil of New Jersey (1911), the Aluminum Company of America (1945) and of Microsoft (2001) concluded “that the firms indicted.. were generally increasing market output, lowering market prices, and innovating”. He followed with a two-folded theoretical discharge: large companies would find it “inherently expensive” to sell below cost prices, as their losses would spill on a greater market share; furthermore, the moment these firms would decide to bring prices back up again, newcomers would be able to penetrate again: “competitors would likely return when and if prices were increased to profitable levels”. The deterrent against long-term economic freeze and noncompetition is the situation of incomplete knowledge to which natural monopolies, just like every market participant, are susceptible. Their “lack of omniscience”, in fact, is what causes them not to “ be permanent, as the mere absence of current rivals does not preclude the emergence of future rivals”(Shapiro, M 1985). The most prolific example was that of IBM: until the 1980s the company dominated the computer industry and was considered a monopoly, yet the decision by CEO Watson not to follow up on Apple’s investment in personal computers brought to the dissolution of its predominance (Salerno, J 2000).

So the question comes: if supposedly monopolistic industries haven’t done anything expect making consumers better off, why did Anti-Trust Laws arise toward the latter part of the 19th century? In a thoughtful article dating back to 1985 Thomas J Di Lorenzo combined Austrian economic analysis with the pub- lic-choice view of politicians as “brokers of legislation”[5] in order to give a logically coherent answer as to the origin of the Sherman Act of 1890, the first national anti-trust legislation. Di Lorenzo (1985: 80) starts by showing how between 1880 and 1890 the industries that during the Congressional record of the 51st congress had been labeled as ‘monopolistic’ “were expanding much faster than the economy as a whole, a phenomenon that has been overlooked by those who adhere to the standard account of the origins of antitrust.” In the meanwhile, however, he points out, certain farmer

5 This term was coined by Tollison and McCormick (1981).

organizations, such as the Grangers and Farmer's Alliance, despite employing the rhetoric of "land monopolies", began to strongly lobby for government regulation that would hinder their competitors and discourage the development of large-scale industrial farming.

This embryonic movement which began in the 1880's at the state and local level would then end up laying a huge part in the enactment of the first anti-trust law. Evidence of this is the fact that the Sherman act was initiated and passed in the US senate and at that time the Senate was directly elected by state legislatures (Di Lorenzo, T and Boudreaux, D 1993). According to the author the Sherman act is to be interpreted as a classic case of special interest legislation that had two essential purposes: 1) To isolate certain groups or firms —especially small businessmen engaged for the most part in farming— from competitive pressures in their industry of large-scale production and 2) Satisfy voters who, during the age of the so-called Robber Barons, had become extremely envious of the wealth that private entrepreneurs had recently accumulated and were thus reluctant to adapt to the new economic circumstances. In order to support the claim that the Sherman act was an anti-competition law, Di Lorenzo (1985: 87) quotes John Sherman himself. During the debates over his Bill, Sherman admitted that his attacks on these new trusts was due to the fact that they "subverted the tariff system; they undermined the policy of government to protect… American industries by levying duties on imported goods." The Sherman Act of 1890 is thus a perfect example of how political entrepreneurs —rent-seekers and politicians— have actively cooperated in detriment of the larger public, by ingeniously concentrating the benefits and diffusing the costs (Olson, M 1965).

VI
CONCLUSION

This paper began by defining the concept of Public Policy and showed why the very idea of Public Policy formulation is an example of what Hayek defined as the Fatal Conceit. While the Austrian

Tradition and the sub-discipline of Public Choice have deep methodological and analytical differences (see the introduction), it is the contention of this essay that if grounded upon a more realistic and dynamic theory of the market process (such as the one developed by Mises, Hayek, Rothbard and Kirzner) the empirical observation of narrow self-interests on the part of political actors —whether they be voters, bureaucrats or politicians— that characterizes the Virginia school of political economy, can shed light on the importance of different institutional settings in fostering the correct incentive for correct problem solving. More importantly, however, and this has been the main emphasis of the paper, the Public Choice view of *Politics without Romance* coupled with the *a priori* and theoretical apparatus developed by the Austrian school may enrich our understanding of public policies both of the past (qua historians) and of the future (qua entrepreneurs). In the last section —which dealt with issues of competition, monopoly and anti-trust— we have tried to present an example of where these research programs may converge and how scholars within the Austrian tradition, such as Thomas di Lorenzo (1985) and Donald Boudreaux (1993), have actually done so by providing a nicely integrated view that ties the theory, history and sociology behind public policies.

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