



Democracy and Opinion Falsification: Towards a New Austrian Political Economy

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Abstract. Hayek's view of democracy as a process of forming opinion is taken as a starting point for inquiring into issues largely neglected by Public Choice and Constitutional Economics. In an Austrian perspective, fallible individual knowledge, political entrepreneurs and dissenting minorities attain a distinctive role in the process of political competition. Based on the observation that political opinions consist of preferences and theories, the concept of "opinion falsification" is introduced. It is a spontaneous result of social interaction creating "preference falsification" – the disguise of true feelings, but also "knowledge falsification" – the discovery of false beliefs. Democratic constitutions can limit the scope of preference falsification and increase the potential for knowledge falsification, thus supporting Hayek's view that "it is in its dynamic, rather than its static, aspects, that the value of democracy proves itself".

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1. Introduction: Austrian Economics and Public Choice

There is no Austrian variant of Public Choice economics.² Public Choice, or the positive analysis of politics applying the same tools and concepts as used for the positive analysis of economic phenomena, is neoclassical economics. True, Austrians have studied political systems and political ideals. The state, its power and institutions, its role in protecting or destroying the spontaneous order of the market is at the center of classical treatments such as *The Constitution of Liberty* (Hayek 1960), *Law, Legislation and Liberty* (Hayek 1973, 1976, 1979), *Socialism* (Mises 1936/81), *Omnipotent Government* (Mises 1944) or *The Legacy of Max Weber* (Lachmann 1970). And, even more remarkably, the whole enterprise of the economic theory of democracy is often argued to have started with an "Austrian": with Schumpeter's formulation of *Another Theory of Democracy* (1942/87:ch. 22).³

But there is not much of an Austrian *economics* of politics, which would reflect the distinctiveness of Austrian assessments of, say, the spontaneous order of co-ordination, entrepreneurial action or competition as a discovery procedure. The common impression is that Austrians are almost exclusively concerned with *normative* policy conclusions derived from their ideal of free *market* processes. Thus, an academic division of labor evolved that produced two distinct areas of theoretical concern: If you want to know what

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politicians can not and should not do, ask Austrians. If you want to know what politicians do, and why they do it, ask Public Choice!

The assertion that Austrians did not study political processes with the same analytical tools and basic concepts they used for the study of market processes must be somewhat qualified. Hayek, Mises or Kirzner analyzed the problems of political planning and intervention using the same basic insights into the conditions of human action: the constitutional lack of knowledge of the actors, the co-ordination of individual plans subject to the rules of the game, and the possibilities and incentives to act under these rules. The inability of political agencies (say, in a market-socialist régime) to mimic real capitalist market processes or to successfully direct spontaneous market orders towards politically preconceived end-states has been a successful application of Austrian economics to the study of politics. The contemporary neoclassical assessments (but even Schumpeter) dismally failed to even address the decisive politico-economic reasons for the inevitable failure of socialism (see Boettke 1995).

But as the calculation debate provoked a specific Austrian view of competition and entrepreneurial processes of innovation and coordination, the political side of the argument was not pursued with similar resoluteness and distinctiveness. Austrians discovered that (a) the lack of individual knowledge is at the root of the economic problem, (b) finding, testing and spreading useful knowledge is the key role of an economic system and (c) competitive market processes do this better than any other system. And they provided strong arguments for the lack of knowledge also being at the root of the political problem of regulating market processes. Austrians did not, however, go much beyond that. They did not inquire into a hypothesis which is at the center of this paper: that competitive political processes in a democracy may outperform other *feasible political* systems when it comes to finding and testing, discovering and using valuable political knowledge. There could be two major reasons, or excuses, for Austrians' refusal to make substantial contributions to the new progressive research program of Public Choice (Wohlgemuth 1995):

1. Public Choice relies on applications of the neoclassical paradigm of rational maximization, stable preferences and equilibrium states, which is not much different from what it has been at the time of the calculation debate. In fact, the pure logic of choice in a world of given alternatives, costs and benefits, and the non-recognition of true ignorance and error of the agents is as prevalent in Lerner's (1946) collectivist solutions to the calculation problem as, e.g., in Wittman's (1995) efficiency solutions to almost all issues of the theory of democracy. I agree with Boettke (1998:2) that this "style of reasoning has proved useful in solving many problems, but it has also compelled economists to turn their attention away from questions of change, novelty, individual and organizational learning, and institutional adaptation and evolution". In short, Public Choice has turned the attention away from Austrian themes – which may have been a reason for Austrians to turn their attention from Public Choice.
2. Public Choice relies on some analogies between economic and political "markets" which Austrians must find most dubious. Austrians were always well aware of the

particular institutional preconditions of a capitalist market system. Even if, as Mises (1949/66:274) put it, competition is “present in every conceivable mode of social organization”, these modes of social organization can be so much different as to forbid much further analogy. Even Schumpeter resisted the temptation to exploit economic analogies which could follow up on his famous definition of democracy as “that institutional arrangement for arriving at political decisions in which individuals acquire power to decide by means of a competitive struggle” (1942/87:269). The institutional arrangements, the actors’ property rights and the means of coordination and control are too different in systems of private and political choice for Austrians to simply treat them as *ceteris* or *paribus*.

Both arguments are valid and will be further strengthened in the course of our discussion. But this must not prevent Austrian themes from being introduced to theories of the political process. The Austrian contribution would exactly be a focus on the institutional framework of political action, the constitutional ignorance of political actors and the processes of learning and coordination as results of political interaction.

The paper is organized as follows: Part 2 identifies institutional characteristics of any mode of political organization that severely limit its ability to mimic market competition. However, I will also stress two methodological principles for an adequate assessment of competitive processes formulated by Hayek (1946/48) which will guide my comparative assessment of democracy as a method of *political* opinion formation and knowledge creation. In part 3, two different views of the “meaning of democracy” are identified which reflect essential differences between a neoclassical and an Austrian “meaning of competition”. The first regards democracy (and competition in general) as a mechanism that aggregates given individual preferences; the second as a process that helps form and discover public opinions. In part 4, the latter view is developed by analyzing political processes that lead to the creation, discovery and dissemination of public opinions. The notion of “opinion falsification” is introduced as a mixed result of social pressures that lead to misrepresentations of expressed opinions (“preference falsification” in the sense of Kuran 1995) and of communication that lead to reversals or refinements of political knowledge (“theory falsification” in a Popperian sense). Part 5 links both concepts to the theory of democracy. It is argued that, compared to alternative political constitutions, competitive democracy and competitive federalism limit the scope of “preference falsification” and increase the scope of “knowledge falsification”. The concluding part 6 sketches neglected issues for an agenda of “Austrian Public Choice”.

2. The Meaning of (Political) Competition: Hayekian Points of Departure

An important reason for Austrians not to join other economists in modeling politics as an analogue to market exchange may have been their awareness of two crucial characteristics of any form of government: (1) the forced consumption and indivisibility

of the goods provided and (2) the monopolistic organization of the provision. The first peculiarity makes politics categorically different from economic *market exchanges*; the second makes it fundamentally different from economic *competition processes*. Politics is not cattalectics; there is no voluntary exchange of private property rights (Buchanan 1993/97:178). Voters of the winning coalition, voters of the losing party and non-voters have to live with the same bundle of political goods – no matter if and how they chose. Only in the aggregate do they select among parties and candidates who compete for a temporary monopoly to produce political goods. This seriously impairs the ability of political systems (democratic or not) to mimic especially those aspects of market processes that Austrians hold dear (Wohlgemuth 2002):

1. Since the interaction between supply and demand of political goods is not equivalent to voluntary market exchange, political coordination lacks a meaningful analogy to the system of relative prices, which act as signals that allow individuals to adapt to circumstances about which no single mind can ever have sufficient knowledge. Hence incentives for citizens to become informed about political issues are comparatively weak. What is more essential from an Austrian perspective (and less accounted for in the Public Choice literature), is that politics provides no equivalent to a flexible system of relative prices as devices for the discovery and use of local knowledge and skills in society.
2. Prospects for the creation of new problem-solutions, the discovery of failures and the limitation of the scope of these failures are more restricted in the realm of political learning processes than within the creative and selective environment of market competition. Since in one jurisdiction with its “natural” monopoly of government there is only one set of political problem solutions being tested at a time, politics is basically limited to learning from consecutive trials and errors. Real competitive market processes, in turn, allow for an ongoing, spontaneous, and parallel testing of the adequacy of many effectively competing entrepreneurial trials at a time (Vanberg 1993:15f).

These limits of political systems ability to mimic market competition as a knowledge and wealth creating “discovery procedure” (Hayek 1968/69) may explain why Austrians defend markets against interference of political forces, democratic or not. Hayek, of course, is well-known for fighting claims of democracy as a supreme form of social coordination and control. To most observers the “political” Hayek is known only for his critique of the prevailing forms of democracy; and his opponents are fond of denouncing him as an anti-democratic conservative. What is mostly ignored is Hayek’s eloquent defense of democracy as the best available method of political opinion-formation and control – provided that the supremacy of the rule of law is taken care of (Hayek 1960:ch. 7). Relying on this part of Hayek’s view on democracy, I propose a more wide-reaching interpretation of democracy along the lines Austrians drew in more general contexts of evolutionary social theory. This interpretation observes two Hayekian warnings, which not only apply to assessments of market

competition, but also, I argue, to the assessment of the comparative virtues of democracy as a political method:

- “Not the approach to an unachievable and meaningless ideal but the improvement upon the conditions that would exist without competition should be the test” (Hayek 1946/48:100) and
- “... competition is the more important the more complex or ‘imperfect’ are the objective conditions in which it has to operate” (ibid.:103).

These principles support not only the Austrian argument against rash pronouncements of “market failure” or “imperfect competition”. Consequently applied, they should also prevent premature assignments of “policy failure” or “imperfect competition” in an assessment of democracy as a *political method*. This point may become clearer if, in the following part, different views of the meaning of democracy are compared.

3. The Meaning of Democracy: Two Different Views

The economics of politics typically does not deal with political opinion formation. This, of course, is a direct consequence of applying neoclassical models that start with the assumption of given preferences (Stigler and Becker 1977). Neoclassical microeconomics and with it mainstream Public Choice concentrate on a representative agent’s logic of maximizing utility subject to given preferences and constraints. On the macro level the problem of aggregating given preferences dominates economic theory. Processes of preference-formation are abstracted from on both levels. While this may be a useful procedure for dealing with many problems of economics and some problems of politics, it is also responsible for the fact that important characteristics of democratic processes cannot be dealt with.

Thus, the formation and change of political opinions (i.e. preferences *and* theories of the actors, see below) and the active role of political entrepreneurs within these processes is kept from the agenda. The construction manuals of neoclassical economics forced economists to reduce economic and political competition in the same way to pure aggregation mechanisms, each being, as Arrow (1951:2) puts it, a “procedure for passing from a set of known individual tastes to a pattern of social decision-making”. This view stands in marked contrast to Hayek’s understanding of competition as a procedure for the discovery of such preferences, knowledge and abilities “as, without resort to it, would not be known to anyone, or at least would not be utilized” (1968/78a: 179). These different starting points explain much of both authors’ different view of the market order. And the same opposing views reappear in an Arrowian and Hayekian understanding of democracy.

In an Arrowian perspective (and most of Social Choice, much of mainstream Public Choice, and some Constitutional Economics), democracy is assessed according to its ability to work as an aggregation-mechanism that transforms given preferences into a collective “will” or social welfare function. Arrow’s “impossibility theorem”

(Arrow 1951) induced our most ingenious thinkers to discuss the virtues of democracy predominantly under the spell of logical puzzles within a closed static system in which there was no room for purposeful human action and social interaction.⁴ Still today, Sen (1999) relates the “Possibility of Social Choice” predominantly to the Arrowian question “How can we find any rational basis for making such aggregative judgments as ‘the society prefers this to that’ ...” (ibid.:349) with answers sought mainly from voting procedures as political aggregation mechanisms.

From a different perspective, represented by Popper’s “critical rationalism” and the political philosophies of Hayek or Buchanan, the leading questions are different. The virtue of democracy is now predominantly assessed according to its ability to serve as a rule-guided procedure for the formation, discovery and utilization of opinions and conjectural problem-solutions. For Popper (1945/66) a good system of government is not to be deduced from preconceived end states of maximized happiness. It depends on rules and procedures that, as a political analogue to scientific conjectures and refutations, stimulate the articulation of critique and alternatives and allow for the peaceful replacement of bad rulers.⁵ In a similar vein, Hayek (1960:108f) argues:

Democracy is, above all, a process of forming opinion. ... It is in its dynamic, rather than in its static, aspects that the value of democracy proves itself ... The ideal of democracy rests on the belief that the view which will direct government emerges from an independent and spontaneous process. It requires, therefore, the existence of a large sphere independent of majority control in which the opinions of the individuals are formed.

These dynamic aspects of democracy rely on three major propositions, all of which entail strong differences to the Arrowian perspective: (1) political preferences are based on fallible conjectures and theories; (2) democratic opinion-formation results from an open-ended process of interactive learning and discovery which shapes political beliefs; (3) the important element in this process is not the supremacy, but the contestability of current majority opinions; this affords institutional (and cultural) respect for individual liberty to pursue self-chosen ends using individual knowledge and skills.

3.1. The Theory-Component of Preferences

As Vanberg and Buchanan (1989:50) point out, preferences consist 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). After all, “man is a ‘theoretical animal’, an animal, fabricating, adopting, and using ‘theories’ that are effective in action” (Albert 1979:23). The combination of subjective tastes and interests (evaluative component) with equally subjective, but 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 theories. Preferences for daily consumption-goods (food, clothes, leisure amenities,

cultural activities) can mostly be a matter of taste, 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).⁶ Some form of more or less reasoned expectations is needed to justify expressed political preferences. A citizen may use his narrow self-interest or some broader understanding of common weal as a guideline for what he wants – in both cases her preference for political alternatives (candidates, parties, laws, regulations) relies on conjectures about the suitability of these alternatives to serve these respective interests. Political opinion formation is predominantly conjectural theory formation.⁷ This is most important when the static view on the aggregation of preferences as pure value orderings is abandoned in favor of a dynamic view on the creation and change of opinions and hence of tastes, interests and theories.

3.2. *Political Opinion Formation as an Interactive Learning Process*

In the process of political communication, opinions are formed and changed above all through their conjectural components. To be sure, there is no implication that political beliefs would result from meticulous and unbiased theory formation. This is most obvious in view of the weak incentives for the ordinary citizen-voter to think about political issues. The basic point has early been made by Schumpeter (1942/87:261):

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 ... At the bridge table ... success and failure are clearly defined; and we are prevented from behaving irresponsibly because every mistake we make will not only immediately tell but also be immediately allocated to us. These conditions, by their failure to be fulfilled for the political behavior of the ordinary citizen, show why it is that in politics he lacks all the alertness and the judgment he may display in his profession.

I will discuss implications of these important differences in more detail. At this stage, suffice it to say that the Schumpeterian argument is not identical with “rational ignorance” in the Downsian neoclassical meaning (see Wohlgemuth 2000b). The Downsian voter is engaged in painstaking calculations on how much of which information it is worthwhile to acquire in order to satisfy his preferences as expressed solely in the “vote value” (i.e. the personal utility derived from the electoral outcome depending on the party differential and the probability of casting a decisive vote, see Downs 1957:part III). It turns out from these calculations that there is no reason to acquire any political information. Indeed, if political participation is reduced to occasional elections of parties and candidates in big

constituencies, there is no pay-off in terms of a “vote value” and hence no instrumentally rational reason to buy political information. Voters’ preferences would then indeed be nothing but a matter of taste.

Many people, however, do entertain theoretical ideas about how the world of politics works, and how it should work to make them better off. The reason for this can not be directly related to instrumental effects of clever voting. Rather, one would have to look at intrinsic and extrinsic incentives in terms of self-esteem and a reputation of simply *having* sound opinions. Hirschman (1989) presents these two 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). Hence, while the Downsian instrumental “vote value” of making the right choice provides no incentives for citizens to elaborate on the theory-component of their political opinions, it is the “reputational value” of having an opinion that motivates at least some learning about policy issues. As a consequence of the dominance of reputational utility in the sense of Kuran (1995),⁸ the citizen is “more dependent on society in political contexts than in the realm of ordinary consumption” (ibid.:162). This dependence, in turn, begs recognition that articulated and non-articulated 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).

It is under these premises that the meaning of democracy as an opinion forming process can be established. As will be shown in part 5, even if the ballot box *as such* provides poor incentives for voters to engage in political theory-building and poor signals about the content of citizens’ political views, there are several reasons why democracies provide incentives for political opinion-formation which includes an interactive process of creation and change of individually held theoretical views about political means, ends, and constraints:

1. Freedom of speech, press and assembly are more effectively safeguarded in democratic societies; the openness of the process of opinion-formation for new and opposing views has a better institutional backing.
2. Competing political entrepreneurs are forced to engage in the creation of public issues, the formulation of alternatives, the rebuttal of critique and the “selling” of plausible reasons for potential actions.
3. As a consequence, citizens in a democracy are more naturally exposed to different, often conflicting, opinions than people in non-democratic societies; more people are compelled to acquire and defend a view “of their own” on pertinent issues if they want to avoid social isolation and a loss of self-esteem.

Democracy and the competition of political ideas can therefore be regarded a procedure for the generation and critical assessment of political hypotheses – even if (as I argue in more detail in part 4 and in Wohlgemuth 1999b), the reality of the political process is a far cry from “ideal speech” situations of political discourse. Competition between political

opinions and alternatives (programs, proposals, parties), like competition in general, receives its major “Austrian” justification on the grounds that we do not know in advance which opinions and alternatives exist and which policies under which conditions are considered right or acceptable by those who have to endure them.

Thus, very much like Hayek’s (1968/78:179) provoking defense of the freedom to compete (“if anyone really knew all about what economic theory calls the *data*, competition would indeed be a very wasteful method of securing adjustment to these data”) one could state: if anyone knew all about political opinions and opportunities which most of the economics of politics treats as data (given preferences, given issue-space . . .), democracy would be a rather wasteful method and a government by élite consent could be preferable to government by discussion. The constitutional lack of knowledge and hence the high probability of erroneous perceptions and theories would from this evolutionary-liberal position not represent the problem, but the main justification of democracy and freedom of speech, press and assembly. This argument is summarized by Hayek (1978:148) as follows:

The central belief from which all liberal postulates may be said to spring is that more successful solutions of the problems of society are to be expected if we do not rely on the application of anyone’s given knowledge, but encourage the interpersonal process of the exchange of opinion from which better knowledge can be expected to emerge . . . Freedom for individual opinion was demanded precisely because every individual was regarded as fallible, and the discovery of the best knowledge was expected only from that continuous testing of all beliefs which free discussion allowed.

As a discovery procedure, competition of ideas is most useful and effective when political opinions are neither fixed nor “given”, but in the process of being formed or changed as a reaction to new circumstances and experiences (Hirschman 1989:77). Within this process of challenging and informing public opinion minorities play a crucial and beneficial role.

3.3. *The Role of Minority Opinions*

Austrian economics treats the heterogeneity and variability of products or preferences not as imperfections, but elementary preconditions of social development. The same should be true for an Austrian economics of democracy. Unlike for Social Choice theorists, for Austrians, the question if “society” could act consistently like *one* human actor is basically meaningless (Rowley 1993). The Austrian theme is not the construction and warranty of a consistent rule of the majority; it is the contestability of current majority- (or minority-) based opinions and policies. In a straightforward critique of Arrow (1951), already Buchanan (1954) made the point that preference-aggregation aiming at unambiguously and permanently ruling majorities carries the dangers of an unambiguous and permanent exploitation of minorities. The majority principle, Buchanan argues, would only be a workable instrument of political control

and knowledge-creation, if Arrow's "problem" of cycling majorities does in fact occur:

It serves to insure that competing alternatives may be experimentally and provisionally adopted, and replaced by new compromise alternatives approved by a majority group of ever changing composition. This is the democratic choice process, whatever may be the consequences for welfare economics and social welfare functions (Buchanan 1954:119).

From an evolutionary perspective, therefore, democracy is not about the most exact, comprehensive and permanent realization of majority preferences. It is about the chances of minorities to change majoritarian views and opinions (Hayek 1960:109). The fact that new views and hypotheses necessarily start to emerge from minorities stresses the importance of entry opportunities for minority views. This entails more than just universal expressive rights. It requires extended spheres of private autonomy and freedom to act, which allow groups to pursue different aims and test different practices as long as they do not violate the freedom of others to do so as well. No minor value than the growth of civilization depends on that:

The conception that the efforts of all should be directed by the opinion of a majority or that society is better according as it conforms more to the standards of the majority is in fact a reversal of the principle by which civilization has grown . . . it is always from a minority acting in ways different from what the majority would prescribe that the majority in the end learns to do better (Hayek 1960:110).

Unfortunately, Hayek has not contributed much more than that to a theory of *political* competition. His assessments of the democratic method remain dominated by the effort to warn of the use of the democratic method as an unqualified, unrestricted "justification procedure" of any acts of government which a current majority may find desirable. Other authors, however, have provided theories of public opinion formation that should inform positive (as opposed to: normative) assessments of the dynamic aspects of democracy.

4. Public Opinion Formation and "Opinion Falsification"

The notion of "public opinion" is conspicuously avoided within the economics of politics. There are some good reasons. Public opinion is one of the most vague concepts in sociology and political science (Noelle-Neumann 1993:58; Splichal 1999:1). Even worse for (neoclassical) economists: what definitions of public opinion do, after all, have in common, contradicts the Arrowian perspective more than once: Public opinion is *not* (a) an *additive* aggregation of (b) *isolated* individuals' *preferences* (tastes) on (c) *given issues*. I will now characterize public opinion as a challenge to those three elements of conventional Social Choice welfare functions (and implicit understandings of conventional Constitutional Choice).

4.1. *Qualitative Components of Public Opinion*

Public opinion is not a mere aggregation of individually held opinions (Huckfeldt and Sprague 1995). As already Lowell (1913:ch. I) points out, the impact of individual opinions (tastes *and* theories) on public opinion depends on qualitative rather than quantitative criteria. Whereas for election outcomes, the number of votes is only counted but not weighed, contributions to public opinion depend on the intensity with which preferences are felt, the verve with which they are expressed, and the persuasiveness with which their underlying theories are presented. Thus, minorities override less interested, less active, less convinced or less convincing majorities in the process of the formation and articulation of public opinion.

This inequality of influence is deplorable from the point of view of those who define the problem of collective choice as that of aggregating individual preferences in a social welfare function or a logic of constitutional choice. However, the disproportional impact of intensively feeling and strongly committed groups is one of the few incentives for their taking part in the process of shaping public opinion which displays some features of a public good.⁹ Opportunities of committed groups and creative political entrepreneurs to have their way are also one of the few favorable conditions for the political process to follow Hayek's ideal according to which minority opinions and ways of living may eventually, through persuasion and imitation, become generally adopted. Political impact based on opinion leadership also acts against "political apathy and disappointment" that are "induced in a society where important political decisions can only be made by the vote" (Hirschman 1982:108).

4.2. *Public Opinion as a Result of "Opinion Falsification"*

Individual political opinions are not given as exogenous data. They emerge and change as results of interactive human action 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 propagation mechanisms that lead to the stabilization of public opinions.

In Kuran's (1995) theory of preference falsification public opinion is not about 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 they 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. Driven by a yearning for approval, we opportunistically falsify our preferences carrying our true preferences as an inner secret. This notion of "falsification" relates to "truth" in the sense of a preference's public *expression* being honest (true) or dishonest (falsified). There is, however, more to public opinion than more or less misrepresented private preferences. As argued above, opinions are based on theories or "Weltanschauungen". And it is here that the original Popperian notion of "falsification"

comes back in, which relates to “truth” in the sense of conjectures being refuted by experience and replaced by better suited theories.

What I call “opinion falsification” captures both kinds of “falsification” as products of social interaction. It is more than just an “act of misrepresenting one’s genuine wants under perceived social pressures” (Kuran 1995:3). As Kuran himself points out, public discourse shapes private preferences *and* private knowledge (ibid.:346). But knowledge 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” should thus embrace both: the disguise of true feelings (“preference falsification”) and the discovery of false beliefs (“theory falsification”). It is the fear of social isolation and the longing for social prestige, but also the exposure of the embedded theories to falsification by argument and experience that lets public opinion rule within socially interacting groups.

The claim that communication leads to a reconsideration of political beliefs remains modest and a far cry from Popperian ideals of scientific communities. 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 (Kirchgässner and Pommerehne 1993, Wohlgemuth 2000b). Even systematically biased, “irrational”, beliefs are held with great conviction if these beliefs have no practical relevance. This is often only too true for political beliefs of our “man on the street”; their practical implications are insignificant for the individual adherent, but their impact on public opinion and (hence) public policies can be significant (Caplan 2001).

On the economic market place no entrepreneur can afford for long to act on irrationally biased beliefs, ignoring simple facts, competing problem solutions, or dissenting opinions. Such behavior would be costly and risky on the economic marketplace; but on the marketplace of ideas it often is not. Here, ignoring realities and dissenting views often leads to no significant material costs for the stubborn; but it reduces “psychological” costs (Weissberg 1996:113). The selective perception and storage of (sources of) information based on established preconceptions or perception-filters in a (conscious and unconscious) attempt to *verify* one’s opinion is a general pattern of behavior constantly rediscovered by psychological research (see Hayek 1952/76; Rabin 1998). In the political arena, it is more prevalent than on the “real” marketplace because it is much “cheaper”. Self-justificatory attitudes and verificationist perceptions are further supported by the selective use of media and communication partners (Huckfeldt and Sprague 1995; Akerlof 1989). As a consequence, one has to expect rather closed, at best overlapping, publics instead of one wide-open forum for (self-) critical debate.¹⁰

But still, parts of the market-analogy remain valid when assessing political opinion formation: While exchanging political opinions, citizens 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 one’s own views to those one expects to

find in a given “market” of opinions or (c) improve the quality of the “product” by backing an opinion with convincing evidence or logic. The “fear of isolation”, like a seller’s fear of pecuniary losses, urges individuals to constantly check which opinions and modes of behavior 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 and Sprague 1995). Indeed, trends within social value systems or political opinion cycles could hardly be explained by referring to stochastic changes of tastes in individual preference functions or changes in economic restraints alone, as Simon (1983:75f) argues forcefully: “What is the statistical probability, in a model of independent random variation, that in 1970 or thereabouts several million American students should regard themselves as radicals, and that ten years later a comparable majority should decide that the middle of the road is the best part to walk on?”

How does “opinion falsification” affect the two meanings of democracy sketched above? First, it is obvious that “knowledge falsification” even in its modest form of interactive belief formation (including self-affirmative delusions) has no place in Arrow’s theory of democracy, which ignores the cognitive component of preferences. Second, the very idea of preference falsification undermines the normative thrust of theories of democracy that rely on welfare maximization through preference aggregation. If preferences are not given, but variables driven by individuals’ attempts to derive reputational utility, and if public preferences revealed under social pressure misrepresent individuals’ genuine wants, our problem is the rationality and sincerity of the publicly expressed preferences, rather than the possibility of their consistent aggregation.

Such findings don’t undermine a far more modest Hayekian understanding of democracy. On the contrary, theories of the inter-relatedness of private and public opinion should be an integral part of an Austrian economics of democracy. Theories of “image reformulation” (Boulding 1956) or “opinion falsification” and the “hidden complexities of social evolution” (Kuran 1995:ch. 17) triggered by these processes should help discover not only important shortcomings of political discourse if compared to the articulation and satisfaction of private preferences on competitive *markets*. They should also allow to identify important advantages of democratic constitutions compared to alternative modes of *political* organization. Before developing the latter argument, a third deviation from standard assumptions of Arrowian Social Choice (or, for that matter, spatial voting models of democracy and much of traditional constitutional economics) needs to be addressed.

4.3. *Political Entrepreneurs and the Creation of Issues*

Just as goods (the objects of interactive price-formation) are not given in market processes, political issues (the objects of interactive opinion-formation) are not given in the political process. They have to be discovered and pushed on the agenda. This affords special skills because the public’s attention is fundamentally scarce and ephemeral; it cannot deal with many issues at a time. Like market competition, competition of ideas and opinions is driven by entrepreneurs. Political movements owe the sometimes unexpected attention to

their cause often triggering surprisingly strong and sudden changes of public attitudes to “norm entrepreneurs” (Sunstein 1996) 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 enjoy formulating dissenting views and introducing new issues in face of an apparently hostile or indifferent public. In Boulding’s (1956) sociology of knowledge, changes in private and public beliefs or images come about “through the impact on society of unusually creative, charismatic, or prophetic individuals” (ibid.:75); these “bearers of viable mutant images” are “the true entrepreneurs of society” (ibid.:76).

Political opinion leadership not only acts through the introduction of new movements or issues; it also drives “normal politics” through a constant supply of orientation and reference frames. Opinion leaders take advantage of the fact that on many issues no strong and articulated opinions (preferences and theories) exist in the first place. The value of knowledge on most issues quickly declines in the course of time. And new problems arise which cannot easily be judged 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. Public opinion becomes increasingly selective and transient. German sociologist Luhmann (1970/75:16) concludes (in clear contrast to the Arrowian perspective, but also at variance with the dominant focus of Constitutional Economics) that the political system is shaped by attention rules rather than decision rules.

With Luhmann (ibid.:18f) one can also describe the dynamics of public opinion 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 be assumed that politicians, media and least or “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 invested in time, resources, personal charisma and contacts. With a combination of entrepreneurial luck and skills the issue is taken up by those who are used to deal with changing issues in the process of transforming them into political demands and, finally, 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, communicate their views and expect that others are familiar with the major positions of the contending camps. And now, path-dependency is framing public issues, opinions and policies in particular ways. Often, but not always, this produces a generally accepted point of view, a public opinion that is characterized by a sufficiently large overlap of individuals’ beliefs or images. Only now it “rules” within more or less large groups 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 platforms, laws, and regulations. If the issue does not reach this stage, it may well lose momentum and either disappear into oblivion or end up having only ceremonial value as an inconsequential expression of symbolic policy.

5. Political Regimes and Opinion Falsification: A Comparative Assessment

David Hume's *First Principle of Government* (1777/1987:32), namely: "It is ... on opinion only that government is founded" not only applies to democratic systems of government (see Hume *ibid.*; Hayek 1960:ch. 7). All three "pure types of legitimate dominion" distinguished by Weber (1921/78:215) rest on beliefs as expressions of public opinion, namely: "a belief in the legality of enacted rules and the right of those elevated to authority under such rules to issue commands (legal authority)", a belief "in the sanctity of immemorial traditions and the legitimacy of those exercising authority under them (traditional authority)", and "devotion to the exceptional sanctity, heroism or exemplary character of an individual person (charismatic authority)". Many revolutionary overthrows of autocratic systems show how critical are in fact beliefs or commonly shared trust in a constitutions' underlying philosophy. Public opinion can sweep away even autocrats who seemed immune to what their subjects believe (Kuran 1995:ch. 15). Democratic regimes not usually face equally dramatic outbursts of public anger and personal risks of "hostile takeovers". What is more important here is that democratic rules of the game help better reflect changes in public beliefs, since they support the permanent creation, discovery and use of political preferences and theories. The main reasons have already been mentioned. Together with some additional arguments, they can be subsumed under two categories: (1) more secure and effective rights to express and broadcast diverging opinions and (2) stronger incentives to make use of these rights.

5.1. Stronger Institutions and the "Strength of Weak Ties"

In autocratic regimes freedom of speech, of the press and of assembly are no indispensable components of the political constitution. Even if they are part of the constitutional text, they are less reliable than in democratic systems of government whose incumbents have an interest in securing these rights for a future when – once voted from power – they may need them for themselves. The basic rights within a democratic order: the free and equal right to vote together with "the freedom of speech, or of the press; or the right of the people peaceably to assemble" (1st Amendment to the US Constitution) meet at least the following minimal requirements for a knowledge-creating political process:

- (1) make generally available knowledge that alternative perspectives exist over an issue; (2) make easily available representative alternative perspectives to those wishing to investigate further; and (3) provide a means by which those arguing for alternative views can continue reaching others who are interested (diZerega 1989:219).

The freedom of the individual to express her own opinion on any issue she likes, supports the discovery and dissemination of political information and thus the overall quality of the cognitive component of public opinion and public policy. This basic relationship can be formulated in terms of the communication model by Granovetter (1973). Social communication networks are, *inter alia*, defined by the strength of

interpersonal connections which depend on “the emotional intensity, the intimacy (mutual confiding), and the reciprocal services which characterize the tie” (ibid.:1361). The social diffusion of information and opinions and thus the reach of interactive communication is *negatively* related to the strength of these ties, because:

whatever is to be diffused can reach a larger number of people, and traverse greater social distance . . . when passed through weak ties rather than strong. If one tells a rumor to all his close friends, and they do so likewise, many will hear the rumor a second and third time, since those linked by strong ties tend to share friends . . . the rumor moving through strong ties is much more likely to be limited to a few cliques than that going via weak ones; bridges will not be crossed.

Granovetter himself offers no explicit political application of his theory. His basic idea, however, can be used to clarify differences of political communication under different political constitutions (and cultures). In societies (and organizations like clubs, firms, churches etc.) in which rights to express and broadcast diverging opinions are less generally or reliably established, those in power usually cannot keep their subjects from holding opinions that may be extremely critical or cynical. No political leader can prevent information, rumor and gossip to leak; critical information is constantly “discovered” and held by “well informed circles”. The channels of communication, however, are predominantly reduced to “strong ties”. This leads to a fragmentation into local communication groups and thus reduces the “publicness” of political opinions (Kuran 1995:207ff). In open societies information and opinions about political problems and alternatives travel faster and longer. More individuals belong to several overlapping and comparatively open communication networks; bridges between groups can be crossed more easily. More information reaches more recipients, since free expression and free utilization of independent media facilitate the diffusion of information and opinions through “weak ties”.¹¹

In closed societies with barred freedom of expression and action, the autocrats themselves are among those isolated from reliable signals of changing public preferences and beliefs. A central weakness of the authoritarian structure lies “in the inadequate amount of feedback to the higher roles” (Boulding 1956:100) because the authorities surround themselves with “yes men” or breed a surrounding of men who have no incentives to reveal their “true” individual opinion and no means to report the “true” opinion of the public (on which, nevertheless, the survival of their government is founded). Thus, for Austrian economists, comparative institutional analysis of political systems shows that there is more to the socialist “calculation problem” than just the planning authorities’ inability to acquire the necessary knowledge about changing economic environments and consumers’ preferences. There is also the autocrats’ inability to acquire knowledge about changing political environments and citizens’ opinions. As the sudden overturns produced by a momentous withdrawal of public support showed in 1989, socialist leaders were unable to calculate the shifts of public opinion. Socialism, thus, is not only unable to coordinate economic plans in the absence of capitalist markets. Its leaders were also unable to anticipate the complete withdrawal of their power base in the absence of democratic pluralism and free discourse.

I am not arguing that “preference falsification”, the misrepresentation of private opinions under social pressure, does not also occur in free, liberal, societies. Public opinion generally reflects social pressures to conform with widely shared views. But the “proclivity to engage in preference falsification depends crucially on the institutional context” (Kuran 1995:15). This context not only includes constitutional rights of expression, but also and even with priority, cultural traditions and value systems. The open society is above all a matter of tolerant attitudes. And the dynamics of political opinion formation also depends on potential dissenters’ self-understanding and self-confidence. A critical mass of vocal dissenters that could tame preference falsification (Kuran 1998:525) is more likely to be found in pluralistic societies whose intellectuals (also: economists), journalists and other political entrepreneurs take pride in expressing disagreement and in putting unheard-of issues on the agenda. These dissenters highly value the “expressive utility” of their own view (based on self-respect and self-assertion), and often their courage is rewarded with “reputational utility” (based on respect from their peers or even the general public). Both benefits can compensate for risks of expressing disagreement and introducing innovation.

Similar arguments apply to the open society’s ability to dampen “rational irrationality” or the persistence of systematically biased beliefs (Caplan 2001). As Caplan himself observes, “the belief one chooses stays sensitive to relative price changes; when a belief suddenly becomes more costly to hold, people often recant” (ibid:10). Public discourse urges participants to give reasons for their opinion (Rawls 1993:Lecture VI). Systematically biased beliefs expressed with utmost conviction have a price in terms of potentially considerable reputational losses. At least outside strong-link networks of like-minded irrational members it is costly to hold personally pleasing but demonstrably erroneous beliefs or argue in favor of socially harmful policies. This does not, of course, eradicate bias and irrationality in political discourse. Nor may it suffice to avoid a hidden implication of Caplan’s analysis: that government by experts (preferably economists, see Caplan 2000) is preferable to government by popular majority and an unqualified public’s opinion. Additional contributions of democracy to the formation of public opinion are discussed in the following section.

5.2. *Democracy as a Discovery Procedure?*

One can easily imagine and sometimes observe systems of government with a high legal and cultural acceptance of the freedom of political expression, but without general elections as a means to select political leaders. Here, “weak ties” would not be legally blocked. Still, I would expect less widespread and informed opinions about political issues and alternatives to be generated in such systems. Democratic constitutions institutionalize and routinize rivalry between incumbents and opposition. This, I argue, creates stronger incentives for more actors to supply and demand competing opinions, critique and alternatives.

Politicians exposed to institutionalized competition for citizens’ support are pressed to explain and justify their actions in front of the public. But also citizens, the inconsequential nature of their individual vote notwithstanding, face incentives and occasions to participate

in opinion-building communication processes. Even an inconsequential expression of preferences may beg some justification. Especially in conversations with other citizens who are facing the same alternatives and who will experience the same political outcomes, some good arguments why one should prefer one party or policy are helpful. Good arguments increase (a socially innocent form of) “reputational utility” and are thus in demand. Huckfeldt and Sprague (1995), in a number of empirical studies, observe that during election campaigns political opinions and political information are not just passively received from parties and media. They are also interactively “exchanged” in various forms of social interchange which at other times mostly remain “unpolitical” (conversations with friends, colleagues, etc.).

The democratic struggle for power forces rival parties and candidates, but also rival interest groups and the media to offer criticism, dissent and alternative problem solutions in order to be successful. Even if political debates are often staged to camouflage the “real” power struggle behind the scenes, they may still have (besides a possible entertainment value) some educational effect on the public. Incentives for citizens to build political views based on more sound arguments increase in situations where views differ. Disagreement between discussants furnishes the occasion for new information search (Huckfeldt and Sprague 1995:112). In other words, dissent tends to sharpen the cognitive component of opinions. In addition, disagreement reduces the realm of “fundamental attribution errors” (see Kuran 1995:81f) that occur when individuals falsely conclude from a lack of opposition that there must be ample support for the status quo, and adjust their public positions accordingly to minimize the risk of ostracism – thus reinforcing the status quo even further.

Again, I here compared only *political* systems according to their ability to form and inform public opinion. As outlined (esp. in part 2), there is no claim that opinion-formation in a democracy equals the properties of market processes as knowledge-creating and information-diffusing discovery procedures. If, however, comparative institutional analysis remains restricted to realistic institutional alternatives of *political* modes of forming and representing public opinions, there is an “Austrian” argument in favor of democracy which Public Choice has not so far been able to embrace and Austrian economists themselves have not so far been ready to fully endorse or expose.

6. Conclusion: The Possibility of Austrian Public Choice

It has been my hope to be suggestive rather than exhaustive and to open up some new vistas rather than to present a clear-cut model of the political process. My main suggestion is that there still is a niche for Austrian economics in the now established realm of the economics of politics. Concerning the implications of my main suggestion, let me conclude with some methodological and political statements:

1. Austrian economists are experienced and skilled in detecting and criticizing a wide array of shortcomings of mainstream economics. Criticism and dissent as such perform important social functions, as my account of “opinion falsification” was

trying to show. In this paper, I argue that very much the same Austrian criticism can be applied to some dominant paradigms in the economics of politics. This seems most obvious in view of an Arrowian perspective on democracy. But it also applies to theories in which public choice (including constitutional choice) is reduced to an aggregation problem within a given “issue space” on which given preferences are readily distributed and the economist’s task is reduced to the determination of equilibrium solutions and their welfare properties.

2. It is a different matter to come up with positive Austrian contributions to a research program which would have to be opened for unconventional approaches and dissenting voices. As I have tried to show in this paper, it may be worthwhile to take Hayek’s view that democracy should be assessed “in its dynamic, rather than its static aspects” and that “democracy is, above all, a process of forming opinion” (Hayek 1960:109, 108) as a point of departure when carving a niche for Austrian Political Economy. A careful use of Austrian concepts (focusing on knowledge creation and dissemination, entrepreneurial action, the role of institutions in stabilizing expectations, the detection and elimination of errors, and much more) could serve as a procedure for the discovery of such insights and theories, as, without resort to it, might be ignored.
3. Promising new combinations can also be sought with established neoclassical models or new ideas in game-theory.¹² One major advantage of the Hayekian research program is that it can make itself intelligible to other disciplines and sciences and that it has reserved for itself some open-mindedness which transcends the dividing lines that have developed in the social sciences. This may be a favorable condition for an Austrian economics of the political process. As this paper may have shown, work done by political scientists, sociologists, public opinion researchers, legal scholars or psychologists can be given an “Austrian meaning” and used within an Austrian framework of analysis.
4. This does not imply that an Austrian economics of the political process should dismiss the Austrian tradition of political philosophy and eloquent defense of the spontaneous market order. The issue of limiting political powers and freeing individual initiative has its place on the agenda of a theory of democracy – Austrian or not. The Austrian defense of the rule of law against unrestricted majority rule also keeps Austrian Economics in close contact to Constitutional Economics – in its normative as well as in its positive dimension, the latter of which also would bring Austrians closer to empirical research (Voigt 1997). However, political institutions of democracy can do more than just to constrain the holders of the monopoly of coercive power; they can and should also be devised so as to empower and educate citizens. If the value of democracy is in its dynamic and not its static aspects, the incentives and opportunities of citizens to build opinions and make them effective in the political process should be more prominent in Austrian assessments of democracy.
5. This view corroborates the old view of John Dewey (1927/54) that “the essential need ... is the improvement of the methods and conditions of debate, discussion and persuasion. That is the problem of the public”. The solution of the problem is not, however, in curing the ills of democracy by prescribing more democracy in the sense of a democratization of society, as done by Dewey (*ibid.*:146) or Tilman (1988:441ff).

Only a limited democracy contributes to workable political competition as a discovery procedure since it reduces the realm of political issues to an extent that a critical mass of citizens is able to assess their implications and alternatives and public opinion can be created and made politically effective (see Somin 1998).

6. The limitation of political power in a democracy, however, is in itself a political task which has to be performed by political actors and supported by public opinion – not only as an abstract political ideal, but when it comes to the test if (and which) political actions should be taken or which constitutional rules should be adopted. From an Austrian perspective, therefore, the “political economy task again is one of finding a constitutional structure that empowers, yet disciplines, public discourse” (Boettke 1997:91).
7. Two concrete proposals for constitutional reform can, if properly institutionalized, allow for more articulated and dynamic discovery procedures to unfold in the political realm – and yet contribute to the eminent task of constraining government (Wohlgemuth 2002): (a) In order to provoke discussion and deliberation focused on concrete political problem solutions and at the same time reduce the collusive agenda setting powers of incumbent political agents, direct democracy appears to have some benefits which are directly related to the concept of democracy as an opinion creating process (s.a. Bohnet and Frey 1994); (b) In order to allow for parallel instead of consecutive political learning processes and to enable citizens to choose between sets of political alternatives on their own responsibility, inter-jurisdictional competition can make politics more competitive and more effective as a discovery procedure in the Austrian meaning of the term (s.a. Vanberg 1993).

Notes

1. Based on papers presented at the 2000 Meeting of the European Public Choice Society, Siena, the Austrian Economics Colloquium at NYU, New York, NY, and the Caplan Workshop, George Mason University, Fairfax, VA. I thank Pete Boettke, Don Lavoie, Israel Kirzner, Birger Priddat, Mario Rizzo, and two anonymous referees for comments and suggestions.
2. See Mitchell (1984:166): “So far as I know, no one – including contemporary disciples – has applied Austrian analysis to the political sector. Such applications would seem to offer much in redirecting certain inquiries in the analyses of . . . competition among politicians”. For more recent statements in the same vein, see Buchanan (1989, 1993), Boettke (1994, 1998), diLorenzo (1987); diZerega (1989), Frey (1981), Langlois (1992), Rowley (1994), Wagner (1993), Wiseman (1989, 1990), or Wohlgemuth (1999a,b).
3. Schumpeter is a peculiar species of an Austrian with rather “un-Austrian” positions on, e.g., Walrasian economics. I will not here try to demarcate “true” Austrian scholarship. I address Schumpeterian Public Choice issues like political entrepreneurship and political irrationality in Wohlgemuth (2000a,b).
4. Arrow’s problem of cycling majorities also plays an important role within spatial models of democracy since in a multi-dimensional “issue-space” the stability of vote-maximizing equilibrium positions is threatened by cyclical majorities (e.g. Davis, Hinich, and Ordeshook 1970).
5. Sheamur (1996) describes links between Popper’s epistemology and his political philosophy. Riker (1982: 244) expresses the same understanding of democracy: “All elections do or have to do is to permit people to get rid of rulers. The people who do this do not themselves need to have a coherent will . . . The liberal interpretation of voting thus allows elections to be useful and significant even in the presence of cycles, manipulation and other kinds of “errors” in voting”.

6. The same rationale that Vanberg and Buchanan (1989:60) found relevant for citizens' evaluations of constitutional rules applies to political preferences in general: "Rules are typically not objects valued in themselves . . . Persons' preferences over rules or systems of rules . . . are largely a product of their constitutional theories, and, therefore may be changed through information that impacts on their theories". As Vaughn (1984:132ff) observes, there is a difference between the kind of theories needed for intelligent participation in the market and in politics. Market actors can achieve their purposes without even knowing what kinds of institutions support the "invisible hand"; all they need to know is how to use the system. A citizen who wants to use the political system for her purposes, however, has to know how the system works and how institutions create social patterns of causation. This creates a discrepancy between the knowledge required and the incentives to acquire such knowledge. The impressive amount of voters' ignorance about the basic structure and operation of government is empirically well established (Delli Carpini and Keeter 1996; Neumann 1986).
7. Boulding (1956) captures the above arguments with his concept of the "image" or "subjective knowledge structure". Alternative candidates for preference and choice first have to be perceived, which entails "a highly learned process of interpretation and acceptance" (ibid.:14) since alternatives "do not usually have the courtesy to parade themselves in rank on the drill ground of the imagination" (ibid.: 84). In Boulding's terminology, the value image (i.e. "the ordering on the scale of better or worse" of given alternatives, ibid.:47), which in most economics exclusively motivates human action is only a part of the whole 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. subjective hypotheses on causal systems and regularities in the outside world).
8. 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 the "expressive utility" which is based on an individual's self-respect and self-assertion. 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. Which is fatal for the economic analysis of voter behavior, as only reputational and expressive utilities are in fact attainable!
9. Citizens use cognitive shortcuts or rules of thumb in dealing with a political environment about which they are largely uninformed (Popkin 1991). Opinion leaders have an important role to play here since they allow people to "validate their opinions in conversations with people they trust and according to the opinions of national figures whose judgments and positions they have come to know" (ibid.:7). Thus, in a certain sense, the general public "free-rides" on the information processing and thinking of others. An acknowledgment of such virtues of opinion leadership, however, does not suffice to support wide-reaching efficiency claims for democracy (e.g. by Wittman 1995) or demands for unqualified democratization (e.g., by Tilman 1988). See Somin (1998:419ff) on the "shortcomings of shortcuts". Opinion leadership will be discussed more systematically in part 5.
10. In somewhat milder form, this is also true for scientific discourse (see Lakatos 1970).
11. Mass media society, of course, includes personalization, simplification or partisan manipulation of agendas and issues. Comparative assessments would not rely on academic ideals, but on questions like: "If modern media coverage subverts democracy, one may ask why despots do not promptly institute freedom of the press" (Anderson 1998:498).
12. In Wohlgemuth (1999a and 2000a), e.g., I use Demsetzian theories of industrial organization to describe the "market structure" of democracy, its plethora of "incomplete contracts" in the very meaning of Williamson, while at the same time introducing Schumpeterian notions of political entrepreneurship. See Foss (2000) on Austrian economics and game theory.

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