The Dream Is Over
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In the 1950s and 1960s, as the California Idea of higher education emerged, within the policy framework of the mixed public and private economy inherited from the New Deal era, a different set of ideas about government and the public good was also being developed. In 1951, defense intellectual Kenneth Arrow published a paper on social choice and individual values, first prepared when he was working as a summer intern at the RAND Corporation in 1948, in which he inquired into whether it was possible to derive collectively rational decisions from the aggregation of individuals’ preferences. Arrow used set theory to prove that when two or more individuals were making decisions over three or more alternatives, it was logically impossible to derive collectively rational group decisions from the individual preferences, whether through voting, social welfare policy, or markets. There was no prospect of achieving a common decision consistent with each person’s individual preferences. In instances of collective decision making, one or the other assumption would have to give way: either the outcome of individual preferences would not be collectively rational or individuals would lose their freedom to determine personal ends. This conclusion became known as the “impossibility theorem.” Crucially, it was grounded in Arrow’s starting assumptions: that methodological individualism prevailed, meaning that all goods were individualized, and there were no collective social goods distinct from the aggregation of individual goods;¹ that individuals made rational decisions based on utility, that individuals’ preferences were unrestricted and inviolable, and that individuals’ preferences were incomparable.² Within the terms of these premises, Arrow presented his theory as universally applicable in all social sites and all cultures.³ It was not grounded in an empirical anthropology of human social behavior. In a...
sympathetic commentary, S. M. Amadae concludes that “Arrow’s theory of social choice was entirely normative.”

In the period between the 1930s and the 1960s, many intellectuals concerned themselves with how to dismantle the coercive authority of fascism and Stalinism. John Dewey and others wanted to do this via democratic collective deliberation and decision in the public sphere. Arrow set himself against these strategies. His high individualist approach was radically different. He argued that only “upholding individual freedom over personal preferences” could be “the basis of legitimate rule.” Working democracy based on majority rule tended to infringe on liberty by violating the preferences of at least one citizen. State administration of social policy was a potential disaster and redistributive taxation was a certain disaster, as it was impossible to manage a redistributive policy so as to meet the preferences of all citizens, including those whose wealth would diminish. The impossibility theorem rendered as intellectually incoherent the very notion of “social welfare.” This finding was consistent with the belief of contemporary welfare economics that there was no basis for an objective statement of collective welfare.

Nevertheless, the impossibility theorem did not negate the practical possibility of an agreed subjective policy determination of collective welfare through the democratic process or by government administration; it merely negated the possibility of Pareto optimality—that is, a condition in which no individual would be worse off. Strictly, the impossibility theorem was not applicable in situations where individuals took the preferences of others into account, or when they started from an assumption of common preferences, or they began from the assumption that all had a minimum entitlement, or more generally, where they took into account the health or fairness of the system or other distributional norms. In other words, it did not apply when people behaved as citizens with shared social values rather than as utility-maximizing homo economicus. Arrow emphasized that in his construction, “all social choices are determined by individual desires” and are not “imposed by considerations external to individuals’ preferences,” which could include law, the taxation regime, or public policy. There was no place in the ideal Arrow world for principles such as social equality of opportunity in education or for taxation of inheritance designed to redistribute resources between families and provide each child with a more equal start or public economic intervention during a depression on the grounds that all persons should be able to work for a living. States S. M. Amadae: “His theorem rejects the possibility that a social consensus on ends could emerge as a result of a philosophical ideal transcending individuals’ desires as a guide to collective decision making.” Arrow’s impossibility theorem also excluded utilitarian judgments, which assumed individual utilities could be compared, dealing a further blow to classical welfare economics.

The impossibility theorem rested on unrealistic conditions: a self-centered utopia in which autarkic individual freedom was absolute and the shared conditions
enabling that freedom to be exercised and enjoyed were taken for granted—despite
the fact that such social conditions would be fatally undermined when all persons
pursued their absolute self-interest without any regard for others. To quote Ama-
dae again:

Agents share a world of objective logic or fact, but privately determine values and
ends. Arrow's social world is one in which individuals have personal preferences, and
the world of things and other individuals serves as background in which individu-
als realize their private ends. . . . Arrow does not so much envision a shared social
world as he does a collection of individuals whose identities are defined by their well-
ordered set of preferences, and who strive to achieve their most preferred outcomes. 9

However, by no means all social scientists oppose the use of unrealistic assump-
tions, and many set out to transform the world using normative methods. 10 The
imaginative landscape of the disciplines is populated by many ideal forms and
cases. Arrow's kind of individualism, absolute negative freedom without the J. S.
Mill constraint (I am free only to the extent I do not infringe the freedom of oth-
ers), was attractive to many: 11 The impossibility theorem became widely noticed.
It evolved into the foundation of social choice theory, which in the United States,
though not Western Europe, largely replaced the older tradition of welfare eco-

nomic. 12 The effects in other parts of economics were less transformative. The fact
that Arrow had demonstrated that markets were incapable of collectively rational
decisions was not seen to undermine Adam Smith's invisible hand theorem. Mar-
kets had never been expected to achieve Pareto optimality. Homo economicus had
no intrinsic concern about collective decisions. On the other hand, the effects in
political science were subversive and generative. The most dramatic effect was that
not just social welfare but the "public," the "public interest," and "public good"
were rendered meaningless by the impossibility theorem once its high individual-
ist assumptions were accepted. This was the starting point for the development of
public choice theory, which described itself as "the economics of politics."

PUBLIC CHOICE THEORY

The principal leader of public choice theory, James Buchanan, set out to detonate
the "normative delusion" that "the state was, somehow, a benevolent entity and
those who made decisions on behalf of the state were guided by consideration of
the general or public interest." 13 The foundational text of the theory, The Calculus
of Consent (1962), written with Gordon Tullock, rested on Arrow's finding—estab-
lished not through empirical observation but through logic erected on the base of
Arrow's high individualist assumptions—that there is no such thing as the public
good.

Again, the intent of public choice theory was normative: to change expecta-
tions about the state. Buchanan and Tullock stated that they were interested not
in what the state was, but in what it ought to do. What it ought to do was trade. In public choice theory, both politics and government were understood as similar to an economic market and populated by self-seeking agents. “The theory of markets postulates only that the relationship be economic, that the interests of his opposite number in the exchange be excluded from consideration.” Hence joint or collective interest was ruled out from the start. How then did communities determine a just social order? Buchanan believed that individuals should use politics to seek forms of justice and social organization that best uphold their individual interests. Political leaders might claim to be responsible to persons or causes other than themselves, but they were not. Those who espouse general principles did so in order to advance their self-interest, by using the mask of altruism to lift their standing and secure the trust of others so as to either more effectively pursue their self-interest or to secure a general order that will guarantee and maintain it. It was not so much that there was no public interest expressed in government; rather, there were multiple “public interests,” with each one conceived by an active individual. Group decisions were simply the sum of the individual decisions combined through a decision-making rule.

Buchanan’s notion of forms of common justice as an outcome of competition and trade contrasts with Adam Smith’s views in *The Theory of Moral Sentiments* ([1759] 2004). For Smith, human sympathy was foundational to society, and sympathy was neither motivated by self-interest nor served it indirectly. Adam Smith saw a world of mixed public and private goods in which humans were motivated by, on the one hand, sympathy and sociability and, on the other hand, by self-interest and self-love. He believed that it was essential that humans keep self-regard in check. Buchanan saw only self-interest and no check, and private goods that were obtained in market production and exchange. Clark Kerr and the other 1960s builders of California’s higher education would have recognized themselves more readily in Adam Smith than in James Buchanan.

Public choice theory took a different tack than earlier theories that posed problems of government failure alongside problems of market failure. While the vision of self-serving politicians and bureaucrats was mobilized by Buchanan as a negative referent to weaken the credibility of government while detonating the notion of public good, this was also the mode of government that he saw as not only inevitable but desirable. The negative referent was readily switched to positive. After all, self-regarding competitive behavior was the motor of progress.

Within the constraints that he faces, the bureaucrat tries to maximize his utility. He is no different from anyone else in this respect. He can hardly be expected to further some vaguely defined “public interest” unless this is consistent with his own.

The notion of politics as another market legitimizes practices that some would describe as the corruption of public values—for example, politicians who are owned by corporate interests that finance their campaigns or public servants who
exchange favors for cash. However, Buchanan saw economic freedom as the basic form of human freedom, making possible other forms of freedom such as political freedom.\textsuperscript{20} Given that public values were a mirage, nothing could be lost. When politics was managed by lobbyists working for large companies, there were no ethics to violate. These precepts in their raw form were not universally adopted, but the public choice arguments continuously seeped into the polity, so that there became more tolerance towards the role of money in Congress than there had been in Clark Kerr’s time, and politics became more often interpreted in terms of self-interest than in terms of the general interest. In turn, such behaviors and such interpretations appear to confirm the core assumptions and narrative of public choice theory. Public choice theory also helped to weaken faith in the potential of public programs, including educational programs, to improve social conditions. As Buchanan notes,

public choice theory, along with complementary empirical observation, has defused enthusiasm for collective solutions to social problems. In this negative sense, public choice has exerted, and continues to exert, major ideological impact.\textsuperscript{21}

Nowhere did this become more apparent than in the politics of taxation. Taxation is the key to the capacity of the state to pursue its programs—as Piketty notes, without taxation there is no material basis for the common interest.\textsuperscript{22} For public choice theory, taxation was also the soft underbelly of the New Deal–type state, the point where it was most vulnerable to political critique. Though the citizen-beneficiaries of social programs tended to like those programs, who would not want to pay less tax?

Buchanan opened up this issue carefully. He stated that for him, government embodied a dilemma. On one hand, each person was “a participant in government (a citizen)” and in that sense complicit in collective decisions and collective action. On the other hand, government by its nature forced some citizens to acquiesce to behaviors inconsistent with their preferences, such as “the confiscation through taxation of goods he treats as ‘his own.’”\textsuperscript{23} In that circumstance, “coercion is apparently exercised upon him in the same way as that exerted by the thug who takes his wallet in Central Park.”\textsuperscript{24} Buchanan argued that the state must be structured so as to protect individuals from coercion, both by other individuals and by the state itself. He devised the idea of a two-tier state, consisting of a basic constitutional framework of rights enforced by law, the “protective state,” and the domain of contractual exchanges in those rights, the “productive state.” Most day-to-day government activity occurred in the productive domain. The concern was to ensure that governments did not overstep the boundary and tamper with rights and liberties in the protective domain. If government intervened in this area, “its acts may be regarded as ‘criminal.’”\textsuperscript{25} Here, again, taxation could be construed as an invasion of liberty.
At the same time that public choice theory began to achieve large-scale impact in social science, in the 1970s, the world of public policy was becoming more receptive to pro-market values and notions of limited government and taxation. The stagflation of the mid-1970s, in which growing unemployment and inflation coincided, led to the abandonment of Keynesian demand management as a policy tool and a partial shift from fiscal to monetary management as was being urged by Milton Friedman. The collapse of global currency coordination in 1971 paved the way for greater financial deregulation. Buchanan provided robust support to the arguments against Keynesian economic management. Friedman reciprocated, endorsing Buchanan’s proposition that politics should be seen as a market of self-interested individuals rather than the site of a collective public interest. These views were becoming part of the intellectual and policy mainstream. Friedman’s call for the strengthening of markets forces in education through vouchers and his sharp critique of state-subsidized tuition in higher education as regressive in terms of social distribution also became widely noticed. Buchanan agreed with Friedman’s position. Student radicalism had occurred, he argued, because students received education at a price that was well below its cost of production, especially in the public higher education institutions. Clearly, they did not value the product. The introduction of full-price tuition would empower students in a more useful way, while disciplining them to make effective use of their investment. It would also bring the universities and the faculty into lines with student-consumer needs.

The new politics of limited government and taxation, and education markets, was to have a major impact on public higher education—directly, by truncating its public funds and financing private sector competitors, and indirectly, by changing the society in which it worked. The anti-Keynesian state manifested a declining interest in elevating society, for example, by fostering equality of opportunity. Such programs always led to demands for more expenditure. Consistent with social choice and public choice theory, some in government and others in think tanks, lobbying organizations, and media circles began to talk down expectations of the state. It was some time before the practical implications of these new ideas were apparent. For California and for the California Idea of higher education, they showed first in relation to tax.