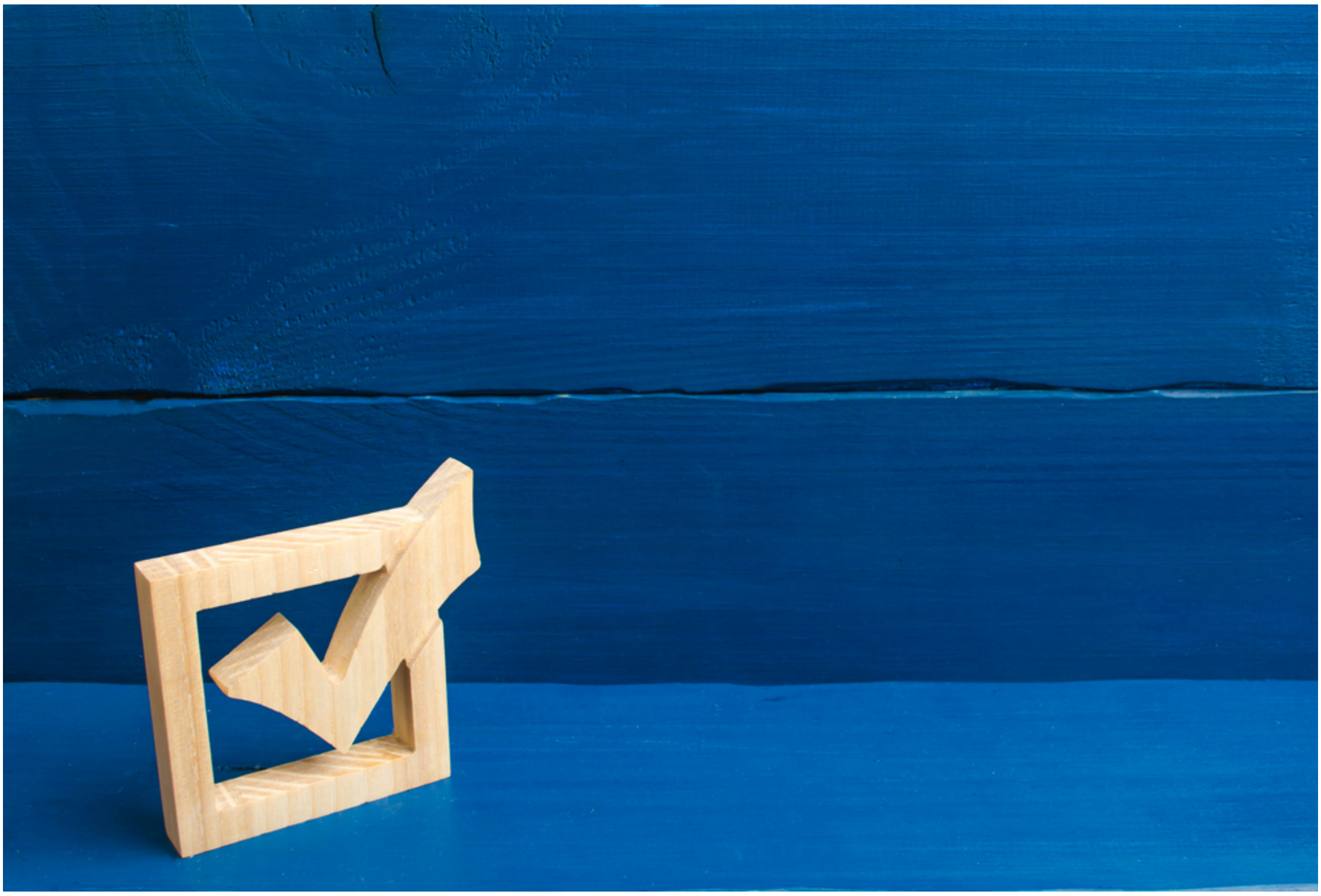
Public Choice

By William F. Shughart II



By William F. Shughart II,

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Public choice applies the theories and methods of economics to the analysis of POLITICAL BEHAVIOR, an area that was once the exclusive province of political scientists and sociologists. Public choice originated as a distinctive field of specialization a half century ago in the works of its founding fathers, KENNETH ARROW, Duncan Black, JAMES BUCHANAN, Gordon

Tullock, Anthony Downs, William Niskanen, Mancur Olson, and William Riker. Public choice has revolutionized the study of democratic decision-making processes.

Foundational Principles

As James Buchanan artfully defined it, public choice is “politics without romance.” The wishful thinking it displaced presumes that participants in the political sphere aspire to promote the common good. In the conventional “public interest” view, public officials are portrayed as benevolent “public servants” who faithfully carry out the “will of the people.” In tending to the public’s business, voters, politicians, and policymakers are supposed somehow to rise above their own parochial concerns.

In modeling the behavior of individuals as driven by the goal of utility maximization—economics jargon for a personal sense of well-being—economists do not deny that people care about their families, friends, and community. But public choice, like the economic model of rational behavior on which it rests, assumes that people are guided chiefly by their own self-interests and, more important, that the motivations of people in the political process are no different from those of people in the steak, HOUSING, or car market. They are the same human beings, after all. As such, voters “vote their pocketbooks,” supporting candidates and ballot propositions they think will make them personally better off; bureaucrats strive to advance their own careers; and politicians seek election or reelection to office. Public choice, in other words, simply transfers the rational actor model of economic theory to the realm of politics.

Two insights follow immediately from economists’ study of collective choice processes. First, the individual becomes the fundamental unit of analysis. Public choice rejects the construction of organic decision-making units, such as “the people,” “the community,” or “society.” Groups do not make choices; only individuals do. The problem then becomes how to model the ways in which the diverse and often conflicting preferences of self-interested individuals get expressed and collated when decisions are made collectively.

Second, public and private choice processes differ, not because the motivations of actors are different, but because of stark differences in the incentives and constraints that channel the pursuit of self-interest in the two settings. A prospective home buyer, for example, chooses among the available alternatives in light of his personal circumstances and fully captures the benefits and bears the costs of his own choice. The purchase decision is voluntary, and a bargain will be struck only if both buyer and seller are made better off. If, on the other hand, a politician proposes a project that promises to protect the new homeowner's community from flooding, action depends on at least some of his neighbors voting for a tax on themselves and others. Because the project's benefits and costs will be shared, there is no guarantee that everyone's welfare will be improved. Support for the project will likely be forthcoming from the owners of houses located on the floodplain, who expect to benefit the most. Their support will be strengthened if taxes are assessed uniformly on the community as a whole. Homeowners far from the floodplain, for whom the costs of the project exceed expected benefits, rationally will vote against the proposal; if they find themselves in the minority, they will be coerced into paying for it. Unless the voting rule requires unanimous consent, which allows any individual to veto a proposal that would harm him, or unless those harmed can relocate easily to another political jurisdiction, collective decision-making processes allow the majority to impose its preferences on the minority. Public choice scholars have identified even deeper problems with democratic decision-making processes, however.

The Institutions and Mechanisms of Public Choice

It has been recognized at least since the time of the Marquis de Condorcet (1785) that voting among three or more candidates or alternatives may fail to select the majority's most preferred outcome or may be prone to vote "cycles" producing no clear winner.[1] Indeed, Kenneth Arrow's "impossibility theorem" shows that there is no mechanism for making collective choices, other than dictatorship, that translates the preferences of diverse individuals into a well-behaved social utility function. Nor has any electoral rule been found whose results cannot be manipulated either by individuals voting insincerely—that is, casting their ballots strategically for less-preferred candidates or issues in order to block even worse outcomes—or by an agenda setter who controls the order in which votes are taken.

Elections

Studying collective decision-making by committees, Duncan Black deduced what has since been called the median-voter theorem. If voters are fully informed, if their preferred outcomes can be arrayed along one dimension (e.g., left to right), if each voter has a single most-preferred outcome, and if decisions are made by simple majority rule, then the median voter will be decisive. Any proposal to the left or right of that point will be defeated by one that is closer to the median voter's preferred outcome. Because extreme proposals lose to centrist proposals, candidates and parties in a two-party system will move to the center, and, as a result, their platforms and campaign promises will differ only slightly. Reversing 1964 presidential hopeful Barry Goldwater's catchphrase, majority-rule elections will present voters with an echo, not a choice. If the foregoing assumptions hold, the median voter's preferences also will determine the results of popular referenda. As a matter of fact, anticipating that immoderate proposals will be defeated, the designers of ballot initiatives will strive to adopt centrist language, in theory moving policy outcomes closer to the median voter's ideal point than might be expected if decisions are instead made by politically self-interested representatives.

Modeling the decision to vote in a rational choice context, Anthony Downs pointed out that the act of voting itself is irrational. That conclusion follows because the probability of an individual's vote determining an election's outcome is vanishingly small. One person's vote will tip the scales in favor of the preferred candidate or issue only if the votes of all other voters are evenly split. As the number of voters becomes large, the chances of that happening quickly approach zero, and hence the benefits of voting are likely to be less than the costs. Public choice reasoning thus predicts low rates of voter participation if voters are rational. Indeed, if there is an unsolved puzzle, it is not why turnout in U.S. elections is so low, but why it is so high.

Downs and other public choice scholars also conclude that voters in democratic elections will tend to be poorly informed about the candidates and issues on the ballot. Voter ignorance is rational because the cost of gathering INFORMATION about an upcoming election is high relative to the benefits of voting. Why should a voter bother to become informed if his vote has a very small chance of being decisive? Geoffrey Brennan and Loren Lomasky, among others, have suggested that people vote because it is a low-cost way to express their preferences. In this view, voting is no more irrational than cheering for one's favorite SPORTS team.

Legislatures

Ballot initiatives, referenda, and other institutions of direct democracy aside, most political decisions are made not by the citizenry itself, but by the politicians elected to represent them in legislative assemblies. Because the constituencies of these representatives typically are geographically based, legislative officeholders have strong incentives to support programs and policies that provide benefits to the voters in their home districts or states, no matter how irresponsible those programs and policies may be from a national perspective. Such "pork barrel" projects are especially likely to gain a representative's endorsement when they are financed by the taxpayers in general, most of whom reside, and vote, in other districts or states.

Legislative catering to the interests of the minority at the expense of the majority is reinforced by the logic of collective action. Small, homogeneous groups with strong communities of interest tend to be more effective suppliers of political pressure and political support (votes, campaign contributions, and the like) than larger groups whose interests are more diffuse. The members of smaller groups have greater individual stakes in favorable policy decisions, can organize at lower cost, and can more successfully control the free riding that otherwise would undermine the achievement of their collective goals. Because the vote motive provides reelection-seeking politicians with strong incentives to respond to the demands of small, well-organized groups, representative democracy frequently leads to a tyranny of the minority. GEORGE STIGLER, Sam Peltzman, Gary Becker, and others used that same reasoning to model the decisions of regulatory agencies as being influenced by special-interest groups' relative effectiveness in applying political pressure.

The logic of collective action explains why farmers have secured government subsidies at the expense of millions of unorganized consumers, who pay higher prices for food, and why textile manufacturers have benefited significantly from trade barriers at the expense of clothing buyers. Voted on separately, neither of those legislatively enacted special-interest measures would pass. But by means of logrolling bargains, in which the representatives of farm states agree to trade their votes on behalf of trade protectionism in exchange for pledges of support for agricultural subsidies from the representatives of textile-manufacturing states, both bills can secure a majority. Alternatively, numerous programs of this sort can be packaged in omnibus bills that most legislators will support in order to get their individual pet projects enacted. The legislative pork barrel is facilitated by rational-voter ignorance about the adverse effects of legislative decisions on their personal well-being. It also is facilitated by electoral advantages that make it difficult for challengers to unseat incumbents, who, accordingly, can take positions that work against their constituents' interests with little fear of reprisal.

Bureaucracies

Owing to the benefits of specialization and division of labor, legislatures delegate responsibility for implementing their policy initiatives to various departments and agencies staffed by career bureaucrats, who secure their positions through civil service appointment rather than by democratic election. The early public choice literature on bureaucracy, launched by William Niskanen, assumed that these agencies would use the information and expertise they gained in administering specific legislative programs to extract the largest budget possible from relatively uninformed, inexpert legislators. Budget maximization was assumed to be the bureaucracy's goal because more agency funding translates into broader administrative discretion, more opportunities for promotion, and greater prestige for the agency's bureaucrats.

More recently, public choice scholars have adopted a "congressional dominance" model of bureaucracy. In that model, government bureaus are not free to pursue their own agendas. On the contrary, agency policy preferences mirror those of the members of key legislative committees that oversee particular areas of public policy, such as agriculture, INTERNATIONAL TRADE, and the judiciary. These oversight committees constrain bureaucratic discretion by exercising their powers to confirm political appointees to senior agency positions, to mark up bureau budget requests, and to hold public hearings. The available evidence does suggest that bureaucratic policymaking is sensitive to changes in oversight committee membership.

Other Institutions

Public choice scholars, such as Gary Anderson, Mark Crain, William Shughart, and Robert Tollison, have not neglected the study of the other major institutions of democratic governance: the president or chief executive officer and the "independent" judiciary. They model the occupants of these positions as self-interested people who, by exercising the power to veto bills, on the one hand, and by ruling on the constitutionality of laws, on the other, add stability to democratic decision-making processes and increase the durability of the favors granted to special-interest groups and, hence, the amounts the groups are willing to pay for them.

The Lessons of Public Choice

One key conclusion of public choice is that changing the identities of the people who hold public office will not produce major changes in policy outcomes. Electing better people will not, by itself, lead to much better government. Adopting the assumption that all individuals, be they voters, politicians, or bureaucrats, are motivated more by self-interest than by public interest evokes a Madisonian perspective on the problems of democratic governance. Like that founding father of the American constitutional republic, public choice recognizes that men are not angels and focuses on the importance of the institutional rules under which people pursue their own objectives. "In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself" (*Federalist*, no. 51).

Institutional problems demand institutional solutions. If, for example, democratic governments institutionally are incapable of balancing the public budget, a constitutional rule that limits increases in spending and taxes to no more than the private sector's rate of growth will be more effective in curbing profligacy than "throwing the rascals out." Given the problems endemic to majority-rule voting, public choice also suggests that care must be exercised in establishing the domains of private and collective choice; that it is not necessarily desirable to use the same voting rule for all collective decisions; and that the public's interest can be best protected if exit options are preserved by making collective choices at the lowest feasible level of political authority.

About the Author

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Further Reading

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Footnotes

1. Consider the problem of dividing $100 among three people. Suppose two of them agree to split that sum, with $60 going to one and $40 to the other. The third person, who receives nothing, has an incentive to strike a bargain with the second, offering a split of, say, $50 each, which makes them both better off than under the initial proposal. Faced with desertion, the first person can destabilize the new coalition by offering to accept $45, leaving $55 for one of the others. And so on. The game has three possible (and equally likely) outcomes in which two of the three players accept payments of $50 each, but the third player can always upset the equilibrium by cutting another deal. The same endless series of changing winning coalitions or vote "cycles" can emerge in elections involving three or more candidates or ballot issues when no one of them is strongly preferred by a simple majority of the voters.

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