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## **UNIT 19      PERSPECTIVE OF PUBLIC CHOICE**

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### **19.0 LEARNING OUTCOME**

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After reading the unit, you shall be able to:

- Explain the concepts of rationality and methodological individualism;
- Discuss the basic ingredients of the Public Choice approach to political processes and institutions;
- Define public goods and club goods;
- Analyse the functioning of the bureaucracy, including provision and delivery of public goods and regulation activities, using the public choice approach;
- Describe the characteristics of rent-seeking behaviour; and
- Critically examine the relevance and analytical power of the public choice approach to bureaucracy.

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### **19.1 INTRODUCTION**

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In your previous units, you have been exposed to various approaches to the study of bureaucracy. In this unit, we discuss a fresh approach to political economy and public administration, an approach that has a radically different view about people, their motivations and actions in the arena of politics and administration. This approach is called **Public Choice**, and the present unit deals with how this approach studies bureaucracy and administration.

For a long time, those who studied bureaucracy assumed that while bureaucracies display the behaviour of any formal organisation, what characterised these and set these apart from other formal organisations like business firms, was that bureaux functioned keeping the public interest in mind. The personnel and staff of public administration agencies were motivated to work for implementing, as efficiently as possible, the overall policies and strategies of the government.

In actual practice, bureaux and development administration agencies often display behaviour that has prompted many to ask: "is their behaviour consistent with actions and tactics which will efficiently and effectively implement government policies?" Are there delays, inefficiencies, and sub-optimal behaviour? Are some of the officials venal? Are the policies which are being implemented the best policies to begin with? The question is, if such behaviour is sometimes seen, why are these sort of behaviour displayed? Is it a problem of motivation, of incorrectly devised incentive system? Why is there often a deviation from the official policy line? These are serious questions that any student of public administration is confronted with.

Public choice theory sought to provide a different way of approaching the study of administration. Basically the theory suggested that when we study any organisation or institution, we should look at the behaviour of the people, that is, the individuals constituting the organisation or institution. The underlying assumption is that there is a *representative* individual who typifies the behaviour of people in that organisation or institution. This is not to suggest that all individuals are identical or behave in the same manner. It merely suggests that to make the analysis or study easier we may think of a typical individual. Thus to study bureaucracy, you may think 'how would a typical bureaucrat behave in a given situation. You should not go away with the idea that the public choice approach deals with pathological cases or situations that are deviations from the ideal one. What it aims to do is give a general framework and overall mode of analysis of political and administrative processes and institutions. This is what we propose to study in this unit, with particular emphasis on the functioning of bureaux and administration.

The following section expounds and clarifies the methodological bases of the public choice mode of analysis. The section discusses the notion of rationality, as the basic premise of the public choice approach is that political actors are inherently rational. The public choice approach is anchored in the framework of methodological individualism. This section also expounds on the definitional characteristic of public choice, as also some related approaches, as politics-as-exchange. This means that the political and administrative processes are seen as 'exchange' processes. Section 19.3 discusses the

public choice approach to some basic political processes, actions and institutions, such as collective choice and voting, and interest and pressure groups. The section also discusses the origins and nature of the State. Having set the ball rolling, in the following two sections the unit takes up in right earnest the discussion of administration and bureaucracy using public choice. Section 19.4 discusses the structure and nature of bureaux and tries to explain why they are so, as well as explains the provision of public goods. It discusses, from within the Public Choice tradition, some of the principal theories of bureaucracy. Section 19.5 analyses the practice of regulating the economic activities of the private sector by government regulatory authorities, as well as what is called rent seeking.

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## 19.2 METHODOLOGICAL INDIVIDUALISM, RATIONALITY, AND ECONOMIC ANALYSIS OF POLITICS

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Let us begin the discussion by first looking at the two words, ‘public’ and ‘choice’. As the first word makes clear, the approach focuses on the activities of, and processes in, public organisations, like bureaucracy, legislature, executive, or other organs of the State. It is not concerned with the actions of private individuals except as members of a collective, like voters or members of an interest group. We mentioned in the previous section that the Public Choice approach avers that to study the functioning of any public organisation, one needs to look at the behaviour of people in that organisation. The word ‘choice’ suggests that behaviour or actions of people in public organisations or activities is to be understood in terms of a single dimension, that of the choices the individuals make from the available alternatives and within constraints. We shall elaborate on this in subsection 19.2 below.

The interesting thing here is that although the objects of study are public organisations or institutions, the public choice approach insists that for a fruitful analysis, one needs to look at the behaviour of a typical ‘representative’ individual within these institutions. Thus although *public* organisations are being studied, the behaviour of *individuals* are being looked at. This approach is part of a general way of looking at the relationship between individuals and collective, social or public institutions and organisations. This is what we turn to now.

### 19.2.1 Methodological Individualism and Rationality

The methodology of Public Choice consists of two related elements. The first is *methodological individualism*. Methodological individualism rejects viewing the society as an organism, and considers a holistic approach misleading. Public Choice theorists argue that even when studying collective entities and groups, the *individual* should be the unit of analysis, both as the basic unit of decision-making as well as the unit for whom the decision is made. Groups, organisations, or even societies, are nothing more than the (sum of the) individuals comprising them. While many other approaches talk of group

decision-making, the Public Choice approach denies the legitimacy of decision-making at the group level. This approach contends that an organic view of society is not accurate, is indeed misleading.

The second element of economic methodology, closely related to the first, is *rational choice*. Rational choice is merely the modern application of the attribute of “measuring the pleasure- pain calculus” that according to classical philosophers people follow. It takes but one aspect of human behaviour, namely decision-making in specific environments. The fundamental idea is that people try to do the best they can, given the constraints that they face. People are assumed to be able to rank alternatives in order of preference, and choose the most preferred alternative – and also be consistent in their choices. It does not imply that people are selfish or that they are negligent of other people. This is true in all areas of human endeavour, whether economic, political or social. Applied to politics, the basic implication that Public Choice theorists make is that politics should not be analysed from a ‘public interest’ perspective, but from an ‘individual gain-maximising’ one. All participants in the political arena – politicians, bureaucrats, voters, and stakeholders act to maximise their own gains.

### **19.2.2 Political Economy and the Economic Analysis of Politics**

Public Choice theory is the application of economics to the study of political processes and institutions. This is not so much the assertion that economic events or forces or processes influence political events and activities, but the application of the methodology and tools of economics to the study of political science. Public Choice is an approach and a methodology. It does not have its own separate topics. Its topics are the same as those of political science. Public Choice studies processes by which people indicate preferences and choices in the political sphere. It urges that social scientists who study political and bureaucratic activities should not that politicians and bureaucrats act out of benevolence or that they have the ‘public interest’ in mind. Rather, politicians and bureaucrats have self-interest uppermost in their minds when they undertake actions. Politicians may think of taking actions that would help them to get re-elected or win an election ticket. Similarly, a bureaucrat may have career promotions or increase in status and power in mind when undertaking actions. Public choice suggests that we abandon any romantic notion of motivations of politicians and bureaucrats and take a realistic view.

To reiterate, the basic ideas in analysing politics using an economic approach are: studies of the group as a category rather than the individual are meaningless, and political studies using the public interest perspective rather than rational choice one are misleading.

Public Choice theorists deal with the question of the state in a contractarian paradigm. Government is an economic institution in two senses. It is an instrument thorough which people can realise certain ends. Secondly, it arises as the result of the bargaining and exchange among individuals. Governments are not only a party to, but also the result of, this exchange process.

Government is the *product* of collective choice. The social contract theory of the state is a normative application of the concept of agreement as an indication of social desirability. According to public choice theorists, economists should eschew the maximisation approach, or more accurately, resource allocation and the scarcity paradigm and instead should focus on the exchange paradigm. This 'exchange' paradigm public choice theorists seek to extend to the political sphere.

This implies that the edges between the "economy" and the "polity" get blurred. Once the catallactics approach is adopted, political decision making institutions can be analysed in the same way as economic institutions. Of course, even in this approach, the fact that power and coercion exist in society is not lost sight of. Once we move away from the political counterpart of such a model and get into situations of rent seeking, power relations come into play. These non-voluntary relations involving power and coercion should be the realm of study of the discipline of Political Science. Thus Public Choice should not be viewed as economic imperialism, but the assertion that the human propensity to truck barter and exchange as Adam Smith put it, is not limited to 'economic' exchanges or commercial transactions but is present in almost all areas of human interaction. Thus the view of politics that public choice takes is that of politics-as-exchange.

A normative principle that follows from the exchange paradigm is that if voluntary exchange involving consent is preferred to coercion, then those policies that promote voluntary exchange among consenting individuals, are to be preferred. This is why public choice theorists are such vocal proponents of market relations. The market in its idealised form, is not only an efficient economic institution that promotes growth and prosperity, but the voluntary exchange process that underlies the market and in any sphere, is the best guarantor of human liberty and the best protector against coercion.

### **Market failure and Government Failure**

Let us look at some concepts from standard economics that public choice uses that are employed in public choice analysis. Standard economics suggests that provided certain assumptions are met, people entering into voluntary exchange with one another, each pursuing his or her self-interest independently ensure that competitive markets are the most efficient institutions for allocating resources. A situation of Pareto-optimality will be reached, which means a point will be reached where no one can be made better off without at the same time someone else being made worse off. This is so called after the economist and sociologist Vilfredo Pareto. The price system will take care of resource allocation. The notion of competition in standard economics, when it speaks of competitive markets, is a situation where no producer or consumer is able to take control of the market or rig it. Competition is so severe that no one has it in his or her power to set a price that would guarantee extra gains for that individual or organisation. Everyone sells homogeneous goods or services and sellers can enter or leave the markets with ease. Perfect competition means a situation where paradoxically there is no rivalry. Every one has equal power (or lack of it). 'Big business' is absent.

This kind of perfect competition, along with the absence of public goods, absence of increasing returns to scale and absence of externalities has traditionally been considered the only case where markets work efficiently, and any deviation from these conditions is called a situation of *market failure*. Hence it can be seen that theoretical conditions for market success are extremely stringent and rarely to be found in the real world. Cases of market failure would be ubiquitous. Thus whenever public goods are present, or monopolistic conditions prevail are situations of market failure. Later, situations where different agents in the market have unequal information about market parameters or have imperfect or incomplete information have been added to the situations of market failure. In the scheme of neo-classical economics the government has a role to play, apart from maintaining the legal framework and property rights, Everyone sells homogeneous goods or services and sellers can enter or leave the markets with ease. Perfect competition means a situation where paradoxically there is no rivalry. Every one has equal power (or lack of it). 'Big business' is absent in correcting market failure.

Public choice theorists and some other economists have forcefully argued that the existence of market failure does not imply that the government will do a good job of participating in economic production and provision, it does not automatically make a case for government intervention. Governments could be inefficient in provision, could overspend, may not pay heed to cost overruns. Governments can fail, too. The situation where government displays inefficiency in provision has been called government failure.

The case of government failure, it should be noted, does not say that governments are inherently bad and markets are inherently good. What it does say is that even accepting the conditions under which markets are said to have failed, what is the guarantee that a *real world government* will be more efficient or will automatically enhance social welfare. The theory of government failure is part of public choice theorists' repeated plea for focussing on real governments and officials rather than some ideal or theoretical representation of these. Public choice theorists have severely criticised mainstream economists for assuming that the government would could *or would* automatically carry out the most efficient and welfare increasing policies. Public Choice theorists explain government failure in terms of pursuit of vested interests by politicians who try to win elections and to get re-elected and by rent-seeking bureaucrats.

The origins of the public choice approach is generally attributed to Duncan Black who investigated the rationale of group decision (Black, 1948). Public choice theory concentrated on providing a rational choice approach to political processes and institutions. Public choice deals with public finance in a major way; indeed, it emerged as a reaction to traditional public finance. James McGill Buchanan in two important papers (1954a, 1954b) argued that decisions in the political sphere (collective decision-making) are not the same as economic decisions (individual decision-making in the market).

Among the seminal works on the supply of public goods was Downs (1957) where Downs suggested a theory of political competition, with politicians attempting to maximise votes analogous to profit maximisation by business firms. He analysed

institutions of democracy, albeit of the Parliamentary British type William Riker in 1962 presented a theory of political coalitions., In 1962 itself was published a book which was to be one of the canonical works in the whole Public Choice literature. This was *Calculus of Consent* by James Buchanan and Gordon Tullock (Buchanan and Tullock, 1962). This book set out the basics of the analysis of constitutions. It discussed the nature of majority rule. In *The Logic Of Collective Action* (Olson, 1965), Olson discusses the free-rider problem. The basic point is that the larger the group, the more difficult it is to take collective action. Small groups are better at solving the incentive problem.

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## **19.3 BASIC ELEMENTS OF THE PUBLIC CHOICE APPROACH TO STATE AND POLITICS**

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### **19.3.1 Nature and Origin of State**

In addition to providing insight into how public decision-making occurs today, public choice analyses the rules that guide the collective decision-making process itself. These are the constitutional rules that are made before political activity gets underway. Public Choice theorists argue against adopting an organic view of the state and society. A society is merely the collection of individuals who constitute it. Similarly, the state is not a homogeneous organic entity. It is a collection of politicians, administrators and other official and personnel.

Social Scientists should look at the structure within which political decisions are made. Before looking at the effects of alternative economic policies within a given set of rules, social scientists should analyse the structure of the state and political apparatus.

First investigate the relationship of the individual and the state; see why people come to cooperate and engage in exchange in society. Look at the 'constitution' of economic policy. Public Choice theorists stress in the politics-as-exchange model that in exchange, the process itself, rather than outcome, should be focussed on. There is no external authority which judges outcome to be efficient. From this arises the contractarianist view of society where a just social order arises as a result of voluntary exchange among individuals to develop a social contract. Consensus and unanimity are fundamentally important.

Public choice theorists have propounded on collective choice, or how groups in societies form collective decisions. People often feel the need to coordinate their strategies to get some potential gains or meet some objectives. Mancur Olson was one of the first to provide an insight into why collective or group action is not likely to be very successful, specially if the group size is large. The basic idea that Olson put forward was that the public interest was a public good and that people would free-ride, that is, try to get benefits without incurring any cost. Since the larger the group the smaller the individual benefit, therefore the less any person is likely to volunteer or participate in the group

activity needed to bring a particular objective to fruition. Hence, the smaller the group, the more likely is the group activity to succeed. Public choice theorists see the danger of special interest dominating the public interest in many spheres. In many cases, lobbies and pressure groups get organised and use the political process to garner subsidies, which are inefficient from a social point of view, at the cost of the unorganised bulk of the population. When there are public interest groups and lobbies, the outcome could not only be unfair but also pareto-suboptimal. People find it hard to come together and devise pareto-efficient solutions because public interest is a public good, and there will be an under-supply of privately produced public good.

### **19.3.2 Social Choice and Voting**

One of the chief underpinnings of public choice theory is the lack of incentives for voters to monitor government effectively. Anthony Downs, in one of the earliest public choice books, *An Economic Theory of Democracy*, pointed out that the voter is largely ignorant of political issues and that this ignorance is rational. Even though the result of an election may be very important, an individual's vote rarely decides an election. Thus, the direct impact of casting a well-informed vote is almost negligible; the voter has virtually no chance to determine the outcome of the election. So spending time following the issues is not personally worthwhile for the voter. Evidence for this claim is found in the fact that public opinion polls consistently find that less than half of all voting-age Americans can name their own congressional representative.

Public choice economists point out that this incentive to be ignorant is rare in the private sector. Someone who buys a car typically wants to be well informed about the car he or she selects. That is because the car buyer's choice is decisive—he or she pays only for the one chosen. If the choice is wise, the buyer will benefit; if it is unwise, the buyer will suffer directly. Voting lacks that kind of direct result. Therefore, most voters are largely ignorant about the positions of the people for whom they vote. Except for a few highly publicised issues, they do not pay a lot of attention to what legislative bodies do, and even when they do pay attention, they have little incentive to gain the background knowledge and analytic skill needed to understand the issues. Public Choice theorists have contributed to voting theory, namely single-peaked preference, median voter hypothesis, vote-trading, strategic and insincere voting, and so on.

Duncan Black, in 1948, discussed some rules of decision-making in committees (Black, 1948). He discussed situations where a group decision has to be made, but strict unanimity does not obtain. In this paper, Black also introduced the notion of single-peaked preference in voting.

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## **19.4 ANALYSING BUREAUCRACY AND ADMINISTRATION USING PUBLIC CHOICE**

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Now that you have been acquainted with the basic approach of public choice to political institutions and processes in general, we may look in greater detail specifically how public choice deals with bureaucracy and administration. The public choice approach is one of the late approaches in the line of inquiry into, and discourses on, the working of the bureaucracy and government administration. Till about 1965. The scholarly body of work on the bureaucracy was carried on in the spirit of Weber and Wilson, notwithstanding Simon who used the theory of decision-making to study among other topics, the functioning of bureaucrats. He put forward the idea of bounded-rationality, which you have no doubt studied in an earlier unit. In 1965 Gordon Tullock published his book *The Politics of Bureaucracy*. This book marked the beginning of work, within the public choice framework, on the analysis of bureaucracy. Till that time, the public choice literature had busied itself with analysing and developing models of representative government and the State in general.

### **19.4.1 Functioning of Bureaux**

At the heart of any understanding of the function and role of the bureaucracy is the fact that bureaux are engaged in the activity of providing public goods and public services. Since these goods and services provided by the bureaucracy are not sold, a political process replaces the market process. The point of departure of the public choice approach is the assertion that although the structure of a political process is completely different from a market-based interaction process, the motivations and behaviour of the actors in the political arena are very similar to actors in the marketplace. In other words the dichotomy that sought to explain the behaviour of businessmen, entrepreneurs and suppliers as being motivated by self-interest while that of bureaucrats, administrators and politicians is motivated by ‘the public interest’ is a false one.

The classic work in the public choice literature on bureaucracy is Niskanen (1971). This work started an onrush of future contributions on bureaucracy from a public choice perspective. Niskanen’s theory is in an exchange paradigm. It talks of the exchange of output for a budget, between the individual bureau and the government. What is relevant is also how work is organised within the bureau. Niskanen formulated his theory in a framework of what economists call bilateral monopoly or a situation where there is a single seller of a product confronting a single buyer of the product. Consequently, both come to have considerable power, control and bargaining strength. In his model, the government and not the public is the buyer of bureaucratic services. The bureau is the only seller of its services and the government the only buyer of the ‘output’ of the bureau. This exchange of the output is for a budget and not a per-unit price. Here Niskanen brings in the rational choice aspect of this formulation. In any rational choice model, agents are expected to optimise some behavioural function; in this model, bureaucrats are supposed to want to maximise their budget. On the buyer’s side, the behaviour and preference of the government are derived from conventional models of representative government and majority rules which already existed in the public choice literature. In a later paper (Niskanen, 1975), Niskanen added a more basic maximisation exercise underlying budget maximisation. Bureaucrats are pictured as being utility maximisers, with utility taken to be depending, among other things, on expected remuneration,

patronage, discretionary power, ease of management and ideological factors. Tullock (1965) and Downs (1967) had made indirect allusions to some of these points.

Later an extension of the Niskanen model was provided by Dunleavy which is called Bureau-shaping model. The basic extension was that higher-ranking bureaucrats supposedly place greater emphasis on non-pecuniary gains rather than on maximisation of budgets as Niskanen had proposed. Thus senior bureaucrats are supposed to shape their bureaus that increase their non-pecuniary power and status, since in public bureaucracies, compared to the private sector, there are greater constraints to pecuniary and monetary gains

### 19.4.2 Provision of Public Goods And Services

You might be thinking that public goods are goods provided by the public sector, that is, the state. While this is true in many cases, this is not always so. While the government largely provides public goods—and later we will discuss the reasons—this type of goods may be provided by the private sector. There are two characteristics that a public good possesses regardless of whether it is provided by the government or not. These two characteristics are **non-rival consumption and non-exclusion**. Let us see what these concepts mean

#### Non-rival Consumption

This concept means that for a given quantity of a good available, consumption by one person does not diminish the quantity left for someone else to consume. In other words, a good is characterised by non-rivalry in consumption if, once it is produced, several people can simultaneously consume it. A classic example is national defence. National Defence ‘consumed’ by one citizen of country does not reduce the amount left over for others. Yes, it is true that people living in border areas may feel threatened more by an external attack; nevertheless military defence *per se* is a good characterised by non-rivalry in consumption. Other examples are pollution control measures, and many public health programmes.

#### Non-exclusion

This is the second characteristic of a public good. To understand non-exclusion we can look at private goods which are characterised by the exclusion principle, and see what this means, then we can grasp the meaning of non-exclusion. Take a private good like an apple. If you eat an apple you can exclude me from eating the apple. For a good with non-exclusion property, on the other hand, it is impossible or extremely expensive, to confine the benefits of the good to a few persons. A person will derive benefit from the production of the good, regardless of *whether or not he or she pays for the good*.

It is important to carefully distinguish between non-rivalry in consumption and non exclusion. The former concept captures the idea that the amount consumed by one person does not reduce the amount left over for consumption by others. A good may be non-rival and yet it may be possible to exclude some people from using that good. A classic example is cable television broadcast. If a programme is being broadcast, then its viewing by one person does not diminish the amount left for others. However, it is possible to exclude some people from viewing the programmes. Those who do not have access to a TV set, or for some channels those who do not subscribe to channels may not be able to view certain programmes. Remember there is no diminishing of the quantity available for consumption. Another example is cinema in a theatre. For the people inside the hall, no one gets to watch more of the movie than anyone else does. It is, however, possible to exclude people who do not pay for the ticket from watching the movie. So the movie is a good that is non-rival but excludable. Goods that are both non-rivals in consumption as well as having the non-exclusion property are sometimes called **pure public good**. A classic example of a pure public good is a lighthouse. When the light of the lighthouse is on, it is difficult to prevent any nearby ship from seeing it and being guided by it (non-excludability). Moreover, one ship's use does not reduce the light left for other ships, or, in other words, one ship's use does not affect the ability of other ships to use the light (non-rivalry). To qualify as a public good, a good has to have at least non-rival consumption. In the examples given above, although there is non-rival consumption, the goods are excludable.

### **Club Goods, Congestion and Impure Public Goods**

We mentioned above that *pure* public goods are characterised by both non-rival consumption as well as exclusion. There are, however some goods for which consumption is non-rival but where exclusion can be applied as in the cable television or movie theatre examples above. These goods are sometimes called club goods. This is actually what happens in the case of members of a club, who have joint and hence non-rival consumption, but where non-members are excluded. Because of this kind of nature of an actual club, goods, which possess the characteristic of non-rival consumption coupled with exclusion possibilities, are sometimes called club goods.

There is another class of impure public goods. This class of goods have rival consumption but in their case, it is very difficult or extremely costly to carry out exclusion in consumption. A congested road is a prominent example. One person driving a vehicle does not mean others can be excluded from driving their vehicles but clearly, the space taken up by one person on the road reduces the space available for others – hence use of road space is a rival good. A similar example is that of a beach. People cannot exclude others from enjoying a beach, but it is possible that the beach gets crowded and hence the space available for each person on the beach gets reduced. Thus a beach has rival consumption. From these examples we see that cases of congestion are yet another type of impure public good in a sense opposite of club goods – which exhibit rival consumption but no or negligible exclusion.

Public Choice theorists have provided incisive analysis of supply of public goods that are not pure public goods, specifically club goods. They have also broadened our understanding of collective action. They have made a persuasive case for the possibility of government failure and shown that it is more widespread than was thought, and have given powerful insights into the theory of regulation and rent seeking. The impact of the Public Choice Theory views on bureaucracy and rising state expenditures can be seen in the fact that beginning with Margaret Thatcher in Britain in the 1980s, many countries have sought not merely to use the expression “rolling back the state”, ‘downsizing government’, but actually implement them. In other words, not only has the private sector been allowed greater play, but the state and bureaucratic machinery actually shrunk in several countries. Public Choice theory’s major contribution pertinent to the area of public administration has been the fact that it has questioned the very basis of bureaucracy-run governance. Their principal contribution overall has been that they have largely managed to convincingly argue that it is futile to talk of economic policy, and public finance, without discussing politics. Economic policy is, after all, made by politicians. While the private sector has expanded, the state sector has shrunk both in direct administration as well as through privatisation of public enterprises. Moreover, there was widespread adoption of management precepts and practices of business firms for use in the public sector. Along with this, there has increasingly been contracting out of services to private providers as well as outsourcing by government enterprises from private firms. The whole *New Public Management* approach and viewpoint is, moreover, heavily influenced by Public Choice Theory and can indeed be said to trace its lineage to it. Finally, Public choice theorists have provided insightful analyses of political business cycles – the relation between economic prosperity and depression and political events such as elections.

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## **19.5 REGULATION AND RENT SEEKING**

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### **19.5.1 Regulation**

Public Choice Theory has suggested that regulators (in the government) have some basic incentive while regulating some economic activities (say monopolies) of the private sector. These incentives suggest that influential individuals and units in the private sector and special interest groups ‘capture’ the regulatory process by influencing the bureaucrats who are charge of this regulation by appealing and playing on the bureaucrats’ incentives.

Traditional theory (prior to public choice theory) had argued for regulation only of natural monopolies so as to enhance efficiency and increase total welfare. George Stigler in 1971, put forward a startlingly different theory of regulation (Stigler, 1971). In this paper, Stigler put forward a theory of “regulatory capture”, whereby those who are regulated by the state themselves capture the regulatory process and actually earn benefits at the cost of consumers. Big business or large farmers often benefit from regulation by

getting subsidies, by being protected from competition and price control which ensures large demand. Of course, trying to get regulation would involve lobbying, and being regulated means subject to rules and regulations, but so long as the costs are lower than the benefits, monopolies would try to get regulated.

### **19.5.2 Rent-Seeking**

Public choice theorists speak of rent-seeking and directly unproductive profit-seeking activities (DUPs). DUPs are means of earning a profit through activities that do not add to social value. They produce goods and services that do not provide utility. Typical examples of DUPs are tariff-seeking lobbying, creating artificial monopolies that generate rents, even smuggling. The important thing about DUPs is that these use up resources to create profits but produce no output. Some theorists like Jagdish Bhagwati and T.N. Srinivasan have argued that DUP can arise both as a consequence of particular policies, as well as be undertaken to influence the making of favourable policies. As examples of the former situation, we can consider lobbying by special interest groups to gain from some policy. Another type of activity within this category is the smuggling that may take place as a consequence of a protectionist policies characterised by high custom duties. As an example of the second category, we can think of strong industrial groups, which lobby for high tariffs and quotas or policies that discourage foreign competition. DUP is related to the general concept of rent seeking.

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## **19.6 CONCLUSION**

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In this unit, you have been acquainted with a particular approach to bureaucracy and public administration, one that has been highly influential, the public choice approach. We saw that the public choice unit takes one particular aspect of human behaviour even in the arena of public administration and politics, namely the display of preference and the making of choices. The main contention of public choice theorists is that first, it is wrong to think that when we talk of decision-making in the private sector we know that people are governed by their self-interest, while decision-making in the public sector or government or public administrative agencies is somehow governed by public interest or social interest. Even in these areas the people making the decisions are the same and hence they will be governed by the same motivations whether they make decisions in the private sector or in the government. Hence the tools that neoclassical economics employs to study decision-making in markets can fruitfully be used to study decision-making in the political domain.

In the course of the unit, we began by looking at the concept of rationality since public choice theory assumes that decision-makers are rational. The unit also studied the idea of methodological individualism that is the cornerstone of public choice philosophy. The unit further discussed the idea of politics-as-exchange and how public choice uses economics to discuss politics.

In terms of applications, the unit discussed two basic themes in political theory and how public choice analyses these. These were the nature of the state and its origins, and theories and ideas in voting. Finally the unit moved to the centre-stage of its discussion, that of the application of public choice to the bureaucracy. The unit explained Niskanen's theory of bureaux and discussed some extensions, and elaborated on the theme of public goods and how they are provided, and further, how public choice analyses these actions of bureaucracies. In the subsequent section, the unit discussed the public choice approach to rent seeking and the theory of regulation.

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## 19.7 KEY CONCEPTS

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**Cost-benefit:** Identifying and quantifying both negative impacts (costs) and positive impacts (benefits) of a proposal, then subtracting one from the other to arrive at a net benefit.

**Outcome Evaluations:** Evaluations that focus on the results of program activity, the extent to which a programme meets its objectives in terms of impact on the environment.

**Performance Measurement:** Careful and detailed measurement of the achievement of programme objectives and outcomes by a programme or agency.

**Political Economy Approach:** Focusing on politics and economies as categories for analysing organisational behaviour.

**Stakeholders:** The many different persons who are involved in policy decisions and are affected by the results.

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## 19.8 REFERENCES AND FURTHER READING

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Buchanan, J.M. and Tullock, G., 1962, *The Calculus of Consent: Logical Foundations of Constitutional Democracy*, University of Michigan Press, Ann Arbor.

Mueller, D.C., 2003, *Public Choice III*, Cambridge University Press, Cambridge

Niskanen, W., 1971, *Bureaucracy and Representative Government*, Aldine Atherton, Chicago.

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## 19.9 ACTIVITIES

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- Q.1 Explain the concept of rationality and methodological individualism as used by public-choice theorists
- Q.2 What do you understand by 'politics-as-exchange'? How would you use it to understand the basic nature and purpose of the state?
- Q.3 Discuss the public choice approach to rent-seeking and regulatory activities of the state.