

Introduction to Public Choice Theory

Choice, Commerce, and Conflict

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Theories of Economic Justice

What is a Just Distribution?

Utilitarianism:

One that maximizes overall “utility”
(wellbeing, happiness, pleasure, etc.)

Rawls:

One that protects basic liberties and
allows inequalities only insofar as
they benefit the least advantaged.

Nozick:

One that results from wholly
voluntary transactions and just
initial acquisitions.

Theories of Economic Justice

What Should the Government
do?

Utilitarianism:

Maximize overall “utility” (wellbeing,
happiness, pleasure, etc.)

Rawls:

Protect basic liberties and allow
inequalities only insofar as they
benefit the least advantaged.

Nozick:

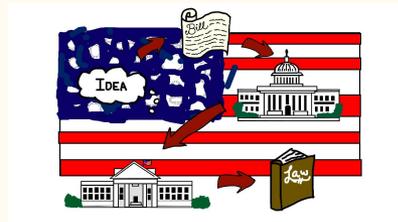
Should protect individual rights,
enforce contracts, provide protection.

Introduction to Public Choice Theory



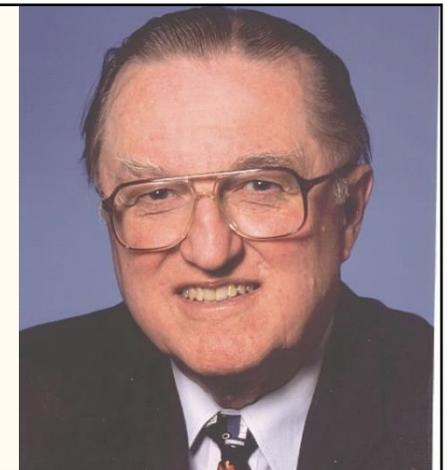
Public Choice Theory: What is it?

Public Choice Theory:
The application of **economic methods** to the study of **political processes**.



Anthony Downs

American Economist
1930 - 2021



The New York Times

Tony Downs, Economist Who Studied Why People Vote, Dies at 90

He explored democracy, traffic congestion, race relations and bureaucrats through the prism of an economist.

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What Moves Politics?

- Political Ideology or Conviction
- The concerns and needs of the voters
- Rational Self-interest

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Public Choice Theory: Politicians

- Every agent in the division of labor has a **private motive** (self-interest) and a **social function** (the role they play within their institution).
- Politics is *not* exempt.
- Politicians pursue private motives and, in the process (if the political institutions are designed appropriately), serve a social function that benefits others.

Public Choice Theory

The Argument, Part I

Under perfect information,

- **Voters** elect those who will benefit them.
- **Government** expects voters to vote based on how policies affect them.
- **The opposition** offers alternatives based on their expectations of how voters will vote

Public Choice Theory

The Argument, Part II

Under conditions of *imperfect* information,

- **Politicians** do not know what voters want.
- **Voters** don't know what politicians are doing, will do, or should be doing.
- **Information** is a costly resource.

The Economic Analysis of Government

- Voters and politicians pursue their own **goals**, under conditions of **uncertainty**
- **Information** is a costly resource.
- Giving rise to three critical elements of political life:
 - (1) **Persuasion**,
 - (2) **Ideology**,
 - (3) **Rational Ignorance**



Persuasion

Persuasion

Because of imperfect information, it is irrational for **politicians** to treat all citizens equally.

Some citizens are more effective at persuading others to support their policies.

operation of government. First, it means that some men are more important than others politically, because they can influence more votes than they themselves cast. Since it takes scarce resources to provide information to hesitant citizens, men who command such resources are able to wield more than proportional political influence, *ceteris paribus*. The government, being rational, cannot overlook this fact in designing policy. As a result,

Persuasion

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for both themselves and the government. Essentially, inequality of political influence is a necessary result of imperfect information, given an unequal distribution of wealth and income in society. When knowledge is imperfect, effective political action requires the use of economic resources to meet the cost of information. Therefore, those who command such resources are able to swing more than their proportional weight politically. This outcome is not the result of ir-

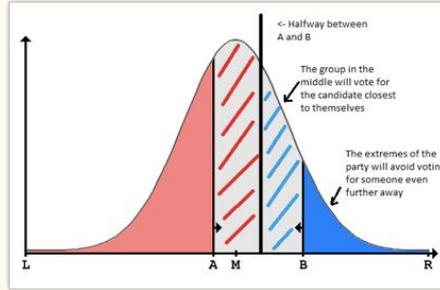
Ideology

Ideology

Ideologies are crafted to win elections.

They help voters differentiate between politicians (without needing to learn *every* policy position).

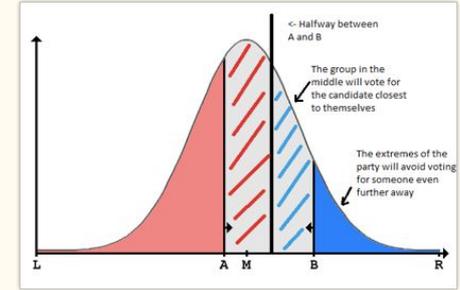
Parties invent ideologies to attract ideological voters.



Ideology

The Median Voter Theorem: a majority rule voting system will select the outcome most preferred by the median voter.

Parties will select ideologies that are close to the “center” (at least when certain conditions obtain).

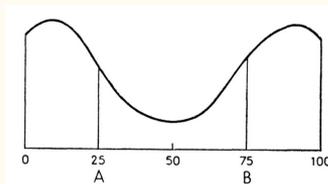
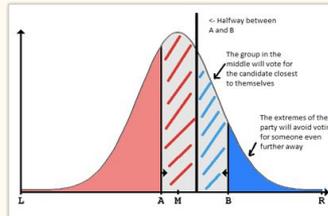


Ideology

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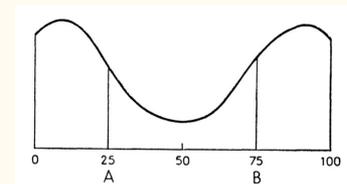
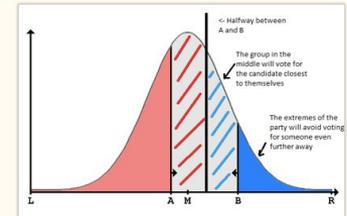
Polarization:

If the electorate is polarized, the theorem doesn't hold.



Ideology

which party is in power. **But when the electorate is polarized, as in Figure 2, a change in parties causes a radical alteration in policy;** And, regardless of which party is in office, half the electorate always feels that the other half is imposing policies upon it that are strongly repugnant to it. In this situation, if one party keeps getting re-elected, the disgruntled supporters of the other party will probably revolt; whereas if the two parties alternate in office, social chaos occurs, because government policy keeps changing from one extreme to the other. Thus **democracy does not lead to effective, stable government when the electorate is polarized.**



Rational Ignorance

Rational Ignorance

- The time and effort required to make an informed choice is **high**.
- The likelihood that your vote will make a difference is very **low**.
- It is rarely rational for a voter to invest the time and effort required to make an informed choice.



Conclusion

Clearly, rational behavior in a democracy is not what most normative theorists assume it to be. Political theorists in particular have often created models of how the citizens of a democracy ought to behave without taking into account the economics of political action. Conse-

quently, much of the evidence frequently cited to prove that democratic politics are dominated by irrational (non-logical) forces in fact demonstrates that citizens respond rationally (efficiently) to the exigencies of life in an imperfectly informed world.²² Apathy among citizens toward elections, ignorance of the issues, the tendency of parties in a two-party system to resemble each other, and the anticonsumer bias of government action can all be explained logically as efficient reactions to imperfect information in a large democracy. Any normative theory

Questions?