I. Introduction

A. What is Public Choice? Public choice is the study of political decision making.

i. It attempts to understand how public policies come to be adopted using economic models of the impacts of policies on individuals,

ii. and models of individual political behavior under a variety of political institutions.

iii. It tends to use rational choice models to do so, which is largely what distinguishes it from mainstream and classical political economy.

B. Generally speaking, public choice differs from political science, because it generally analyzes political decisions as consequences of individual choices and model those choices using analytical models from game theory and economics.

i. Public choice theorists generally assume that all the individual involved in politics are rational and self interested economic men and women.

ii. They then analyze how such individual might be expected to behave in various political settings: as voters, as politicians, as bureaucrats, and so forth.

a. This is not to say that all men and women are narrow income or wealth maximizers.

b. But, rather to say that the income and wealth affects of public policies matter to voters, politicians and bureaucrats.

c. Of course, other broader interests also are included in "self" interest.

iii. (Roughly speaking, public choice, and/or rational politics, is the application of economic models of human action to politics.)

C. Public choice theorists have developed a wide range of models of political action.

i. Their models characterize: electoral equilibrium, the behavior of bureaucracy, the political power of interest groups, the differences between democracies and dictatorships, the logic of collective action, the importance of constitutions.

ii. Public choice is a relative new field of research.

a. The application of rational choice models began in earnest shortly after the end of World War II.

b. Previous efforts had been undertaken but never caught on, as with early work by the French philosophers Condorcet and Borda in the eighteenth century.

c. Of course, the general enterprise of understanding how political institutions affect public policies and the quality of life within a given "polity" is an even older areas of research. Aristotle's Politics and Plato's Republic are very nice efforts to understand how political institutions work and how ideal institutions may be designed.

D. Why study public choice?

i. Reasons for studying public choice vary.

ii. First, economists often model the formation of policy as if it were an exogenous variable. For example in principles of economics courses, one often analyzes the economic effects of a tax or subsidy without attempting to explain where those taxes (and other regulations) come from.

a. Public Choice attempts to analyze where those policies come from.

b. This allows one to better understand the very wide range of economic regulations as the result of deliberate action rather than mistakes by politicians.

c. A better understanding of politics also allows one to predict and profit from policies, because most polices are adopted with their economic consequences in mind.

iii. Second, political scientists often adopt public choice types of models because they become unsatisfied with historical and broad sociological representations of political processes.

a. They want to understand government in a more detailed way than those models allow, and to make forecasts of government policies or growth which are based on sharper models.

b. History and sociology may still matter, but those forces can be analyzed the level of individual decision makers.

iv. Third, policy analysts from economics, political science, and law realize that all these policies are the results of political decisions.

a. To make better policies will require better political decisions and/or better political institutions.

b. *Indeed, if the people involved are clearly reasonably smart well informed individuals, then institutional reform may be the only method to systematically improve policy decisions is to improve political institutions.*

◆ A better understanding of politics allows one to try to improve existing institutions so that they on average produce "better" policies.

c. Assessing the relative merits of alternative institutions requires a clear understanding of the effects of those institutions on human behavior--of the sort that public choice models attempt to develop.

◆ (Such analyses will necessarily be abstract--hypothetical--because it is too costly to experiment with all kinds of institutions--at least at one time and place.)

◆ (History, however, provides some indirect evidence of the relative performance of alternative political institutions.)

v. Public Choice provides a logically consistent and powerful set of tools for analyzing the properties of alternative political institutions.
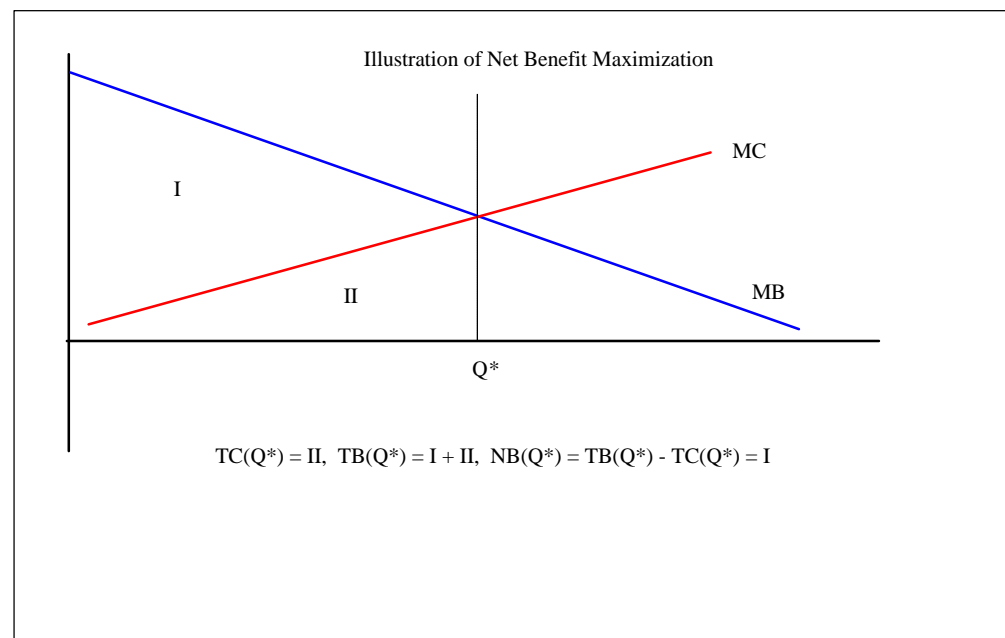
II. Positive and Normative Political Economy

A. In areas of economics and policy dealing with public policy, it is often important to distinguish between the scientific problems of explanation and prediction and the ethical problems of evaluation and recommendation.

i. While controversy may be associated with both positive and normative analyses, the scope for disagreement is generally larger for normative than for positive analysis.

ii. It is generally easier to reach (find?) agreement about facts and predictions than it is to reach agreement about normative theories.

iii. (Moreover, the intensity of conflict over normative analysis often tends to be more intense and disagreements less subject to "dispassionate" analysis and argument.)

B. Many philosophers of science distinguish between normative and positive statement. (see for example K. Popper)

i. A **Positive Statement** is a statement about what is, has been or will be.   It is a statement about the world.

ii. A **Normative Statement** attempts to evaluate the desirability of alternative states of the world.

iii. Generally, normative statements conclude that a particular policy is good or bad, is Pareto optimal or not, should be undertaken or not, etc.

   a. Confusion often occurs because reasoned normative statements often include some positive statements to support their conclusions.

   b. E.G. X is a bad policy *because* X increases unemployment.

   c. (X increases unemployment is a positive statement. However, the conclusion that X is a bad policy (or not) depends on an individual's normative theory or intuition--whether he or she believe unemployment is a bad thing or not--even if he or she fully accepts the positive claim.)

iv. Positive statements are often confused with operational statements.

   a. **Operational statements** are statements that can at least conceptually be tested to determine whether they are true or false.

   b. Not all positive statements are testable, and moreover, give a normative theory, some normative statements are testable!

   c. (Is the "big bang" theory testable? Is the "global warming" theory?)

v. Examples of positive, normative, and operational statements:

   a. The moon is made of green cheese. (p, but false)

   b. Minimum wage laws always increase unemployment. (p, probably true)

   c. Tariffs are a bad policy because they reduce consumer welfare. (n, probably true)

   d. Mass transit reduces air pollution. (p, probably true)

   e. Mass transit should be subsidized because it reduces highway congestion. (n, possibly true)

   f. The new EU constitution will be voted down by France. (p, and soon to be tested)

C. There are many examples of Normative Theories used to assess public policies and institutions:

i. The Pareto Criteria

ii. Utilitarian and/or Social Welfare Criteria

   a. Cost Benefit Analysis

   b. the Compensation Principle

iii. Natural right theories

iv. Contractarian theories

v. Communitarian theories

vi. Egalitarian theories

vii. Ideological theories of the "good " life or "good" society

III. A Digression on the Geometry of Net Benefit Maximizing Choice

A. Nearly all economic models can be developed from a fairly simple model of rational decision making that assume that individuals maximize their private net benefits.

i. Consumers maximize consumer surplus: the difference between what a thing is worth to them and what they have to pay for it. $CS(Q) = TB(Q) - TC(Q)$

ii. Firms maximize their profit: $\Pi = TR(Q) - TC(Q)$

B. The change in benefits, costs, etc. with respect to quantity consumed or produced is generally called Marginal benefit, or Marginal cost.

i. DEF: Marginal "X" is the change in Total "X" caused by a one unit change in quantity. It is the slope of the Marginal "X" curve. "X" $\in$ {cost, benefit, profit, product, utility, revenue, etc.}

ii. *Important Geometric Property*. Total "X" can be calculated from a Marginal "X" curve by finding the area under the Marginal "X" curve over the range of interest (often

Illustration of Net Benefit Maximization

MC

I

II

MB

Q*

$TC(Q^*) = II$, $TB(Q^*) = I + II$, $NB(Q^*) = TB(Q^*) - TC(Q^*) = I$

from 0 to some quantity Q). This property allows us to determine consumer surplus and/or profit from a diagram of marginal cost and marginal revenue curves.

C. If one attempts to maximize net benefits, it turns out that generally you will want to consume or produce at the point where marginal cost equals marginal benefit (at least in cases where Q is very divisible).

  i. There is a nice geometric proof of this. (As an exercise try to develop one, we will take this up in the next class.)

  ii. Although this "marginal cost equals marginal benefit" property will be true for all net-benefit maximizing decision makers,

    a. it does not imply that every person will agree about what the ideal level or output of a particular good or service might be.

    b. Individuals may have different marginal benefit or marginal cost curves.

    c. Both costs and benefits tend to differ with individual circumstances, tastes, and ideology.

IV. Economic Decision Making and Political Disagreements

A. Many other social scientists seem to believe that people disagree about political policies because they are more or less poorly informed. That is to say, they argue that if every one were well informed or listened to reason, everyone would agree about the "right" thing to do in a given policy area.

B. Public choice scholars would admit that this is possible, but generally assume that people are reasonably well informed but **disagree because their circumstances differ** or because they have different tastes or use different normative or ideological theories to appraise states of the world.

C. Illustrations: Figures from class notes:

  i. Who will lobby for minimum wage laws?

  ii. Who will lobby for tariffs on foreign goods?

  iii. Who will lobby for subsidies for higher education?

  iv. Who will prefer progressive taxation?

V. Classic Authors/Books in Public Choice

A. Duncan Black

B. Kenneth Arrow

C. Anthony Downs

D. Gordon Tullock

E. William Riker

F. James Buchanan and Gordon Tullock

G. Mancur Olson

H. William Niskanan

VI. Next time: why engage in collective action?