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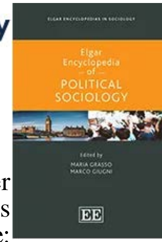


# 125. Public choice

The public choice approach, sometimes called economic theory of politics, builds on three main assumptions:

(a) *Methodological individualism*: Decisions among alternatives are taken by individual people and not by a group. The behavior of a group, thus, has to be understood as the aggregation of the actions of individuals. The public choice approach, therefore, does not assume that the government as a single entity takes action. Rather, the behavior of a government is the outcome of the behavior of particular politicians, public officials, and other decision-makers.

(b) *The rational choice principle*: Individual decision-makers, for example, politicians or voters, are assumed to compare the benefits and costs of alternative actions and consequently choose the alternative which maximizes their utility. The available alternatives are subject to constraints, most importantly income and time. This means that a certain political action is reduced or scrapped when costs relative to benefits rise and is increased when benefits rise compared to costs (relative price effect).

(c) *Politics as exchange*: Decisions in the public sphere depend on a "give and take" between individual actors. They are not taken in isolation but rather depend on the preferences and constraints of other actors. On a more aggregate level, the relationship between the political and economic sectors of the economy has been a central topic, for example, in the form of politico-economic business cycles.

The public choice approach has been taken up rather slowly in standard economics. The orthodox view, in particular Keynesianism, assumed as a matter of course that "governments pursue the interests of society". In particular, governments were assumed to mitigate economic fluctuations and act like "benevolent dictators", who solely pursue social welfare. Public choice questioned the Keynesian view and propagated the idea that individuals in politics are subject to incentives and constraints, as are all other human beings. Nobel Prize winner James M. Buchanan, therefore, coined the phrase: "Public Choice may be summarised by the three-word description, 'politics without romance'".

The public choice approach has been mainly propagated through book publications. Public choice was institutionalized in 1965 when Buchanan and Tullock founded the *Public Choice Society*, and when in 1966 Tullock founded the *Public Choice* journal. The approach gained further prominence from Buchanan receiving the Nobel Prize in economics in 1986, and Ostrom in 2009. Arrow and Sen also received Nobel Prizes for their work in social choice. In North America, some scholars tended to associate public choice with politically right-wing political views. Liberal researchers, therefore, like to call the approach "political economics". In contrast, in Europe such an association never existed. The *European Public Choice Association* and its conferences have been far from having a political leaning but have concentrated on the issue of content.

The emergence and development of public choice have been documented in particular in Mueller's (2003) masterful *Public Choice III*. The state of the discipline today is extensively presented in close to 100 articles included in the *Oxford Handbook of Public Choice, Volume 1 and 2*, edited by Congleton, Grofman, and Voigt (2019).

The foundations of public choice are institutions and decision-making rules, which define how politicians and public officials behave and how decisions among individuals in a population are reached. As such, individual decisions should be the starting point for any analysis of politics (Buchanan & Tullock, 1965). The optimal decision-making rule is that of unanimity, which is ideally reached behind the "veil of ignorance" (Rawls (1971)). However, because reaching unanimity is costly (and even more so in heterogeneous societies), other forms of decision-making are needed. One of them is majority rule, which is dominant in modern democratic theory and practice.

One of the main drawbacks of majority voting, however, is the possibility of inefficient outcomes due to the exploitation of the minority by the majority. However, a decision-making rule requiring more than a simple majority would decrease these external costs, but increase the decision-making costs, and vice versa for decision-making rules which require less than a simple majority.

Buchanan and Tullock's analysis established the field of institutional economics, which is a vivid field. The analysis of decision-making rules has since been extended to other options, such as majority rule with run-off elections, consensus democracy, or the Borda rule.

In a seminal contribution to the field, Downs (1957) applied utility maximization to politicians, political parties, and voters. Politicians gain utility from being in office, and thus, parties formulate policies in order to maximize votes and win elections. Likewise, voters maximize their utility by voting for policies, which they expect to yield the greatest benefits to them. In this model, the parties use ideology mainly as a means to gain votes, because it decreases uncertainty and information costs for the voters.

In a two-party political system, where voters are ideologically relatively equally distributed, both parties tend to converge to a center position on a left-right political spectrum. This median voter theorem holds because voters always support the party whose program is nearest to them. Therefore, the optimal position for each of the two parties is the median of the distribution of voter preferences. The median voter theorem, however, does not hold in multiparty systems or when voters are ideologically very distinct from each other.

Newer models introduce probabilistic voting, where voters and parties are not fully informed about policy programs and preferences (Lindbeck & Weibull 1987). These models can handle the drawbacks of the Downsian model, like political cycling, and thereby confirm the efficacy of political competition. Further research has also focused on multiparty systems, where the median voter is replaced as the key actor by a "central party", which can join any coalition.

A considerable part of the public choice literature deals with the role of bureaucracy. The most famous contribution is by Niskanen (1971). The basic proposition is that bureaucrats maximize their budgets to increase their benefits. Therefore, bureaucracies provide their goods at a higher cost than the marginal cost. This leads to inefficiencies as the marginal costs do not equal marginal benefits. The underlying cause of such inefficiencies is the missing information about the actual cost of supplying public goods, leading politicians to grant government officials a higher budget than necessary. This piece has influenced a significant strand of research and initiated new public management (NPM). However, this shift did not result in considerable cost reduction or more efficient bureaucracies, leading to revisionist approaches. Top officials can have incentives to under-supply the output, thereby decreasing wages and increasing the consumers' surplus. Such revisionist approaches can explain why bureaucracies did not become more efficient even though NPM was implemented and can further offer frameworks for the analysis of bureaucracy also in more modern eras. Several other contributions extend Niskanen's model (Niskanen 1994; Dunleavy 2014). For example, democratic institutions help citizens to gain some influence on the behavior of bureaucracy.

Olson (1965) laid important groundwork for the analysis of interest groups. Collective action for interest groups is more difficult when the number of members is large, and the members engage in free-riding. Smaller interest groups are more effective in achieving their goals. They overcome this free-rider problem and will most efficiently influence the political process. Producer groups dominate the political process to the detriment of consumers and taxpayers. The empirical reality suggested some extensions regarding political interest groups. Groups which can raise politicians' probabilities of being re-elected will have more importance. Furthermore, the influence is dependent on the size of the network that interest groups possess. Therefore, the extent of politicians' ideological preferences is disputed. Ostrom (1990) presents an approach where interest groups can build efficient institutions on a local level. She shows that problems of collective action can be overcome. Her analysis focuses on situations where common resources can be managed efficiently on a local level in the absence of governmental institutions. The costs of non-compliance and free-riding increase in a local setting, and credible commitments become possible. Overcoming collective action problems for interest groups, therefore, not only occurs within the public sphere but also on a private level.

International political economy is a strand of public choice, which provides an analysis of the interplay of economic and political factors in international relations (e.g. Frey 1989). It studies aspects such as the type and size of tariffs and the extent of protectionism; the risk incurred by foreign investment; and the question of to whom, and to what extent, foreign aid is given and received and how it influences the economic situation of the population. Extensive empirical research has found that a substantial part of foreign aid tends to be captured by the receiving politicians and bureaucrats and that the income levels of the people in the recipient countries are little improved, if at all (e.g. Moyo 2009; Wright & Winters 2010; Asongu 2012). Another topic extensively studied is whether economic boycotts and trade wars are able to influence the political actions of the addressed politicians in the desired direction. The results of empirical research suggest that this is rarely the case. Further, extensive research has analyzed the functioning of international organizations. National government politicians have little incentive to monitor the behavior of these organizations. As a result, the leaders of international organizations have considerable discretionary power, which they partly use to benefit themselves and to increase the size of their organization. As a result, these organizations are far from efficient.

Political sociology is a broad, interdisciplinary field concerned with the social basis of power in society. In addition to power, authority, legitimacy, identity, ideologies, socialization culture, and values are studied. The major foundations are based on three different traditions, those developed by Émile Durkheim, Karl Marx, and Max Weber.

Public choice uses an alternative approach, and in particular, it does not use the concept of power. Not surprisingly, in political sociology, the public choice approach has for a considerable time been challenged. Most scholars in political sociology come from a collectivist view in which entities such as government, public bureaucracy, parties, or even groups of citizens become actors and are often taken to pursue the common good. Actors are assumed to have mixed motivations, and collective identity or social norms are viewed as important sources of human behavior. In contrast, public choice is strongly based on the study of individual behavior, assumes subjective rationality, and builds on the notion that political actors pursue their own interests instead of the common good.

With this methodology, public choice has enriched the theoretical analysis of politics by clarifying matters which have not been fully comprehended before. The introduction of formal models has helped to make the analysis of political topics, such as voting and collective action, more precise. However, there are some limits to the empirical explanatory power of the public choice approach, which is why political sociology and public choice complement each other well. With two different methodological approaches (individualistic vs. collectivistic) they analyze different aspects regarding the interaction of the polity, the economy, and society.

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