

## COMPETITION WITHIN THE GOVERNMENT: PUBLIC CHOICE

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*Public Choice attempts to make government more competitive, more efficient and less corrupt. Aristotle concluded that man's natural inclination is toward discourse and political activity. This gave birth to a vast area of theory and practice that nations and individuals have studied and practiced ever since, mainly political science. In particular, Public Choice deals with the behavior of voters, politicians and public administrators and sees them as mostly self-interested agents pursuing their own individual interest, much like any other economic agent within the society.*

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In this article we shall approach a subfield of public administration, mainly "Public Choice". We all felt the pressure of globalization in the 21<sup>st</sup> century and the need for national governments throughout the world to positively respond to this challenge, through a proper governmental design, in order that they may positively cope with these pressures.

### **1. The theory of public choice**

Public Choice theorists began their quest with foundational questions about the state itself. According to them, the most important subject is the origins and functioning of democratic government. It is true that some research has been done on anarchy, autocracy, revolution, and even war, but the area of greatest interest for Public Choice scholars, has been the issue of collectively choosing constitutional rules or making the government work for the greatest number of people. The assumption of Public Choice scholars is that they aim to form a government (elect) who needs to hire public administrators (agents) to carry out those governmental functions agreed upon by the members. Under the issue of implementation, the main questions are:

- . How to employ competent and honest individuals to whom to delegate the daily operations of the government?

- . How to set up an effective system of oversight and sanctions for the employed individuals.

In answering these complex questions, it is necessary to analyze the effects of creating various focal points of power and decision-making within the appointed government bureaucracies. Further, it requires the examination of voting as a process and the other means of choosing candidates and selecting winners in an election. What rules and policies might be established to positively influence the behavior of elected and appointed government officials? How can a society evaluate its alternatives regarding constitutional and legal rights, especially those regarding oversight of public officials and avoidance of harm due to government agents?

### **2. Collective Action: Government in Theory**

In this section we will discuss "collective action" but only in its strictest interpretation meaning the democratically elected government from whom we only have two major expectations: to correct market failures and to redistribute the wealth in society. Naturally, this is both a theoretical and an incomplete view of the government (collective action) but before moving on to the complexities of the various society agents (public and private) we must understand the underlying currents that shape governmental behavior.

World-wide, the theoretical models of market socialism developed in the 1930's and 1940's depicted the state as largely an allocator of private goods. State intervention was needed to avoid the inefficiencies of the private sector, which Keynesian economic claimed were the cause of unemployment, and to avoid wealth distribution inequalities created by the market. The immediate prosperity following the World War II years reduced the concern about unemployment and distribution issues. However, concerns about market efficiency remained high first among economists but also among political scientists. The academic works of the forties and the fifties concerned themselves with the conditions for efficient allocation of resources in the presence for public goods, natural externalities and economies of scale. Whenever these conditions were not present, the free-market system failed to achieve a "Pareto-optimal" allocation of goods and resources. The existence of these forms of market failures provides a natural explanation for the existence of states.

### **2.1. Market Failure: Reason for Governmental Intervention**

The first and fundamental rationale for governmental intervention into a society was seen as the free-market failure, where economic markets left by themselves would produce large inefficiencies as stated above. These market failures can also be viewed as instances where the individuals' pursuit of self-interest leads to negative results for society as a whole<sup>347</sup>.

The first known use of the term "market failure" was in 1958 by Francis Bator in an article published in *The Quarterly Journal of Economics* entitled "*The Anatomy of Market Failure*" (Bator, 1958) but the concept has been traced back to the Victorian philosopher Henry Sidgwick. The concept that a free-market can have an inefficient outcome is the common justification for government intervention in general. Economists use various models and theorems to analyze and correct market failure, and their models play an important role in the shaping of public policy<sup>348</sup>. Unfortunately some government interventions, such as taxes or subsidies, may also lead to an inefficient allocation of resources, leading to what is called government failure<sup>349</sup>. Therefore, the true choice is between two imperfect outcomes: market imperfection and governmental imperfection.

A market agent can gain market power and block other agents to gain from the market. This leads to inefficiency due to imperfect competition that can take many different forms, like monopolies, monopsonies, cartels or monopolistic competition if he/she does not implement perfect price discrimination. The actions of an economical agent can have externalities: that is the producer does not bear all of the costs of the economic activity or other conditions important to the market. According to Gravelle and Rees, the underlying cause of market failure is often an issue of property rights. According to them:

*A market is an institution in which individuals or firms exchange not just commodities, but the rights to use them in particular ways for particular amounts of time. [...] Markets are institutions which organize the exchange of control of commodities, where the nature of the control is defined by the property rights attached to the commodities*<sup>350</sup>.

Economists from the public choice school, insist that market failure does not imply that government should attempt to solve these failures, since the costs of government failure could be worse than the costs of market failure. According to public choice theory of government, the failure of government is the inherent problem of a democracy given the power and influence of special-interest groups (rent-seeker) both the public and the private sectors. The conditions

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347 Krugman, Paul, Wells, Robin, *Economics*, Worth Publishers, New York, (Krugman & Wells, 2006)

348 Mankiw, Gregory; Ronald Kneebone, Kenneth McKenzie, Nicholas Row, *Principles of Microeconomics: Second Canadian Edition*, Thomson-Nelson, 157-158, (Mankiw, Kneebone, McKenzie, & Row, 2002)

349 MacKenzie, D.W., *The Market Failure Myth*, Ludwig von Mises Institute, (MacKenzie, *The Market Failure Myth*)

350 Gravelle, Hugh Ray, Rees, *Microeconomics*, Essex, England, Prentice Hall, *Financial Times*, 314-346, (Gravelle & Rees, 2004)

regarded by many as negatives are often seen by public choice economists such as Milton Friedman as an effect of subversion of the free market by government intervention.

## **2.2. Redistribution of Wealth: Reason for Governmental Intervention**

The other major rationale for governmental intervention into the free-market economy is wealth redistribution, a concept supported by some political scientists and economists who see this as the other major reason for the existence of the state. Whenever we refer to the distribution of wealth in a society, we typically compare the wealth of various members in a society and it represents one aspect of the social structure. Different racial and ethnic groups possess differing amounts of wealth, similar to when people are grouped in society by age or education. Various occupations yield different wages and the compensation for some jobs, is thousands of times greater than the compensation for others. The governments of modern societies attempt to redistribute capital and reduce extreme inequalities of wealth through practices such as property redistribution, taxation and various regulations. Their motives include the desire for equality of opportunity, the fear that great wealth can lead to political corruption or fear that the concentration of wealth can lead to rebellion or at least minimize the consumer base<sup>351</sup>. As noted economist and Nobel Prize winner Amartya Sen states: "...a perceived sense of inequity is a common ingredient of rebellion in societies..."

The various forms of government with a socialist and to a lesser degree capitalist ideology, makes significant efforts to diminish the conflicts resulting from the unequal distribution of wealth. The communist economic and political system, believing that the government serves the interests of the people, confiscates the wealth of the rich and distributes the benefits to the poor. Milton Friedman, a known critic of state-managed economies, points out that the slogan "*From each according to his ability, to each according to his need.*" turns ability into a liability and need into an asset<sup>352</sup>. The redistribution of wealth has been a key component of many government initiatives throughout the centuries; however this quest intensified after World War II with many super-governmental agencies such as the World Bank and the International Monetary Fund, which adopted it as their main purpose as well. Many global redistribution advocates point to the fact that the majority of the global wealth is concentrated among the G8 and Western industrialized nations. A recent study by the World Institute for Development Economics Research at United Nations University reports that the wealthiest 1% of individuals owned 40% of global assets in 2000, and that the wealthiest 10% of individuals owned 85% of the total world wealth. 50% of the bottom half of the world population owned less than 1% of global wealth<sup>353</sup>.

## **3. Collective Action: The Functioning of Government in Practice**

Initially, the theory of public choice dealt with the voting system and how to transform what voters are assumed to want into a "*collective preference*" meaning public policy put forth by elected officials. However, this presents a weak connection between the citizens with zero collective decision-making costs and career-legislators representing them and life-long bureaucrats entrusted with implementing the will of the voters. The literature of public choice gives a special place to the actual negotiations carried out by elected officials in exercising their legislative prerogatives. Most important in such negotiations, according to Public Choice theory, are political parties and various other pressure groups.<sup>354</sup>

According to Anthony Downs's 1957 classic book "*An Economic Theory on Democracy*", most voters have incomplete information when voting and as a result will resort to economic issues of "how much government intervention in the economy there should be" and how various political

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351 Sen, Amartya, "On Economic Inequality", 1973 (Sen, On Economic Inequality, 1973)

352 Friedman, Milton "Capitalism and Freedom", 1962 (Friedman M. , 1962)

353 Davies, James B., "Personal Wealth from a Global Perspective", 2008 Oxford University Press, (Davies, 2008)

354 Interest groups, advocacy group, lobby group, pressure group or special interest groups are an organized collection of people who seek to influence political decisions.

parties with their interest groups will control this. His work was partially stimulated by Bergson and Arrow's writings and to some extent, Downs wanted to fill the void of the *impossibility theorem*. He wanted to demonstrate that competition among political parties could have the same effects on the political process as competition among firms in the market had on the market process<sup>355</sup>. Of all the works in public choice school, Downs's book has had the greatest influence on political scientists.

Good, functional government is a pure public good for the many voters who may not realize it nor appreciate it, but there may be interest groups with a strong incentive to lobby the government for specific inefficient policies to benefit them at the expense of the general public. Most voters will be unaware of the lobby efforts due to rational ignorance, therefore numerous special interests groups will successfully lobby for various inefficient policies. In public choice theory, these scenarios of inefficient governance are referred to as governmental failure, a term akin to market failure<sup>356</sup>. From such a perspective, some may think that public choice theory has an anti-governmental approach. Olson proposed a strong state and opposed lobbying by political interest groups. Buchanan suggested that public choice theory must be viewed as "*politics without romance*," an approach critical to earlier idealized notion of politics against market failure.

The development of public choice theory was accelerated with the founding of The Public Choice Society<sup>357</sup> in 1965 and the Public Choice Journal<sup>358</sup>. The Public Choice Society mainly attracts economists and political scientists: the economists contributed with their choice-based model-building skills while the political scientists brought their knowledge of different political systems, institutions and interaction. Next we shall turn our attention on a few aspects of pragmatic government workings.

#### **4. Conclusions and Criticism to Public Choice Theory**

Public choice theorists have been criticized for their failure to explain human action that is motivated by non-rational or non-economic issues. Their response is that the theory explains many different human actions that may not seem rational but really are. It begins with the realities of the Great Depression and the left-tilting of the government, where it was seen as the only solution to market correction and wealth distribution. Public choice theorists proved that orthodox economics should not be abandoned, quite the contrary they ought to be embraced and applied in non-traditional fields such as political science. Public policy ought to be formulated and implemented with a realistic perspective of the rational economical agent.

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355 Muller, Denis, Public Choice III, (Muller D., 2003)

356 While market failure has been widely studied, government failure has only recently come into common usage as the lenses of Public choice theory, New Institutional Economics or Transactional Cost Economics

357 [www.pubchoicessoc.org](http://www.pubchoicessoc.org), (Pub Choice)

358 [www.thelockeinstitute.org/publicchoice.html](http://www.thelockeinstitute.org/publicchoice.html), (The Locke Institute)

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