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Applications from Public Choice Theory

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Clifford S. Russell, editor

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Collective Decision Making

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In preparing my introductory essay I was helped by comments from my colleagues, Robert Cameron Mitchell, Helen Ingram and Emery Castle. In addition, in making final editorial changes and rewriting my essay I was stimulated by the very challenging official reviews prepared by Vernon Smith, Joe Oppenheimer, and Edgar Dunn and by the informal comments and questions of Jerry Kelly. These reviewers, each coming from a different direction, as it were, helped me to rethink the fundamental questions at issue. I hope they will find that I profited from their careful critiques, but I cannot, of course, leave them with any of the blame for remaining inadequacies in my writing or editing.

Finally, there is no doubt that the RFF editor, Ruth Haas, made many improvements and deserves the reader's thanks as well as mine.

August 1979 C.S.R.

Charles J. Hitch

Introductory Remarks

When I came to RFF I believed strongly that institutional factors were of preeminent importance in shaping resource and environmental policies, as well as in determining what actually happens in implementing those policies, and hoped that the thrust of RFF's research could be modified to reflect the true importance of institutions.

It proved to be much harder than I expected for a number of reasons, some of them adventitious; others, I expect, fundamental. We probably did not have on the research staff enough people with the interest and experience to deal effectively with institutional problems, and financial constraints on hiring and growth made it impossible to change the character of the staff substantially in the short run. We found it very difficult to obtain grants for institutional studies, which reinforced these constraints. Foundations and granting agencies had an image of RFF as solely an *economic* policy research organization: it was not obvious to them that we could contribute to the analysis of intergovernmental relations, the sociology of decision making, or the role of the courts, to cite a few relevant examples. In short, we had an "image" problem with potential sponsors.

But the obstacles were not all externally imposed. We had genuine self-doubts about the state of the art of institutional analysis; a feeling that current tools are far from satisfactory for predicting and assessing the effects of suggested institutional changes. Let us take a relatively simple example.

President Carter believes, as I do, that institutions matter. Specifically, he believes (more strongly than I do), that the organization of the executive branch of the federal government matters a great deal. His Office of Management and Budget has appointed a series of task forces in various areas to come up with recommendations for reorganization. One of these groups is dealing with natural resource and environmental

functions of the federal government, now widely dispersed among departments, bureaus, and regulatory agencies, allegedly frequently at odds with each other, and inadequately coordinated. The "public" has been solicited by the task force for comments on questions such as the following:

1. How important is regulatory independence? Independence from what?
2. Where and how should advocacy be built into the system? How about the responsibility for resolution of conflicts?
3. Is the federal role with respect to public and private land and related resources so different as to permit or require separate organizations? Conversely, are the objectives and problems so similar as to permit or require that they be joined under a single management?
4. Are decision making and implementing responsibilities in natural resource management and environmental protection assigned to best advantage among levels of government (federal/regional/state/local)?
5. Should we create a formal body, perhaps called the Natural Resources Council, to develop policy and oversee its execution by the operating agencies?
6. Should all natural resource functions be consolidated in a new department of natural resources, leaving environmental regulations in a separate Environmental Protection Agency? Alternatively, should both be consolidated in a department of natural resources and the environment?
7. What specific federal functions are unnecessary, outmoded, unjustified, or actually counterproductive?

My opinions have been solicited (along with those of thousands of others) but I really do not know how to go about answering those questions, with the possible exception of the last. There I do have the assistance of the economics of externalities, which helps me to distinguish types of decisions which should and should not be left to the market. As far as the first six are concerned, I have only anecdotal types of evidence on the success or failure of various types of governmental organization—but no body of theory, or even an insightful historical analysis. (Here I may be unfair; I am not familiar with the whole body of public choice literature, and it may well contain something helpful of which I am unaware.)

What can we say about the desirability of large conglomerate government departments? (Question 6 above.) The conventional wis-

dom is that the Department of Defense (DOD) is a modest success but that Health, Education and Welfare (HEW) is ungovernable. Even if this is so, why is it so, and how could HEW be made a modest success?

I emphasize that these are simple institutional problems, concerned only with the organization of the executive branch. Of course, institutions interact. One plausible explanation for the relative success of DOD is that Congress reorganized its committee structure to match the new executive structure, whereas in the case of HEW it did not.

But generally, as we leave the field of executive reorganization, the problems become more difficult. Here are a few which occur to me; no doubt the reader can supply many others.

- We have not devised a good method for reconciling, or even reaching a compromise on energy and environmental objectives. Both Congress and the executive seem to be organized to avoid facing up to the resolution of such tradeoffs.
- As a result, a tremendous burden, which they are ill equipped to bear, has been thrown on the courts—not merely in applying policy to particular cases, but in making policy. An egregious example is what the courts have made of the National Environmental Policy Act, going far beyond what anyone thought was congressional intent, resulting in delays stretching into years for project after project, and introducing major and debilitating uncertainties in a large area of governmental and industrial planning.
- Institutional problems and closely associated distributional problems are at the heart of our inability to enact or implement a rational energy policy.
- There is the problem of devising institutions which, in the absence of market mechanisms, will conserve water in high-value uses and divert it from low- to high-value uses.
- All of our "sunshine" laws and public interest interventions have failed to give the consumer/taxpayer an adequate voice in public decisions. Howard Margolis (1977) introduces the concept of "political externalities" to describe costs or benefits of political actions accruing to parties not involved in the decision. He argues that the auto emission standards enacted by Congress in 1970 represented an implicit deal between leading environmental groups, which were not interested in costs at all, and the automobile industry, which was interested only in costs to the industry and not total costs, to the exclusion of the public, which must pay all the costs. The standards saved the industry from its one real nightmare, the threat of being required by the government to adopt radically new engines.

• How, with government responsible for controlling or regulating high technology industries, can it attract staffs that understand the industries they are regulating? I was concerned that at the Department of Energy (DOE) very few of the top officials—division directors and up—had had any industrial experience, and the new and tougher conflict-of-interest rules applying to DOE may well make the situation worse. I don't think we are counting the costs of slamming that "revolving door." I think that one of the great strengths of our system in the past—despite its occasional scandals—has been the free movement of persons among government, industry, and academia, and the existence of institutions such as the contractor-managed National Laboratories, combining elements of all three.

The question for this forum is whether public choice theory offers promise of providing a firmer foundation for applied institutional research and for institutional innovations which could contribute to the solution of some of these problems. To play devil's advocate, there is a lack of evidence that this is in fact the case; as you know well, there is widespread skepticism about the potential of the theory. Public choice theory has its own "image" problem: it is perceived by many, including those in foundations and other granting agencies, as the highly theoretical plaything of a few intellectuals. Of course, this was the way the theoretical physics of Einstein, Bohr, and Oppenheimer was perceived in the 1930s; the analogy may or may not be apt.

In any event, I hope that the papers in this forum identify productive research opportunities in social institution and group decision making. I do not care at this point whether the opportunities are to be seized by RFF or someone else; I would like to see some funding sources convinced that the opportunities are there and that they are real, if they are.

In this regard, I want to thank the Rockefeller Foundation for what may be a leap of faith in making this forum possible. I very much hope that these papers confirm that faith.

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