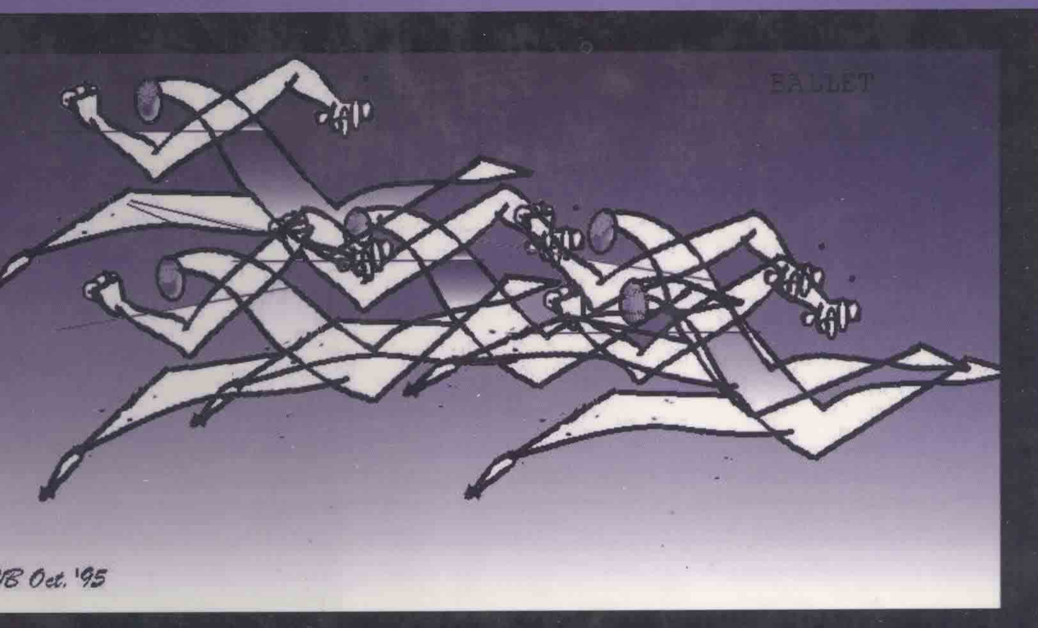
The Economics of Public Choice



Patrick A. McNutt

SECOND EDITION

The Economics of Public Choice, Second Edition

By Patrick A. McNutt
Antitrust Consultant with Indecon Consultants, Dublin and London Economics, Visiting Professor, University of Wales, Bangor and Chairman of the Jersey Competition and Regulatory Authority.

Edward Elgar
Cheltenham, UK • Northampton, MA, USA

© Patrick A. McNutt 2002

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical or photocopying, recording, or otherwise without the prior permission of the publisher.

Published by
Edward Elgar Publishing Limited
Glensanda House
Montpellier Parade
Cheltenham
Glos GL50 1UA
UK

Edward Elgar Publishing, Inc.
136 West Street
Suite 202
Northampton
Massachusetts 01060
USA

A catalogue record for this book
is available from the British Library

ISBN 1 84064 193 2 (cased)
1 84376 066 5 (paperback)

Printed and bound in Great Britain by MPG Books Ltd, Bodmin, Cornwall

Preface

The aim of the book is to investigate the public choice perspective over a range of issues. There is now a burgeoning literature of scholarly research on the subject matter and when the opportunity to write this book on public choice arose I opted to concentrate on a few selected issues. I have tried to develop a different and refreshing approach to many old problems. The theme of each chapter develops ideas and concepts which I have introduced at various conferences and seminar presentations. Writing the book enables me to bring the ideas to a wider and critical audience. This is a book about public choice and Chapter 1 provides an overview of the development of public choice. It is also a book about the political economy of governing or making decisions in a political setting. In Chapter 8, I take a critical look at democracy and voting asking the proverbial question why do rational people bother to vote? Schumpeter had argued that democracy is important because it legitimates the position of authority and that voting entails a belief that the political system or political institutions are accepted, this is, legitimated. I explore the circumstances under which the citizens confer legitimacy, this is, the circumstances under which citizens do things because they think them right, correct, justified or worthy. In newly emerging democracies and in older democracies, once marginalised and disenfranchised groups are beginning to enjoy agenda-access as their unelected representatives are consulted and legitimated in a new political order. Groups evolve which acquire command over the distribution of economic resources, voluntary non-voting becomes a norm. This is the essence of governing.

The rather complex issue of social choice and voting are addressed in Chapter 2 which does not provide an exhaustive survey of the mathematical theory of voting. The reader is referred elsewhere. However, the chapter does attempt to identify the salient issues which are of interest to the public choice scholar. Working from the premise that no unique rule exists which maps individual preferences into a social transitive preference the focus is on voting procedures. Reference is made to voting power as a measure of control over the outcomes of a voting game. Voting is easy in a democratic society although making democracy work is hard. In the chapter, I attempt to introduce a subtle difference between strategic manipulation of votes which invests decisive power in an elite group with the social outcome based on a simple number of voters rule, which appears more unanimous.

In Chapter 3, I explore the political economy aspects of voting by looking at the attempt to either modify or relax the Arrovian assumptions. The argument is made that the social choice mechanism may not be the only method of allocating resources or in making decisions. Is the choice set used in public choice under- or over-defined? Rationality in the context of voting refers to Downsian process of action not to the end-state and its interpretation. In other words, is a transitive social choice the end-state of a rational self-interested voter? In my discussion of the impact of economic conditions on voting I address voting in small committees where the voting outcome will differ according to the political representation of the committee between incumbent and non-incumbent members. I suggest that this differs from vote-trading in that the order of preferences do change and the voter in a committee behaves sincerely in revealing a re-order of preferences which take account of the changes in economic conditions. But how are economic events mapped into the voting arena of committees. The re-order mapping, developed in McNutt (1992), is one possible way. In a rather different context, re-order mapping is introduced in Chapter 8 as a proxy for effective participation in a modern democracy. In other words, effective participation, either through committees, pressure groups, lobbying or protests may best deliver the end-state rather than voting in an election.

Chapter 4 addresses the phenomenon of 'growth of government', a euphemism for increasing public expenditures. Reference is made in the media to 'big government' with the resounding call for less government involvement in the level of the economic activity of modern economies. The chapter paints a picture of growth in both the demand for and supply of public expenditure on a rather large canvas in which issues relating to demography, politics, society and economy have all competed for the reader's attention. A variant of Wagner's Law provided by Stigler argues that, paradoxically, it is the middle and upper income groups which are the major beneficiaries of public expenditure programmes. LeGrand and Winter (1987), for example, corroborated this for the UK. They showed that the families of the professional and managerial classes were, proportionate to the rest of the population, higher users of health and educational services and also major suppliers, through being doctors and teachers of such services. As argued in the chapter, it is not surprising that, in opinion polls, an overwhelming majority of respondents in the ABC1 electors favoured more expenditure to less taxation. That conclusion is the essence of endogenous government, that is, a government which seeks a second term in office and attempts to relax a re-election constraint by choosing to meet the demand for public expenditure because, in part, it is in their political interest to do so. This is governing not government.

试读结束：需要全本请在线购买： www.ertongbook.com

However, less government involvement in the provision of public goods has led to a policy of decentralisation. New layers of bureaucracy are put in place. In Chapter 5, the bureau is presented as a private monopolist in this process of decentralisation which is increasingly characterised by a government as a passive sponsor and an active bureaucracy behaving as a private monopolist in the supply of the public good. For example, tax bureaus opt to maximise the tax revenue collected. I suggest that the economic analysis should be directed at conciliatory bureau outputs rather than at output levels diverging from some Paretian social norm. The government-bureaucracy relationship is more clearly analogous to that between shareholders-management with an emphasis on market incentives and objectives. The discussion of rent-seeking in Chapter 6 re-examines the contention that rent-seeking is unequivocally socially undesirable. I look at rent-seeking within a property rights perspective and focus the analysis on a reinterpretation of the geometric measures of rent-seeking. I hope that I have demonstrated that the social costs of rent-seeking whatever that means, and a measure of X-inefficiency introduced in the chapter coincide.

The discussion on clubs in Chapter 7 introduces some of the controversies which continue to appear in the literature in the economic analysis of clubs. Club theory has an important influence in the optimal provision of local public goods and local public finance. Local provision is the inevitable consequence of decentralisation. And in a world characterised by decentralisation, club provision of local public goods is becoming the norm. The Tiebout hypothesis explains the division of society into high income and low income communities. The theory on mixed clubs would support this in as much as it suggests that mixed clubs are not optimal in the provision of the public good. Higher income groups have a higher valuation and use of the public good and are unlikely to share the costs of provision equally with lower income groups with a lower valuation and use. They each represent G-groups, although I would suggest that the higher income G-groups are better

I have tried to introduce some new ideas into old problems. The book adds one more title to a growing literature on public choice. I hope that my discussion of the issues will add to the applied analysis of current policies.

Patrick A. McNutt
Moville and Belfast, March 1996

Preface to the Second Edition

The subject matter of public choice has changed so much these days with applications across many disciplines. The legacy of the early scholars of the public choice tradition remains. Through the doctrine of methodological individualism, public choice scholars take the individual as the primary building block in the theory of the political and economic system. Voting is central to everyday decision making with everyday voting across an infinitesimal set of subjects from the level of debate at the village hall to parliament buildings. The first of the new chapters in this second edition introduces a moral choice set as an ethical basis for that decision making; a code of ethics centred on the fairness of the outcome. The chapter articulates the view that fairness in an integral part of decision making.

If a group of individuals agree on X, then X is fair. This differs from the more traditional view, which would argue that if X is fair in the pair (X,Y) then a group of voters should agree on X. Here we have to ask by what ethical criteria is X fair? The chapter suggests that the ethical argument in a pairwise choice should focus on agreement between the voters or decision makers or committee members. The ideas introduced in this chapter were first published in the *International Journal of Social Economics* in the late 1980s (McNutt 1987, 1988). A theoretical basis for the new concept of fairness, which I have called m-fairness or mapping-fairness, was published in the *Pure Mathematics and Applications* in 1992 and I thank the editors for permission to replicate the article as an Appendix to Chapter 2.

Since the first edition was published in 1996, my academic career was put on hold on my appointment as Chairman of the Irish Competition Authority in late 1996. This new position introduced me to the world of bureaucracy and to the world of applied economics in the field of competition policy and antitrust. My new position as a consultant with Indecon Consultants in Dublin has afforded the opportunity to provide antitrust advice to private clients. Finding time in a busy practice to write a book has been difficult. However, with encouragement from my publisher, a new book on law and economics will explore a range of issues in the law and in economics, in particular in the field of competition and antitrust law. In the interim, Chapter 8 of the second edition expands the earlier arguments in classic rent-seeking outlined in the first edition into the domain of legal barriers to entry.

The legislative environment in many regulated markets creates a legal barrier to entry. The government or the proper licensing authority, as initiator of a pro-entry policy, provides the legislative basis for restructuring the market by creating explicit property rights. The policy initiative may involve dismantling the existing licensing arrangement. Consequently the policy initiative may have to include a measure of compensation for incumbents. Chapter 8 addresses the issue of legal barriers to entry and related issues from a property rights perspective by addressing the issue: how does a barrier, which originates in and can be latterly justified by the rights system, affect consumer welfare generally? I am grateful to Robert McGee for permission to adapt from an earlier examination of the subject matter, first expressed in McNutt (1998).

One of the issues addressed in the first edition under the subject matter 'democracy and voting' was the degree of income inequality in a modern democratic economy. Chapter 11 specifically addresses the issue of income inequality and develops a normative argument that there is a conspiracy about equality in modern economies. In particular, the transition from an authoritarian state to a modern democracy occurs with the promise of greater equality, in addition to freedom of speech, enforcement of contracts, protection of private property and the right to vote. A key issue in any economy, particularly in a developing economy, is control over economic resources.

In Chapter 11 we ask the question: are developing economies susceptible to resource manipulation? If a political regime is implicated in the creation and reproduction of systematic inequalities of power and income, it will rarely enjoy sustained legitimation by groups other than those whom it *directly benefits*. The latter have economic power. Economic power is introduced as a divisible and scarce resource. It is fundamentally linked to the *re*distribution of income and the manipulability of the economy. The paradox is that a political outcome by voting may not obtain, leaving either the unlikely option of change by revolution or the more likely outcome of the status quo of poverty and inequality. In other words, so long as a developing economy remains extremely poor, it may be redistribution towards the very rich that may be best for growth.

The global economy is the theme of the final chapter on global political economy. The chapter recognises the growth in global corporations and questions the extent to which they could control a democratic state or influence the policy of sovereign elected governments. There is a new political economy between the sovereign state and the global corporations, wherein government economic policy has to take cognisance of external factors as well as the concerns of partisan voters. There will be competition and co-operation among the rival global corporations and among states and the corporations - there is a complimentary of interest when the state can secure the location and the corporation can establish the control. However there is conflict when the corporation decides that it prefers another location or when the State seeks to restrict how the corporation exercises its control.

The competition among states will replace competition among global corporations at the cusp of competitiveness as the increasing role of global corporations in shaping country-specific polices will begin to emerge as a central issue in understanding the dynamics of the interaction between States and corporation. It is that interaction, which may have acted as a catalyst for the emergence of the 'tiger economies', that has contributed positively to obtaining a level of competitiveness and might have some, if not all of the ingredients to contribute to its demise. It is however important that competition policy takes account of the need for corporations to compete in a global market and that a narrow perspective on attempting to prevent mergers or acquisitions is likely to be inappropriate in the new economic order.

There are so many people to thank for the publication of this second edition. First of all, to you the reader, who through your interest in the book and in a growing demand for it, persuaded my publisher to take the risk for a second edition. I really have to thank Edward Elgar for the opportunity to write the book and for their encouragement to continue under a series of different career moves. In particular, I would like to thank Dymphna Evans for her stewardship and her support for my initiative. A great deal of thanks goes to the production team at Edward Elgar Publishers led by Julie Leppard and to the trojan efforts of Gerry Dooley and Gerry Long at Standard Printers in Galway for preparing the camera copy. An intellectual debt is owned in abundance to my many colleagues and friends in the public choice community of scholars, to those of you who are regular participants at the European Public Choice Society meetings.

I would like to reiterate my appreciation to those cited in the acknowledgements to the first edition. But here today, I would like to acknowledge the comments of participants at the Messina conference in 2000 organised by Pietro Navarra and the participants and my discussants at the European Public Choice Conferences in Siena and in Lisbon for comments on earlier drafts of what has become the new Chapter 11. I am grateful to my colleagues at Indecon Consultants for their support during this project. I would also like to thank Michael Laver for the association with his Department at the University of Dublin from 1997-2000 and to Shanti Chakravarty at the University of Wales for inspiring commentary on some of my ideas. I am delighted to be associated with the University of Wales at Bangor with effect from 2001. I would like to thank William Baumol for inspiration and for permission to adapt his ballet sketch for the jacket design of the book. Finally I would like to thank my wife Maeve Doherty for her support and encouragement during the long gestation period in bringing this second edition to completion.

Patrick A. McNutt
Dublin, June 2001

Acknowledgements

Many of the ideas nestled in the chapters of this book have been presented as papers at the annual European Public Choice Society meetings and I am grateful to the many discussants of those papers for their helpful comments. I have endeavoured to use most of the comments in the writing of the book. I would like to extend my thanks to the cohorts of students, graduates and undergraduates, who listened to my ideas in lectures delivered during my career at University College Galway. In particular to the Galway students who opted to take the elective course in Public Choice, when I introduced it at University College Galway in 1985/86. It was the first course of its kind to be introduced at a constituent college of the National University of Ireland and the response of students to it was indeed a testimony to the growing interest in a public choice perspective on economic issues. My thanks also to the undergraduates and graduate students at the University of Ulster at Jordanstown, where I have been since 1994, who continue to attend my lectures on public choice and political economy.

In bringing the book to this stage there are numerous people I would like to thank, without whose support the final manuscript would not have been produced. Early drafts of Chapters 1, 3 and 4 were typed at the Department of Economics, University College Galway and I would like to thank Claire Noone, Secretary of the Department during my tenure, for her help and advice. The final camera copy was prepared with the expert and professional advice of Maura Carville in Belfast whose expertise and patience helped deliver the final manuscript. Ian Alexander at the University of Ulster prepared the graphics and the figures used throughout the book. Mark Moran at the University of Ulster prepared the index and bibliography. I would like to thank Julie Leppard and her editing and proofreading team at Edward Elgar Publishers for their guidance in bringing the manuscript to published book form. I would also like to thank Dymphna Evans at Edward Elgar Publishers for her help at every stage of the manuscript and particularly for her encouragement and her faith in my ability to produce a manuscript which was long overdue. I am grateful to everybody on the editorial side who have lightened my load as author.

I would like to thank Dominic Lepelley (Caen), Sven Berg (Lund) and Hannu Nurmi (Turku) for the exchange of ideas at different conferences which helped me in the preparation of Chapters 3 and 4. Lecture notes from my days as an Oxford graduate student infiltrate the writing of Chapters 3 and 4. Chapter 6 emanates from my DPhil thesis at the University of Ulster and I would like to thank Vani Borooah and Richard Barnett at the University of Ulster, and Peter Jackson at Leicester University for helpful comments in the final writing up of this book. I would like to thank Kluwer Academic publishers for permission to use my articles: 'A Note on Condorcet's Probability' and 'Rent-Seeking and X-Inefficiency' which first appeared in the journal Public Choice. In preparation of Chapters 5 and 6 I was able to use the figures which appeared in Peltzman (1980), Mueller (1989) and Brown and Jackson (1992) and I am grateful to their respective publishers for permission to use the figures. The reproduction of the figures was felt to be appropriate in order to prepare the comparative analytical comments on the issue under discussion. Finally, I would like to thank Vani Borooah for his contribution, Chapter 5 and Manfred Holler for the use of one of his figures in my discussion on the win sets in Chapter 10.

Many colleagues and friends have influenced and guided my thought process during the writing of this book. However, I do want to express my gratitude to some individuals who directly, or indirectly through their own published work, have shaped my thoughts. In particular I am grateful to Shanti Chakravarty (Bangor), Manfred Holler (Hamburg), Michael Laver (Dublin) and Martin Paldam (Aarhus) for their comments. I would like to thank Dennis Mueller (Vienna) and Gordon Tullock (Arizona) for their positive comments in endorsing the book and to the external referees at Edward Elgar Publishing for their helpful comments and suggestions. In alphabetical order can I thank Jim Albrecht, Didier Arnaud, Jurgen Backhaus, Richard Barnett, Basudeb Chaudhuri, Don Bathie, Vani Borooah, John Coakley, Oscar Couwenberg, Gaetana Crupiano, Donal Dineen, Leonard Dudley, Eirling Eide, Ken Greene, Magnus Henrekson, Harold Hochman, Douglas Hibbs, Chris Lingle, Isidora Mazza, Oliver Morrissey, Peter Nannstead, Rory O'Donnell, Prasanta Pattanaik, Martin Rama, Gian Romagnoli, Pierre Salmon, Friedrich Schneider, Norman Schofield, Arthur Schram, Ken Shepsle, Frank Stephen, Heinrich Ursprung, Patrick VanCayseele, Martin von Haller Gronbaek, Wolfgang Weigel and Frans vanWinden. I am eternally grateful to you all and I hope you enjoy the read.

I would finally like to thank my wife Maeve Doherty for her constant support and encouragement.

试读结束：需要全本请在线购买： www.ertongbook.com

Contents

List of Figures

List of Tables

1. An Overview

Introduction

Modern public choice is a study of the political mechanisms and institutions which circumscribe government and individual behaviour. Mueller (1989) commented that 'public choice can be defined as the economic study of non-market decision-making, or simply the application of economics to political science' (p. 1). Public choice has emerged as a separate school of thought in the past forty years or so; it has developed into a methodology in its own right with distinct influences from both economics and political science. Many of the theoretical constructs underpinning a public choice perspective have evolved from a reaction to developments in the existing literature, notably the Bergson-Samuelson concept of a social welfare function and Arrow's impossibility theorem. The concerns of public choice theorists extend into many aspects of non-market decision making, in their study of the state, the constitutional and democratic model, collective and party behaviour and the state bureaucratic model (Pardo and Schneider, 1996).

An objection to the sacrosanct public policy role of government as benevolent dictator, and the adoption of methodological individualism, remains two important hallmarks in modern public choice theory. Generally one accredits Buchanan and Tullock as the intellectual fathers of public choice theory as it developed in the 1960s. Their 1962 book *The Calculus of Consent* remains a classic in the literature preceding Olson's (1965) *The Logic of Collective Action* which introduced the collective action problem and its resolution as a central plank in the emerging public choice school. However looking at the earlier origins of public choice, one could argue that there were at least three additional classics that lay the foundations for many of the issues discussed within the public choice school.

Arrow produced his *Social Choice and Individual Values* in 1951 and presented a rather pessimistic view demonstrating the inherent instability of collective decisions. In 1958, Black in *The Theory of Committees and Elections* injected some optimism into the debate with the stability of the median voter model, introduced a year earlier by Downs in *An Economic Theory of Democracy.* Downs's approach was to apply economic methodology, particularly the idea of utility income, to the study of political process. By the end of the 1950s the ghost of the Condorcet paradox had been resurrected by Arrow's impossibility theorem and the seeds of a public choice perspective on voting procedures were sown.

The theorem confidently asserted that there was no rule consistent with completeness and transitivity of preferences, Pareto consistency and independence of irrelevant alternatives, for constructing a complete and transitive social preference relation. It cast doubt, for example, on Rousseau's 'social contract' and 'general will' and on the concept of a 'social good' which had appeared in the emerging public finance literature. In fact it cast doubt on all notions that attribute social preferences to a collection of individual preferences; it cast doubt on important areas of twentieth-century social thought.

There is little doubt amongst scholars about the procedural aspect of a public choice school of thought as an overlap between economics and political science. If the theory of public goods demand is an integral aspect of contemporary public choice theory, the application of economic methodology to political science is one of explaining the final (optimal) amount and the distribution of that amount of public good. In this scenario the political actions of government are limited by organised interest groups, and the Pigovian interpretation of government as a benevolent dictator no longer obtains. This application of economics to political science does challenge the orthodox basis of modern public finance as politicians and government are increasingly seen as maximising their own self-interest. The challenge to the orthodox approach is that government is no longer exogenous. In other words, the analysis is about a market exchange theory of politics with individual voters (consumers) buying and selling votes and politicians (firms) with an objective (vote) function to be maximised. Within this approach, the required aggregation of individual preferences or decisions undermines the voting process (democracy) by the ever present voting paradox.

Public choice as a discipline gained recognition in 1960s, but its history parallels that of welfare economics and public finance. By the 1950s there was an acceptance of government intervention in the economy; the Pigovian interpretation of government was that of a corrector of market failures. With externalities and the observed failure of the market to attain efficiency, the role of government as an instrument in public policy was secure. Public choice as a school of thought is best interpreted as concerning the relationship between economics and politics, that is, a Downsian emphasis on the 'economic theory of democracy' as espoused by Schumpeter (1976) and analysed by Downs (1957).

There is also the Buchanan approach to public choice which is characterised by a criticism of the neoclassical orthodoxy in economic

试读结束：需要全本请在线购买： www.ertongbook.com