

Ch.6 outline

The economics of collective decision-making

The important point of chapter 6 is to recognize that a government will not always implement policies that promote the general welfare.

Public-choice analysis applies the principles of economics to the operation of the political process. It uses the same self-interest (everyone does what is best for himself/herself) principle that is used in understanding the market (the invisible hand theory).

Voters (consumers)

Voters are consumers of the government. They act in a self-interested way when choosing a politician to vote for. Why do people vote for certain politicians?

1. Politicians support the same ideals as the voter. (If person A votes for Gore for President, he will implement policies that person A feels will benefit society in a way that also benefits person A.)
2. Politicians support policies that will make the individual better off regardless of what happens to the society. (If person A votes for Gore for President, Gore will implement a policy that will directly benefit person A's well-being and thus person A votes for Gore because he/she will be better off if Gore is President.)

****A problem that voters face is that it is costly to obtain information on the politicians. (Not that it costs a lot of money to obtain this information – you can easily find just about anything on the internet. However, there is the opportunity cost associated with taking the time to find all the information.) This leads to the rational ignorance effect.**

Rational ignorance effect – people do not allocate enough time to researching which politician is the best choice because they feel that their one individual vote will not have an impact on the election

Politicians (suppliers of government)

Politicians also act in the self-interested manner. They seek reelection so that they can attempt to implement their policies.

Problems with Government policies

One of the biggest problems with the government is that politicians cannot please all the people all the time. They have to make decisions regarding which people or groups to please. Because of this, the groups that are the most organized tend to be the ones favored by politicians because the organized groups present their proposals in an well-ordered manner (they also tend to monetarily support politicians but that is another issue.) These are the special-interest groups.

Special-interest groups

People who present well-defined proposals to the government that benefit the small number of people in the group at the expense of the voters who are not in the group

Two other factors that could cause non-beneficial (to the society, not the individual group) policies to be implemented are:

1. Logrolling – this is a practice where politicians support one another on each other's special interest issue in order to get his/her own issue passed (Bob supports Mary's proposal as long as Mary supports Bob's proposal)
2. Pork-barrel legislation – similar to logrolling, only that politicians package proposals together that benefit local areas at the federal expense (Bob and Mary decide to package their proposals together to get them passed because then the voters in the districts of Bob and Mary will be happy even though the proposals do not benefit other voters outside the district...and if the voters in the districts of Bob and Mary are happy then there is a good chance that Bob and Mary will be reelected which is what they are ultimately after.)

One problem that arises from these scenarios is the shortsightedness effect. Politicians pass legislation that will get them reelected next year, without taking into account what will happen a few years down the road because of their legislation. (This does not always happen but it is a concern that politicians are only acting to get themselves reelected without considering future effects.)

Another problem is rent seeking. People (or groups) want to pass legislation that will make the group better off without the group actually doing anything

productive. When governments enact policies of this sort (favoring one group at another group's expense), people will begin to spend more time lobbying governments to get a redistribution of wealth (you figure that you can convince the government to tax teaching assistants at a higher rate so you lobby the government to tax teaching assistants and attempt to get the tax revenue redistributed to yourself) instead of engaging in actual work that produces something of real value.