Why do voters choose bad policies?

Some laws cost almost everyone a little and give a few people a lot, and they pass and last. From 1957 a group of American economists explained why without calling anyone foolish: people in politics respond to costs and gains, like everyone else.

1 The question

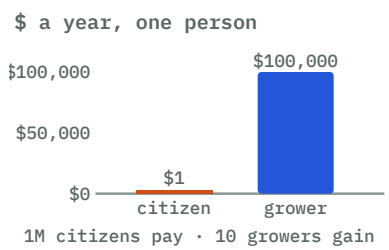
few win, many pay

- Why do laws most voters never wanted pass and last? · **public choice** = the economics of politics: voters, politicians, officials respond to costs and gains, like everyone else · **lobbyist** = paid to press lawmakers for a group

2 Coralia's sugar tariff

who has a reason to act

- Tariff (tax on imports) on sugar → moves `$1,000,000` a year · 1,000,000 citizens → **$1 each** · 10 growers → `$1,000,000 ÷ 10` = **$100,000 each**
- Growers 10 → $100,000 · 1,000 → $1,000 · 1,000,000 → $1 · who writes to the lawmaker? → the grower ($100,000 worth an evening; $1 is not)
- **Concentrated benefits, diffuse costs** = a few gain a lot, many each pay a little → the few organize
- Practice: law moving $2,000,000 ($2 a citizen), organizing costs `$500` → 1,000 growers: **$2,000** each > $500 → organize · 10,000: $200 → no · citizen: $500 to save $2 → never



3 Downs

the voter, 1957

- **Anthony Downs** · American economist · `1930–2021` · An Economic Theory of Democracy, **1957**
- Odds that one vote decides the US presidential election, 2008 → about **1 in 60 million** on average, about 1 in 10 million in the closest states (Andrew Gelman, Nate Silver, Aaron Edlin, Economic Inquiry, a journal, 2012)
- Studying a policy costs an evening · one vote almost never decides → **rational ignorance** = staying uninformed because learning costs more than it can gain · sensible, not stupid · people still vote for other reasons (duty, belonging)

4 Olson, Tullock

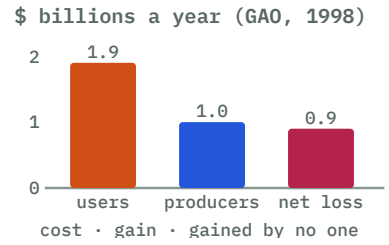
groups and lobbies

- **Mancur Olson** · American economist · `1932–1998` · The Logic of Collective Action, **1965** → small group, a lot at stake each → organizes easily · large group, a little each → each hopes someone else acts (the fishermen, Game Theory 6)
- **Gordon Tullock** · American economist · `1922–2014` · "The Welfare Costs of Tariffs, Monopolies, and Theft", **1967** → money spent to win a privilege makes nothing: a cost too · name **rent-seeking** → Anne Krueger, **1974** = spending to win a privilege (tariff, license) rather than to make more · rent = extra income a privilege brings (Lesson 2)
- Few gain, many pay → sugar tariff for 10 growers, cap on taxi licenses · many gain, few pay → one industry taxed to fund a park, clean air paid by a few factories · good or bad law → a different question
- Practice, taxi cap (300 licenses): riders `$4,000,000 ÷ 2,000,000` = **$2** each · owners `$3,000,000 ÷ 300` = **$10,000** each · net loss `4 − 3` = **$1,000,000** · florists' license law: fewer rivals → each gains a lot → lobby → lawmakers hear them → law passes, flowers cost a little more

5 US sugar program

the classic case

- US price kept above world price (low-tariff import limit + loans to processors = sugar mills) · GAO (Government Accountability Office, auditor of the US Congress = parliament), 1998, per year: cost to users **$1.9 billion** · gain to growers and processors **$1.0 billion** · net loss `1.9 − 1.0` = **$0.9 billion**
- `$1.9 billion ÷ 270 million` people ≈ **$7** each · about 50¢ of each $1 paid reaches producers · small each, large in all
- FOR home supply of sugar, jobs on farms · AGAINST $1.9 billion to give $1 billion



6 Buchanan

rules, limits, so what

- **James Buchanan** · American economist · `1919–2013` · Nobel **1986** · "politics without romance" (lecture, 1979) → voters, politicians, officials = people with their own goals, not saints · answer → tie hands in advance: a **constitution**, rules that limit what any majority can do · no voting rule perfect (Kenneth Arrow, US economist, 1951; Games 10)
- FOR rules fixed in advance protect everyone: a majority can be captured by a small group · AGAINST a majority must be free to decide; fixed rules can lock in yesterday's mistakes · **still argued**
- **Limits** → a tool for incentives (gains, costs that push people to act), not a law of nature · information (voters, newspapers, rival firms) can rouse objection · groups often cooperate (Elinor Ostrom, Lesson 9) · **survived** → rational ignorance, concentrated benefits, rent-seeking = standard tools
- **Timeline of ideas** · 1776 · Smith · prices coordinate strangers → 1798–1817 · Malthus, Ricardo · land is limited → 1867 · Marx · profit from unpaid work (he said) → 1871–90 · Jevons, Menger, Walras, Marshall · the last unit → 1936 · Keynes · spending decides output → 1945 · Hayek · prices carry knowledge → 1963–1968 · Friedman · more money, higher prices, in the long run → **1957–1986 · Downs, Olson, Buchanan · governments are made of people with incentives too**

Watch out: rational ignorance ≠ stupidity · what **each** member has at stake decides who organizes, not the group's total · rent-seeking ≠ collecting rent from tenants · public choice does **not** say every politician is selfish · whether a law is good → for voters to judge