Review of: Eamonn Butler, *Public Choice: A Primer* London: Institute of Economic Affairs, 2012.

The area of economics that empirically describes and explains the actions of the key players in government—the voters, politicians, bureaucrats, special interest groups, and lobbyists—is called Public Choice Theory (hereafter “PCT”) or Public Choice Economics. It is has been a flourishing and fertile branch of economics for well over a half-century. But philosophers have tended to overlook this important domain of research.

With the appearance of Eamonn Butler’s delightful new introductory survey of the field, there is no longer any excuse for this neglect. Butler gives a concise, clear and enlightening account of the major concepts and findings of the subject.

Butler starts the book by defining PCT as more an approach to political science than economics: it is the application of economic analysis to political behavior. As he puts it, PCT “…uses the methods and tools of economics to explore how politics and government works”[[1]](#footnote-1). In this lies its very pronounced tendency to unsettle those in power.

PCT uses standard economic conceptual tools (cost/benefit trade-offs, opportunity cost, profit versus loss in economic behavior, self-interested rationality, and so on) to explicate collective political action. In particular, it explores just how self-interested groups can game the political system for their own benefit.

This line of research challenges much orthodox thinking (especially in fields such as Sociology and Philosophy), which centers around (as Butler rightly notes) “…a key and unspoken assumption…that…policy discussion would be made logically and rationally, by enlightened and impartial officials, pursuing the public interest. That…would make them far superior to market choices, driven…by self-interest and private profit.”[[2]](#footnote-2) Let’s call this the “Hegelian theory of government,” which is the theory that government is a disinterested, neutral and benign protector of the citizens. The realm of government is the realm of universal charity.

For helping debunk this myth, economist James M. Buchanan won the 1986 Nobel Prize in economics. The voters, politicians and bureaucrats are all now understood to be simply individuals pursuing their own (and sometime conflicting) interests.

PCT produced a number of insights early on. One early insight was that voters often choose tactically, passing up voting for someone they really prefer but who they view as likely to lose in favor of someone they like less but who they view as more likely to win.

Another important early insight is that minorities in the public arena often have an asymmetry of interest in legislation before the legislature, which leads them to have a much greater focus on the effort to pass those bills than does the average voter, who has little at stake (hence is “rationally ignorant”).

An example will make this concept clear. Suppose Rep. Smith is a legislator representing a university district. Smith is approached by a special interest group “Seniors in Solidarity,” who want him to put into a major defense spending bill an “earmark” that will allocate money to build a senior citizen’s center in Smith’s district. The people in the group will typically include seniors who will get to use a center paid for primarily by other taxpayers—mostly younger ones, ones who thus will be unable to use the center for quite some time—as well as businesspeople who stand to benefit from the construction and operation of that center.

Obviously, the government has only limited resources, and a more efficient use of the resources would be to open the senior center in another district with a greater concentration of seniors. But since ordinary citizens will have little to lose from the center being in Smith’s district (maybe just few dollars each), they will put their attention elsewhere—they will be ignorant of the progress of the project, and rationally so. But the special interest group, since it has a lot to gain, will be rationally aware of the progress of the bill. So Smith will work to satisfy the preferences of the special interest group, even though it is in the minority, since he will thereby maximize his own chances for re-election.

Another early insight of PCT was that minority groups can form coalitions that win elections, giving them the power to dominate the government. As Butler nicely puts it, “While majorities dominate direct democracy, minorities dominate representative democracy”[[3]](#footnote-3).

Butler then reviews the history of PCT, with early work done by Hume and Smith, on the dangers of self-interested government officials becoming too accommodating of businesses (an early intimation of the concept of “regulatory capture”), to the work of Borda on ranked voting and Condorcet on “cycling” (where several policy options A, B, and C could face a situation in which if votes were held pairwise, A would lose to B, B to C, and C to A), to Dodgson’s proposed solution to cycling. Butler also notes the late 19th century work by economist Knut Wicksell on the problem of the majority of voters shifting unfairly the burden of taxation to a minority.

After a half-century of neglect, PCT rose again with economist Duncan Black’s articles in the late 1940s in response to the work of Borda and Condorcet, and his formulation of the “median voter theorem” (which predicts that on many basic issues, politicians of all parties will move to the center, leaving voters little real choice). Butler also reviews the work by economist (and later Nobel Prize winner) Kenneth Arrow on the “impossibility theorem”—which holds that no practical democratic system can guarantee the faithful reflection of the real nature and strength of all the voters’ preferences.

Also covered is the work by Arrow’s student Anthony Downs in the late 1950s on rational choice theory and the concept of rational ignorance, as well as the classic treatise on PCT by James Buchanan and Gordon Tullock, *The Calculus of Consent* (1962). Buchanan and Tullock explored the phenomenon of “logrolling,” (where politicians trade votes on earmarked or pork-barrel projects), as well as the crucial concept of government failure, which again counters the notion that some perfectly impartial government can prevent market failures without incurring costs to society.

Butler then briefly reviews the several “schools” of PCT, and Tullock’s special contributions to the subject of “rent seeking” (cases in which a business seeks to increase profits by manipulating government officials to create a more favorable regulatory climate rather than by providing a superior product or service), and finishes by reviewing the work of Mancur Olson, William Riker, William Niskanen and George Stigler in the 1960s and 1970s. Especially notable is Stigler’s explanation of “regulatory capture,” which Butler characterizes by saying, “…as a rule, regulation is acquired by industry, and is designed and operated primarily for its benefit” (p. 37). Butler concludes his historical review by discussing the work of Nobel Laureate Vernon Smith, work that suggests it is possible to design election systems that allow the accurate expression of the citizens’ preferences, and that people “free-ride” less in reality than Mancur Olson feared.

Butler then takes up in detail the major concerns of PCT. One of the most fundamental is the role of government in providing “public goods,” i.e., things people generally want but which the market delivers poorly or not at all, such as dredging harbors (Hume’s example) or clean air (Tullock’s example). It is for this reason (under PCT) that rationally self-interested people govern themselves. But by what rules should collective choices on public goods be made? Requiring unanimity would seem to make getting projects to promote public goods impossible to pass in a large society (because they could be vetoed by even one person), and if other citizens proceeded with a project privately, the hold-outs could free-ride on the others. However, requiring just a majority to approved projects soon permits majorities to impose most or all of the costs onto minorities, who may even oppose those projects.

Buchanan and Tullock put the dilemma as a cost trade-off: the higher the size of the majority we require to enact taxes on others to promote for measures for public goods—that is, the higher the “decision-making costs”—the lower the chance there will be of minorities being exploited—that is, the lower the “external costs.” We want a decision-making procedure that minimizes the total of both costs. This is not likely to be simple majority voting, Buchanan and Tullock hold. (Wicksell recognized this, which is why he advocated requiring unanimous consent for imposing taxes). Buchanan and Tullock put forward the more sophisticated view that any *constitution* that sets the general rules for voting on particular laws should be unanimously agreed upon.

Under PCT, there is another trade-off that citizens must face. Besides market failure, there is government failure as well. The harm of market failure must be balanced against the harm caused by any failures of governmental action.

Butler then surveys PCT’s investigations into the paradoxes of voting, i.e., the problems inherent in various systems that attempt to “translate the opinions of many individuals into one collective decision” (p. 49). These include the problem of “agenda-setting,” where a political player can set the order in which votes are taken to advance his preferences, and the point that the more the options in an election the more likely the chance of cycling. Butler offers the example of the U.K.: it’s likely the Liberal Democrats would win in a two-way race against either the Conservatives or Labour, since against the former the Liberal Democrats would get the Labour vote (in addition to its own), and against the latter it would get the Conservative vote, (in addition to its own).

Butler briefly reviews other voting schemes (such as proportional representation and alternative-vote systems, as well as the PCT view of the “vote motive” (i.e., the notion that politicians advocate policies because they think those policies will increase their chances of re-election, rather than because they think that those policies are “right.”) He finishes with Bryan Caplan’s thesis of the Myth of the Rational Voter—the view that voters have irrational biases (such as being in favor of subsidies to prevent job losses, opposing immigration, and overestimating the efficacy of governmental action and underestimating that of market action. Butler calls this (quite presciently) “democratic failure.” (He might have here mentioned the work of psychologist Daniel Kahneman, whose work in identifying systematic biases in economic decision-making earned him a Nobel Prize in economics—quite a rare honor for a psychologist.)

Butler turns next to what PCT has to say about the tyranny of majorities as well as minorities. Tyranny by minorities is driven by asymmetry of interest: minorities (such as unions, professional groups, or businesses) have concentrated interests in certain policies, while the majority usually has only diffused interest (because they stand to lose only a little). This leads to interest group politics. A key finding by Buchanan and Tullock is that all it takes to dominate an electorate is a group of just barely more than 25% of the eligible voters. This is why coalitions can exert power way beyond what their numbers would justify.

After a detailed discussion of logrolling, Butler then reviews one of the greatest of the PCT insights, first delineated by Tullock in a seminal paper, and later named “rent seeking.” This is the indispensable chapter in the book, and Butler does a nice job discussing why rent seeking is so rational (if we are dealing with essentially egoistic agents), and the extensive but opaque costs to the rest of society. Here I confess that I was disappointed that no homage was paid to Frederic Bastiat, whose classic essay, *What is Seen, and What is Unseen*, touches upon the costs of rent seeking to the general public.

After examining how PCT views the vote motive in politicians and how to restrain it, as well as the motives of bureaucrats (which Niskanen hypothesized was in large part that of increasing their department budgets), and how to restrain them, Butler turns to the important role of constitutions in PCT. Buchanan and Tullock held that individuals in the face of future uncertainty would demand constitutional safeguards (such as limitations on the powers of legislatures), and Buchanan suggested that his would involve limitation on the scope and total extent of taxation. The limitations would also involve some form of federalism.

Butler finishes with a sketch of the achievements of PCT, and the future of its research programs, such as revised debates about past issues (such as the median voter principle), and the increased use of game theory in exploring PCT themes.

Butler’s primer concludes with a very nice glossary of the major concepts of PCT, a “timeline” of its major discoveries, and a choice selection of further readings.

I have only a few minor problems with Butler’s fine little primer. The first is that I think it takes too narrow a view of regulatory capture.

Stigler and others have characterized regulatory capture as being exclusively cases in which the industry leaders get someone favorable to their views appointed to head the regulatory body that regulates their industry.

Facially, this is ethically repugnant because it violates a central norm: impartiality. The regulators are supposed to be neutral umpires between two teams: the general public, and the principals (the owners or stockholders), in that industry. We expect those umpires/referees to make sure that the industry stays within bounds.

The regulators are supposed to work impartially for the public good—including the principals in that industry, but everyone else as well. That entails minimizing negative externalities (such as pollution) while allowing that industry to remain viable (if possible) so that it can produce all the positive externalities that flow from a healthy business (such as wealth, jobs, tax revenues, training programs, as well as useful products and services).

A body run by agents of the industry would be more likely to let the industry get away with causing more public harms and creating fewer public goods, just as referees consisting of ex-players of one of the teams in a sporting competition would be more likely to let them get away with illicit behavior.

But what is overlooked in the standard PCT treatment of regulatory capture is the possibility of special interests *in an adversarial relationship* with an industry putting their agents in charge of the regulatory body governing that industry. This is a phenomenon that we might call “reverse regulatory capture,” or just broaden the original term to include capture by interests hostile to an industry (as well as by that industry).

Two obvious sorts of reverse regulatory capture come to mind. One would be cases in which the regulators appointed to monitor an industry are present or past members of a union representing workers in that industry. For example, if the head of the Service Employees International Union got the president to appoint its chief counsel to head the National Labor Relations Board, it would clearly be a case of reverse regulatory capture.

The other sort of reverse regulatory capture would be cases in which the regulators appointed to monitor an industry are put in by a group inherently opposed to the very existence of that industry on ideological or moralistic grounds. This could include environmentalist groups (such as the Sierra Club) or social activist groups (such as the National Coalition against Legalized Gambling).

My second issue with the book under review is that it takes too narrow a view of the motives for logrolling and pork-barrel spending. The PCT view is that any legislator who attempts to insert into legislation a pork-barrel project that benefits his supporters and his district—at the minor expense of the general taxpayer (distributively, though not collectively)—is doing so in order to gain the support of the rationally knowledgeable, knowing that he won’t lose the support of the rationally ignorant. So under the traditional PCT view, the self-interest of the politician lies in the enhancement of his chances for re-election, a sort of self-interest at arm’s length, so to say.

But there is also a more direct form of self-interest, viz., when the pork-barrel project benefits the politician (or members of his family) directly. For example, a politician might push a pork-barrel project to pave a highway in front of his own (or his child’s) house.[[4]](#footnote-4)

My third issue is that Butler might have commented on the wide spectrum of theoretical voting schemes that have been proposed since the time of Condorcet.

In fact, the variety of voting schemes proposed (and in some cases, adopted) is dazzling[[5]](#footnote-5). For example, just with ranked-choice (or “preferential-voting”) systems, there is a difference between Borda counting, Bucklin voting, Condorcet’s method, and instant-runoff elections (which are actually used in countries as diverse as Australia, Canada, Fiji, Great Britain, Ireland, Malta, Papua New Guinea, New Zealand, Northern Ireland and Scotland).

Besides preference- or ranked-choice methods, there are others, such as approval voting (in which a voter doesn’t rank the candidates, but simply indicates of which ones he can approve). Some sketch of these might have been helpful.

Butler’s book is very useful for several sorts of philosophy courses. It would serve as an excellent supplemental primer in any political philosophy class. The book reviews an empirically well-established domain of economics that provides an accurate view of some limitations of and challenges to democracy. It also hits upon the interesting topic of exactly what sort of voting system most adequately enables democratic governance.

It would also be a useful supplement in an ethical theory class. PCT shows what can come from taking psychological egoism seriously—not necessarily as an ultimately accurate and complete picture of human nature (a la Hobbes), but as something not to be simply dismissed.

It would be especially useful in business ethics classes. Regulation is broadly defined as any kind of legal mechanism intended to prevent businesses from doing harm. The topic of regulation occurs at various points during any business ethics course: in the ethics of marketing (when dealing with product liability, product pricing, and advertising); in the ethics of sustainability and the ecological impact of business; in the ethics of hiring and terminating employees; and in various ethical aspects of international business (such as the ethics of offshoring).

It is common for a business ethics text to take a broadly Hegelian view of government regulation, i.e., to view government regulators as neutral referees aiming to keep business honest. The concept of “market failure” is commonly found in business ethics texts, whereas the term “government failure” is seldom if ever mentioned, much less explored, in the same texts. Butler’s book would serve as a useful counter-balance to unrealistic views of regulatory reform implicit in many such business ethics texts, making such courses far more practically useful to the students.

REFERENCES

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1. Butler (2012) p. 21. [↑](#footnote-ref-1)
2. Butler (2012) p. 24 [↑](#footnote-ref-2)
3. Butler (2012) p. 28. [↑](#footnote-ref-3)
4. This point is explored in Jason (2012). [↑](#footnote-ref-4)
5. For a brief overview of these systems, see Jason (2009). [↑](#footnote-ref-5)