

## LECTURE 18: PUBLIC CHOICE II

- I. Political formula for success
  - a. Why does the government pay farmers to not grow crops?
    - i. One group to consider is the consumers who pay slightly more for food because there are fewer people producing.
    - ii. The other group to consider is the farmers who receive a tremendous boost in revenue because millions of people pay a little more.
  - b. This is one of the key insights of public choice: *concentrated benefits and dispersed costs*.
    - i. Because the costs are dispersed, people are rationally ignorant about these additional costs. A penny or two more for apples is hardly worth worrying about or even bother noticing. But even if they did know, it's not worth taking to the streets for.
    - ii. Because the benefits are concentrated, those that receive them have an interest to spend a great deal of money to lobby the government and secure such benefits. Their pressure will easily outweigh any token resistance consumers will bother with.
    - iii. Politicians then have an incentive to impose laws that benefit the few at the cost of the many.
  - c. The ultimate result is *rent seeking*.
    - i. *Rent* is an increase in one's wealth that doesn't increase total wealth (and sometimes decreases it). Another way to put it is a payment for production beyond what's necessary to incentivize that production. While rent, as defined, isn't inherently bad, economists use the term "rent" to describe compensation that's inherently corrupt.
    - ii. *Rent seeking* is the act of pursuing rent. Remember when we discussed crony capitalism at the beginning of the semester? There are many examples of rent and rent seeking:
    - iii. Sugar tariffs protect the sugar and corn industries in the U.S. (it's why high fructose corn syrup is in so many things).
    - iv. Licensing requirements are often very strong making it hard for new firms to compete with existing ones. This lower level of competition allows companies to charge higher prices.

- v. The Walt Disney corporation lobbied for copyright extension because Mickey Mouse and other works were about to enter the public domain. They succeed with the 1998 Copyright Extension Act, pushing the public domain date to 2023.<sup>1</sup>
- vi. Technology firms of all stripes pursue similar efforts to extend their patents, making it more difficult to build and improve on the initial invention. The Wright Brothers were particularly aggressive with their intellectual property, hamstringing early aviation development.<sup>2</sup>
- vii. New York City requires cab drivers to purchase the right to drive a taxi. Each taxi cab requires a license, called a medallion, to legally operate. These medallions are easily the most expensive part of running a taxi service. They can go for up to \$1 million each.

## II. Rent Dissipation

- a. You can't give money away: the more rent made available, the harder people will work to get it.
- b. *Rent dissipation* describes the relationship between the total amount of effort to get rent and the value of the rent.
  - i. When total effort < rent, rents are under-dissipated.
  - ii. When total effort > rent, rents are over-dissipated.
  - iii. When total effort = rent, rents are fully dissipated.
  - iv. For there to be winners, there must be losers; full dissipation is a zero-sum game.
  - v. Regardless, rewards are allocated not based on being more productive but on who is better at lobbying or politics.

## III. The Worst Form of Government?

- a. This all seems to suggest democracy isn't all that great. Perhaps we should go back to a monarchy.
- b. But just because democracy is problematic doesn't mean other options aren't more problematic.
  - i. As Winston Churchill once said: "Democracy is the worst form of government, except for all the others."
- c. Indeed, we shouldn't think of democracy or its participants as evil; public choice theory, like all economic ideas, is an incentive story.
  - i. This is why James M. Buchanan, founder of public choice theory, was most interested in constitutional rules. Just as the

<sup>1</sup> <http://artlawjournal.com/mickey-mouse-keeps-changing-copyright-law/>

<sup>2</sup> <http://knowledgedenuts.com/2015/04/18/how-the-wright-brothers-set-back-aviation-history/>  
<https://www.amazon.com/Unlocking-Sky-Hammond-Curtiss-Airplane/dp/0060956151>

First Amendment prevents political actors—including democratically elected political actors—from abusing their power with respect to religion and speech, there should be additional constitutional constraints to prevent other kinds of abuses and inefficiencies.

- d. Don't forget there are alternatives to political based decision-making: market-based decision making! This of course comes with its costs and dangers (poor quality, high prices, fraud, etc.) which may occur at a higher rate than government services.
- e. So we must remember the ultimate takeaway: It is *never* a choice between a good thing and a bad thing. The choice is always either between two bad things or between two good things. The answer is never obvious.
  - i. If someone ever tells you the answer to a social problem is “really simple,” immediately discount what they are about to say. They probably haven't thought about it carefully.