

## TOPIC 11: PUBLIC CHOICE I

- I. What Is the Government?
  - a. A bunch of people with their own incentives. It is *not*, by definition, people who are out there to help you. While some people are motivated by helping others—and there might even be more of them on average working for the government than in other organizations—there is no reason to believe that is the ultimate motivating factor. Why should political actors be fundamentally different from everyone else?
  - b. Hence *public choice*—the application of economics to political actors (interest groups, politicians, bureaucrats, voters, etc).
- II. Key Assumptions
  - a. *Methodological individualism*. Political actors, not institutions, act. “The government does/wants something” is a nonsense phrase. People who work for the government do and want things. Only individuals act.
  - b. *Behavioral symmetry*. Political actors are no different than non-political actors. They have their own priorities. They respond to incentives and these incentives originate from the institution they govern. Changing who’s in charge will have little effect because the rules haven’t changed.
- III. Rational ignorance
  - a. Let’s begin with voters. Consider the Declaration of Independence and fireworks.
  - b. People often get upset when surveys reveal that a large number of Americans don’t know common things (politics, geography, mathematics).
  - c. However, it is expensive to learn such things. Just because someone is unaware of some things does mean they are stupid. It is often rational to stay ignorant to that which doesn’t really impact your life.
  - d. Thus we have *rational ignorance*: when the costs exceed the expected benefits of learning something, people don’t learn it. It’s a standard assumption of public choice.
  - e. Lesson: studies on what meaningless facts Americans don’t know tells use little of the strength of the economy or intelligence of people. It would be much more illuminating to tailor questions to professions. If most political science professors couldn’t find Europe on a map, I’d be much more concerned.

#### IV. Rational irrationality

- a. Instead of focusing on voters being rationally ignorant, economist Bryan Caplan argues that people are *rationality irrational*—irrationality is a good that people indulge in when it is cheap to do so. They have emotional attachment to ideas such as economic isolation and since talk is cheap,<sup>1</sup> they gladly support tariffs and other poor economic ideas.
  - i. This has the advantage of explaining why people who oppose free trade also buy the cheaper import. When actually shopping, indulging in the romanticism of economic nationalism is too expensive.

#### V. Median Voter Theorem

- a. Now we turn to the incentives of politicians. While some politicians could sometimes be described as benevolent, all want to be reelected.
- b. To be elected, you need to appeal to the *median*—or middle—voter.
  - i. Note “median” is not the same as “average.” If one person has \$60 and two people have \$0, the average amount of money is \$20, but the median is \$0.
- c. The *median voter theorem* states **if**
  - i. All voters vote,
  - ii. Voters vote based on the policy that is closest to their ideal point on a line, and
  - iii. There are only two candidates,
  - iv. **Then** the ideal point of the median voter will be the winning position.
  - v. In other words, the median voter determines the election results.
- d. To see why, consider this distribution of voter support and two politicians prefer to spend on military:

Position	Number of Voters	Candidate
Very high	28	Vinick
High	10	
Moderately high	12	
Moderately low	1	
Low	27	
Very low	23	Santos

- i. Candidates Santos and Vinick prefer less and more spending, respectively. But what each really wants is to be elected.

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<sup>1</sup> If a protectionist withdrew her support, nothing would change as a single vote is too small to swing the election.

ii. Here, Vinick loses to Santos—50 to 51.

Position	Number of Voters	Candidate
Very high	28	Vinick
High	10	
Moderately high	12	
Moderately low	1	
Low	27	
Very low	23	Santos

iii. But what if Vinick moderates to Moderately high? Then he wins, 51 to 50!

Position	Number of Voters	Candidate
Very high	28	
High	10	
Moderately high	12	Vinick
Moderately low	1	
Low	27	
Very low	23	Santos

iv. This encourages Santos to moderate as well.

Position	Number of Voters	Candidate
Very high	28	
High	10	
Moderately high	12	Vinick
Moderately low	1	Santos
Low	27	
Very low	23	

v. It's clear Moderately low is the most important position and that's because there are 50 votes below it and 50 votes above it. It's the median position.

- e. MVT clearly plays out when politicians change their speeches when they are running in a primary election versus in a general election.
- f. Of course, the real world is complex. If Santos or Vinick moves too far to the middle, the extremes might not vote at all. At the same time, most voters are in the middle; losing a few fringe voters is worth gaining several mainstream voters.