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Econ 854

Week 8: Wittman and Democratic Failure

I. Critiques of the Economic Approach
   A. Critics of the economic approach to politics dislike its "economistic" **assumptions**. Public choice allegedly ignores the most important features of political life:
      1. Morality
      2. Community
      3. Public-spirited politicians
      4. Sincere public debate
      5. Efforts to "raise awareness"
   B. Critics also dislike the **conclusions**. Public choice economists always seem to be pointing out the failures of democracy, which in the traditional view is virtually a sacred institution.
   C. The thrust of the traditional response: "Sure, given your economistic assumptions, all of your pessimistic conclusions about democracy follow. But those economistic assumptions are wrong, and democracy is working just fine. And if it's not working fine, the solution is more democracy."
   D. In other words, the critics grant that the public choice story is internally consistent, but reject its "economistic" starting point, and thereby avoid the conclusion that democracy doesn't work well.
   E. My overall judgment: While economists definitely have important things to learn from other disciplines (e.g. the failure of the SIVH), the sound criticisms are pretty easy to incorporate into the economic approach.

II. Wittman's Challenge to Orthodox Public Choice
   A. Donald Wittman of UC Santa Cruz offers a radically different critique of public choice economics.
   B. Wittman does **not** object to public choice's "economistic" approach.
   C. Instead, Wittman complaint is that so much of public choice is simply bad economics.
   D. He claims that standard public choice arguments generally depend upon extremely dubious assumptions. These can be boiled down to:
      1. "Extreme voter stupidity"
      2. "Serious lack of competition"
      3. "Excessively high negotiation/transfer costs"
   E. Wittman's contrasting conclusion: The standard tools of microeconomic analysis show that political markets work just as well as economic markets.

F. As a corollary, Wittman argues that the political failures emphasized in public choice theory are largely imaginary.

G. Related point: Yes, people in the public sector are self-interested. So what? Yes, they have acquired more power this century, but again, so what? When self-interested actors in markets increase their market share, few economists get alarmed. How does that differ from self-interested bureaucrats expanding their power?

III. How to Think Like Wittman, I: Voter Ignorance Is Not a Serious Problem

A. Many public choice arguments, according to Wittman, assume "extreme voter stupidity."

B. Normally, of course, public choice economists talk about "ignorance" or "lack of information," rather than "*stupidity*." But Wittman argues that the assumption of voter stupidity is implicit.

B. Wittman's Principle #1: *Voter ignorance is not a serious problem*.

C. Why? **First**, the *amount of information held by voters has been underestimated*.

1. Party labels are "brand names" that drastically reduce information costs.
2. Politicians pay to inform voters by advertising, giving speeches, and so on; voters don't have to pay to inform themselves.
    a) Ex: One politician takes "dirty money." The other side has a strong incentive to let the public know.
3. There are many private side benefits of acquiring political knowledge.
    a) Ex: Investors need to know what government policy will do in order to pick stocks. When they go to vote, they can easily rely on information they acquired for quite different reasons.
4. Voters may just be storing their information in an "inarticulate format." People often just take information as it arrives, adjust their conclusion, and then forget the information, *but remember the conclusion*. Thus, written tests of political knowledge don't prove much.

D. **Second**, *informed judgments can be made with little information*.

1. Voters have many "cognitive shortcuts." Voters can simply ask their preferred experts for information. Application: Just as I don't need to know anything about heart surgery to get a first-rate bypass operation, I don't need to know anything about current gun control proposals to vote intelligently about gun control. If I like guns, I just vote the NRA line; if I don't like guns, I follow the advice of Citizens for Gun Control.
2. Voters only need to know which of two candidates is *closer* to their bliss point; they don't need to know candidates' exact locations.

        3. Analogy between stock markets and elections. Stock markets reflect information well even though most investors are highly ignorant.
    E. **Third**, *the deleterious effect of biased information has been overstated.*
        1. Remember the Principle of Aggregation? Even if people are highly ignorant, their random errors will cancel out. Ignorance does not mean *systematic* bias.
        2. "To be uninformed about a policy does not imply that voters have biased estimates of its effects. For example, to be uninformed about the nature of pork-barrel projects in other congressional districts does not mean that voters tend to underestimate the effects of pork barrel - it is quite possible that the uninformed exaggerate both the extent and the negative consequences of pork-barrel projects."
        3. Voters can discount, or simply ignore, information from biased or questionable sources. If the media has a "liberal bias," then voters can easily adjust. ("Sure, Koppel said we need more money for the EPA, but what do you expect, he's a big liberal?")
        4. Worst case: If you "can't trust" the available sources, don't!
    F. **Fourth**, *the effect of unresolved asymmetric information in politics is to make government inefficiently small, not inefficiently large.*
        1. Just as it is naive to think that asymmetric information helps used car dealers sell cars, it is naive to think that asymmetric information helps politicians create Big Government.
    G. Public choice economists' focus on "rational ignorance," is, therefore, rather silly. Consumers and investors are also rationally ignorant about a great deal, but they know *enough* for markets to work well. Similarly, voters know *enough* for democracy to work well.
    H. Moreover, the Principal of Aggregation assures good outcomes even in the worst case scenario. (Wittman even adds that democracy handles severe ignorance *better* than markets because aggregation protects the most clueless).
    I. To reach their standard conclusions about political failure, then, ignorance is not enough. They need to assume that voters are "stupid" or **irrational**, something most economists are unwilling to do.
IV. How to Think Like Wittman, II: "Serious Lack of Competition"
    A. Many other public choice arguments assume, in Wittman's phrase, a "serious lack of competition."
    B. While public choice economists spend a great deal of energy studying political competition, they frequently see strong monopolistic elements as well (leading to support for things like term limits).

C. Wittman's Principle #2: *Politics, like the market, is competitive*.

D. Why? **First**, *reputation matters.*

1. If politicians break promises, voters hold it against them. If they do a good job, they reward them. Even if politicians only stay in one office for a few years, they want to build up a good name in order to rise to higher offices.
2. Even when politicians plan on leaving politics entirely, their party rewards them for protecting the party's image.
3. Parties accordingly "vet" would-be candidates for sincere ideological commitment.
4. Remember the theory of optimal punishment: Voters can adjust for a small probability of detection with harsh punishment. Politicians can destroy their whole reputation with one mistake.

E. **Second**, *political races are at least as competitive as markets.*

1. Politics is full of "political entrepreneurs" who want to stage a successful "takeover" (gain power) by locating unpopular policies and campaigning to change them.
2. Incumbent politicians know this, so they strive to *preemptively* adjust policy to please the electorate.
3. High rates of reelection prove NOTHING. "The main reason for high rates of incumbent success is... They are the best. That is why they won in the first place and why they are likely to win again."
4. Similarity of platforms also proves NOTHING. Similar prices are actually a sign of competition in markets; so are similar platforms in politics.
5. Alleged "barriers to entry" are usually minimal. Campaign contributions are just another sign of a serious candidate. If contributions were basically bribes to induce politicians to act against voter interests, political advertising would be counter-productive! Voters would vote against candidates *because* they had so much money behind them.
6. Similarly, third parties can't win because voters don't like them, not because "the system" is against them.
7. Ex: The case of Perot shows that it is easy for a third-party candidate with serious mass support to enter at the highest level.
8. "Negative" advertising is much more common in elections than markets. Doesn't this suggest that elections are actually more competitive? And there is a simple reason, too: Elections, unlike markets, are zero-sum games.
9. Don't forget Tiebout-type competition.

F. **Third**, *empirical evidence shows a strong link between voter preferences and legislative behavior.*

G. Wittman's bottom line: In markets, economists are usually skeptical about collusion. Why are they less skeptical in politics? How is the grand electoral conspiracy maintained?

V. How to Think Like Wittman, III: "Excessively High Negotiation/Transfer Costs"

A. Finally, public choice economists often argue that transactions costs prevent more efficient policies from replacing the status quo.
   1. Ex: A special interest "blocks" changes harmful to its interests, and it is "too hard" to buy them off.

B. This brings us to Wittman's Principle #3: *Political bargaining can eliminate any remaining significant inefficiencies.*

C. Why? *Democracy is <u>designed</u> to have low transactions costs.*
   1. Majority rule is cheaper than the unanimity required by markets.
   2. Representative democracy (as opposed to direct democracy) drastically reduces transactions costs. Instead of 300 M Americans bargaining, we have a few hundred Congressmen and Senators bargaining. (The same logic holds for committees).
   3. Log-rolling can turn efficient but unpopular policies into efficient AND popular policies.
   4. Long-term political contracts are rarely legally enforceable. But reputation - of both parties and individual politicians - accomplishes the same thing.
   5. Interest groups also reduce transactions costs by giving legislators information.

VI. Wittman's Sampler, I: Pork Barrel Politics

A. Pork barrel politics allegedly stem from the geographic nature of representative. Every Congressman wants to "bring home the pork" to his district.

B. Reply #1: Presidents, governments, and other non-geographically-based politicians often favor larger expenditures than legislatures.

C. Reply #2: Many programs can be simultaneously abolished with an Omnibus Repeal Bill (like the base closings bill).

D. Reply #3: Political parties can take credit for "universal" policies.

E. Public choice economists sometimes say that political bargaining fails because voters won't accept "blatant transfers." (Think of the NJ Turnpike workers).

F. Reply #4: Wittman calls this *knife-edge stupidity*. How come voters can recognize efficient transfers but not inefficient transfers?

VII. Wittman's Sampler, II: Concentrated Versus Diffuse Interests

A. Ever since Olson, public choice economists have been impressed by the ability of interest groups to solve their internal collective action problem in order to take advantage of the disorganized majority. Standard examples:
   1. Tariffs

        2. Subsidies
        3. Teachers' unions
        4. NRA
    B. Reply #1: Mathematical improbability: Even if politicians lose only a small fraction of majority's votes, it will rarely be balanced by large fraction of interest group member's votes.
    C. Reply #2: Interest groups compete with each other, directly or indirectly.
    D. Reply #3: Competing politicians can advertise their opponents' reliance on special interest money. ("He took $10 M from the tobacco lobby.")
    E. Reply #4: Politicians realize interest groups are biased, and discount their advice accordingly.
    F. Reply #5: Special interests win in referenda, too. Ex: Gun control.
    G. Reply #6: Total level of donations is very small, suggesting that politicians aren't selling much of value.

VIII. Wittman's Sampler, III: Bureaucracy
    A. Public choice economists have spent a lot of energy arguing that the popular suspicions about "bureaucracy" are justified. Bureaucracies supposedly exploit their monopoly power and voter ignorance to "build empires."
    B. Two variants:
        1. Bureaucracies are inefficient, slow, and directionless. Related complaint: "satisficing"
        2. Bureaucracies are sophisticated promoters of the interests of bureaucrats. Related idea: "budget maximization."
    C. Reply #1: Incremental change is perfectly consistent with maximization (as opposed to satisficing).
    D. Reply #2: Bureaus compete for funds, so even if they are all budget-maximizers, it may not matter much.
    E. Reply #3: "Managers" compete to run bureaus, so alleged monopoly power is really quite limited.
    F. Reply #4: Even if politicians can do what they want because of rational ignorance, why would politicians charitably "share" this slack with bureaucrats?
    G. Reply #5: If bureaus really have monopoly power, they will exert it to get extra pay, not bigger budgets. (Knife-edge stupidity, again).
    H. Reply #6: Monopoly models predict output is too small, not too large!
    I. Reply #7: If Congress always does what bureaus suggest, this is NOT evidence of bureaucratic power. Maybe the bureaus only suggest what they know Congress wants to hear.
    J. Reply #8: Optimal punishment, again. How is the discretion of bureaucrats any worse than the discretion of lawyers, managers, etc.?
    K. Reply #9: Asymmetric information, again.

IX. Validity Versus Soundness

A. Wittman points out that there are four logically possible positions to take on the efficiency of markets and democracy:

1. Position #1: Markets fail, democracy works. (View typical of social democrats).
2. Position #2: Markets work, democracy fails. (View typical of public choice economists).
3. Position #3: Markets fail, democracy fails. (View typical of hard-line Marxists).
4. Position #4: Markets work, democracy works. (Wittman's view).

B. Wittman's goal: End economists' "schizophrenia."

C. Many public choice economists think that Wittman's *arguments* are poor.

D. But we must keep a basic logical distinction between <u>validity</u> and <u>soundness</u> firmly in mind.

1. An argument is *valid* if it logically follows from its assumptions.
2. An argument is *sound* if it logically follows from its assumptions AND those assumptions are true.

E. On the whole, I think Wittman's arguments are usually *valid*. He is definitely on to something when he points out other economists' "schizophrenia."

F. However, I strongly doubt that many of Wittman's arguments are *sound*. He reasons carefully from his assumptions, but rarely considers the possibility that some of these assumptions are deeply wrong.

G. If Wittman's assumptions are wrong but widely-held, successful critiques of Wittman will probably have wide-ranging ramifications for public choice (as we will see in the next three weeks).