

PUBLIC CHOICE AND GOVERNMENT FAILURES

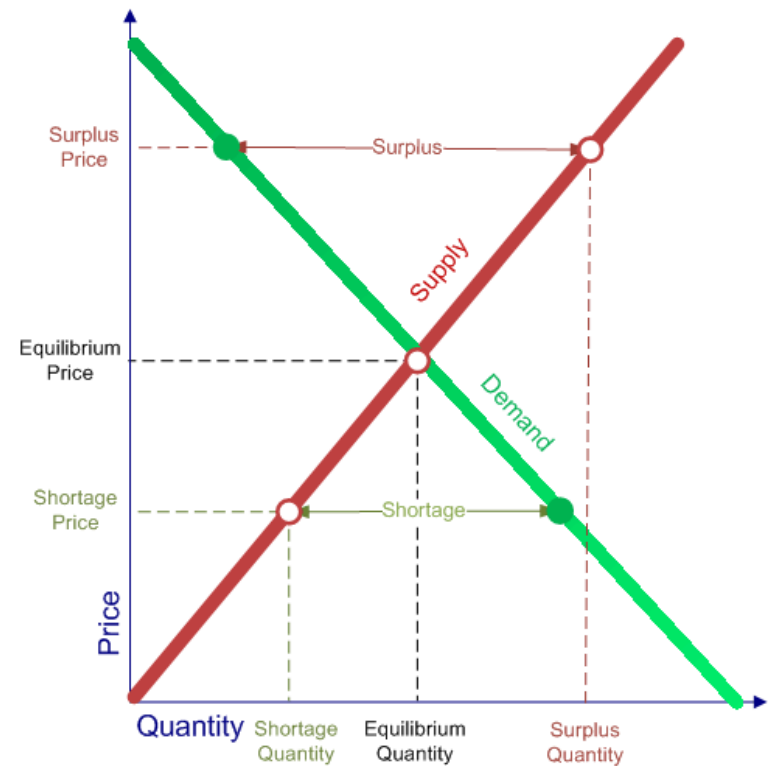
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WHAT ARE WE GOING TO TALK ABOUT?

- How does decision making in private and public sectors differ?
- How to make a good decision in public sector?
- Are there any influences?
- Or paradoxes?

PRIVATE SECTOR

- Equilibrium: demand curve and supply curve
- Individuals reveal preferences about the private goods by buying them
- Price reflects individual's preferences



PUBLIC SECTOR

- No demand x supply equilibrium
- Price is not obvious
- Decisions made by public agencies, not „customers“
- Individuals vote to elect representatives who vote for public budget
- Budget is spent by public agencies
- No comparability to private sector

WHAT IS THE PUBLIC CHOICE?

- “Public choice can be defined as the economic study of nonmarket decision making“, “Application of economics to political science” (Mueller, 2009)
- Covers:
 - theory of the state
 - voting rules
 - voters behavior
 - bureaucracy
 - legislatures
 - etc.

VOTING IN PUBLIC SECTOR

- UNANIMITY
 - Time consuming
 - Leads to Pareto-preferred situation
 - Encounters strategic behavior
- MAJORITY
 - Most used
 - Lower costs
 - Less time to make decision
 - Some individuals will be worse off

MAJORITY RULES:

- Simple majority rule ($>50\%$)
- Runoff election (1st round $>50\%$ if not best 2 to 2nd round)
- Plurality rule (most “popular” wins)
- Approval voting (choose more options; most “popular” wins)
- Borda count (n choices, give to each option points $\{1,2,\dots,n\}$, most popular n, least popular 1; most points wins)
- Hare system (select best; in each round the least popular options leaves until there is only one)
- Coombs system (select worse; in each round the least popular options leaves until there is only one)

WHAT CAN INFLUENCE THE VOTING?

- Personal constrains attitudes
- Physical, social, economic, moral, psychological, etc.

- External influences
- Politics, lobbying, corruption, international relations, legislation, economics, labor unions, etc.
- Would you make voting compulsory?

TACTICAL VOTING

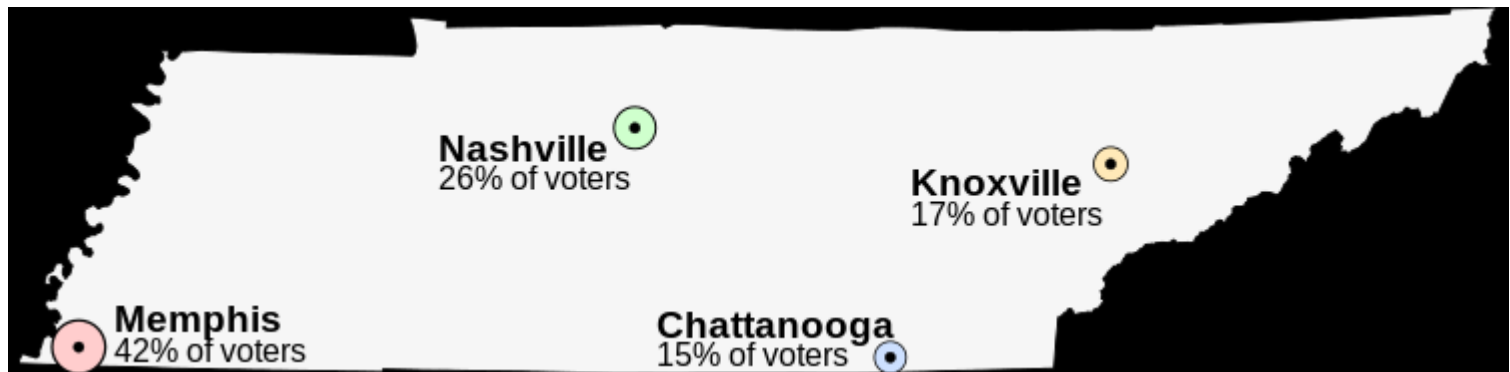
- Compromising (what happens if the country has first-past-the-post election systems?)
- Burying - very useful if some party has open primaries
- Push-over – Imagine you are a French voter, who likes Sarkozy. Polls for first round say:
 - Sarkozy 24%, Hollande 18%, Le Pen 17%, lot of other candidates, the Left has a majority.

CONDORCET CRITERION

Used to measure efficiency of choices

Pair-wise comparison of possible outcomes

TENNESSEE NEEDS A NEW CAPITAL, BUT WHERE?



THE PREFERENCES OF THE VOTERS

| 42% of voters (close to Memphis) | 26% of voters (close to Nashville) | 15% of voters (close to Chattanooga) | 17% of voters (close to Knoxville) |
|---|---|---|---|
| 1.Memphis 2.Nashville 3.Chattanooga 4.Knoxville | 1.Nashville 2.Chattanooga 3.Knoxville 4.Memphis | 1.Chattanooga 2.Knoxville 3.Nashville 4.Memphis | 1.Knoxville 2.Chattanooga 3.Nashville 4.Memphis |

MATRIX

| | | A | | | | |
|----------|-------------|--------------------|--------------------|--------------------|--------------------|--|
| | | Memphis | Nashville | Chattanooga | Knoxville | |
| B | Memphis | | [A] 58% [B] 42% | [A] 58% [B] 42% | [A] 58% [B] 42% | |
| | Nashville | [A] 42% [B] 58% | | [A] 32% [B] 68% | [A] 32% [B] 68% | |
| | Chattanooga | [A] 42% [B] 58% | [A] 68% [B] 32% | | [A] 17% [B] 83% | |
| | Knoxville | [A] 42% [B] 58% | [A] 68% [B] 32% | [A] 83% [B] 17% | | |
| Ranking: | | 4th | 1st | 2nd | 3rd | |

ARROW'S IMPOSSIBILITY THEOREM

- Voting rule should fulfill:
 - Universality (all choices are allowed)
 - Non-dictatorship
 - Pareto efficiency
 - Independence of irrelevant alternatives.
- But none of the rules does!
- In other words: No voting rule is fair.

THE PARADOX OF VOTING

- Also called Downs paradox
- Individual preferences in a group may lead to ineffective outcome therefore voting becomes
- Decision of people to cast a vote is led not only by a human rationality.

NOT ONLY HUMANS VOTE



The honeybee occasionally needs
Find a new place for a nest.


The swarm sends out scout bees
To look for a new location

WHAT METHOD THE BEES USE?

- First the researchers thought bees preferred unanimity.
- Then they observed that only a quorum is sufficient – 30 bees out of 75 bees at a potential nest site.

HOW TO REWARD BUREAUCRATS?



- 
- There are huge differences between countries:
 - Top pay for elite work
 - Strict seniority
 - Project management

CAN WE OR GOVERNEMENT PUNISH BUREACRATS IF SOMETHING GOES WRONG?

- Most projects end behind schedule.
- Also more expensive and less useful then expected initially.
- What exactly would we punish?

WHAT TO DO WHEN A BUEROCRAT FAILS?

Jay, Antony, and Jonathan Lynn. "A Question of Loyalty."
Yes, Minister. Prod. Peter Whitmore. BBC. S02E07, 6
Apr. 1981. Television.

<https://www.youtube.com/watch?v=JU68wBR4pjQ>