## Political Economic Digest Series 5

Dear Political Economic Digest Series participant,

Welcome to the fifth series of the Political Economic Digest. In the last series we discussed about economic freedom and its role in economic growth. We also discussed the state of economic freedom in Nepal and the measures Nepal could take to enhance its status. Economic Freedom is one of the prerequisites for economic growth and development of any country. A close look at the economic freedom index reveals that regardless of their natural resources or their size or their population, countries with higher level of economic freedom enjoy higher rates of economic growth and high living standards. We hope you are now able to realize that Nepal's economy is far from being liberal or free-market though our politicians usually term it to be so.

In this series we'll be discussing about Public Choice. Public Choice Theory is directed toward the study of politics based on ecomonic principles. We generally, tend to think that politicians and government officials are benevolent "public servants" who faithfully carry out the "will of the people." In tending to the public's business, voters, politicians, and policymakers are supposed somehow to rise above their own self-interests. However it is not true at all.

Politicians do not devote their lives for your and our benefits anymore than Coca Cola (or Wai wai for that matter) does. Strangely, however, many people think so -- including university professors that teach politics and philosophy. The most important contribution of *Public Choice Theory* is that it recognizes that politicians are motivated by self interest -- just like you and me. In fact, more so than you and me! If that is so, and it is, then our expectations of politicians changes dramatically.

One of the major reasons that we are having so much trouble with our government is that we have forgotten the fact that politicians are self-interested. Knowledge of public theory makes us look at politics more realistically. We have selected a couple of readings related to public choice theory.

The first reading is an introduction to public choice theory. In this the author describes about public choice theory and the various parties and events involved such as bureaucracy, politicians, legislature, elections etc. **The reading is a bit complex so you can actually SKIP the first reading if you want.**

The second reading is a chapter from the book called "Free your Mind: a beginners guide to political economy" by Sauvik Chakraverti. In this chapter, the author discusses about the interests of politicians, bureaucrats and lobbyists and how that affects our well-being. He also mentions about Milton Friedman's theory of spending which is a very interesting concept to understand how governments spend money.

The third reading is an essay by famous economist Russell D. Roberts. In the essay, he explains how pressure groups and lobbyists coupled with politician's self-interest tend to bring out the worst in politicians and why things are better left to the individuals.

Happy reading! If you are interested to further explore this issue, we have lots of texts and visuals on the subject at Political Economic Resource Center of Samriddhi. Feel free to drop by!

**Note: Scroll below to find the readings!**

# Public Choice

by William F. Shughart II

### Foundational Principles

As James Buchanan artfully defined it, public choice is “politics without romance.” The wishful thinking it displaced presumes that participants in the political sphere aspire to promote the common good. In the conventional “public interest” view, public officials are portrayed as benevolent “public servants” who faithfully carry out the “will of the people.” In tending to the public’s business, voters, politicians, and policymakers are supposed somehow to rise above their own parochial concerns.

In modeling the behavior of individuals as driven by the goal of utility maximization—economics jargon for a personal sense of well-being—economists do not deny that people care about their families, friends, and community. But public choice, like the economic model of rational behavior on which it rests, assumes that people are guided chiefly by their own self-interests and, more important, that the motivations of people in the political process are no different from those of people in the steak, housing, or car market. They are the same human beings, after all. As such, voters “vote their pocketbooks,” supporting candidates and ballot propositions they think will make them personally better off; bureaucrats strive to advance their own careers; and politicians seek election or reelection to office. Public choice, in other words, simply transfers the rational actor model of economic theory to the realm of politics.

Two insights follow immediately from economists’ study of collective choice processes. First, the individual becomes the fundamental unit of analysis. Public choice rejects the construction of organic decision-making units, such as “the people,” “the community,” or “society.” Groups do not make choices; only individuals do. The problem then becomes how to model the ways in which the diverse and often conflicting preferences of self-interested individuals get expressed and collated when decisions are made collectively.

Second, public and private choice processes differ, not because the motivations of actors are different, but because of stark differences in the incentives and constraints that channel the pursuit of self-interest in the two settings. A prospective home buyer, for example, chooses among the available alternatives in light of his personal circumstances and fully captures the benefits and bears the costs of his own choice. The purchase decision is voluntary, and a bargain will be struck only if both buyer and seller are made better off. If, on the other hand, a politician proposes a project that promises to protect the new homeowner’s community from flooding, action depends on at least some of his neighbors voting for a tax on themselves and others. Because the project’s benefits and costs will be shared, there is no guarantee that everyone’s welfare will be improved. Support for the project will likely be forthcoming from the owners of houses located on the floodplain, who expect to benefit the most. Their support will be strengthened if taxes are assessed uniformly on the community as a whole.

Homeowners far from the floodplain, for whom the costs of the project exceed expected benefits, rationally will vote against the proposal; if they find themselves in the minority, they will be coerced into paying for it. Unless the voting rule requires unanimous consent, which allows any individual to veto a proposal that would harm him, or unless those harmed can relocate easily to another political jurisdiction, collective decision-making processes allow the majority to impose its preferences on the minority. Public choice scholars have identified even deeper problems with democratic decision-making processes, however.

**The Institutions and Mechanisms of Public Choice**

It has been recognized at least since the time of the Marquis de Condorcet (1785) that voting among three or more candidates or alternatives may fail to select the majority's most preferred outcome or may be prone to vote "cycles" producing no clear winner.1 Indeed, Kenneth Arrow's "impossibility theorem" shows that there is no mechanism for making collective choices, other than dictatorship, that translates the preferences of diverse individuals into a well-behaved social utility function. Nor has any electoral rule been found whose results cannot be manipulated either by individuals voting insincerely—that is, casting their ballots strategically for less-preferred candidates or issues in order to block even worse outcomes—or by an agenda setter who controls the order in which votes are taken.

**Elections**

Studying collective decision-making by committees, Duncan Black deduced what has since been called the median-voter theorem. If voters are fully informed, if their preferred outcomes can be arrayed along one dimension (e.g., left to right), if each voter has a single most-preferred outcome, and if decisions are made by simple majority rule, then the median voter will be decisive. Any proposal to the left or right of that point will be defeated by one that is closer to the median voter's preferred outcome. Because extreme proposals lose to centrist proposals, candidates and parties in a two-party system will move to the center, and, as a result, their platforms and campaign promises will differ only slightly. Reversing 1964 presidential hopeful Barry Goldwater's catchphrase, majority-rule elections will present voters with an echo, not a choice. If the foregoing assumptions hold, the median voter's preferences also will determine the results of popular referenda. As a matter of fact, anticipating that immoderate proposals will be defeated, the designers of ballot initiatives will strive to adopt centrist language, in theory moving policy outcomes closer to the median voter's ideal point than might be expected if decisions are instead made by politically self-interested representatives.

Modeling the decision to vote in a rational choice context, Anthony Downs pointed out that the act of voting itself is irrational. That conclusion follows because the probability of an individual's vote determining an election's outcome is vanishingly small. One person's vote will tip the scales in favor of the preferred candidate or issue only if the votes of all other voters are evenly split. As the number of voters becomes large, the chances of that happening quickly approach zero, and hence the benefits of voting are likely to be less than the costs. Public choice reasoning thus predicts low rates of voter participation if voters are rational. Indeed, if there is an unsolved puzzle, it is not why turnout in U.S. elections is so low, but why it is so high.

Downs and other public choice scholars also conclude that voters in democratic elections will tend to be poorly informed about the candidates and issues on the ballot. Voter ignorance is rational because the cost of gathering information about an upcoming election is high relative to the benefits of voting. Why should a voter bother to become informed if his vote has a very small chance of being decisive? Geoffrey Brennan and Loren Lomasky, among others, have suggested that people vote because it is a low-cost way to express their preferences. In this view, voting is no more irrational than cheering for one's favorite sports team.

**Legislatures**

Ballot initiatives, referenda, and other institutions of direct democracy aside, most political decisions are made not by the citizenry itself, but by the politicians elected to represent them in legislative assemblies. Because the constituencies of these representatives typically are geographically based, legislative officeholders have strong incentives to support programs and policies that provide benefits to the voters in their home districts or states, no matter how irresponsible those programs and policies may be from a national perspective. Such "pork barrel" projects are especially likely to gain a representative's endorsement when they are financed by the taxpayers in general, most of whom reside, and vote, in other districts or states.

Legislative catering to the interests of the minority at the expense of the majority is reinforced by the logic of collective action. Small, homogeneous groups with strong communities of interest tend to be more effective suppliers of political pressure and political support (votes, campaign contributions, and the like) than larger groups whose interests are more diffuse. The members of smaller groups have greater individual stakes in favorable policy decisions, can organize at lower cost, and can more successfully control the free riding that otherwise would undermine the achievement of their collective goals. Because the vote motive provides reelection-seeking politicians with strong incentives to respond to the demands of small, well-organized groups, representative democracy frequently leads to a tyranny of the minority. George Stigler, Sam Peltzman, Gary Becker, and others used that same reasoning to model the decisions of regulatory agencies as being influenced by special-interest groups' relative effectiveness in applying political pressure.

The logic of collective action explains why farmers have secured government subsidies at the expense of millions of unorganized consumers, who pay higher prices for food, and why textile manufacturers have benefited significantly from trade barriers at the expense of clothing buyers. Voted on separately, neither of those legislatively enacted special-interest measures would pass. But by means of logrolling bargains, in which the representatives of farm states agree to trade their votes on behalf of trade protectionism in exchange for pledges of support for agricultural subsidies from the representatives of textile-manufacturing states, both bills can secure a majority. Alternatively, numerous programs of this sort can be packaged in omnibus bills that most legislators will support in order to get their individual pet projects enacted. The legislative pork barrel is facilitated by rational-voter ignorance about the adverse effects of legislative decisions on their personal well-being. It also is facilitated by electoral advantages that make it difficult for challengers to unseat incumbents, who, accordingly, can take positions that work against their constituents' interests with little fear of reprisal.

### Bureaucracies

Owing to the benefits of specialization and division of labor, legislatures delegate responsibility for implementing their policy initiatives to various departments and agencies staffed by career bureaucrats, who secure their positions through civil service appointment rather than by democratic election. The early public choice literature on bureaucracy, launched by William Niskanen, assumed that these agencies would use the information and expertise they gained in administering specific legislative programs to extract the largest budget possible from relatively uninformed, inexpert legislators. Budget maximization was assumed to be the bureaucracy's goal because more agency funding translates into broader administrative discretion, more opportunities for promotion, and greater prestige for the agency's bureaucrats.

More recently, public choice scholars have adopted a "congressional dominance" model of bureaucracy. In that model, government bureaus are not free to pursue their own agendas. On the contrary, agency policy preferences mirror those of the members of key legislative committees that oversee particular areas of public policy, such as agriculture, international trade, and the judiciary. These oversight committees constrain bureaucratic discretion by exercising their powers to confirm political appointees to senior agency positions, to mark up bureau budget requests, and to hold public hearings. The available evidence does suggest that bureaucratic policymaking is sensitive to changes in oversight committee membership.

### Other Institutions

Public choice scholars, such as Gary Anderson, Mark Crain, William Shughart, and Robert Tollison, have not neglected the study of the other major institutions of democratic governance: the president or chief executive officer and the "independent" judiciary. They model the occupants of these positions as self-interested people who, by exercising the power to veto bills, on the one hand, and by ruling on the constitutionality of laws, on the other, add stability to democratic decision-making processes and increase the durability of the favors granted to special-interest groups and, hence, the amounts the groups are willing to pay for them.

### The Lessons of Public Choice

One key conclusion of public choice is that changing the identities of the people who hold public office will not produce major changes in policy outcomes. Electing better people will not, by itself, lead to much better government. Adopting the assumption that all individuals, be they voters, politicians, or bureaucrats, are motivated more by self-interest than by public interest evokes a Madisonian perspective on the problems of democratic governance. Like that founding father of the American constitutional republic, public choice recognizes that men are not angels and focuses on the importance of the institutional rules under which people pursue their own objectives. "In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself" (Federalist, no. 51).

Institutional problems demand institutional solutions. If, for example, democratic governments institutionally are incapable of balancing the public budget, a constitutional rule that limits increases in spending and taxes to no more than the private sector's rate of growth will be more effective in curbing profligacy than "throwing the rascals out." Given the problems endemic to majority-rule voting, public choice also suggests that care must be exercised in establishing the domains of private and collective choice; that it is not necessarily desirable to use the same voting rule for all collective decisions; and that the public's interest can be best protected if exit options are preserved by making collective choices at the lowest feasible level of political authority.

## CHAPTER THREE
## WHY POLITICAL MARKETS DON'T WORK

Suppose you went to your town's main market. You would find plenty of shops selling all kinds of things, and many vendors of food. But you would have only a limited amount of money in your pocket. You cannot buy everything on offer. Because resources are limited and wants are not, you would have to make *choices*. You would have to decide whether you would prefer to spend on a bar of chocolate and forego a milkshake or the other way around.

*The central problem of Economics is Choice.*

There are limited resources and unlimited wants, and so we must make choices as to how to spend these resources.

> [The freedom to choose is also the most important freedom we possess in a free market; with protectionism and trade restrictions, we lose much of this important freedom, and are 'forced' to spend our hard-earned money on goods we would otherwise have rejected (if we had the free choice) – like Bajaj autorickshaws or Old Monk rum or Wills Navy Cut. Do read Milton Friedman's great book Free to Choose, also available as a documentary.]

There are two kinds of choices we make: private choice and public choice.

Private choices are made in the private market and the main players in this market are consumers and suppliers. This is how we buy our food, clothes, toys, music, and books.

Public choices refer to those made in the POLITICAL MARKET and the main players in this market are POLITICIANS, BUREAUCRATS, SPECIAL INTEREST GROUPS and VOTERS. This is how we get our roads, our garbage clearance, our police and national defense. Remember, even in the political market, resources are limited. If we spend more on defense we have less for education. PUBLIC CHOICE THEORY is that branch of Economics that looks into how choices are made in the political market (in a liberal, democratic setting).

In the private market, consumers spend their money and choose between various options. Because they are directly affected by each choice they make – and they suffer if they make wrong choices – they take great care to *seek out information* and to *correct past mistakes*. If you had to make an important purchase of a consumer durable like a television, refrigerator or car, you would ask people you know about their experiences with various makes, read product reviews, compare features mentioned in advertisements and so on before making your purchase. You would spend your own hard-earned money very, very carefully. Thus, in the private market, money is usually well spent. If most spending decisions were to take place through the private market, most of society's money would be well spent.

In the Political Market, there are certain reasons why money is not well spent, even in the best of democracies, with the best personnel serving the State:

- Politicians are primarily interested in ***re-election***. They will spend a lot of public money in ways that ensure them votes. The 2 rupee per kg rice scheme in Andhra Pradesh is a good example. As is free water and free power to farmers. The huge advertisements that inevitably appear each and every day in the papers featuring politicians are paid for by taxpayers. Such spending cannot possibly be in the public interest. But such spending occurs simply because politicians are more interested in getting re-elected than they are in the public interest!

- Bureaucrats are primarily interested in ***Budgets***. They will always attempt to ensure that their departments get more money from the tax kitty. The Budget Deficit – which shows how much the government spends ABOVE what it extorts in tax revenue – is not going down because bureaucratic departments at all levels want to go on spending more money.

- Special interest groups and voters are both interested in ***free lunches***: some gain for themselves at a cost to others. They will look for ways that public money is spent on them – they get something free – while the costs are borne by other taxpayers who are not politically organized. A good example is the high import duties that protect India's industrialists. They are few, vocal and organized; the consumers are many, but unorganized, and they pay the duties.

It is also important to note that political spending is not directed towards the majority. It is directed towards small and vocal minorities who are all well organized politically. The politician directs spending in favor of these minorities, and the majority pays. A good example is agricultural subsidies in the US, which go to 2 per cent of the population who are farmers, but the costs are borne by 98 per cent of the people, who are unorganized. Another example is the high import duties on steel imposed in the USA recently: it benefits a few uncompetitive American steel producers, but millions of American steel consumers pay.
It is best to examine the difference between the way money is spent in political and private markets thus:

## MILTON FRIEDMAN'S LAW OF SPENDING

There are four ways of spending money:
- You can spend your own money on yourself
- You can spend your own money on others – buy gifts
- You can spend others people's money on yourself – buy things on the 'company account'
- You can spend other people's money on other people: *political spending* (or central economic planning).

It follows that maximum reliance on people spending their own money is good for society, in that most of society's money is well spent. On the other hand, maximum reliance on the state as a means of spending money – economic planning – is bad, because most of the money is not well spent.
***Economic planning is some people spending other people's money on other people. This is a sure way of spending money badly.***
Private spending is better than political spending because of the 3I's: Interest, Incentive and Information. Consumers have the interest, incentive and information to spend money wisely. The political market players do not. Indeed, they have an incentive to spend money unwisely!

## Pigs Don't Fly: The Economic Way of Thinking about Politics

**Russell Roberts**

Sometimes it's hard to do the right thing.

Mimi and Richard Farina were husband-and-wife folksingers in the '60s. Richard died in a motorcycle accident in the aftermath of a party celebrating Mimi's 21st birthday. A horrible tragedy. At Richard's funeral, Judy Collins sang her signature song, Amazing Grace. It must have been terribly moving. Unfortunately, Mimi's sister wasn't at the funeral, though surely she would have also sung something for such a sad occasion. That sister, Joan Baez, was on a concert tour of Europe at the time. She telegrammed Mimi that she had decided to stay in Europe instead of coming home to comfort her sister. Why? Because that's what Richard would have wanted, Joan explained. By staying on tour, she'd be able to talk about his music. Mimi, interviewed years later, explained that actually, Richard would have preferred for Joan to have a nervous breakdown on hearing of his death and to have been unable to perform.

A more mundane example occurs when a friend calls to tell you about something important in her life but you have too much to do. After a while, you end the call by saying, "I'll let you go." What you really mean is "I have to go," but we try and put it in a more selfless light.

We are a bundle of motives. We are often torn between what is best for ourselves and what is best for others. We are torn between doing the right thing and doing the easy thing or the convenient thing. Sometimes we choose the selfless course of sacrifice. The costs and benefits influence our choices. If Joan Baez had been touring in California instead of Europe, it would have been cheaper to come to the funeral. Maybe she would have decided in that case to attend. When a friend calls us in tears, we're more likely to stay on the phone even when we have other things to do.

But when we choose a selfish course, we rarely confess our true feelings. We find a graceful description to sugarcoat our actions. When the football coach resigns whether because he is failing or because he thinks a better job is available, he often tells the world that he's quitting because he wants to spend more time with his family.

### Pigs Don't Fly

Politicians are just like the rest of us. They find it hard to do the right thing. They claim to have principles, but when their principles clash with what is expedient, they often find a way to justify their self-interest. If they sacrifice what is noble or ideal for personal gain, they are sure to explain that it was all for the children, or the environment or at least for the good of society.

Pigs don't fly. Politicians, being mere mortals like the rest of us, respond to incentives. They're a mixture of selfless and selfish and when the incentives push them to do the wrong thing, albeit the self-interested one, why should we ever be surprised? Why should be fooled by their professions of principle, their claims of devotion to the public interest?

We call politicians our representatives and they often claim to be fighting for us. But when we think about it, we understand that our interests are diverse and that no politician can really fight for all of us. Inevitably, our interests and desires clash and politicians are forced to choose between the general interest and the special interest. Which wins?

The answer depends on the constraints facing the politicians. So politicians in a system with meaningful elections and competition are more likely to pursue policies that please the general public. Dictators have more range to pursue their own self-interest at the expense of the people.

For better or worse, it is an unavoidable reality that even when politicians are constrained by real or potential competition, they still have wiggle room for pursuing their own self-interest because the level of knowledge among the electorate is imperfect. The electorate can be misinformed. Or rationally ignorant. It's costly for voters to be well-informed. That gives politicians, even in a democracy, the chance to pursue special interests at the expense of the general interest.

**Bootleggers and Baptists**

This wiggle room for politicians in a democracy leads to some strange outcomes. It allows politicians to do the right thing and the wrong thing at the same time. How is that possible? We shall see below. Even stranger, the imperfect information available to voters can even allow politicians to do the wrong thing and pass it off as the right thing if we're not paying close enough attention.

Bruce Yandle uses bootleggers and Baptists to explain what happens when a good cause collides with special interests.

When the city council bans liquor sales on Sundays, the Baptists rejoice—it's wrong to drink on the Lord's day. The bootleggers, rejoice, too. It increases the demand for their services.

The Baptists give the politicians cover for doing what the bootleggers want. No politician says we should ban liquor sales on Sunday in order to enrich the bootleggers who support his campaign. The politician holds up one hand to heaven and talk about his devotion to morality. With the other hand, he collects campaign contributions (or bribes) from the bootleggers.

Yandle points out that virtually every well-intentioned regulation has a bunch of bootleggers along for the ride—special interests who profit from the idealism of the activists and altruists.

If that's all there was to Yandle's theory, you'd say that politics makes for strange bedfellows. But it's actually much more depressing than that. What often happens is that the public asks for regulation but inevitably doesn't pay much attention to how that regulation gets structured. Why would we? We have lives to lead. We're simply too busy. Not so with the bootleggers. They have an enormous stake in the way the legislation is structured. The devil is in the details. And a lot of the time, politicians give bootleggers the details that serve the bootleggers rather than the public interest.

In the 1970s, sulfur dioxide released by the smokestacks of American midwestern utility companies created acid rain in the American northeast. A clamor arose to clean up the air—environmentalists and everyday citizens demanded legislation. That should have been relatively easy. We know how to get less of something—make it more costly. So the cheapest solution to the sulfur dioxide problem would have been to tax smokestack emissions. That would give utilities the incentive to find the cheapest way to reduce emissions. Over time, better and better technologies would be developed as a way to reduce the burden of the tax.

But Congress didn't impose a tax. Congress imposed a technology. The 1977 amendments to the Clean Air Act required every utility to put a scrubber on its smokestacks. These were incredibly expensive—about $100 million each. They made the air cleaner. They also made the makers of smokestacks richer. The makers of scrubbers were the bootleggers. They joined environmental groups in lobbying for the legislation. That's not so bad. Maybe scrubbers were the best technology and even if a tax had been put in place, the scrubber makers would have profited.

But the real bootleggers were the West Virginia coal companies. If a tax had been used to reduce sulfur dioxide emission, there would have been an incentive to clean up the air. One way to clean up the air is to use technology like a scrubber. A second way is to burn cleaner coal. Cleaner coal (low in sulfur) comes from out West. Dirty coal (high in sulfur) comes from West Virginia. Senator Byrd is from West Virginia. He made sure that scrubbers were mandated. For the environment of course. For cleaner air, of course. For the children, no doubt. But also for his friends in the coal business. We got cleaner air, but we achieved it at a much higher price than was necessary.

**For the Children**

In the worst cases of the bootlegger and Baptist alliance, the good intentions don't just get sidetracked or achieved at a higher cost by the bootleggers—they get thwarted.

The attorneys general in a number of states threatened the tobacco companies with legal action on the grounds that tobacco companies were imposing costs on state budgets by getting people sick. Eventually, the tobacco companies settled, a complex legal structure called the master settlement. The master settlement, applauded by anti-tobacco activists and everyday citizens concerned about their taxes and the health of their fellow citizens, imposed large tax increases on tobacco companies to fund children's health programs. It was a proud day all around. Who could be against such a result? Oh, a few people griped that the whole process was unconstitutional and reduced freedom. But look at the benefits, the defenders would answer—Big Tobacco punished, smoking discouraged, and more health for the children.

Jeremy Bulow's analysis of the tobacco settlement can be found in the Milken Institute Review. He calls the settlement "byzantine." I think he's being kind. But the complexity of the settlement is a common way to obscure income redistribution and inefficiencies that would otherwise be politically embarrassing. I have never met an economist (let alone an educated citizen) who understands and can explain how the price of milk is set in the United States. To call dairy regulations "byzantine" is to insult an ancient people.

But it didn't turn out that way. There was more to the story. But who noticed? How many citizens who cared about smoking actually looked to see how the settlement really worked? It seemed enough to know the broad outlines—tobacco companies punished, children protected. But the bootleggers were very interested in not just the broad outline, but in the details. Yes, tobacco companies were "punished" by high taxes. But they passed the tax on in the form of higher prices to smokers. Yes, higher prices means fewer sales, but profit margins for tobacco companies and tobacco profits actually increased because of the way the settlement was structured. It made it prohibitively costly for generic cigarettes and new entrants to expand their market share. That allowed the tobacco companies to raise prices more than they would normally have been able because their competitors were handicapped.

So the tobacco companies were bootleggers. They actually profited from the settlement. But the real bootleggers were the trial lawyers who helped the attorneys general with the suits that led to the settlement. In return for their efforts, they receive $500 million each year. True, they had to work hard. One lawyer made $92,000 per hour for his work. Per hour. It must have been very demanding work. I'm sure they earned it. It was all for the children. Remember?

**No Child Left Behind**

When a piece of legislation is called "No Child Left Behind" you know the bootleggers are going to be out in force. Saving the children is so popular with so many people that it opens up tremendous possibilities in the details. One part of No Child Left Behind was called "Reading First" a $1 billion program to help low-income school districts adopt better reading programs. Who's in favor of that? Everybody!

But how would the program actually be implemented? "Quite simply, Reading First focuses on what works, and will support proven methods of early reading instruction," according to the Department of Education.

Sounds wonderful. A reading program for low-income children based on proven methods. It was indeed a political juggernaut. But I wonder if the enthusiastic backers of the program had any idea of how such noble goals would be achieved.

The Washington Post reports:

Department officials and a small group of influential contractors have strong-armed states and local districts into adopting a small group of unproved textbooks and reading programs with almost no peer-reviewed research behind them. The commercial interests behind those textbooks and programs have paid royalties and consulting fees to the key Reading First contractors, who also served as consultants for states seeking grants and chaired the panels approving the grants. Both the architect of Reading First and former education secretary Roderick R. Paige have gone to work for the owner of one of those programs, who is also a top Bush fundraiser.

But it is clear that Reading First has been a terrific boon for the textbook publishing industry, and for the department's favored programs. For example, the company that developed Voyager Passport was valued at about $5 million in a newspaper article before Reading First; founder Randy Best, whose

Republican fundraising made him a Bush Pioneer, eventually sold it for $380 million. He then put Lyon and Paige on his payroll.

Pretty depressing, isn't it? But here's a cheerful thought—the glass is really half-full. While the details of legislation in a democracy get twisted by the bootleggers to their own advantage, at least the overall thrust of the legislation is usually in the direction that the general public desires. The diversion of income to special interests is petty cash compared to what dictators are able to channel to their friends in a less representative system without the constraints of elections.

**George Stigler vs. Ralph Nader**

We should be realistic about politicians. George Stigler used to contrast his theory of politics with Ralph Nader's. In Nader's view, all of the ugly aspects of government were caused by the wrong people getting elected. If we could just elect better people, then we'd get better policies. Stigler argued that it didn't matter who the people were—once they got in office, they responded to incentives. They would convince themselves that they were doing the right thing, either because they really thought so or because doing the wrong thing was necessary in order to be able to do the right thing down the line.

Being a Stiglerian in this area, I expect less of my politicians and I am rarely disappointed. Even those politicians we think of as principled, pursue the calculus of the bootleggers and Baptists. Ronald Reagan, an eloquent defender of free trade, imposed "voluntary" quotas on Japanese cars. That is the way the world works.

In the economist's view of politics, ideology and party matter less than the incentives facing politicians. Political parties in a democracy differ more by the words they use to justify their actions rather than by the actions themselves. Republicans talk about economic freedom and the dangers of big government while making government bigger. Democrats talk about their devotion to labor unions and the dangers of free trade but they rarely push for tariffs and quotas.

A final lesson for policy advocates and concerned citizens is to be careful what you wish for. What is best for the general interest is unlikely to survive the sausage factory of the legislative process. What results is imperfect.

So when you hear the politicians talk about how much they care about the people or the children or the environment or health, keep your hand on your wallet and keep a lookout for the bootleggers lurking nearby. They are always there.

## Questions to think about:

Do you still think politicians; bureaucrats and other public officials are benign public servants who are motivated by public's benefit rather than their self-interest?

What do you think about Friedman's law of spending? Can you explain now why governments always tend to expand their budgets and programs without ever discussing if their spending is the most efficient one or not?

How do you explain the connection between protectionist policies and public choice theory? Do you think protectionist policies are infact beneficial to general public?

Why do politicians promise to provide anything and everything to the public free of cost? Is it really free? Would they make such elaborate promises if their own money was involved?

What are the incentives for a voter to seek out all relevant information before casting his vote?

Are these incentives adequate? That is: Does it make sense for every voter to thoroughly check out each candidate, each manifesto and so on? Do most voters do this?

If not, how much reliance should be placed on government, even if democratically elected?