

Public Choice and Political Entrepreneurship

Gifford & Speta

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INSTITUTE FOR REGULATORY
LAW & ECONOMICS

Public Choice Theory

- Public interest regulation
 - Regulation serves the “public interest”
 - Controls monopoly
 - Expands quantity, lowers price
 - Otherwise promotes efficiency
 - Avoids ruinous competition
 - Promotes safety
 - Etc., etc.
 - Serves equity and other public goals
 - “Macro-economic” goals

- Public Choice's alternative premises
 - Regulation is a political system
 - Actors in a political system behave just as actors in any other system
 - They are trying to maximize something
 - That something is often economic – although not necessarily so
 - Maximizing may be subject to a variety of constraints
 - Especially the efforts of others in the same system to maximize for themselves

- Legislators
 - Maximize chance of being re-elected
 - Provide policies that maximize the number of votes received
 - Can explain actions that are contrary to Mancur Olson's hypothesis
 - Olson: focused interest groups have a political advantage over diffuse, widespread interests
 - Provide policies that maximize campaign contributions
 - Regulation in exchange for campaign contributions
 - Lack of regulation in exchange for campaign contributions

- Legislators (con't)
 - Second order effects
 - Explanation of party discipline. Conformance to party wishes leads to better internal position in legislature, and increases (overall) ability to benefit constituents and others
 - Logrolling and other instances of strategic voting



- Regulators

- Maximize bureaucratic returns

- Economic and noneconomic rewards tied to regulatory scope
- Compensation, staff, notoriety

- Maximize non-bureaucratic returns

- Revolving door issues

- The Regulated
 - The political system can create competitive advantages (and disadvantages) in business
 - Legal barriers to entry can be at least as effective as economic barriers
 - Investments in regulation can be assessed like investments in any potential return



-  Capture Theory

- Agencies become captured by the industries that they regulate
 - Often paired with a “life cycle” story concerning agencies
- All relevant parties have an interest in a regulatory system that results in positive returns to the regulated community (that is, returns that are greater than they would be in the absence of regulation)

Taxation by Regulation: Posner

- Internal subsidies
 - Not simply price-discrimination
 - Some services at a true loss
 - Compensated for by other services far above cost
- Presence of such internal subsidies is not well-explained by traditional theories
 - Control of regulated companies
 - Capture by regulated companies



- Explanations:
 - Benefitted parties may be politically powerful
 - Small businesses may be numerous
 - Low prices for individuals may be popular
 - Explicit “taxes” may be very politically unpopular
 - Regulated companies may find advantages
 - No advantage over unrestrained pricing
 - But politically popular cross-subsidies may create coalitions that maintain regulation
 - Explains presence of regulation in some industries that are not monopolistic
 - And especially the continuation of regulation after initial premises change

Limitations

- Voting paradox
 - People do vote
- Some policy actions cannot be explained in this manner
- Actors may have noneconomic returns that are difficult to capture and may work at odds with these incentives

Political Entrepreneurship

- Antidote to public choice
 - Although caveat: what do academics try to maximize?
- Story of Fred Kahn
 - Affirmatively tried to put CAB out of business
 - “I don’t *need* tenure at Cornell”
 - Persistence of ideas

- Elements of entrepreneurship
 - Creating space in the public debate
 - Opportunities
 - Technological change
 - Judicial decisions
 - Other catalytic events
 - Capitalizing on opportunities

- Building coalitions
 - Neutralized some of the industry participants
 - Buyouts very commonly necessary
 - Identified and strengthened parties to be benefitted by reform
 - Building on policy consensus
- Presenting clear and timely plans