Public Choice: The Normative Core

The economic analysis of politics goes by many names: political economy, rational choice theory, formal political theory, social choice, economics of governance, endogenous policy theory, and public choice. Each of these labels picks out a subtly different intellectual tradition. Each tradition expands our understanding of the world. My favorite, though, remains public choice.

As a GMU professor, you may attribute this to home-team favoritism. Yet before I was a professor at GMU, I was a student at UC Berkeley and Princeton, and neither school fostered the love of public choice… to say the least. The main reason I prefer public choice, rather, is for its *normative core*. All economists who study politics do cost-benefit analysis, but the public choice approach is wiser. And heretical.

What exactly is this "normative core" of public choice? Simple: After doing standard microeconomic analysis of government policy, public choice adamantly states:

> *That's an upper-bound on how well government intervention can work. In the real world, government intervention usually works much more poorly. Before we claim government intervention passes a cost-benefit test, we can, should, and must use past government performance to predict future government performance.*

The upshot: Public choice economists end up opposing many government interventions blessed by textbook and policy wonk alike.

Example: Most economists – even economists who study politics – are fans of Pigovian taxation to address externalities problems. What public choice reminds us, though, is that Pigovian taxation is the *best* that governments can accomplish. In the real world, however, governments are worse in dozens of ways.   Before you advocate a regime where government sets Pigovian taxes to address externalities, then, you should estimate what real-world governments will *actually do when you give them that kind of power*.

Another case: When I was a grad student TAing Industrial Organization, I often argued with the junior professor teaching the class. He knew a lot of theory, but almost no economic history, so I told him about quite a few famously anti-competitive antitrust decisions. After a while, I recall a little exchange that went roughly like this:

> *Junior Professor:* *Bryan, I don't care about what government did in the*

past; I care about what government is going to do in the future.

Me: Shouldn't we use the past behavior of government to predict the likely future behavior of government?

Junior Professor: By that standard, government should never do anything.

Me: [double-take] Not really, but OK!

For Junior Professor, the normative core of public choice was practically a reductio ad absurdum. But that's only because he started with a firm pro-government conclusion, and rejected even ironclad premises that undermined it. So when I applied the normative core of public choice, he saw a big bias against government.

This so-called "bias," however, is simply *well-justified pessimism*. If actual governments abuse the power to tax, subsidize, and regulate, then it makes cost-benefit sense to put the officials who set tax, subsidy, and regulatory policies in a few chains. Or a lot of chains. Or a solid block of concrete.

Mainstream economists tend to scoff at this mentality. Frankly, that's because they're fifty years behind the research frontier. Although textbook demonstrations that well-crafted government policies can make the world better are fun homework problems, they end up being an intellectual smokescreen for demagoguery. The normative core of public choice shows that laissez-faire is undervalued: Even when good government is plainly able to make things better, past experience teaches us to be deeply skeptical that government will do so in practice. Until economists judgmentally study government in action, they have no business recommending that government do much of anything.