



Episode 563: Clueless Voters and Self-Interested So-Called Public Servants: How Public Choice Economics Upends the Cute Fantasies About How the System Really Works

Guest: Ivan Pongracic

WOODS: I was telling you before we started recording that I'm on, here we are on Episode 563, and we haven't even covered public choice on the show, and I get people asking all the time, how do you come up with new topics day after day. Well, if you can get 563 episodes and you still haven't covered public choice, there are so many topics you can talk about in the world of liberty. There are so many things. There's always current events of course, but public choice really fits into a whole lot of current events, and it's a lens that can help you to understand why things are unfolding the way they are and why in politics we see the same miserable sorts of behaviors repeated over and over again. There are reasons for this. This is not a coincidence that it happens this way. And I've been familiar with your work; I've read some of the things that you've written, but I really got to know you by watching your YouTube videos on a variety of subjects, particularly on public choice, and I thought you explained it so well that you seemed like the natural person to talk to about it. And if we have time, and I doubt we will so maybe we'll have to talk about this another time, your own upbringing in a communist environment, and I first don't mean under Obama.

PONGRACIC: (laughing)

WOODS: I'm talking about a real communist environment, would also make for very interesting conversation. But let's start in with public choice. What does the concept mean, and can we identify one or two people as the originators of the idea?

PONGRACIC: Sure, so public choice economics refers to applying economic analysis to political institutions. So looking at political decision making by using economic theory, which before the 1950s had not been done. You had political science, which tended to idealize decision makers in some way, thinking of, you know, the three main groups of decision makers within the political process, the voters, the bureaucrats, and the legislators, as being primarily driven by public interest.

And it was the early public choice economists that started tearing that apart and that said this is very strange; we are examining the same people in the marketplace as being driven by self interest, but as soon as they cross over into the hallowed halls of

government buildings, they somehow are transformed into being publicly interested. And that is just inconsistent, doesn't make any sense. So what makes sense is to apply the same behavioral assumption to those people within government institutions that we apply to them within market institutions.

And when public choice economists started doing that, all sorts of interesting things started happening. So some of the earliest public choice economists were Kenneth Arrow, who won the Nobel Prize; Duncan Black — let's see, obviously James Buchanan and Gordon Tullock, Anne Krueger, George Stigler from University of Chicago. And some of them have been pretty Austrian-friendly, some others less so. Certainly Buchanan and Tullock are the most process-oriented and the most Austrian-friendly, but I think all of the insights have relevance to Austrian economics in some pretty important ways.

WOODS: Now, when you say that people, just because they happen to be in government office, are not suddenly transformed into magnanimous benefactors of the human race and that they may in fact continue to have their own private interests, how does that manifest itself? I mean, it can be the case that people are trying to get, you know, kickbacks in the most crude kind of way, but generally it's that they're trying to get votes, whereas an entrepreneur is trying to get dollars. The politician is trying to get votes, so is that the way that we think of this economically, that what they're searching for is not to maximize not their dollar income but their vote income?

PONGRACIC: That's exactly right, so we need to again look at the different groups of decision makers here. So you're focusing on legislators, but the legislators are just one group that's relevant here. Obviously voters are facing certain kinds of incentives, bureaucrats are facing certain other kinds of incentives, and legislators are facing other incentives.

If you think about voters, the incentives that they are facing is that they in general want either their ideologies be put into practice or they would like to have certain benefits granted to them by the government. But the chances of their one vote having very much impact on this are very, very slim, in fact, pretty much zero. So what we find with most voters is that they are rationally ignorant. They rationally don't pay a whole lot of attention to the political process. They are easily swayed by political advertising, negative campaigning in particular, because it just doesn't make much sense to be very well politically informed. There are a lot better ways to use up our scarce time than to inform ourselves about different candidates' positions and different debates that are going on in the political world at the moment. So what we find is that voters really don't know very much what they're voting for. I think that probably doesn't come as much of a shock to anybody.

Then bureaucrats, of course, they are facing different kinds of incentives, and in particular they're facing incentives to enlarge their budgets. Doesn't matter if they're cynical, if they're just in it for their own comfort, for their own direct benefits or if they want to see a particular, again, outcome reached that may be very idealistic, they have to have money to work with, and therefore that means that they will have

to work with the legislators in charge of their budgets and make sure that those legislators are pleased. So we observe that bureaucrats are very good at, first of all, figuring out what the legislators want them to do, and then second of all, manipulating legislators in order to get as large of a budget as possible.

And then when it comes to the – and by the way, one other thing, that involves always since we have budgets that are based on previous years' budget, they have to spend all of the money in each budget. So we see incredible waste, incredibly wasteful spending of all sorts of money in the government just in order for particular bureaucracies to be able to spend their entire budget so they can get that money or a little bit more next year. Terribly perverse incentives.

And then when it comes to legislators, as you pointed out, they are after maximizing votes. That is the lifeblood of politicians. Just as profits provide a signal to an entrepreneur, votes provide a signal to politicians. But there are many ways to get votes from rationally ignorant voters, and this is what voters have become incredibly effective at. They can manipulate the process, in particular through what is known in public choice economics as the logic of collective action, which is to concentrate the benefits among the few special interest groups, make those benefits very visible while dispersing the costs among the many, usually the entire population, and make those costs very small per person and hidden. So we have – that's really the epitome of crony capitalism, is that we see all sorts of special interest groups that are able to get favors from politicians who figure out that they can get votes by engaging in negative campaigning, negative advertising from rationally ignorant voters.

WOODS: All right, I want to ask you a question about rationally ignorant voters, and then I want to ask you a question about politicians. First about the voters. I think one way people can understand the central thesis of public choice is by – and I'm going to ask you to do this – walking them through the following scenario. Scenario A is they're thinking through and researching what smartphone or what tablet or what laptop to buy, and Scenario B is they're deciding which candidate to vote for. Why do they spend more time in Scenario A?

PONGRACIC: It should be fairly clear, because your own decision on what phone you buy will directly impact the next year or two of your satisfaction with that phone, right, so you'd better make sure that you choose the right phone or you're going to be out of several hundred dollars and be very frustrated. So you are bearing the cost of your own decision making, direct costs, and you are gaining the direct benefits of your decision making, so you have to make sure that you make a good decision.

Of course that's not at all how it is in voting. We all cast one out of hundreds of thousands, usually millions of votes, and the vote that we cast is never going to be decisive. So given that we all recognize that, even if it's very politically incorrect to actually acknowledge this and point it out, people know this, and they act rationally in that regard by saying, you know, my vote is not really that important, so I can just satisfy my own particular biases and preferences without really informing myself very well.

WOODS: All right, now about the politicians. I can understand why there are sugar subsidies just based entirely on public choice. Even without researching it, my instinct would be I think I understand where they came from. Or it could be a tariff on a particular good. My view is that probably it's not that the general public had an outcry and was clamoring for this tariff; probably the real explanation is more mundane and is more along the lines of public choice. But when I look at the U.S. government budget, the giant budget entries there don't seem to be items like sugar subsidies and other such programs that are aimed only at the few. Social security and Medicare are case of government programs that cater to the vast multitudes. So is there a way for public choice to make sense of those programs?

PONGRACIC: Yeah, I believe there is. In fact, before the baby boomer generation, the elderly made up a very small proportion of the entire society, but yet you add to the American Association of Retired Persons, AARP, which is by far one of the most powerful lobby groups in Washington D.C., and they wielded disproportionate influence.

Now, this was also something. So besides catering to a very powerful lobby group that, in fact, represented a portion of society which actually does vote to a much greater level than many other people, they also tend to be highly concentrated in Florida. Now as you probably now, modern certainly presidential politics has a lot to do with what happens in Florida. Florida and Ohio are basically the only two states that matter in terms of presidential politics. So if you can win Florida, as George W. Bush found out in 2000, you've got the election.

So what we observe is that what politicians are always trying to do is deliver specific benefits to specific groups while trying to pass on those benefits, trying to justify them as being widely beneficial to the society. I don't think these actually are. In fact, what we observe with social security or Medicare is that it's a pyramid scheme that is running out of money, is going to go broke. I speak to elderly people that say, well, yeah, but we've been paying into this all our lives, and what they usually don't understand is that the overall amount of benefits that they are going to be receiving out of social security and Medicare are much larger than they've actually paid into them over their lifetimes. So it's an intergenerational transfer from those that are less politically well organized, which is the Millennials basically, to those that are well politically organized, which is the elderly.

WOODS: It's 2016, and we see a lot of campaign signs for local office or national office in people's yards and bumper stickers on their cars and so on and so forth. These signs and bumper stickers don't really tell us much of anything about any of these people, and it makes me think about what is the difference between how a private sector firm like a restaurant promotes itself to the public versus how a presidential or a political candidate promote him or herself to the public.

PONGRACIC: Yeah, it's a huge difference. It should be again quite obvious. The reputational effects with private firms are very powerful. If you have a friend that had a bad experience with a particular product or a particular service, a particular

business, the word is going to spread very quickly. And certainly today in the world of the Internet and Amazon reviews and stuff like that, it doesn't take very much for a product or a business to gain a bad reputation and for that bad reputation to spread like wildfire.

On the other hand, with politicians we observe the problem of a bundle purchase in the sense that ultimately what we are confronted with when we have to vote for people is usually two choices: the Democrat and the Republican. And those candidates represent a bundle of positions that are quite large. There are many positions that they take on many, many controversial, difficult issues, and I believe that most people, in fact, don't completely align with either the Republican or the Democrat side, but you have to kind of pick and choose, right? And you say, well, mostly I agree with this guy, or I really don't like this guy's stand on that, but I like everything else that he says.

So we don't really have the choices that we do in the private market. In the private market, we have — think about restaurants. We have such a variety of restaurants that we can choose between, at least in cities. Not necessarily in Hillsdale, Michigan (laughing), but with those restaurants we can decide, well, all right, do we want Mexican for lunch, Thai for dinner, maybe tomorrow we'll have vegetarian. You can consume a great variety of products without having to commit yourself to one particular alternative and be stuck with that alternative for a very long time.

So I think this is a huge problem with politics and one of the main reasons why people continue to be so frustrated with politics, because they expect that politics is going to solve all of their problems when the incentives faced by, again, legislators and bureaucrats are incredibly perverse. They are never to solve these problems, and they're never to actually cater to the public. It's always to cater to particular special interest groups and try to simply make yourself a little bit less unpalatable than your opponent overall, or at least make sure that the people voting don't know about all the nasty stuff that you've done, but they certainly know about all of the nasty stuff that your opponent has done — and they've all done nasty stuff.

WOODS: Well, I want to ask you the question that I think is on the minds of a lot of listeners, which is how libertarians can cope, if at all, in this type of environment as a politician, but before we do that, let's just pause for this message.

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All right, so as we were saying, there are all kinds of problems with politics, especially as compared with private markets, but politics is what we've got, and we're faced with elections all the time. Is it possible for a libertarian to function in the political arena when it's all geared toward low information people, people who have an incentive to be low information, when it's geared toward maximizing votes, when it's geared toward not principle but trying to maximize the power of the state and maximize budgets — how can a libertarian cope with that, or can a libertarian function in that kind of environment?

PONGRACIC: Well, public choice economics does not provide an answer to that question. It's strictly a matter of analyzing the incentives that different people face within these institutions. Honestly, I do not really believe that it is — so now I'm just telling you my own opinion here — I don't think it's possible to reform the political process from within. We've seen many attempts at it. They've come to absolutely nothing.

I believe that the most effective thing that libertarians can do is to continue to point to failure of the state in solving most of our problems, and I can't really think of very many people that are happy, that are satisfied with the performance of the federal government. Maybe on some occasions their state governments, but nobody likes what's happening at the federal level.

So meanwhile, we can look around and we observe that markets are serving us remarkably well in so many ways. Just think about the technology revolution that's happened over the last 20 years. The empowerment that even the poorest among us have actually seen by having something like cellphones. Think about the ability to actually record police brutality and how much that's transformed the lives of people in some of the poorer communities, not just to single that one out. But it's given people a lot more choices and a lot more power.

Honestly it amazes me that anybody could possibly look at markets, what's happening in markets and what's happening in politics and continue to have any sort of faith that we can achieve political solutions to social problems, especially when those political solutions require a one-size-fits-all type of an approach. That is always going to leave a lot of people, usually about half the people in the society, very unhappy and resisting with everything they've got.

And I think this is the impoverishment of both the progressive perspective, as well as, in many ways, the conservative perspective, that they continue to pine, to hope that they can use the political process for their own purposes, to achieve their own vision of utopia, when in fact it's the markets that have pulled the poor people out of poverty, that have given them options, given them choices, given them alternatives that, if they were willing to take advantage of, then improve their lives immeasurably.

So I think the libertarians have the facts, the history on our side. I think it's much more powerful to take the teaching of Leonard Read, the founder of the Foundation for Economic Education, and follow him. And his point was always that the only thing that we actually can control is ourselves. And what he have to do if we truly believe in liberty is educate ourselves as much as possible in order to be able to attract others to us, for others to want to talk to us, to ask us questions about the way we see the world, and then have an opportunity to persuade them that, in fact, the peaceful, voluntary way of interacting with other human beings is always superior to the violent, coercive ways that the government relies on.

So you know, Leonard Read very much believed in the individualist approach to changing our world, and I think libertarians that ultimately put a lot of faith in political reform are barking up the wrong tree. I don't think it's going to happen.

WOODS: This reminds me, and I wish I could locate the passage right now, but there's a passage in Mises in which he says something along the lines of, you know, the interventionists have their songs and their banners and their party slogans and their flags and this and that, and says this is not what liberalism has. What we have are ideas and reason, and it's with these that we must triumph. And that's really inspiring until you read about public choice, and you think, well, if all we have is good ideas and reason, then we're in big trouble. And it's incredibly maddening that you would be in a situation where those things would be disabilities. Like, this is not ultimately going to help. Let me see if I can — what if I insert the following friendly amendment to public choice and see what you think of it —

PONGRACIC: All right.

WOODS: — that there can be historical circumstances in which ideology held by the public can be so widely and strongly held that it can override some of the constraints described by public choice? I'll give you two quick examples. One would be, I don't think anybody would have predicted that in 2012 a candidate who basically says that probably social security and Medicare are going to have to be abolished at some point and that all the troops need to come home and we should get rid of the Federal Reserve would get over 20% of the vote in Iowa in New Hampshire, while at the same point saying we should not have ethanol subsidies and — you know, in other words, doing the opposite of what any campaign chairman would tell you to do, that's what this guy did. But that did happen.

Second more dramatic example would be the collapse of communism. Now, you would think that would be a system that's completely entrenched. The bureaucracy is completely in control, and there's really nothing that any individual can do, and yet somehow ideology among the public or just the spirit of resistance among the public became so great that it overcame all the institutional inertia, and change occurred. So is that an amendment to public choice, or does public choice, can it take account of these quirky historical circumstances like that?

PONGRACIC: I don't think public choice economics directly can do that, but it's very obvious that you are correct. We do see these situations where ideology does trump the sort of calculus of interests, right, benefits and costs —

WOODS: Yeah.

PONGRACIC: — through the political process. And actually we spoke just a little bit about Bob Higgs right before we started the program, and Bob Higgs, in fact, has been working on that very issue. He's written some great articles on the role of ideology in history and economics, and I think economists in general do understate the importance of ideology. Ideology is important, and you don't need to have a majority of people

that exhibit a powerful commitment to a particular ideology for them to be incredibly effective and successful, either for evil or for good.

We've seen that many times, again, in history. So there is no question about it that libertarians do need to continue to make a very strong case for our ideologies being superior, as being one of peace and being one of cooperation and being one of prosperity, and that's the only way to actually achieve widespread prosperity. I think we have the theory on our side; we have the history on our side.

And in particular, when it comes to history we also have history on our side in a negative sense, because what we are seeing is a slow motion collapse of the regulatory state of the government, really. It's remarkable to me that progressives are in complete denial of the debt crisis that is coming. There is just no mention at all about the fact that we are \$18.5 trillion in debt, probably will be close to \$20 trillion in debt by the end of Obama's term here. And in fact, the debt has been doubling every 8 years for the last, what, 20, 25 years, which is incredible. This is not a sustainable situation. The economy's not doubling every 8 years, not even close.

So there will be huge pressures exerted in our society very soon that will I think reveal the poverty, literal and figurative, of the welfare state, of the regulatory state, and we're going to have to make some very tough choices. And at that point, I think that's when people are going to be open, I'm hoping, to more ideological kind of reasoning and say, well, you know, we've adopted this way of thinking for many decades and it's led us to ruin; where do we go from here? I don't know.

Mises talked about the end result of the dynamics of interventionism as presenting an opportunity for a real reform. While you're in the middle of the whole intervention is dynamic, it's very difficult to achieve reform, but once you start coming to the end, that's when people start understanding the full consequences of that interventionism. So I'm hopeful that there will be an opportunity, and it's up to people like us to actually be ready to present an opportunity when the time comes. I think even Milton Friedman talked about that, that the role of the economist is to be there with solutions once everything else has been tried and failed. So I really expect that that kind of a situation is going to be facing us sooner rather than later, so it's a little daunting, but it does present opportunities for reform.

And we do actually see that. Another example that I can add to your list is New Zealand. New Zealand in the early 1990s had tried several decades of socialism and left them completely impoverished, no economic growth to speak of. It was a terrible situation, and they were able to, in fact, put in reforms that revived the economy in a dramatic way, and they're still reaping the benefits of it, even though they've gone back on some of those reforms over time. That's the public choice dynamic. But you can look at that example and say, wow, it is possible to actually institute serious market reforms that show real results.

I'm not sure if the Soviet Union is a very good example in that regard, because what we saw there, it wasn't so much the winning of the market ideology; it was just the

actual collapse of the socialist state. They came to an end, and they could not go any further. Unfortunately was taken advantage of by Putin to get strength for his own self, but I do think that there are other notable examples out there, so I remain semi-optimistic, let's say.

WOODS: Well, before I let you go, Ivan, if people want to read more about public choice but they don't want to read something that's extremely technical or using technical language, do you have any titles you'd recommend?

PONGRACIC: I think James Buchanan and Gordon Tullock, anything by them is really phenomenal. I think it's usually quite readable. And there are several compilations, collections of articles by Buchanan. I'm trying to remember what their names are, and I'm drawing a complete blank right now, but I think that would be a very good introduction. Actually, if you go to Hillsdale.edu, so this is the website for Hillsdale College and where I work, we hosted Buchanan about 10, 12 years ago. I had him speak on public choice economics, and that was published as an issue of *Imprimis*. *Imprimis* is our monthly publication, which is sent out to millions of people. And all of those old *Imprimis* issues are online. If you just put in "Imprimis" into the search bar on Hillsdale.edu and then look for "Buchanan," there is a great introduction to public choice economics that he does there. It's really the clearest, most succinct, most direct introduction I've ever seen, so I would highly recommend that. And from there on, yeah, just preferably anything by Buchanan or Tullock. *Calculus of Consent*, *Limits of Liberty*, those are the classic books by them.

WOODS: Okay, I will put those at TomWoods.com/563, our show notes page for today, and I will dig up the Buchanan talk and link to it directly so people don't have to search around for it. So we'll put all those things up at TomWoods.com/563. Well, tremendous conversation. I think this is a great primer for people who are interested in the subject, and it does — it's a little depressing, but it does help us understand the world a bit better, and it's always better to understand the world than not, so thanks for helping us understand it a bit better.

PONGRACIC: Happy to be of help. I wish that more people would actually understand the world a bit better, but we do what we can, right?

WOODS: We do, one day at a time, that's right. Thanks so much.

PONGRACIC: Thank you, Tom; really appreciate it.