

Chicago political economy: A public choice perspective

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That a Chicago School of Economics exists has long been recognized by economists of all persuasions. That a distinct school of "political economy" has also prevailed should occasion little if any surprise, at least amongst economists. We have some confirmation of this contention as far back as the mid-seventies, when Warren J. Samuels edited a volume entitled *The Chicago School of Political Economy* (1976) and, more recently, with the publication of *Chicago Studies in Political Economy* (1989a), a collection of papers previously published by leading members of the Chicago persuasion and, edited, appropriately, by George J. Stigler. A recent autobiographical volume by Stigler (1988b) lends further credence to the notion that the Chicago perspective on economics includes a self-conscious orientation toward politics and its study. There is something there; the question is what?

First a caveat or two: I do not propose to provide a detailed review of the Stigler collection, nor will I examine, in any detail, the consistency of views among Chicagoans over the years. Instead, I propose to distill the "essence" of Chicagoan political economy during the past thirty years and relate it, as best I can, with Public Choice and Social Choice approaches to politics. The emphasis is upon the "big" issues of substance and methodological concerns. Differentiating a coherent Chicago political economy is a good deal more difficult than discerning and describing the more basic paradigm of Chicago Economics. Lacking basic texts such as *The Calculus of Consent* and the Arrow and Black's monographs and their central roles in defining public choice and social choice theory, respectively, Chicagoans offer a more diffused view. We are confronted with a vast literature of case studies of regulation and empirical tests of the failures of policies intermingled with occasional theoretical forays into selected aspects of politics such as the nature of political competition in democracies by Stigler (1972), Demsetz (1982) and Becker (1958, 1983), or the more empirical exercises of Stigler (1973) and important articles by Pelzman (1984) on the growth of government and congressional elections and consumer protection (1973, 1975). If some Virginians have been reluctant to test their theories, most Chicagoans have been hyper-cautious about constructing

overarching theories without empirical foundations. In any event, we do not have a convenient, authoritative Chicago "Bible" to consult and criticize.

The primacy of markets

One cannot appreciate nor even understand the Chicago perspective on politics without a prior grasp of their approach to and appreciation of the market economy. In a word it is a robust view based on equilibrium models, but with a keen appreciation of the role of institutions that shape economic choices and outcomes.

Perhaps, more than other economists Chicagoans see competition as endemic in society and especially in markets. Most markets are characterized by low information costs and high resource mobility. Accordingly, there are few market imperfections and wealth is, therefore, maximized. Indeed, some of the most powerful counters to the standard welfare critiques have been set forth by Chicagoans. Demsetz (1970), for example, has rejected the notion that markets automatically underproduce public goods while Harberger (1954) contended that the magnitude of monopoly losses was vastly exaggerated. And, Coase (1960) has provided the most powerful arguments against the view that government is necessary to correct externalities. One can go even further and cite Lucas's position that markets will internalize and often negate governmental policy. In sum, the role of markets in society is not only powerful but a force for the advancement of welfare.

But this viewpoint presents a serious problem: if the market economy is so productive how are we to account for the obvious rapid growth of government in the twentieth century? Such an event would appear to be irrational.

As we shall learn, the answer is that provided by Pelzman (1980) and Stigler (1971) who contend that redistributive and rent-seeking motives have come to dominate. On the other hand, the rents are, in the eyes of Becker (1983), not as horrendous as they may appear to, say, the Virginians. More on these matters, below.

The political paradigm

Chicagoans accept the fact of politics or the necessity of some sort of collective choice; none, excepting, perhaps, David Friedman, are anarchists or even Libertarians. And, as is well known, they are convinced that economics, particularly their own version of neoclassical analysis can be fruitfully applied in obtaining a better grasp of political behavior.

Perhaps the most notable assumption in the Chicago view of politics has

* George J. Stigler (Ed.), *Chicago studies in political economy*. Chicago: University of Chicago Press, 1988. Pages xviii + 641.

been most forcefully expressed by Stigler and Becker, i.e., the notion that political activity is motivated by the same forces as market behavior. Nevertheless, the conditions under which political choices are made clearly encourages behavior that is shaped by forces Becker and Stigler minimize if not deny importance—emotion, ideas, values, norms, or ideology. Not to be self-interested, and informed in the market is to invite trouble, whereas in the polity one is not victimized by one's own uninformed preferences in the same way nor to the same degree. And, that, of course, is part of the problem of collective choice: one is able to be more irresponsible and, indeed, not even know what responsible choice might be. Thus, we find far more altruistic and mean-spirited behavior in the public realm. At the same time, it must be conceded that adherence to the self-interest axiom does have powerful methodological appeal.

Chicagoans and Virginians agree that the chief distinction between a free economy and democratic polity lies in the peculiar property rights that govern in politics. Rational political actors not only take these rights into account but attempt to shape the rights, themselves. Private property rights of the free economy simply do not exist in the polity and certain consequences, mostly bad, follow from that fact. Since voters, for example, cannot sell and buy votes on an open market they cannot be efficient. Since bureaucrats cannot capture profits from efficient choices they make fewer of them. The existence of such prohibitions does not eliminate competition from the polity, but it does place enormous constraints on the enactment of rational policies.

These same property right structures define whose money is spent on whom, a consideration of utmost importance in distinguishing the economy from the polity. According to the Friedmans (1980) one may spend one's own money or that of others and it may be spent on behalf of oneself or others. The free economy is dominated by the spending of one's own money on behalf of one's self, whereas the money spent in the polity is spent on others by still others — hence the wastefulness and ineffectiveness of most public spending. Likewise, the virtual absence of a price mechanism in the public sector inhibits individual rational choice and allocation of resources.

But that is not the end of the story. In the market, actors are out to maximize their own incomes and wealth but, generally, succeed only by freely contracting with others; in short, by doing good for themselves they manage also to do good for others. In the polity the lure of increasing one's wealth is also powerful, but here the discipline of the market is attenuated and the game becomes not positive-sum, but zero-sum and, at its worst, a negative-sum game. Thusly, rent-seeking is inevitable while government spending is generally expected to be supra-optimal and resources inefficiently allocated.

Not only is government spending excessive but its distribution is thought to be less progressive than the proponents of political redistribution would prefer.

All this has been argued under the rubric of Director's Law (Stigler, 1970) which explains why so many public programs end up benefiting the middle class rather than the poor. And, as has been argued by the Friedmans (1984), Stigler (1988a), and Becker (1983), there are deadweight costs: the Treasury gets less revenue than the taxpayers send in and the beneficiaries obtain less than is spent by the bureaucrats. And, worse, perhaps, political allocations necessarily entail coercion, corruption and an eventual moral weakening of society. But, these consequences are not major Chicago themes!

In a more positive stance, Chicagoans advocate a search for answers to distributive questions set forth by the Chicago political scientist — Harold D. Lasswell — in his classic *Politics: Who Gets What, When, How* (1936). Some interest groups and coalitions do better than others. Why?

In general, the answer seems quite similar to that of conventional public choice and political science, i.e., those who do well in the market have the vital resources to do well in the political process. And, these same groups, always small, are apparently able to choose optimal strategies in terms of the kinds of rent proposals to adopt, how much to seek, from whom, when, and how. Answers to these strategic questions have still to be developed, but it is clear that they are very much on the minds of Chicagoans. This we know mostly from their studies of regulation in which the special interests manage to choose optimal types of regulation. Peltzman's (1976) more generalized version of Stigler's economic theory of regulation has modified the earlier answers to include the interests of regulators who must balance support from the regulated with votes from consumers who are supposed to benefit from the regulation. And, the same Stiglerian analysis has been further modified by the challenging analytics of Becker (1983, 1985) whose theories encourage caution in accepting extreme versions of the theory of rent-seeking. In brief, Becker suggests (1) that the organized producer interests do not do as well as many of his own colleagues and the Virginians contend, and (2) that the social results are fairly efficient. The "losers" are neither as uninformed nor helpless as the crude capture theory suggested. Losers experience the deadweight costs! In any case, losers can and do act as a constraint on policies successful coalitions pursue, how they are pursued, and with what success. The more debatable issue is whether the ensuing resource allocations are efficient.

With respect to the first issue, few economists, including those at Chicago, have actually investigated comparative interest group redistributive outcomes. Our knowledge of redistribution is in no way the equal of our knowledge of market distributions of income and wealth. Nor do we possess an equivalent, so to speak, of the input/output tables for the polity in which the inputs of interest group resources and demands for transfers are systematically related to redistributive policy outcomes. Construction of such a table would impose fiendishly difficult conceptual and empirical tasks. Chicago's empirical ap-

proach clearly demands work along these lines.

Efforts by Musgrave (1974) and others to measure governmental redistribution seem to pose lesser problems than might be encountered when interest group resources and activities are included. Compounding these obvious obstacles are those involving identification and weighting of group strategies and leadership. What one gets in the political process depends not only on the competitive efforts of other groups, but the policy choices of elective politicians and bureaucrats, decision-makers not included in market models. Despite these methodological problems viewing the polity as a distributive system is not only analytically attractive, but imperative. Whether redistribution is the only function is debatable since even quintessential Chicagoans concede that governments engage in the provision of certain activities and services not readily supplied in optimal amounts if at all by private markets. Still, many will insist that at least some incentives behind the provision of public goods, externality measures, etc., are redistributive.

Perhaps, the single most distinctive feature of Chicago political economy is the abiding concern over regulatory efforts of the government. For more than thirty years the pages of *The Journal of Political Economy* and *Law and Economics* have set forth the empirical findings and explanations of the adoption and workings of policies, both major and minor. The emphasis in all this impressive empirical work has been on the economic causes and perverse economic results of policies, and especially those policies (usually supported by liberal groups) intended to further the general interests of the citizenry and consumers and taxpayers, in particular. The Chicago litany of public failure is now so familiar that a reader is less interested in the overall outcome than simply getting the details of the particular failure. But, if these policies were or are inefficient, why were they ever adopted and once adopted, persist for so long? The classic Chicago answer was direct and simple; such policies came into being because it was to the interest of some group to have such policies enacted and preserved. And, simple majority rules and log-rolling facilitated enactment. Under majority rule they persist because it is too costly to obtain repeal. But, now, Gary Becker and, perhaps, Stigler, inform us that adoption and retention are, themselves, the efficient outcomes of an efficient political process!!

Problems? Limitations? Confusions?

Most political scientists and many public choice analysts will agree that their brethren from Chicago have contributed in significant ways to our understanding of politics or, at least, to our informational levels about policy consequences. But, few would concede that Chicago has much advanced our grasp of the "nature" of politics or the polity and its institutional foundations.

Whether their theories are offshoots of Stigler's research or the analytical exercises of Becker, Peltzman, and Posner there is a curious vacuum that has only now and then been reduced by concentrated thought on filling the empty box of the polity. Much Chicago work is best characterized as an identification of the socio-economic inputs of interests or demands (and the crucial elasticities of demand and supply) into the polity accompanied by rich empirical findings on policy outputs with little on the political "conversion" processes. Among the more tantalizing, but sketchy political theories concerning this conversion process are two early essays by Becker (1958) and Stigler (1972) on the nature of political competition. Stigler, in particular, advanced some insightful ideas on the importance of marginal calculations in dealing with coalitions and electoral strategies. His rejection of the zero-sum model as characteristic of politics was and remains a most useful correction of a notion all too widespread in both economics and political science. The size of majorities is, as Riker (1962) contended, a critical matter, but in ways Riker did not always sufficiently appreciate. Stigler's observation that there are no easy analogies between economics and politics is a point well-taken. Voting behavior, for example, is not simply consumer behavior transferred to the polity. As Brennan and Lomasky (1982) put it: politicians may be "wooing rather than buying votes." In any case, those interested in individual voting behavior will not learn a great deal from the University of Chicago's Economics Department. And what is learned may come as a surprise as in Stigler's (1973) critique of Kramer (1971) where he argued that general economic conditions do not count for much in explaining congressional elections. Nor can one learn much from Chicago about coalitions, bargaining, and conflict.

Although Niskanen (1971) and Peltzman (1976) have deepened our understanding of public bureaucracies and enterprises including their budget requests, price formation, and cross subsidies, there does not seem to be a firm acceptance of the powerful but differential roles played by bureaucrats, politicians, and even voters in deciding public policy (Hirschleifer, 1976). Interest groups are the dominant actors with the officialdom acting as intermediaries, or agents representing groups. Such limited recognition as is conceded is, however, more than that offered by formal social choice theorists, but much less than that accorded by Virginian public choice. What seems needed is some conception in which the officialdom become authoritative suppliers faced with partially conflicting goals; indeed, one might, e.g., consider legislators and party members as paramount interest groups. Robert Tollison and his co-workers have applied and "generalized" the original Stiglerian group ideas by developing just such an approach.¹ Politicians develop barriers to entry and extract rent from the rent-seeking interests by selling their influence thru cartel-like agreements. Politicians are less constrained by public opinion, or their constituents than by the legislative institutions over which they have more control.

And, unlike market competitors legislators wield considerable power in influencing policy outcomes and the "prices" they are to receive for their votes. Indeed, they can effectively threaten groups with costly regulation. Political extortion is always a distinct possibility. Legislators are bound by well-defined constituent interests in but a handful of policy issues; in hundreds of roll calls each session they are free to sell or trade their votes without fear of damage to and retribution from their own constituents. And, free of a budget constraint they are freer still to support spending programs that are of little consequence to most constituents but attract small numbers of highly-motivated voters to form eventual majorities for reelection.

Although the interest group approach practiced at Chicago has considered a number of useful questions in a much more rigorous manner than had, typically, been done by political scientists, unanswered questions remain. For example, while enormous amounts of money are spent by interest groups on politics it is also true that when viewed against what governments can spend and tax as well as regulate and mandate these amounts seem piddling. David Friedman (1986) contends that this discrepancy can be explained in either of two ways: one, that interest groups face the free-rider problem and can raise but limited money for political purposes, or that a recipient interest group will get only a small portion of whatever is spent on its behalf, a point previously made by Becker (1983).

Chicagoans and Virginians agree that rents are dissipated and some competing interests end up with small net gains. Competition in the polity is never equal and some groups do better than others. X-inefficiencies are hardly confined to firms. Differentiated gains are to be expected in the older Chicago theory of Stigler and, doubtless, also in the Becker version. And, there are transitional gains and losses (Tullock, 1975).

On the other hand, the old and the new Chicago thinking differs significantly on whether policies with greater apparent deadweight costs are adopted and remain in force. The older thinking was based on the notion that since costs could be widely diffused and partially concealed less efficient options tended to dominate. Sounding like his colleague Robert Lucas, Becker differs sharply arguing that voters cannot be systematically fooled for any reasonable period. In Becker's words, it is the comparative size of the *deadweight losses* and not the ignorance of voters that determines which forms and amounts of transfers will be adopted by politicians. Here, the elasticities of supply and demand become critical variables in the political calculus of politicians. Thus, we have an explanation of the choice of transfer instruments. From Becker's perspective, the mere survival power of various in-kind transfer programs suggests that, given certain elasticities of market demand and supply, and informational and transactional costs they have proven to be relatively efficient *political* means of redistributing income and wealth. Our blackboard exercises showing the

geometries of social waste must include alternative waste policies showing why politicians opt for the less wasteful options. Becker's conclusions are, then, consistent with Harberger's estimates of monopoly waste but inconsistent with Peltzman's views on the substantial deadweight costs of consumer protection in the drug and auto markets. On the other hand, Buchanan and Tullock's (1974) explanation of the widespread approval of "wasteful" pollution controls by business groups appears consistent with the Becker analysis.

Despite the reassuring fact that rent-seekers generate consumer opposition thru their imposition of welfare losses it remains a fact that such opposition is mitigated by the tendency of rent-seekers to seek accommodation thru lobbying rather than opposition to the rents of others. In short, instead of the auto industry actively opposing steel industry protection the two will "ignore" if not actively support one another's protectionist proposals. The Chicago view does not accord adequate attention to this powerful possibility. So, "life among the triangles and trapezoids" may not only be more peaceful but more wasteful than viewed by Chicagoans. And, as Peltzman shows in the regulation of drugs and autos there may also be far more ignorance and flim-flam in the legislative process than Becker's efficiency-driven models display.

At the heart of Chicagoan political economy is a fundamental perspective on efficiency in the economy and political process. In the older versions it was clear that markets tended to be efficient while politics were not. More recent versions strongly suggest that the polity is also efficient in the sense that if a Pareto superior move were possible it would be enacted; if the Pareto moves favored by economists are not adopted it must be because the inclusion of the costs of information and transactions, etc., make change inadvisable. Within the more recent Chicago neoclassical world to say that something exists is to say efficiency prevails; that which does not prevail cannot be efficient. It is thru reasoning of this sort that Becker concludes that politics and interest groups cannot be all bad. In the language of sociology and political science, both have manifest and, perhaps, latent functions. But, if everything is efficient, how and why does change occur? That is the question. And, neither Lucas nor Becker would seem to have an answer for the market or polity.

In closing

Despite the title to this review I have not systematically related Chicago political economy to public choice as practiced at Fairfax, nor to social choice theory. With respect to the latter one can simply state that Chicagoans have virtually ignored developments in formal social choice. The great problems and paradoxes set forth by Arrow, Black *et al.*, are rarely, if ever, cited in Chicago publications. They would appear to be irrelevant.

Virginia work can hardly be considered irrelevant, but it, too, goes mostly unnoticed. In part, this avoidance is understandable; most Chicago political economy has actually consisted of empirical investigations into the inefficiencies of regulation without a commensurate effort to explain the adoption of inefficient proposals. Aside from Pelzman's notable study (1986) of congressional elections, little sustained effort has been made to model the political process that produces the results. Nevertheless, the implicit analysis re interest groups, unequal and divorced costs and benefits, and, majority rule have been at one with those of Virginia. The recent work of Tollison and colleagues on rent-seeking makes this amply and cogently clear. Except for Becker, the work of Chicagoans and Virginians has been complementary.

Rent-seeking is hardly the core of public choice. Other concerns include the political business cycle, collective demand-revelation, coalition formation, electoral rules and the behavior of politicians and voters, and constitutional issues. Chicagoans, it is fair to say, have shown little interest in these important areas of inquiry. Their concerns have centered instead around the economic consequences of given public policies. This having been the case, it is doubtful that Chicago could have founded public choice and certainly not formal social choice. Nevertheless, the political economy developed in the Windy City has been an ally of public choice, especially, and social choice in but an indirect way.

Note

1. Although the Tollison research program is extensive and the publications too numerous to be herein cited, an excellent summary has been provided by Robert D. Tollison in "Public Choice and Legislation," *Virginia Law Review* 74 (1988): 339-371. Much of this work will be published under the title of *Empirical Public Choice* (Ann Arbor: The University of Michigan Press, 1990).

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