Chapter 13
The Perspective of Economics[1]

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Introduction

I address public choice from the perspective of economics in this essay. The "perspective of economics" is taken to mean the application of the principles of maximizing behavior and demand and supply to institutions and behavior in the political world. I begin with a discussion of this familiar methodology, and then proceed to illustrate how the principles of maximizing behavior and demand and supply can be applied to the various component parts of a representative democracy, including the legislative, executive, and judicial branches, as well as interest groups, bureaucracy, and voters. This will be in no sense a review of the literature. The point is to illustrate how economic principles can be applied to political behavior in each of the above contexts. In each case a single and simple illustration will be given. In such a way, the reader can decide whether the economic perspective really adds anything to the understanding of political behavior over and above alternative analyses. For example, do we learn more about a legislator's behavior with an assumption that he acts in his self-interest or in the "public interest?" Finally, although many of the illustrations are related to U.S. political processes, I endeavor in each case to generalize the discussion to an international setting.

The Perspective of Economics

In the movie, *A Few Good Men*, a Marine officer, who is testifying at a court martial, is asked if a soldier was in danger from his colleagues. He does not answer the question, so the interrogator repeats the question, adding, "in mortal danger?" The officer responds, "Is there any other kind?" This response represents my basic

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approach to the topic of this essay. When given the assignment to discuss the contributions of economics to public choice, my instinct was to echo the answer of the Marine officer, "Is there any other kind?"[2]

Public choice emerged from the maximizing paradigm of modern microeconomics, and it remains to this day within that approach. This tried and tested model colonized the traditional intellectual territory of political science. Even the key political scientists who participated in the public choice revolution, such as Riker (1962), assumed that politicians and their coalitions were maximizing some objective subject to constraints (for example, the pro rata gains to the minimum winning coalition). The simple transfer of the economist's model of individual self-interest to the subject matter of political science was the seed corn of the public choice revolution.

In this essay I discuss the transfer of economic methodology to the theory of public choice, and attempt to assess whether the application of the economist's model of human behavior has been more or less successful. First, I briefly stretch the economist's model, and then I describe what it means to argue that its application to politics has been "successful."

Any conventional textbook on microeconomics lays out the economist's model of individual behavior.[3]

Individuals are assumed to have transitive and stable preferences, which they pursue by making trade-offs among desired goods as a function of their relative costliness. The law of demand, for example, is an empirical proposition about such behavior. In effect, the economic model predicts that individuals will seek to minimize the effect of constraints, such as income and prices, on their behavior. If "price" rises, they economize on the use of the more costly "goods"; if "price" falls, they expand their use of the less expensive "goods." The quotation marks around "price" and "goods" are there to indicate that the economic model is general. The model applies to any context which includes "prices" and "goods", ranging from obvious cases like the price of chocolate to other cases, such as a market for legislation, in which "prices" and "goods" may not be so obvious. Any subject is fair game for the application of the economic model, including the world of politics. The only thing that limits the expansion of the economic approach to other areas is the creativity of the analyst. Economics, of course, may not explain or predict behavior very well in these applications, but there is no subject matter to which economic reasoning cannot be deployed. Arguably, there is nothing in the world that is "non-economic."[4]

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[2] The reader may want to contrast this approach to that given in Cohn (1999), in which political science, specifically Riker's Rochester School of Political Science, is given the credit for the invention of public choice. While I do not quarrel that Riker and his students have been important figures in modern public choice theory, they are most surely not the only ones when one considers such names as Downs, Buchanan, Tullock, Stigler, Niskanen, and others too numerous to mention, all of whom wrote as economists.

[3] See Silberberg (1995) for an excellent discussion.

[4] Politics is not the only area of study that has been colonized by the economic approach. Other areas include the family, crime, religion, and law.

The economic model is a simple model of behavior, but not a simplistic model. Preferences, as noted, are assumed to be given and stable. This places preferences outside the purview of economists. People want what they want; economists cannot say why people like chocolate. Taking preferences as given, the maximizing model is quite general. Sometimes individuals will maximize utility, and sometimes they will maximize wealth (a special case). Individuals are “selfish” only to the extent that they pursue their goals purposively. The goals can be anything the individual chooses, be it piggish wealth accumulation or some notion of a higher life including service to others. The economic model says to the analyst, ‘Give me the constraints or “prices” and I will give you predictions about how individuals will respond’. All behavior is economic; if the “price” of altruism falls, individuals will be more altruistic. Even the altruist will seek to help others in the most effective manner, given the “price” of altruism.

The stability of preferences is an empirical issue. Typically, economic analysis proceeds on the basis that individuals reach “equilibrium” states of behavior. That is, a constraint or price changes, individuals rearrange their behavior so as to minimize the effect of the change on their lives, and then they settle down into a new equilibrium mode of behavior. Obviously, unstable preferences would undermine the explanatory value of the economic model, which is based on tracing the effects of constraint changes in the face of given preferences. This does not mean that preferences never change or evolve, only that they are stable enough for the economic approach to make reliable predictions. In both markets and politics, equilibrium behavior seems pervasive. Consumption decisions are repetitive; political transactions are durable and last for a long time (for example, the Interstate Commerce Commission or Social Security).

How does one evaluate the “success” of the economic model in analyzing politics? The primary criterion is how well the economic model explains or predicts political behavior relative to competing models, say in the sense of a statistical test or an R^2. This criterion cannot always be applied because it is not feasible to test all theories empirically. In some cases we have to use our judgment about what is going on or about what actually “explains” events. Is the pattern of predictions consistent with economizing behavior or with some other model in the absence of a defining empirical test? In the discussion of the success of economic models in this paper, however, I shall primarily adhere to the testability criterion for success; that is, how well have these models fared in empirical tests.[5]

The key point, then, to keep in mind as I proceed is that the economic content of public choice is taken to mean that political actors, like private actors, pursue their ends effectively, but the constraints they face in the process are different. Hence,

[5] It should not go unnoted, however, that the public choice paradigm has had great acceptance in the larger sense of being a useful way to think about politics and political institutions. Political actors are generally seen today as self-interested and not disinterested agents; government is no longer treated as an exogenous, unexamined institution in economic and political models ($\bar{G}$); and public choice analyses permeate the work of modern economics and political science. Public choice is no longer an interloper; it is a paradigm.

political actors (bureaucrats) will behave differently than private actors (corporate executives) for this reason, and not because they are different types of people. My effort in this regard will be to cover selected areas of public choice analysis in order to assess how well the economist's model has performed in explaining political behavior and institutions. I will not try to be copious in the sense of a literature review; I will rather try to be concise in offering an example of how to apply the economic model to selected areas of public choice analysis, beginning with the legislature.

One final proviso is in order. There is no doubt that the economic approach has come under heavy assault in recent times (Thaler, 1992; Green and Shapiro, 1996). For the most part, in my view, economic methodology has withstood these attacks. For every anomaly, there is a rational choice explanation. Nonetheless, this debate will continue in the literature, but in the meantime, this essay will offer an unashamedly thick rationality approach to the subject matter of public choice.[6]

The Legislature

The legislature is the most analyzed institution of representative democracies in modern public choice analysis. From the perspective of economics are the principles of demand and supply relevant to the legislature? To explore this question the labor market for legislator services is analyzed. Specifically, I address the problem of how legislators are paid, using U.S. state legislators as the example to be analyzed. My explanation of legislative pay will seem familiar to economists. Nonetheless, it will contrast markedly with the explanations and approaches to the same problem offered by other observers of such matters. For example, "Most states fail to pay their lawmakers anything approximating a living wage" (Straayer, 1973, p. 3).

In effect, I view legislators as participants in a labor market, and I try to explain differences in the legal (above board) pay of legislators by factors that affect the supply of and demand for their services. The supply of legislative services is analogous to the supply of any service where labor is extensively used in (roughly) fixed proportions to other inputs. The quantity-supplied of legislative services (which I measure in man-years per year) is therefore determined by the relative wage, the price of inputs other than labor, and technology. Each state has a separate supply function, but I do not expect the conditions of supply to vary greatly across states. Potential legislators are never a significant fraction of the available labor in a state, and the occupational composition of legislatures is similar across states. These positions are held primarily by members of professions who can capitalize (through extra-legal pay) readily on certain aspects of being a legislator. Lawyers

[6] Thick nationality is a term used by Green and Shapiro (1996), which means rationality in the sense of wealth maximization rather than the more general case of utility maximization.

often continue to draw a wage from their law firms while serving. Farmers can be legislators where sessions are held between growing seasons. The reasons that banking, insurance, and real estate people gravitate to these offices are not hard to discern.

In each state there is some demand for legislative influence. The demand for legislative influence implies a derived demand for legislators. The technical relationship between influence and legislators is not one of proportionality because an excessive number of legislators would dilute the influence of each and might not be able to pass any laws. I further expect that, given the lack of low-cost substitutes for legislative action within a state, the elasticity of the demand for representation with respect to the legislative wage rate must be close to zero over the relevant range. Across states, in contrast to the relative invariability of supply in this market, I expect that the demand for representation will shift as a function of state income, population, budget size, and so forth.

With this background in mind, note that wage determination takes essentially two forms across states. In some states legislative pay is set in the constitution and is difficult to change. A new wage requires the passage of a constitutional proposal. Such proposals typically emanate from the legislature under relatively strict voting and quorum rules and must be signed by the governor and passed in a statewide referendum. In other states pay is set by a statute passed by both houses of the legislature and signed by the governor. These pay bills are subject to legislative consideration under normal voting and quorum rules and do not require a statewide referendum.

I contend that legislative determination of pay by statute amounts to a strong form of union power. Unions typically achieve higher relative wages by restricting entry. In this case entry is somewhat more loosely controlled through constitutional limitations on the size of the legislature and on the procedures for gaining a seat, and legislators are given a direct hand in wage determination. I would expect to observe the impact of this monopoly power in higher relative wages for legislators in these states.

The conditions in the legislative labor market for a single state are depicted in Fig. 13.1.

Each legislature is treated as a separate labor market. A measure of legislative output (Q_L) in terms of man-years per year is on the horizontal axis, and annual legal pay (W_L) measured as dollars per man-year is on the vertical axis. The competitive supply curve for successful applicants for these seats is given by *S*. This relationship represents the wage that must be forthcoming for a given level of output to persuade prospective legislators to run for and to accept office. Following the previous argument, I draw a completely inelastic demand curve over the relevant range for the services of legislators. In the absence of any contrary evidence I assume that existing wages clear the market for the given constraint on legislative size in both union and nonunion states. That is, there is no excess supply.

In states where the legislative wage is constitutionally determined, some given wage, W_C, will prevail. Candidates will adjust to the given wage, and supply or

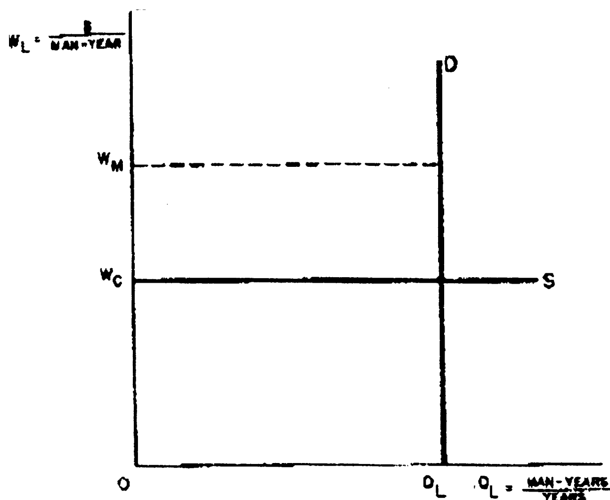

Fig. 13.1 Determination of legislative pay

marginal opportunity costs will shift accordingly as more- or less-qualified individuals seek election, so that the market clears. In states that allow legislative control over pay, the wage is adjusted by legislators to maximize the present value of a seat. This wage is, for the moment, arbitrarily drawn in Fig. 13.1 at WM.

The main issue confronting this theory concerns the forces that constrain legislators from setting an infinite wage in Fig. 13.1. Since I argue that the demand for legislator time is completely inelastic over the relevant range, this pay problem reduces to a question of what limits the wage-setting ability of the legislature under these conditions.

Basically, the present value of a seat will be inversely related to the wage rate after some point, because higher wages will attract new entrants and alienate voters, both of which dampen reelection prospects and offset the effect of increasing the wage on the present value of seats. Incumbents must thus trade off union wage gains and other benefits from being in office against the extra costs associated with increased competition to retain seats. There is thus a determinate upper bound on the monopoly wage in the problem.

As a result of monopoly power in this labor market, then, wages in states where legislators can set their own wage will be higher on average (WM) relative to states where the wage is set in the constitution (WC). The legislative union predictably will have a substantial impact on relative wages because the demand for legislator services will be quite inelastic, as suggested earlier. This condition follows from the rules of derived demand in two related senses. First, there is only one legislature per state, so there is not a nonunion sector from which to buy output. Second, there are in general poor substitutes for the services of legislators (for example, legal versus private cartels).

This model of legislator pay offers a robust explanation of state legislator pay in the United States. In fact, the amount of relative wage-setting power ceded to the set-your-own-pay legislatures is higher than for any known labor union (300 to 400%).[7] It should therefore be clear that the principles of supply and demand can be readily adapted to the public choice context of the legislature. At the core of the legislative process are markets and allocation mechanisms familiar to modern economics and a great distance removed from the view that legislators are under-compensated.[8]

Moreover, this lesson applies with appropriate modifications to the legislatures of other countries. Stigler (1976), for example, discusses the determinants of legislative size across countries, and finds that such factors as population provide a common explanation for legislative size in different national legislatures. And the work of Marvel (1977) on the British Factory Acts clearly puts the British Parliament into an interest-group context as early as the 1830s. So too does Weck-Hanneman's (1990) work on direct democracy in Switzerland suggest that using the voters as the legislature is no insurance against protectionist outcomes. Public choice analysis of the legislature and related institutions is not confined to the United States.

The Judiciary

No other institution of democratic government is more insulated from the political process than the judiciary. In the American political system, constitutional rules provide the courts with a high degree of independence from the other branches of government. At the federal level, for example, judges are granted life tenure; their nominal salaries cannot be reduced; and they can be removed only by means of impeachment for high crimes and misdemeanors. While most state judges typically serve more limited terms, their offices are generally much more secure than those of their counterparts in the legislative and executive branches. Judicial independence limits the ability of these other branches of government to sway courts' decisions, and because judges face heavy sanctions in cases of detected corruption, they are arguably unlikely to be influenced by the economic interests of the parties before them. In short, the standard view is that the judiciary is—and, indeed, should be—above the fray of interest-group politics.

Given their effective independence from ordinary political pressures, what motivates judges to behave in any particular way? There are three major hypotheses regarding the nature and consequences of judicial independence. One view holds

[7] See McCormick and Tollison (1978, 1981) for empirical results.

[8] There are related issues here concerning the potential for extra-legal (below board) compensation to legislators, which are linked to the legislator's occupation. Lawyers, for example, are more effective at combining legislative service with making money on the side, so that there will predictably be more lawyers in low-legal-pay legislatures. Again, see McCormick and Tollison (1981).

that an independent judiciary operates as a necessary counterweight to the legislative and executive branches. The judiciary acts to protect society from unconstitutional encroachments by the other government branches, and judges are therefore motivated by their concern for the public's interest. A second view regards the independent judiciary as an agent not of the general public's interest, but of the interests of groups that otherwise are unrepresented (or under-represented in other political forums). Whereas the legislature faithfully responds to the wishes of the majority, judges interpose their wills to protect the interests of politically vulnerable minorities. Finally, the independent judiciary may actually be something of a loose cannon. Posner (1986), for example, argues that because judges are insulated from interest-group politics and receive no monetary payoffs from deciding a case in a particular manner, the economic self-interest of judges cannot explain judicial decision making. He suggests instead that judges seek to maximize their own utility by imposing their personal preferences and values on society.

In an important contribution to public choice theory, Landes and Posner (1975) contend that these popular models of the functioning of the independent judiciary are ad hoc and unconvincing. They propose an alternative economic theory in which the courts increase the durability of wealth transfers purchased from the legislature by interest groups. By reason of its effective independence from the sitting legislature and practice of interpreting laws on the basis of original legislative intent, the judiciary confers on legislation something of the character of a binding long-term contract. By construing statutes in this manner, the judiciary increases the durability of legislative contracts and, hence, raises the price interest groups are willing to pay for wealth transfers in their own favor.

In the interest-group theory of government, legislatures are modeled as firms that supply wealth transfers in the form of special-interest legislation. Legislatures assign property rights in wealth transfers to the highest bidder by means of legislative contracts, i.e., statutes. Domestic producers purchase tariff and non-tariff barriers to protect them from import competition, farmers purchase production-restricting marketing orders and price subsidies to increase their incomes at consumers' expense, and so on.

But while there are many similarities between legislative markets and ordinary markets in this regard, the two differ in at least one important respect: the mechanisms available for enforcing contracts once they have been negotiated. There are basically two contract-enforcing mechanisms in private markets. One is enforcement by a third party. In this case the contracting parties agree to rely on an independent arbitrator or the courts to resolve disputes and sanction noncompliance. Alternatively, when explicit agreements are absent or incomplete by reason of being costly to negotiate, self-enforcing mechanisms help maintain a contractual relationship. Each party relies upon the threat of withdrawal of future business to provide assurance that implicit agreements will be honored (Klein and Leffler, 1981).

In political markets, however, the legislature can, in principle, break its legislative contracts at any time, and leave any "injured" party with no immediate avenue of redress. An interest group cannot bring suit against the legislature for modifying

or repealing an existing legislative contract simply because of shifts in the political winds. Landes and Posner (1975, p. 879) provide an example in which the dairy industry buys a tax on the sale of margarine in one session of Congress, but the margarine producers buy the removal of the tax in the next session.

This example illustrates the dynamic insight that contract negotiations between legislatures and interest groups will be thwarted if political fortunes are easily reversed. Uncertainty with respect to the length of time over which an interest group can expect to collect the benefits it has purchased will tend to lower the present value of the transfer, and therefore reduce the price it is willing to pay. Given that individual legislators face a limited time horizon owing to frequent electoral challenges, resulting in unpredictable shifts in the composition of the legislature, markets for legislative wealth transfers would not function very efficiently in the absence of institutional constraints capable of mitigating this source of contractual instability.[9] Interest groups are not likely to expend time and treasure to secure the passage of legislation if, once enacted, it tends to be easily amended or repealed. It should therefore not be surprising that wealth-maximizing legislatures have adopted various measures designed to enhance the stability of legislative contracts and thereby increase the demand prices for legislative output.

Landes and Posner divide these institutional arrangements into two categories. The first is composed of the constitutive rules of the legislature itself. Procedural norms on such matters as bill introductions, committee hearings, floor action, and filibusters serve to increase the continuity, regularity, and stability of the legislature's operations. By making it more difficult to enact legislation in the first place, such measures also make it more difficult to amend or repeal existing laws.

The existence of an independent judiciary also enhances the durability of legislative contracts. Legislation is not self-enforcing; recourse to the courts is necessary to give effect to often vague or ambiguous statutory language. If judges act at the behest of the sitting legislature in interpreting previously enacted legislation, decide cases with an eye toward protecting otherwise under-represented groups, or simply indulge their own personal preferences, they might refuse to enforce the bargained-for statute. Such behavior would render earlier contracts null and void.

In contrast, if independence means that judges can be relied upon to interpret and enforce legislation in accord with the original legislative intent, judges will tend to protect the integrity of the legislature's contracts with interest groups. By providing such durability, the courts enhance the value of present and future redistributive legislation and facilitate the operation of the market for wealth transfers. On the other hand, if the legislative marketplace more closely resembles a Hobbesian jungle, such legislative contracts will be worth little, and governmental wealth transfer activity will greatly diminish.

[9] In the limit such wealth transfers would tend toward zero.

In the Landes–Posner model, the judiciary is part of the institutional structure that induces equilibrium in the market for wealth transfers. By virtue of its independence, and by interpreting legislation on the basis of original intent (i.e., a reversion point), the judiciary functions to limit cycling in majority rule decisions. This judicial function tends to increase the present value of legislative wealth transfers to special interest groups. As Landes and Posner explain, however, the value of the courts to the legislature in this regard and, not coincidentally, the ability of the judiciary to maintain its independence, depend on how well the courts play their assigned role.

What motivates judges to behave in the ways predicted by the Landes–Posner model? Landes and Posner provide a theoretical reason why legislatures might benefit from the existence of an independent judiciary, but not why judges themselves would benefit from enforcing legislative contracts with interest groups in the face of political pressure. Legislative procedural rules may make it costly for margarine producers to buy the repeal of a tax enacted at the dairy industry's behest, but what prevents the courts from declaring the tax unconstitutional? Subsequent empirical tests of the Landes–Posner model have furnished two possible answers to these questions. One is that judges are rewarded for behaving independently. The other is that alternative contract-enforcement mechanisms exist that tend to be relied on more heavily in jurisdictions where the judiciary is less independent. An independent judiciary is only one of several institutions of democratic government that play complementary roles in promoting the durability of legislative wealth transfers.

First, in a direct test of the Landes–Posner model, Anderson et al. (1989) examined the relationship between the annual salaries of judges serving on state courts of last resort, measures of their opportunity costs for serving on the court, prospective workloads, measures of judicial independence, and the courts' propensities to overturn legislation on due process grounds. The goal was to determine whether judges are in fact rewarded by legislatures (in the form of higher pay or budgets) for behaving independently in the Landes–Posner sense. In sum, the evidence from due process challenges to legislative acts suggests that "self-interested judges can be shown to behave in manner consistent with the functioning of efficient markets for coercive wealth transfers for the same reasons that other participants in those markets participate—wealth maximization" (Anderson et al., 1989, p. 3).

Second, in any principal–agent relationship the optimal amount of judicial discretion depends on the configuration of the costs and benefits of delegating decision-making authority to that branch. Some judicial independence is beneficial to the sitting legislature (i.e., judges enforcing contracts with respect to their original meanings), but too much independence (judges indulging their own personal preferences) may inhibit the well-ordered functioning of the market for wealth transfers. These observations suggest the existence of an optimal amount of judicial independence and, hence, an optimal mix of institutional constraints for promoting the durability of contracts with interest groups in particular circumstances.

Constitutional provisions, or what Landes and Posner term "legislation of a higher order", represent an alternative institution in the interplay between the legislative and judicial branches. Such provisions are worth more than ordinary legislation to interest groups because they are more durable. They are also more costly to obtain in the first place. Whereas the enactment of ordinary laws typically falls under the normal majority voting rules of the legislature, constitutional amendments are subject to stricter procedures, typically requiring approval by legislative super-majorities and subsequent ratification by popular vote.

Whether an interest group will pursue the more costly route of constitutional amendment to secure a wealth transfer in its own favor consequently depends on the expected durability of wealth transfers secured through the normal legislative processes. Crain and Tollison (1979) used data from U.S. states to test the Landes–Posner model in this context. The model assumed that because interest groups could depend on the courts to enforce legislative contracts in jurisdictions where judicial independence is high in the Landes–Posner sense, they would rationally tend to rely more on normal legislative processes in those jurisdictions. On the other hand, constitutional amendment would be worth more to interest groups in states with less independent judges. At the margin, interest groups will demand ordinary legislation or extraordinary constitutional change to the degree of a state's particular judicial independence. The results of this empirical model support the predicted trade-off of the Landes–Posner theory. The frequency of constitutional amendment tends to be higher in states with lower judicial independence, other things being equal.

Other institutions of democratic government also appear to substitute for judicial independence in ways predicted by Landes and Posner. For example, as legislator tenure and the size of the voting bloc controlled by the legislature's majority party increase, the value of an independent judiciary declines because legislators will be less likely to renege on the bargains they strike with interest groups. Reputations for honoring commitments are as valuable to politicians and political parties as they are to suppliers of more ordinary goods and services. Evidence from the states adduced by Crain et al. (1988) suggests that the sizes of legislative majorities trade off with measures of judicial independence in ways consistent with the functioning of a well-ordered market for wealth transfers.

Two final points about the public choice analysis of the judiciary should be noted. The empirical evidence supporting the Landes and Posner theory is scanty at best, especially the evidence presented by the authors themselves. Other work, as cited above, has proved more supportive, but, still, the empirical evidence is weak. Moreover, when one moves to the international arena, it is clear that the separation of powers is important. Rowley (2000), for example, details differences between the United States and England, in which this point is highlighted with respect to the budgetary process. It is also apparent that the type of legal system (civil vs. common law) plays an important role in economic growth and development, with common law being the growth-friendly legal system (Wessel, 2001). For international comparisons, these important points must be kept in mind.

The Executive

Previous work on the U.S. presidency has examined the president's formal and informal powers. Neustadt (1960) focused on the president's informal power and his ability to persuade or bargain with Congress in an institutional setting which places the two branches in conflict. The formal powers of the president (vetoes and appointments) have been examined using the structurally induced-equilibrium (SIE) models introduced by Shepsle and Weingast (1981).

Although economists and political scientists have derived equilibrium results from the bargaining game, and SIE models by including a presidential preference set, the content of this preference set has remained a black box. Since these models do not specify the policies preferred by the president, few predictions can be made about the bills the president will veto, the budget he will propose, the people he will appoint, or the regulations he will promulgate and enforce.

The few works that have advanced positive theories of presidential behavior make the essential point that the U.S. President is not a popular vote maximizer but an electoral college vote maximizer. Wright (1974), in an important early paper, showed that New Deal spending in the 1930s could be explained as a function of a measure of electoral votes across states. Anderson and Tollison (1991a) found this same result while controlling for measures of congressional influence. Grier et al. (1995) argued that winner-take-all voting in states and the unequal distribution of electoral votes across states in presidential elections make incumbent presidents rationally place more weight on the preferences of voters in closely contested, larger states when making policy decisions. They tested this hypothesis by examining whether presidential veto decisions are influenced by the floor votes of senators from these electorally crucial states. In a pooled sample of 325 individual bills from 1970 through 1988, they found significant evidence of this behavior by incumbent presidents; that is, the more senators from electorally important states oppose a bill, the more likely the president is to veto it, even when controlling for a wide variety of conditioning variables, including the overall vote on the bill.

Several basic points should be kept in mind here. First, the behavior of the executive branch of government is among the least studied parts of modern public choice analysis. This literature is in its infancy. Second, more so than other areas, this literature is tied exclusively to U.S. political institutions, namely, the Electoral College system of electing presidents. Third, the literature is rife with measurement issues. Some authors use electoral votes per capita, some use raw electoral votes (a proxy for population), and some use closeness-weighted electoral votes (either per capita or raw).

Nonetheless, in keeping with the central point of this essay, presidential behavior in this approach is modeled as maximizing electoral votes subject to constraints. Essentially, the president is analyzed as a careful shopper for electoral votes in his effort to be elected or reelected. States in which the incumbent president or candidate expects to win or lose by a wide margin can safely be ignored in this process. States that are predicted to be close will be the recipients of presidential

largesse and visits. The constraints on this activity include time, campaign resources, congressional influences over federal pork, and so on.[10] Such a model has thus far provided a strong predictive theory of presidential behavior in a variety of areas. It also represents a core example of how simple economic theory can add to our understanding of political behavior.

The basic operation of the theory is simple. In the United States, presidents are not elected by the popular vote but by an Electoral College. Each state has a number of electoral votes equal to its number of representatives and senators. A simple majority of the popular vote in a state usually suffices to win all its electoral votes. The winner of the majority of electoral votes (270) is elected president, a fact which raises the odd, but thankfully rare, prospect that a candidate could lose the overall popular vote and still be elected president (Gore vs. Bush, 2000).

An economic model of presidential behavior and presidential candidate behavior maps into this situation easily. When faced with a choice among states with respect, for example, to new funding initiatives, the president will estimate the possibility that he will win the state times the number of electoral votes. States with higher expected values will receive the funding, following an equi-marginal rule of funding allocation. States that are not expected to be close (win or lose) or small states are left out in the cold in this calculation.[11] All forms of presidential behavior, and not simply funding, can be analyzed with this model. The relevant constraints on the president are the obvious ones—time and money.

This approach has been successfully employed, as noted above, to explain the allocation of New Deal spending across states, presidential vetoes, campaign stops by presidential candidates (Brams and Davis, 1974; Colatoni et al., 1975), and still other aspects of presidential decision making (Anderson and Tollison, 1991a, b). Though still in its infancy, this approach, at least for the United States, has the potential to fill in the black box of presidential preferences and to offer a positive economic explanation of presidential behavior. It also clearly finds its roots in the basic economic methodology of maximizing expected value subject to constraints.

The chief executive outside of the U.S. setting, especially in parliamentary democracies, is coincidential with the leader of his party in the legislature. In this context parties represent coalitions of interests that are not necessarily driven by the same type of geographic imperatives as in the United States. There is also the problem of forming coalitions in the parliament in order to fashion a governing majority. Rowley (2000) provides a clear discussion, for example, of how the office of prime minister functions in England. Again, however, these chief executives are vote-maximizers, only in a more complex and less geographically oriented system

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[10] Even if the candidate is a lame duck and cannot run for reelection, the party has strong incentives to control shirking so that the lame duck behaves as if he were actually running for reelection.

[11] Note that closeness is more than just a previous victory margin in a state. Volatility of the vote also matters. A state with a previous victory margin of seven points and a standard deviation of 2% is safer than a state with a previous victory margin of 12 points and a standard deviation of 5%.

than the United States. Moe and Caldwell (1994) outline the relevant public choice consequences of the presidential and parliamentary systems.

Interest Groups

The economic analysis of an interest-group economy is relatively straightforward, and can be stated in more or less conventional demand and supply terms (McCormick and Tollison, 1981). The demand for transfers is based upon the organizational costs facing potential interest groups. Net demanders of transfers will be those groups that can organize for collective action in a cost-effective fashion. In other words, net demanders will be those groups that can organize to lobby for $1 for less than $1. Net "suppliers" are simply the inverse of the demand function for transfers, namely, those for whom it would cost more than $1 to organize to resist losing $1 in the political process. "Suppliers" is in quotation marks because individuals clearly would not engage in such a "transaction" voluntarily without being coerced by the state.

The equilibrium amount of transfers is determined by the intersection of the demand and "supply" curves, and this equilibrium is facilitated by the actions of the agents of the political process, such as elected officials. The incentives of these agents are to seek out "efficient" transfers by targeting "suppliers", who will generally be unorganized with low per-capita losses from transfers and regulation (why spend $1 to save $0.10?), and by targeting demanders who will be well organized and active in the political process. If political agents miscalculate and transfer too much or too little wealth, the political process will discipline them, for example, through elections.

There are various testable implications of this framework, which boil down to predictions about the costs and benefits of lobbying. When the benefits of lobbying are higher and the costs lower, there will be more transfers and more lobbying (and lobbyists). Cross-sectional empirical research based on data from the American states (McCormick and Tollison, 1981; Shughart and Tollison, 1985; Crain and Tollison, 1991) and on the Organization of Economic Cooperation and Development (OECD) countries (Mueller and Murrell, 1986) have illustrated many such results. For example, larger legislatures have been shown to be more costly environments in which to lobby, as well as bicameral legislatures with more disparate house and senate sizes (McCormick and Tollison, 1981).

Bureaucracy

Bureaucracy, in a sense, constitutes a fourth branch of government. The public choice approach to bureaucratic behavior has evolved over time, dating from Niskanen's (1971) seminal work on the subject. In *Bureaucracy and Representative Government*, Niskanen argued that because of its superior information, a bureau had greater bargaining power with regard to its budget than did the bureau's

oversight committee. Thus, the economic content in this approach is that the bureau maximizes its budget subject to all-or-none demand curve for its output, and this budget tends to be about twice as large as it "ought" to be (under the assumption of linearity). Much of the subsequent work on the economic theory of bureaucracy has been in this tradition. Wintrobe (1997) offers a masterful summary of these developments.[12]

It is worth noting, however, that different bureaus may reflect differing circumstances. For example, Niskanen wrote on the basis of his experience in the U.S. Department of Defense. He also later moved away from the budget-maximizing model and allowed the possibility that bureaus may pursue the maximization of the discretionary budget, in which case excessive bureau outputs disappear (Niskanen, 1975). Nonetheless, Weingast and Moran (1985) offered an alternative to Niskanen's theory, which predicts that the oversight committee (the principal) has most of the relevant bargaining power, including the ability to remove or to hamper the career of the bureau head (the agent). They tested this theory successfully with data concerning the Federal Trade Commission (FTC).

The issue raised in this debate is an important one. Are government bureaus out of control and bloated in size or are they merely docile agents following the commands of voters as expressed through their elected representatives on the relevant committees? The Weingast and Moran approach suggests that political incentives should be compatible between the legislature and the bureaucrat. The legislator observes a particular political trade-off in the election. Imposing that trade-off on his bureaucratic agent is in the legislator's self-interest. That is, the bureaucrat's role is to transfer wealth or to implement legislation and policy in the direction of the legislator's preferred trade-off. In this approach, bureaucracy is not out of control but is closely monitored and controlled by Congress. Bureaucrats who cannot be made to behave in accordance with the legislature's wishes are moved out of power.

The agent-principal problem is an economic problem. The principal is a residual claimant who holds an "ownership" right in the activities that his agent performs. The problem of the principal is to devise contractual and monitoring arrangements so that his interest is reflected in the labors of the agent. This stylized economic setting has stimulated a great deal of economic research and interest among economists because it obviously applies to many activities in an economy, such as the corporation, the labor union, the not-for-profit firm, and so on.

The agency problem has also had an impact on the economic theory of regulation and legislation. The issue can be explained as follows. A bureau head, say a regulatory bureau head, is the agent. Members of Congress serving on an oversight committee are the principals. The members of Congress evaluate and set political trade-offs by reading their election returns. The issue is how effective the

[12] Niskanen's heavy use of conventional price theory in presenting his theory of bureaucracy should be noted here.

politicians are in seeing to it that the bureaus under their jurisdiction make the appropriate political trade-offs and transfers.

As suggested above, the answer, in an emerging literature pioneered by Weingast and Moran (1983), appears to be that bureaus are quite attuned to the preferences of their overseers. Weingast has studied the FTC and the Securities and Exchange Commission (SEC), and in both cases he found strong support for such a hypothesis. Contrary to the common impression, then, government agencies do not appear to have a lot of discretion or to be out of the control of the voters through their elected representatives. They appear to heed the electoral trade-offs perceived by their political overseers when it comes to supplying wealth transfers and public policies.

These same principles of bureaucratic behavior also apply across countries in an international context. Wintrobe (1997) makes this clear in his survey article. Nonetheless, "international organizations" per se may represent a particularly nettlesome case of agencies "out of control" (Frey and Gygi, 1990). The moral of such analyses is simply that the relevant controls on the behavior of international bureaucrats are much laxer than those on their domestic counterparts. Hence, their carpets are thicker, and their lunches are longer and more expensive.

What is at stake here for students of regulation and government is to pierce the black box of bureaucracy and understand its inner workings better. How does one explain the process of economic regulation and, more generally, bureaucratic performance? The agent—principal framework offers a sensible route by which to develop a better understanding of such issues. Moreover, the agent—principal framework represents modern economic theory at work in public choice analysis. Subject to the costs of monitoring bureaucratic behavior, legislators are able to influence the goals and purposes of public policies in directions that maximize their reelection prospects.

Voters

So far, it is clear that the major components of democratic government can be fruitfully approached using economic methods. It is tempting to stop here and rest my case. However, voters represent a basic unit of public choice analysis because voters are the ones who convey the property rights to the rational agents in the foregoing analysis that empower these actors to run the government. Unfortunately, the behavior of voters in public choice analysis has been characterized as being only loosely related to the operation of thick rationality. Fortunately, there is a fairly easy resolution for this problem.

Public choice analysts customarily discuss voting behavior in terms of the paradox of voting; that is, on straight economic grounds (a comparison of the personal costs and benefits of voting) voting is not worthwhile yet turnouts in most elections are nontrivial. Hence, voting behavior is rationalized as consumption-type rather than investment-type behavior. People vote, for example, to express their patriotic duty rather than to express their self-interest in legislation. In contrast with other

parts of public choice theory in which behavior is modeled with maximizing, self-interested agents at the helm, the economic role of voters is comparatively unarticulated in the conventional version of public choice theory. In the standard approach, voters maximize utility rather than narrow economic self-interest, so that their behavior in the ballot box is less predictable. Needless to say, this is a weakness of public choice theory, wherein rational economic agents are assumed to gain their property rights to run the government from unpredictable voters. There are two basic routes out of this problem.

First, Stigler (1972), in particular, has questioned the consumption approach to understanding voter behavior. He argued that in politics a little more or a little less plurality matters. In this world, votes will matter to politicians and parties at the margin, and they will invest rationally in a supply of votes in order to have an impact on political and legislative outcomes. In such an instance, the paradox of voting is a moot issue. Interest groups will invest in a supply of votes for politicians in exchange for a higher probability of seeing a favorite bill passed. Such investments will be made on cost—benefit grounds—e.g., if it takes 1% more plurality to ensure the power to put a bill through, the interest group will compare the costs of turning out voters in this amount with the benefits of the legislation. In such a way voting behavior can be incorporated into the economic theory of government. In other words, the management of votes supplied by interest groups provides an alternative way to view the voting process, a way that is consistent with the general drift of the economic theory of legislation.

Second, the Stigler approach has not had much impact on the literature. Rather, an alternative argument is made. Although the investment motive is weak, this does not challenge the rational choice model. Voters are rationally ignorant after all, which opens up opportunities for interest groups. In other words, the standard concentrated benefits/diffused costs model of interest-group legislation rests on the rational ignorance and abstention of voters. Otherwise, such legislation would not be possible. In this more plausible approach to voting behavior, the rational choice model is seen to be consistent with and strongly complementary to the interest-group theory of government. Moreover, this latter theory of voter behavior applies across countries, so that there is no difficulty in generalizing this aspect of public choice analysis to an international context.

Conclusion

It is thus fairly easy to see how economic methodology permeates the modern theory of public choice. In each case examined above, the use of economic methods leads to a general result; that is, it leads to an organizing principle that offers an explanation for the behavior of a particular set of governmental actors. Moreover, in each case there is empirical support for the economic approach as outlined.

Obviously, I have only touched upon modern public choice analysis lightly. My examples are meant to be explanatory and illustrative and not at all comprehensive in covering modern public choice analysis. Needless to say, other scholars work in

other public choice traditions, and the purpose here is not to slight these traditions. Modern public choice analysis has a unified methodology regardless of whether the analyst adheres to an interest-group approach to explaining government (as I do) or to some other approach. This methodology finds its origin and home in the maximizing paradigm of modern economics. Public choice analysis descended from economic analysis, so that when asked about the influence of economics on public choice, I find it reasonable to answer, is there any other kind?

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