

SOURCES OF GOVERNMENTAL FAILURE AND IMPERFECT INFORMATION AS POLITICAL FAILURE

Prof. Dr. Coskun Can Aktan
Dokuz Eylul University
Faculty of Economics and Management
Dokuzcesmeler, Buca
Izmir, TURKEY
ccan.aktan@deu.edu.tr

ABSTRACT

Besides market failure, there is such a thing as governmental failure. Government enacted policies may produce inefficient and/or inequitable consequences. Public choice economists argue that the fact that the market is inefficient does not imply that government will do any better. There are several sources of governmental failure, which has been investigated in the literature. Rational voter ignorance, rational voter irrelevance, shortsightedness effect, rent seeking are some of the examples for governmental failure. This paper aims to summarize the sources of governmental failure in general and then focus on imperfect information specifically.

Keywords: public choice, governmental failure, rational voter ignorance, rational voter irrelevance, shortsightedness effect, political myopia.

JEL Classification: D7, D8

“Born as I was the citizen of a free state and a member of its sovereign body, the very right to vote imposes on me the duty to instruct myself in public affairs, however little influence my

voice may have in them."

Jean-Jacques Rousseau

I. INTRODUCTION

One of the most important contributions of the Public Choice Theory to the economics is that it developed a "*Theory of Governmental Failure*" as opposed to a "*Theory of Market Failure*" developed within Theoretical Welfare Economics. It has been argued that market failure, due to external economies, public goods, scale of economies and natural monopolies etc. necessitates government interference with the economy. For many years, some economists have advocated government intervention to correct market failures.

However, it is only in last two or three decades that public choice economists have argued that there is also such a thing as "government failure." By this they argue that government enacted policies produce inefficient and/or inequitable consequences as a result of the traditional behavior of participants in the political process. Public choice economists argued that the fact that the market is inefficient does not imply that government will do any better. (Browning-Browning, 1983; 74-76).

II. THE SOURCES OF GOVERNMENTAL FAILURE

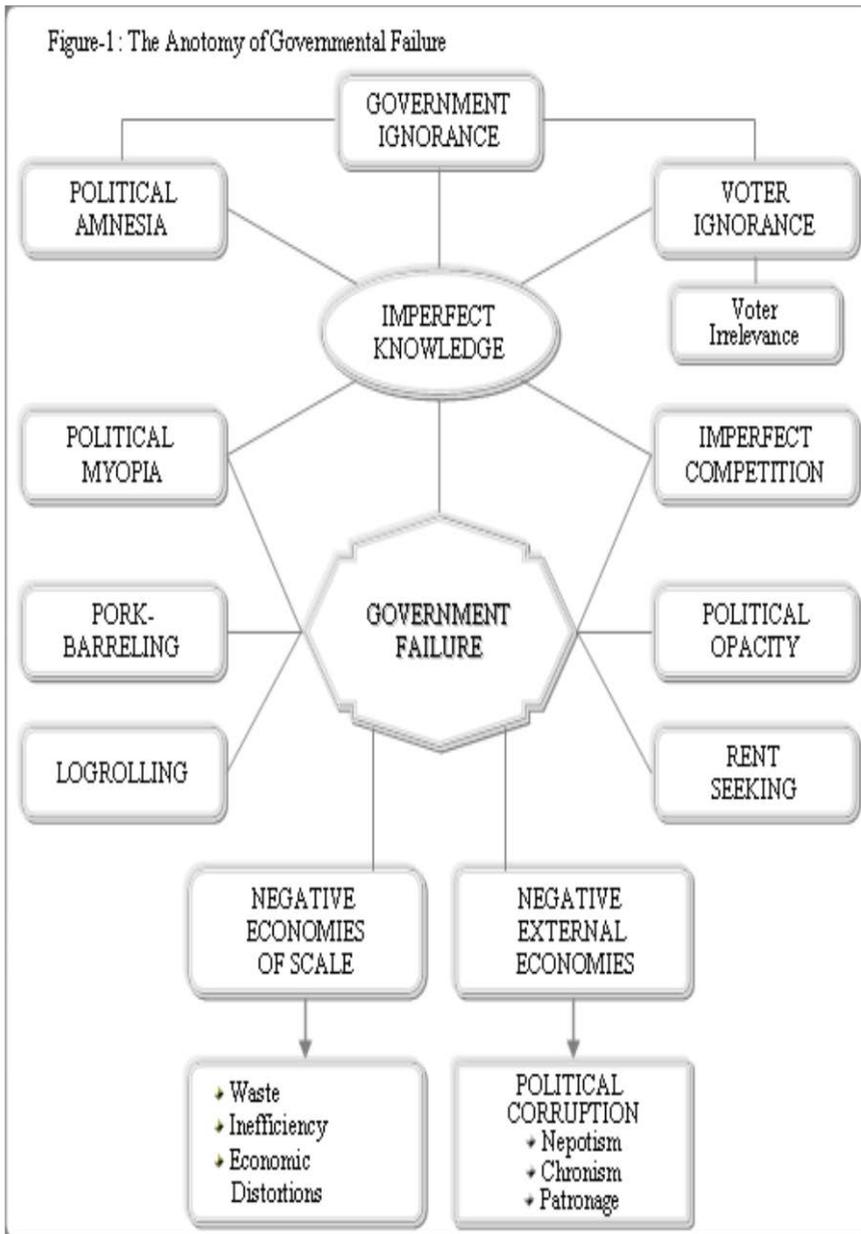
There are several sources of governmental failure, which has been investigated in the literature (Buchanan, 1983, Gwartney and Stroup, 1979; 729-46, Wolf, 1979, Rowley, 1978., Peacock, 1980, Downs, 1960.) (See, Figure-1.) These are;

- Rational Voter Ignorance,
- Rational Voter Irrelevance (Rational Abstention),
- Rent Seeking,
- Logrolling,
- Pork-barreling,
- Short-sightedness Effect (political myopia),
- Imprecise Reflection of Consumer Preferences,

- And other inefficiencies and deficiencies in the public sector.

Let us give a quick summary of these concepts. I will leave the concept of ignorance at last.

Figure-1: The Anatomy of Governmental Failure



Source: The figure is developed by the author.

Rent Seeking. Government interferences to the economy creates artificial rents and individuals and groups compete for capturing it. The efforts of special interest groups for rent seeking activities distorts the ideal economic efficiency in the public sector. Interest groups seek wealth transfers from government. Successful interest groups win transfers at the expense of general economic efficiency.

Logrolling and pork-barreling. Logrolling is a term used to describe "vote trading" in the politics. In the political decision making process, representatives support those projects whose benefits spread over his/her own elected region. That is, local interest sometimes may overcome national interests. When the representatives of different regions trade their support for each other's projects, they may impose a cost on the national economy. On the other hand, ministers and some powerful representatives of ruling parties are usually successful in shifting an important portion of the budget to their own constituency regions. This is called "pork-barreling" and obviously distorts the distributional efficiency.

Shortsightedness Effect. It is another potential source of governmental failure. Politicians tend to implement policies whose benefits are largely current, and the costs are difficult to identify by voters and are incurred in the future. Not only politicians but also voters are shortsighted when they choose or when they make decisions.

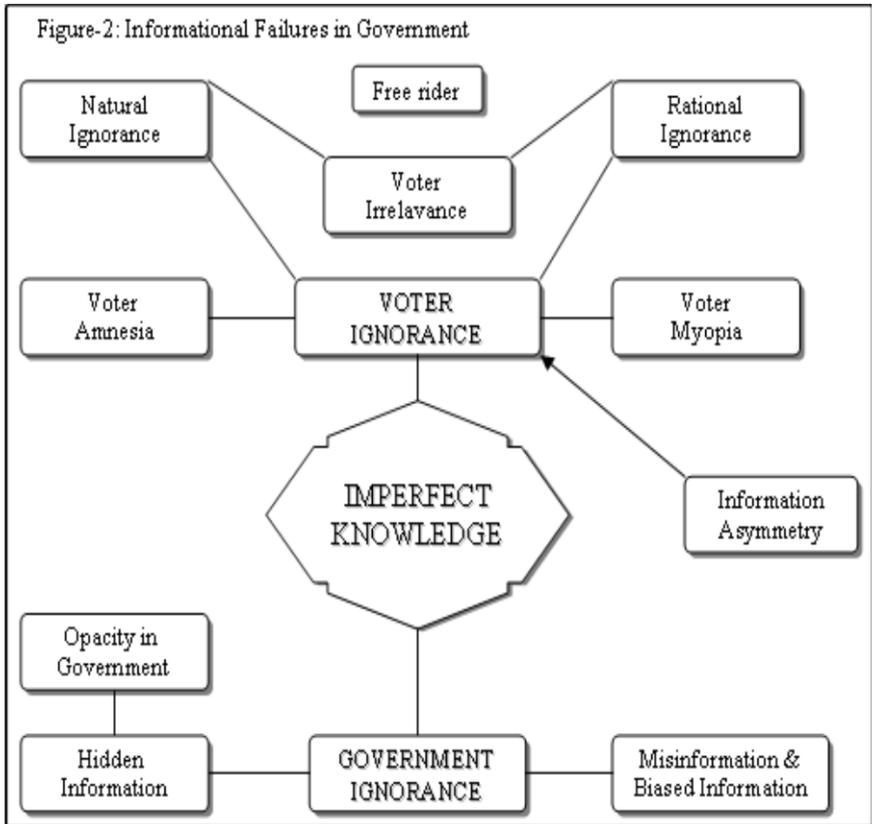
Voter Amnesia. Voters in general have short memories as far as political events are concerned. The government is judged at election times (which lie several years apart) only by achievements shortly before the election. (Hanusch: 1983, 9.)

Now, let us explore the concepts of rational voter irrelevance and ignorance as a governmental failure.

Rational Voter Irrelavence. Individuals may not be interested in going to the ballot box because they know that they will get public goods and services even though they do not reveal their preferences by voting. In other words, they act as "free riders". A particular free rider problem occurs regarding the provision of pure public goods and services. Once a pure public good or collective consumption good is produced, it is equally available to all consumers. Since there is no incentive for voters to express their true preferences for the provision of these goods and services, voters are reluctant to reveal their true preferences.

Consequently, decision making in the political market is not optimal due to voter irrelevance and abstention.

I have just summarized some of the deficiencies at the political decision making process. Now let me turn on ignorance as a political failure.(See, Figure-2.)



Source: The figure is developed by the author.

II.IMPERFECT INFORMATION AS POLITICAL FAILURE

Imperfect information would result in failure in both market and government. Ignorance and incomplete search are kinds of imperfect information.

What is ignorance? Two types of ignorance are known: natural ignorance and rational ignorance.

Natural ignorance occurs when an individual is totally uninformed about some facts. Individuals are born in a naturally ignorant state into the world and they acquire knowledge through time. Rational ignorance is not the same as natural ignorance. It means that one intentionally refrains from obtaining or gathering information. In other words, an individual chooses to remain ignorant about some facts.

Anthony Downs, in his well-known book *An Economic Theory of Democracy* published in 1957 first introduced a theory of imperfect knowledge and rational ignorance to explain why voters know so little about seemingly important issues.

According to Downs, “*imperfect knowledge means (1) that parties do not always know exactly what citizens want; (2) that citizens do not know what the government or its opposition has done, is doing and should be doing to serve their interests; and (3) that the information needed to overcome both types of ignorance is costly.*” (Downs, 1957)

Downs explains that imperfect knowledge or ignorance are two-sided in politics. Not only voters but also government itself is ignorant.

According to the Downs, ignorance of politics is not a result of unpatriotic apathy; rather it is a highly rational response to the facts of political life. Rational economic agents pursue knowledge only if they expect the benefits to exceed the costs.

In brief, the lack of knowledge needed to make an informed voting decision due to a person's low gain from voting is called *rational ignorance*. Voters in a democracy remain partly ignorant of candidates and of their positions on issues because the personal costs of acquiring additional information is greater than the personal benefits (Gunning, 2002.)

Downs explains the rational ignorance by the following axiom:

“It is always rational to perform any act if its marginal return is larger than its marginal cost. The marginal cost of a ‘bit’ of information is the return foregone by devoting scarce resources –particularly time- to getting and using it. The marginal return from a ‘bit’ is the increase in utility received because the information enabled the decision maker to improve his decision.” (Downs, 1957:146.)

In brief, the rational ignorance effect encompasses the following elements: (Goodin, 1980; 38):

- Citizens have imperfect information,
- It is costly to acquire and assess more information,
- The expected gains from further information are thought likely to be less than these costs.

It is irrational for most citizens to acquire political information for purposes of voting. As long as each person considers the behaviour of others as given, it is simply not worthwhile for him to acquire information so as to vote. The probability that his vote will determine which party governs is so low that a trivial cost of procuring information outweighs its return. (Downs, 1957:147.) In other words, the voter has no incentive to search out information about politics because the individual’s vote does not make the determination, and outcome will be the same whether much or little is known about the candidates. (Johnson, 1991:144.)

In order to understand the negative consequences of rational ignorance in politics, we should explain the major distortions produced by rational ignorance.

1. One of the most serious distortions is that narrow producer became dominant over the broader general interests of consumers in political decision making. For example, consumers may not know there is a tariff on shoe imports, but producers will surely know it and work to keep it. This *asymmetry of information* encourages rent-seeking activities in political decision making.
2. Voters in a democracy do not have equal influence on policy information, even though each person has one vote. Some individuals have greater incentive to acquire and gather information by virtue of their role in the division of labor, than others. So there are always individuals who remain to

be ignorant about public affairs. Others have incentives to acquire information because it is expected that *marginal return is larger than its marginal cost*.

3. A third distortion produced by rational ignorance is the poor quality of information released by politician. Since politicians know that, individuals have no incentive to gather information, they provide very little of it.

In brief, because of these factors, election results do not reflect voters' true preferences. Rational ignorance and ignorance in general represents one of the deficiencies of the political decision making process.

IV. CONCLUSION: REMEDIES FOR INFORMATIONAL INEFFICIENCIES

We need some remedies for informational inefficiencies in politics.

Natural ignorance can be solved somehow by education and schooling.

Political openness and fiscal transparency in government can be secured by rules and institutions and hence citizens may access information on public affairs. E-government enhances information towards citizens.

Informational failures can not be eliminated completely due to rational ignorance problem.

As noted by Downs, democratic political systems are bound to operate at less than maximum efficiency. (Downs, 1957:148.) Rational ignorance is one the reason of this inefficiency. Unfortunately, there is no practical cure to eliminate rational ignorance and limited search in politics.

A competitive federal democracy may be good for voters to seek information for their own interest. One of the great philosopher of the past century, F.A. von Hayek notes on the working properties of federal competition as follows:

“The regional and local governments... would develop into business-like corporations competing with each other for citizens who could vote with their feet

for that corporation which offered them the highest benefits compared with the price charged.” (Hayek, 1978:162.)

Under a federal democracy, individuals may act rationally and they search information for their own sake. And rational ignorance problem may be disappeared somehow in such a system.

References

- BROWNING, Edgar K. and J.M. Browning., *Public Finance and the Price System*, 2nd ed. New York: McMillan Publ. 1983.
- BUCHANAN, James M.; "The Achievement and the Limits of Public Choice in Diagnosing Government Failure and in Offering Bases for Constructive Reform", Horst Hanusch (Ed.), *Anatomy of Government Deficiencies*, Berlin: Springer-Verlag, 1983, pp.15-25.
- CONGLETON, Roger D. "Informational Limits to Democratic Public Policy", www.soc.nii.ac.jp/jepa/2003/40t2.pdf.
- DOWNS, Anthony. *An Economic Theory of Democracy*. New York: Harper, 1957.
- DOWNS, Anthony.; "An Economic Theory of Political Action in a Democracy", *Journal of Political Economy*, April 1957.
- DOWNS, Anthony.; "Why The Government Budget is Too Small in a Democracy", *World Politics*, July-1960.
- GOODIN, Robert E.; *Manipulatory Politics*, New Haven: Yale University Press, 1980.
- GUNNING, J.Patrick., *Understanding Democracy _An Introduction to the Public Choice*, <http://www.fortunecity.com/meltingpot/barclay/212/votehtm/cont.htm>
- HANUSCH, Horst, (ed.), *Anatomy of Government Deficiencies*, Berlin: Springer-Verlag, 1983.
- HAYEK, Friedrich A. Von., *New Studies in Philosophy, Politics, Economics and the History of Ideas*, Chicago: The University of Chicago Press, 1978. S. 104.
- JOHNSON, David., *Public Choice –An Introduction to the New Political Economy-*, London. Mayfield Publ. Com. 1991.
- PEACOCK, Alan.; "On The Anatomy of Colective Failure" *Public Finance*, vol: XXXV, No: 1, 1980.
- ROWLEY, Charles K.; "Market Failure and Government Failure", in: James M.Buchanan and at all. (Eds.), *The Economics of Politics*, London: The Institute of Economic Affairs, 1978.
- WOLF, Charles.; "A Theory of Non-Market Failure: Framework for Implementation Analysis", *Journal of Law and Economics*, vol XXII, April-1979, pp.107-31.