

Public Choice – The Median Voter, Utility Asymmetry, Information Asymmetry

Laws are like sausages — it is best not to see them being made; Otto von Bismarck

Thailand and the money supply.

We have been assuming that money has equal utility for all voters

In point of fact, it rarely does.

In free markets, with private goods, this is not an issue

Voters (consumers) purchase what they want, where $MB_X/P_X = MB_Y/P_Y$

In sequential voting, we can't do that, we simply vote yes/no

But the incentive is still to truthfully reveal our preferences

Can we achieve a pareto improvement by trading votes?

Take the case of three voters, voting to purchase two different public goods, each public good cost 2 billion baht, and thus a 2 billion baht disutility

But voter B loves Good X, and Voter C loves good Y

	Change in Utility	
	X (Guns)	Y (Butter)
Voter A	-2	-2
Voter B	5	-2
Voter C	-2	5

In a pairwise vote, A and C vote against X, and A and B vote against Y

Can B and C improve their positions? Yes, if they can trade their vote.

In that case, the cost to society is 8, the gains to society is 10

(how did I calculate that?)

This assumes that utilities are cardinal, of course.

How will things change if instead each public good costs 3 billion baht?

	Change in Utility	
	X (Guns)	Y (Butter)
Voter A	-3	-3
Voter B	5	-3
Voter C	-3	5

Vote trading can lead to pareto improvements, it can also lead to pareto losses.

Is voting a positive, zero or negative sum game. Allocation vs. Distribution.

At the margin, mostly distribution (see Niskanen Bureaucrat later)

What if voter C's real utility preference is 5, 5?

The Problem of Information Asymmetry

We have been assuming perfect knowledge and asymmetry

The “rational voter”.

Most voters do not appear to be well informed and rational

Who is this constitution fellow?

Does it matter if the median voter is rational?

Biased and unbiased mistakes.

If voters make unbiased mistakes, it may not matter.

If mistakes are unbiased, then a few voters can decide elections

The “informed voter” – the politically astute

In the U.S., they make up about 10-15% of the population

As determined by “civic knowledge” tests

If voters make unbiased mistakes, the mistakes will cancel each other out

At which point, a few voters can determine the election

What if mistakes are not unbiased?

If voters make systematic mistakes, can elections ever be “rational”

The mistakes can be either due to irrationality,

Or due to rational ignorance

Example: Log rolling

Imagine three universities, being built in Chiang Mai, Khong Khoen, and Hat Yai
(the north, North-east and south)

Case 1.

Benefits from each University – 7 billion baht/year, to the local economy

Cost of each University – 6 billion baht/year

Question: should local taxes be used to pay for the university?

Case 2.

Benefits from each University – 7 billion baht/year, to the local economy

Cost of each University – 9 billion baht/year

Question: should local taxes be used to pay for the university?

Case 3.

Benefits from each University – 7 billion baht/year, to the local economy

Cost of each University – 6 billion baht/year, divided equally by the three regions

Question: Should the national government build all three universities

Question: Will it, if Politicians are rational vote maximizers?

Case 4.

Benefits from each University – 7 billion baht/year, to the local economy

Cost of each University – 9 billion baht/year, divided equally by the three regions

Question: Should the national government build all three universities?

Question: Will it, if Politicians are rational vote maximizers?

Even if voters are perfectly rational and informed, they may support sub-optimal goals

(Note: what did the wording above assume)

If Politicians are looking for votes, which will they discuss, the cost of the university, or the benefits? Who will have better information, the politician or the voter?

Empirical Example: Free Trade

Politicians run on free trade all the time, because it creates jobs.

Ummmm, no – that is not the reason to support free trade.

Free trade is good because it reduces costs to consumers

But benefits are diffuse, while costs are concentrated.

In the university case, benefits are concentrated, but costs are diffuse

Campaign Expenditures

Does money buy politics?

Where do voters get their information: does advertising work?

Can you buy a campaign?

A very simple model of expenditures assumes that money has a positive, but declining, impact on your chances of winning a vote.

- At the right, campaigning in Wyoming

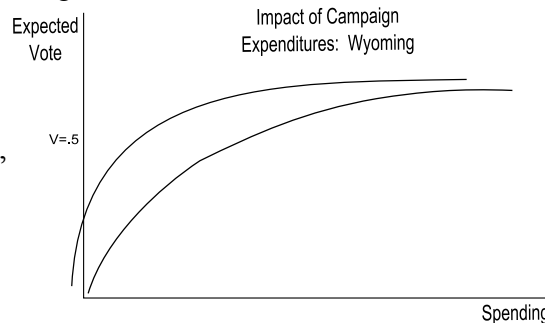
- Expected votes for the incumbent, and challenger

-The incumbent has an advantage, either because

Past spending = “goodwill”

Officeholder = free airtime

-Incumbents have a more difficult time, but do catch up

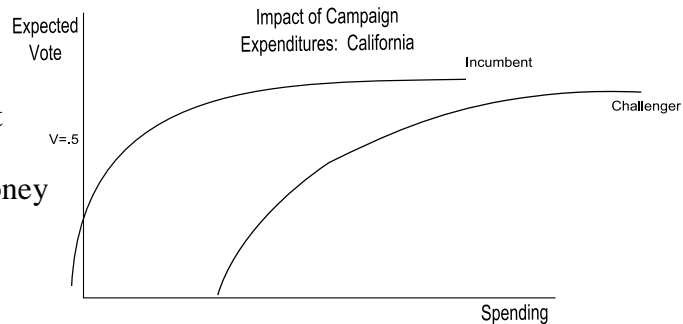


What about California?

- the challenger has a more difficult task

- Needs to spend a lot of money, just to get noticed

- Fame can act as a substitute for money
Schwarzenegger, Whitman



Empirics of Money in Politics

Money definitely makes a difference.

As expenditures increase, a candidates likelihood of winning an election increase

Expenditures seem to exhibit diminishing returns

No money = no chance, money = chance, a lot of money = chance

The effect of money is two fold

– more people vote for me, less for opponent

But it is very hard to separate out the two effects

No amount of money can “buy” an election, at least in the U.S.