David Youngberg

Econ 304—Bethany College

**Lecture 31: Public Choice I**

1. Definition
	1. Public choice is, put simply, economics applied to political actors.
	2. For decades, economists assumed public officials looked out for the public good. This is a bit silly to think of now, but recall this was before Watergate; during the New Deal, for example, economists rarely talked about the self-interest of political actors.
	3. This changed with economists James Buchanan and Gordon Tullock, whose seminal work, *The Calculus of Consent*, lead the foundation of public choice in 1962.
	4. Since then, economists consider public choice to be a critical part of the economic and policy calculation. It has integrated well into mainstream theory.
	5. There are a lot of cool parts of public choice. To help guide our discussion, we will explore the specialty in the context of the economics of sports. Specifically, stadiums.[[1]](#footnote-1)
2. Arenas versus stadiums
	1. Arenas are often used, not just for sporting events like basketball and hockey but for concerts or monster truck shows. It might be used 250 to 300 nights of the year.
	2. Stadiums are not as used as much (about 80 times a year for baseball; maybe 12 times a year for football).
		1. Admittedly, most stadiums do other things such as concerts and trade shows (naturally, they want to maximize revenue) but it is easy for many weeks to go by where no one uses it.
	3. So stadiums have to be good at making the most of their time, which means food, shops, and other venues are located inside the stadium.
		1. Stadiums are built with large parking lots to help keep people in. Miami’s Sun Life Stadium not only has a big lot but shopping is on the other side of an eight-lane freeway.
		2. The location model rears its ugly head.
	4. Typically, subsidizing stadiums are not worth the cost. In a 2005 survey of economists, economist Robert Whaples found 86% either agree or strongly agree with eliminating sports subsidies.
3. Concentrated benefits, disperse costs
	1. Cities shouldn’t subsidize stadiums; there are no externalized benefits. But they do anyway. Why?
		1. Team owners
		2. Construction industry
		3. Banks
		4. Sports fans
	2. These groups represent people who benefit from a stadium being built. And they have a lot to gain.
	3. The costs for the subsidy is spread across tens of thousands, or even millions of taxpayers. Thus, there is a strong incentive to ensure the subsidy is passed (through campaign donations, for example) and no one has an incentive to stop it.
	4. This system of concentrated benefits and disperse costs is a formula for political success and it’s used over and over again.
		1. Sugar subsidies, tariffs, occupational licensing
4. Rational ignorance, rational irrationality
	1. As some basic level, people have an understanding of opportunity costs. While their personal cost of the subsidy is not large, they understand a $100 million subsidy to a stadium is $100 million that can’t go to parks, schools, and police protection.
	2. Even though sports are popular, those who benefit enough, on net, by the subsidy are not the plurality needed to get someone elected or a ballot measure passed.
		1. This is why politicians tell stories of economic gain even though, as noted, it is nonsense. So why does it work?
	3. **Option 1** is that learning is costly; if the costs of learning exceed the benefits, then it is rational to be ignorant. We call this *rational ignorance*.
	4. In practice, one vote does not matter. And even if it did matter, people don’t have the incentive to know if the politicians are lying to them about the value of the subsidy since, as noted, the cost per taxpayer is small. (The exceptions are the folks who own businesses that supposedly benefit from this stadium, but they are small in number.)
		1. I bet you didn’t know about the sugar subsidies or how extensive occupational licensing is.
		2. This is why surveys about how ignorant Americans are about history and politics aren’t as problematic as they might seem.
	5. **Option 2** is that people have irrational ideas they have emotional attachment to. If the benefit from holding onto that irrational idea exceeds the cost, then it is rational to be irrational. We call this *rational irrationality*.
	6. Again, one vote doesn’t matter. So voting for a cool-looking stadium is a cheap way to indulge in your belief that your favorite sports team will bring about economic recovery. Even though, when you think about it for more than five minutes, that’s dumb.
		1. As economist Bryan Caplan, proponent of rational irrationality, summarizes his theory, “thinking hurts.”
		2. This is why people politically support trade restrictions while buying cheap imports and support airport security even though it doesn’t work.
	7. In *The Myth of the Rational Voter*, Caplan argues there are four basic systemic biases voters commit:
		1. *Pessimistic*—tendency to underestimate economic performance; people typically see economic condition as declining, especially as they get older.
		2. *Make-work*—tendency to underestimate the value of conserving labor; people see job creation as the same as economic growth and growth can only comes with job creation, especially “good” job creation
		3. *Anti*-*foreign*—tendency to underestimate the value of trading with foreigners; people see their country of origin as in an antagonistic relationship with other countries
		4. *Anti-market*—tendency to underestimate the value of market-based solutions; people tend to see themselves as victims of markets even though they benefit from it much more than suffer
1. For more information about this topic, see “Do Economists Reach a Conclusion on Subsidies for Sports Franchises, Stadiums, and Mega-Events?” by economists Dennis Coates and Brad R. Humphreys; <http://econjwatch.org/file_download/222/2008-09-coateshumphreys-com.pdf> [↑](#footnote-ref-1)