

Chapter 2

Market or Government?

Many intelligent and sensitive people in the world today have an optimistic view of their democratic government. They expect it to lead them toward prosperity. They are predisposed to favor government over the market as a provider of goods and services. They tend to look favorably on central economic planning, like that of the Soviet Union before its breakup. The main problem, as they see it, is to elect and appoint competent and trustworthy government officials. Other people have opposite predispositions. Extreme free marketeers believe that a government cannot improve matters. They favor a minimal role for government, expecting markets to provide goods and services as efficiently as possible.

The statement that “the market provides goods” is a shorthand way of saying that when there are private property rights and free enterprise, individuals have an incentive to produce goods for others in order to earn money to buy the goods that they want. “The market” thus refers to the producers who economists predict would emerge under certain conditions. We discuss the market economy in depth in Chapter Three.

Public Choice tries to avoid preconceptions on the issue of government vs. the market in general. To evaluate these institutions, it regards both as *tools* for helping people get what they want. If we aimed to evaluate one hammer in relation to another, we would compare the two with respect to the task we want to accomplish. The same is true when we

evaluate government in relation to the market. Our first step is describe the wants we feel these institutions should aim to satisfy.

We can identify several broad classes of wants that people would like to have satisfied. First, people have wants that hardly anyone expects either the government or the market to satisfy. These include personal commitments from loved ones, spiritual peace, and religious fulfillment. We are not interested in such wants in this book. Other wants can be divided into two broad classes: security and worldly goods. We discuss each in turn.

The want for security is most evident when it is absent. Faced with a prospect of being oppressed or invaded, people have a strong want for security. No one wants to be killed or violated by bullies or foreign invaders. It is difficult to see how security, in the broadest sense, can be provided by the market. People can certainly buy locks, build walls, and hire security guards to protect their durable goods. However, if they were free to produce highly destructive weapons or other killing devices, there would be a great increase in the fright level. People would worry that such devices would be used for theft and extortion or to help set the stage for a revolution or foreign invasion. The want for security in modern times can only be fully satisfied by a government.

Worldly goods include food, shelter, clothing, roads, bridges, vehicles for transportation and recreation, clean air and water, education, good health, insurance, entertainment, vacation holidays, and countless other goods that we have come to associate with life in the modern world. It is in the supply of these goods that practically all disputes over market vs. government supply arise. Fortunately, economists have devoted a great deal of effort to the problem. One major contribution was to divide goods into two general types based on whether logic tells us that individuals would supply them efficiently. Those that individuals would supply efficiently are called (pure) private goods. For the time being, we can call the rest of the goods “other goods.” In the imaginary economy, the other goods are supplied inefficiently. Economists call the supply of the latter types of goods *market failure*. This is where Public Choice begins.

In Public Choice, we compare market with government supply in the following way. We first identify some kind of market failure. Then we ask whether it is

best to try to correct it through government or to let it continue. Our judgment must be based on what we regard as the benefits and costs of

Market failure: on the basis of their economic models, economists can envision that individuals would be better off if free market interaction was hampered in some way by government.

making the correction. We shall see that using a democratic government to provide goods is likely to entail substantial waste and inefficiency. In the economist's view, government waste and inefficiency add to the costs of government supply. When we judge that such costs are high, we say that there is *government failure*. If we think that the government will also fail, we may be better off accepting the market failure. We might like to live in a world that is completely without market failure. But, like the discomfort of a thunderstorm, our best option may be to protect ourselves individually rather than look to the government for a solution. This entire book is devoted to developing a framework for making informed judgments about whether government intervention in the supply of worldly goods is likely to improve matters or make them worse. The aim of this chapter is to introduce the problem of comparing a market with a democratic government.

To compare the market with the government, many students must overcome a longstanding bias. Throughout the years, moralists have taught that people engaged in politics should be ruled by motives that are morally superior to those that rule ordinary choices. Ordinary choices are ruled by self interest. But in politics, say the moralists, individuals should act in the public interest instead of in their self interest. The moralists may be right about the way people *should act*. However, if we want to make judgments about the likelihood of government failure, we must consider how people *are likely to act*. For this reason, Public Choice assumes that voters, politicians, and bureaucrats act in their self interest.

We begin this chapter in Part one by discussing the assumption of self interest. In Part two, we more fully develop the idea of market failure. Part three discusses the problem of comparing the market with government.