

Public choice and the social beneficiary

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Abstract. *Using the scientific tools for the positive-normative binomial approach, the present paper deals with the manner in which the “second best theory” represents the basis for the “public choice theory” in terms of rational allocation of resources between economy’s different components (sectors). For example purposes, it was examined the manner in which the ecological efficiency is found in the economic decision assessment system. Any development program that will be limited to the purely economic interactions, neglecting thus the repercussion on the social and ecological component is, from the start, unrealistic because not everything that is economically efficient is also socially efficient. The governmental intervention aims to correct the market failures in terms of rational resource allocation.*

Keywords: public choice theory, the second-best theory, ecological efficiency, externalities, self-organized governance.

JEL Classification: D61, D71, H23, Q57.

Introduction

This paper proposes a correlative approach for three components, inextricably linked to the economic area and to the reality subject to the profitability rush. The selection criteria of the three components are based on the fundamental problems we are facing today: limited resources, choosing the best variant (sustainable development economic altruism) and also searching for the second best choice. All these are interpreted by authors through a type of associative theory regarding resource governance (through state's control or privatization) and the process of public choice with direct consequence on the social beneficiary (the community).

It is true that such an approach can trigger controversies regarding the interference of economic policy aspects in the subjective context of choice and decision-making without specifying the instrumental relationships on which the two distinct fields are based upon. The coincidence or not, of the collective interest with the individual's interest projects the choice-action within the area reserved for the efficiency analysis for the free market with respect to the governmental authority. In both cases, the result should be perceived as socio-economic-ecologic efficiency.

1. The market mechanism can not solve the ecological crisis

“The government of persons will be replaced by the administration of things”
Saint Simon's prophecy

This subchapter does not seek to develop all the conceptions regarding the utility and availability of resources in the resource crisis context. It is confined to a few considerations regarding the optimal choice process considering the existence of several economic objectives of which the convincing alternative is the one with a socio-economic-ecological effect, perceived at maximum.

Human dependency on resources and nature- the human endowed with “endosomatic” and “exosomatic” organs (internal and external organs, according to Nicholas Georgescu-Roegen, 1979: pp. 1-2) generated, since forever, the controversy on rational-irrational results. Everything comes down, ultimately, to the election manner between objectives and assessment of the effects assumed by the option process.

“The tragedy of the commons” as formulated by Garret Hardin (1968: pp. 1243-1248), repeated and interpreted by Elinor Ostrom (1990: p. 16) confirms that people will fight among themselves when pursuing their own welfare.

Everything begins with common property where none, is in fact, the owner. Much of the world is dependent on resources that are subject potentially to the tragedy of the commons (Ostrom, 1990: p. 17) represents a signal for the policymakers which, through recommendations, cause the adoption of those optimum solutions with implications on the state's position versus the market.

The theory of the second best aims to amend the capacity of those involved in the choosing process in order to change the rules of choice such that the effects will not

present the disastrous character for the non-achiever. Nonetheless, in practice it is obvious that what is beneficial for some is, at the same time, ineffective for others. When talking about the lever for resource use, often, the economists overlook the two fundamental parameters of the economic process: the resources' structure and the use duration. Setting protection prices will shelter the exhaustible resources. But is it enough?

In this vein, Robert M. Solow argues that resources are measured in economic terms and not in physical terms, thus considering the situation of restricting the stock of resources, the emergence of other factors by substitution (substitution thesis) will ensure the continuity and evolutionary dynamics. From here, Solow shapes up the hypothesis that, the substitution is the process that supports the technological progress even in the context of limited resources.

The optimal allocation of resources for present and future is considered to be dependent on price evolution at the macro level, with all the derived consequences. Liquidation of economic inefficiency liberates the fixed capital turning it towards innovative variants or certain carriers of the progress germ. The consecrated and favorite theme of Joseph Schumpeter is the "Creative destruction" demonstrating that what is surpassed by inefficiency must be replaced by the innovative act of creation.

Considered the optimal first, why do we formulate a new variant, with the claim that it should be as optimal as the first one? Can the alternative solutions be, equally, optimal? Are we talking about competition between objectives? Who, how, and what instrument is used for measuring the optimal for each variant? What mechanism is triggered in favor of searching for another option different from the first one? What institutions or representations of collective action use their best efforts to transform the collective decision into a public choice with direct implications, solid and beneficial in socio-economic-ecological policies substantiation?

The present work aims to answer these questions without pretending to exhaust the right to debate.

There should remain no doubt regarding the confrontation situation between the objectives imposed by the moment and the belief that the future brings changes (substantial?) of the analytic objectives. Francis Bacon's old adagio *Naturae non imperatur nisi parendo* (we cannot command nature except by obeying her) demonstrates its historical validity with a stubbornness constantly certified by the constant basis of the economic growth. The obsession for the economic growth contributed to gaining a scientific authority regarding the perenity of the economic growth theme in the new paradigm of limited resources.

Following the social efficiency (community welfare), the limited resources are subject to some economic-ecological constraints. The economic fantasy to produce a good with costs as low as possible or to produce a larger quantity than resource consumption is suppressed by the absolute limit of natural resources availability. This limit is not sustainable if the resources change along with the emergence of new ones or with the substitution of the consumable ones

In this context, it is difficult to calculate and express the limit in economic terms. The power of technology however is unlimited, which essentially modifies the Malthus's law. If the technologic resort intervenes on resources, they will no longer evolve below the expected level of population needs, but according to the cause-effect logic, an innovation will lead to another improving thus the grid of population need satisfaction.

2. Optimal choice- theoretical and practical justifications

Exitus acta probat. (The result justifies the deed.)

Ovidiu, Heroides, 2,85 sq

Social profit depends on optimal choice in terms of resources allocation and the social effect will be measured using the social cost-benefit ratio. The issue of evaluation should be seen as a product of the society that seeks the best variation for allocating resources.

Assessing the social efficiency of choice is based on a triple construction: a forecasting *ex ante* approach which predicts more economic-ecological-social goals and two *ex post* approaches based on the construction of economic-ecological- social policies by connecting needs to resources (using normative-positive ratio) and for interpretation of the result obtained in time. Unfortunately, not everything turns out to be economically efficient and at the same time environmentally and socially effective.

The relationship between social choice and social beneficiary involves a two-way approach.

The first, the *theoretical* one refers to how efficient is the market, through the competitive mechanism. From this point of view, it is considered a static efficiency that reflects the obtained results at a given time by allocating resources during a certain period. For example, if a business will use fewer funds for the internal social project will finance a project for investment of materials with distant effects. Being a matter of choice the current objectives will be dropped in favor of perspective objectives.

The second approach is *practical* and refers to the static-dynamic divergence, both objectives being interpreted individually and collectively.

By interpretation, we are dealing with the welfare level at a given time and the imperative economic dynamic development. As a matter of choice, opt and forgo at the same time in favor/against certain domains, allocation will be made by slipping g resources from one area to another, from one objective to another. This way of putting the problem leads to the theoretical interpretation of the second best. Late '50 specifically 1956-1957 R. Lipsey and K. Lancaster focused on evaluating the marginal cost influence on efficiency increase/decrease within an economy where gains balance the losses.

Several remarks are, however, required:

- The example formulated by the two authors refer to two completely different markets: a perfectly competitive market (based on production of goods with social characteristics whose consumption takes place within the community without rivalry)

and the other one a monopolistic market (creating substitutable reciprocal consumption goods whose consumption is individualized depending on the consumer), the marginal cost mechanism affecting differently the marginal income obtained on the two markets.

- In any economy there is an infinite number of unequal allocations which can be optimal Pareto without the possibility of being compared
- In the aforementioned authors' example the net welfare gain is obtained by passing from a market with perfect competition to the monopolistic one arguing that the substantiation procedure of a correct socio-economic policy is made only by considering the competitive mechanism
- Consumption consequences of the two categories of goods are evaluated simultaneously at individually and collectively
- Social goods are not produced by using the competitive mechanism, the efficiency of their production can not be interpreted using the marginal cost level because the collective consumption regime may trigger increasing costs determining the state to intervene through subventions
- Instead, the production of individual consumer goods may carry along profit through prices determined by production competition.

The choice between equality and efficiency is interpreted considering two ratios: efficiency-utility and equity-income. Considering these ratios, the criterion "first-best" refers only to the efficiency in resource allocation generating social inefficiency, thus an anomaly on the market; the "second best" criterion considers dispersing the externalities on as many markets as possible diminishing thus their effects on a single market. For example economic-ecological pollution externality (as distortion) is redistributed as an effect from the goods/services market to the collective goods market. This happens when a manufacturer's decisions affect the production costs of another manufacturer who is part of the same market.

3. Ecological component of decisions.

Morality cannot be fed on failures.

Platon

Environmental protection and conservation are associated often with high costs and employment loss. In reality, the situation is different if we come to think about the employment offer for activities relating to environment protection and conservation, which cannot exceed the number of lost jobs. This increase (Bran, 2002: p. 115) proves to be superior in the field of environment services. In this context, development and trading green products provide opportunities for carrying out eco-business having as direct effect the increase in employment, previously freed from sectors or workplaces whose activity was considered to determine externalities (pollution).

The relationship eco-business, eco-development, sustainability, must be viable, must work and especially must prove to be effective. In this sense, there is an intense concern,

in theory, in doctrine but also in practice regarding the achievement of a balance point and overcoming the conflictual elements from the economy-ecological relationship with reconciliation purposes between man and nature within the global geosystem zone.

Approaching *the second best theory* in the context of optimum choice find an obvious correspondence, as an example, in the economic-ecological decision making plan. This means that, for starters, it must be understood the resources structure (dimension as size, their superior and inferior limit, quality and forecasts in time and space of use techniques). Then, knowledge by assessing the effects of resource allocation in relation to two objectives, economic and ecological. Without doubt, the profitability criterion that labels any action on the competitive market overshadows the criteria and ecological rules that hinder the optimal decision. What is however mandatory is the identification of those variables responsible for market failure, failure that will have domino repercussions on the other markets.

The dispersal of undesirable effect on several markets, by lowering their intensity on a single market causes rethinking the implementation of rules and regulations required by the institutions that govern the allocation rationality.

In this sense, along with the business theory and state's role in economy (Ostrom, 1990: pp. 70-71) formulates, with sufficient realistic and practical support, *the self-organized collective action theory*.

Are needed some references to justify this interpretation.

Firstly, formulating opinions regarding the end of the rational-legal authority that threatens to restrict state's role and thus of some certainties on trust in rules, traditions and common interests. The "endism" current (Gamble, 2001: pp. 60-61) configures the end of the nation-state also in the context of global market emergence. The transnational governance system facilitates the transition from the world states to world markets.

Secondly, the free market's sovereignty entitles to decisions that are not always in the community's interest. For this case, if the state's role narrows, the state being called in cases of deep economic morass and if its regulations oblige to a policy contrary to private economic agents' interests emerges the need for a third form of decision: self-organizing collective. It will organize its own attitude and conduct guide in terms of collective choice.

The obvious question arises in respect to the effect of the self-organized community decision for the success of relieving tensions of some rational constraints in resources allocation.

The dialogue and confrontation policies between the development concepts and ecology are not new but the way of addressing the issue, under different pragmatic conditions, necessitates a changed interpretative environment.

Deciphering the way in which the rational choice provides optimal solutions during different times and on different markets is a concern for exiting the normative and for adjusting to the reality of constraints of limited resources.

Economic rationality, as a fundamental principle, used the decision-making process of resource allocation in two different contexts: extensive and intensive. The accidental interpretations determined the inefficiency of allocation decisions turning into externalities of the first best transferred to the second best area.

The new politic-economic-ecological-social world framework is subject to new trends by changing the paradigm: ratio growth-development economic-ecological. The parameters have changed, the solutions must also be altered.

At the end of the paper “Catastrophe or New Society?” (Herrera et al., 1976: p. 163) appears a quote belonging to J. Stuart Mill “when great evils are in question small remedies do not produce a small effect, but no effect at all.” The endorsement matches, undoubtedly, the present status.

Currently, the institutions no longer correspond to reality because they are based on hierarchic and vertical structures and on political-territorial realities particular to the nation-state. The trend to narrow the state’s role contributes to the structural change both on the vertical/horizontal plan of the institutional components and for calculating the opportunity cost for the decisional act. The aim is to correctly assess the collective efficiency gains/losses.

4. “The irrationality” in rational economy

You do the deed: the logic of things will draw the consequences.

N. Iorga, *Contemplations*, 1911

Initially the rationality approach reflected the economy’s form of existence and manifestation. Currently the interpretative tendency is that the economy should reflect rationality.

The quality of the individual and of society’s decision is assessed through costs (private-social) and beneficiaries (private-social). According to the “*game theory*”, the decision for the whole set of economic and social policy depends on the possible occurrence of market *dysfunctionalities* (market failures) because of the other participant-partner’s decisions.

Considering the government’s position as that of a trader, its game (under the decision-making process regarding the economic policy) will depend on market’s failures caused by the economic action and decision freedom.

The existence of independent agents involves taking into consideration the different needs, the resources and their allocation based on competitive market principles and income distribution as basis for assessing welfare. Consequently, independent economic agents express themselves through individual decisions and the market role is to coordinate these decisions.

A turning point in addressing the rational-rationality concept is laying down the subjectivism thesis in economy.

The thesis is based on several requirements: reconsidering the needs theory, based on the appreciation that the human being part of the environment, human needs will be part from the environment's needs, then reviewing the economic rationality based on human rationality and also review the optimum allocation process exclusively defined in relation to the three fundamental value judgments from Pareto economy.

Pareto efficient allocation repositions the individual's place in the center of the activity.

Classic economic literature never minimized supporting the principle according to which perfect competition represents an optimal situation, and the modern interpretation of this principle is expressed by the fact that a perfect long term competitive equilibrium leads to proper allocation of resources: any optimal allocation of resources is the guarantee of a perfectly competitive equilibrium term.

If reality rejects the optimal allocation, does it mean that non-optimal allocation is considered as effective? The fact that non-optimal allocation is determined by the market conditions represents a denial in the *invisible hand* principle.

In opposition to Pareto allocation of resources that involves the removal of all distortions, the theory of the second best explains the situation where the existence of a distortion on a market urges to solve the distortion by spreading its effects on several markets and deliberate introduction of new distortions to counterbalance the first.

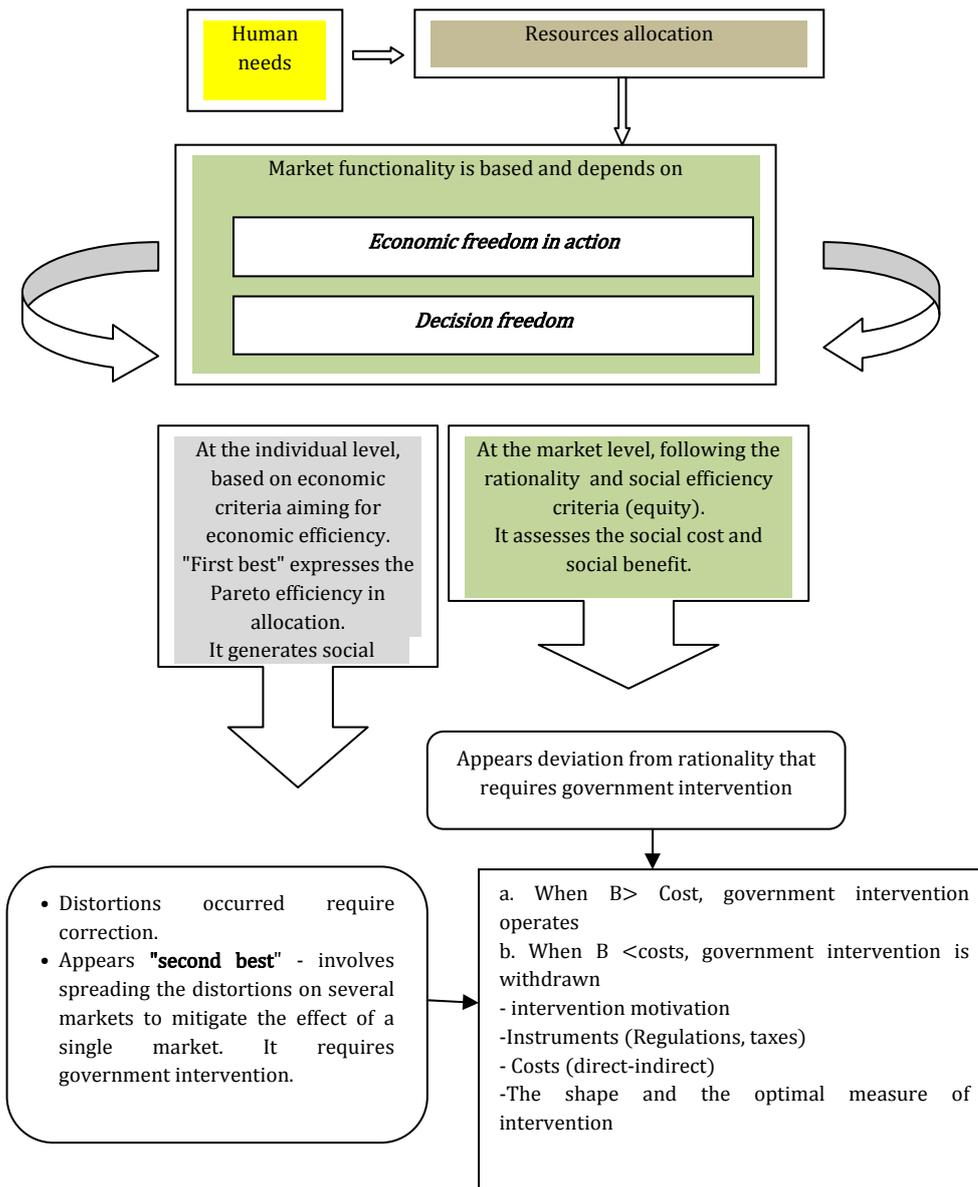
For example, the introduction of a tax on the consumer goods market will influence negatively the supply and demand. The resources will slide to another market with other goods. The increase in supply and the demand on this market will trigger the interest for introducing a new tax. Hence, the equilibrium between the two markets will be reestablished. Inserting a distortion (by government action) diminishes the effect of already existing distortions that will arise whenever the free market equilibrium breaks the equality between the marginal social cost and the marginal social benefits.

The price paid by consumers is equal to the marginal benefit and the price paid by the producer is equal with the marginal cost. The market equilibrium no longer leads to the equality between the two prices, causing the emergence of distortions that express the inefficiency and thus it requires governmental intervention. In Seneca's "Selected philosophical writings", there is a reflection: "the state will always remove those who approach it with annoying persistence". Translating the quote in terms of our approach, the state will be interested primarily in the industries or businesses that are progressing rather than in those that require and claim subsidies. Eventually, the governments control all business processes for economic strength comes from profitable, successful activities. It is true that governments can preferentially orient their options (granting tax exemptions to certain sectors of activity, by giving exclusive licenses without auctions, by governmental contracts, etc.) towards sectors bringing wealth and performance.

The explicit-implicit authority and state control in decision-making (Baumol et al., 2009: p. 59) however will not harm market freedom, which, if necessary, through the emergence of failures will request governmental intervention.

The diagram below illustrates the correlation mechanism of public choice - public decision (based on criteria) and the need for governmental intervention.

Figure 1. *The public choice process efficiency and the governmental intervention in market performance*



5. Roșia Montana mining project- economic and ecological decision

When gold talks, reason keeps quiet

W. Potocki, polish poet, 1696

Rosia Montana mining project represents a typical case of main activity that is not based on locally processed resources and does not generate a correlated economic activity. The final product of the project is gold but in Romania, there is not an outlet or a gold processing industry. The outlets for this precious metal are outside Romania that means total export of the extracted gold.

To interpret the situation of this project in terms of public choice, of decision in favor of the community and therefore a review of the allocation of financial resources manner for the benefit of Romania's national economy some clarifications are in order based on concrete figures.

At that time (since 1995) the project raised a series of question marks related to its viability, to the opportunity cost of the governmental decision, to the real profit of the residents and to the economic growth from the exploitation of these gold reserves.

The economic and financial analysis of the project highlights a number of issues regarding the losses / gains (benefits) for Romania. From the comparison of the direct and indirect benefits (economic materials - employment - revitalization) with losses for Romania (social-cultural – environmental - foreign direct investment - taxes and subsidies - reducing the country's external image) the financial risks should not be omitted (insolvency, early closure of the mine, stock speculation, environmental pollution) that affect economically and socially the relevance level of the project.

Based on the case study and on precise assessments comprised in a documentation and through analysis of the Rosia Montana mining project history (Bran et al., 2013: pp. 123, 196, 205-207), the following conclusions can be drawn:

- Between the initial assessments and the evaluations during the course of the project, a series of inconsistencies and inaccuracies arose regarding the mine construction costs: the initial capital cost from \$253 million (2001) to \$437 million (2002) to \$638 million (2006), the cost up to triple being conditioned by the procurement of the environmental agreement.
- Significant differences between the number of jobs advertised initially as an attractive figure for employment in the area (from 500 in 2002 to 560 jobs promised in 2004 to 600 in 2005 to 880 in 2010 for a period of 17 years, by revaluing the occupancy rate ultimately only 217 jobs were available in the 17 years of the mine life), thus only half (Bran et al., 2013: p. 315).
- After closing the mine project, the unemployment will increase in an area already destroyed ecologically and in terms of community (due to significant population deployments).
- It is true that, in some cases, some main economic activities may generate and entail indirect benefits by the upstream-downstream local activities; for this project however locally processed resources are not utilized, the equipment is imported and some

chemicals that could come from Romanian chemical industry are insignificant in terms of quantity.

- The fundamental element for our analysis regarding the choice and decision mechanism and the resource allocation mechanism considering the economic-ecological-social efficiency criteria is represented by obstructing, with this project, some viable alternative activities that cannot be developed in an affected area (water, soil, air); no potential investor or business man will risk an investment with significant potential (economic, agro-tourism, cultural tourism) in an area where large amounts of cyanide have been used; ignoring these issues would mean misunderstanding the psychology of investors and tourists.

By analyzing the concrete situation of Rosia Montana Mining project, by virtue of the first three subchapters of theoretical approaches, in practice the aspects of the allocation of resources on rational principles (or not!) can be verified, the emergence and development of distortions on the commodities market (gold) that reflects on other markets (food and agricultural products and cultural tourism services) requiring governmental intervention. Given that pollution is an externality is necessary to correct it by governmental intervention. Only that in this case the introduction and implementation of anti-pollution measures can themselves produce pollution.

The way in which the intervention is evaluated as effective depends on the effects on the community, on the costs - advantages ratio. Taking note of the effects of the governmental intervention, the used tools, the direct and indirect costs, it shall be decided whether the government's intervention will be to diminish distortions or it will back out because of the inefficient measures adopted.

Analyzing the natural resources as common goods we cannot overlook the fact that individuals are caught between the interests of private and public institutions, market or state (Ostrom, 1990: p. 29).

If the interests of both public and private institutional forms, which are interdependent, are conflicting with the community's socio-economic interests, then, according to public choice theory, the solution is to formulate a strategy for cooperation between the community members considering the solution imposed by the central authority. It is about developing a method for governing the commons by communities of individuals.

Only in this case, the efficiency of public choice turns out to be for the benefit of the society

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