

# Public Choice Theory: Its Application and Challenges in Public-Sector

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## Abstract

This paper deals with the application and challenges of Public Choice Theory (PCT) in public-sector. The public-sector plays foundational roles in social change. Citizens and customers perception and expectation of the government is increasing. They are pressurizing the public-sector more than ever before. Hence, I analyzed, critiqued, and contrasted PCT in terms of contemporary authors for performance efficiency and quality in the public-sector. The application of PCT in public-sector seemed more challenging than the application of the theory in private-sector. In transferring concepts and applications to the public-sector, it requires developing principles and tools for the less competitive and a different context of this sector. The article gave a critical overview of the different definitions, ideas, principles of the PCT, and improvement as applied in the public-sector to bring about quality public service and good governance. This paper based on the overall review of literature, such as relevant books, journals, articles, research results, newspapers, and web pages attempted to identify the challenges and remedies of enhancing service effectiveness and quality in public-sector and the study found out that the PCT is not universally applicable in the public-sector.

**Keywords:** Public choice theory, Public-Sector, new public management, quality service, customer, citizen.

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## 1. Introduction

Ensuring effectiveness and efficiency of public services and goods is becoming critical nowadays. Citizens, customers, and clients are demanding the government to provide quality services and goods. Their perception and expectation of the government is increasing. Citizens' and customers pressure on government is also increasing, though the degree of pressure differs between developed and developing countries.

The Public-sector plays a significant role in the socio-economic development of a country; and quality public service delivery is the crux of public-sector activities. Some writers showed (Heller and Tait as cited in the Gelb, Knight, & Sabot, 1991) that public-sector employment averaged 44% of total non-agricultural employment in 23 developing countries; extreme cases included Zambia 81%, Tanzania 78%, Ghana 74%, and India 72%.

In Ethiopia as well, the size of the public service is getting numerical strength from time to time. There were 93,965 civil servants when the Derg took power in 1974 (Asmelash, 2000). But, at the time of its demise in 1991, the number increased to 236,410 which is around 252 percent growth within seventeen years' time. Whereas, in 2016, the total number of civil servants both at Federal and Regional level was 1,509,491 out of which 965,272 or 63% were male; 544,219 or 37% were female, which is around 639 percent growth within twenty-five years' time (Ministry of Public Service and Human Resource Development [MOPSHRD], 2016). Therefore, upholding efficiency, accountability, and effectiveness in the public-sector is compulsory to sustain the development and good governance endeavor of the country.

In a nutshell, during the Derg regime, the Civil Service registered 14.8% increment on average each year for seventeen years, whereas during the EPRDF (the present ruling party) regime the Civil Service registered 25.5% increment on average each year for twenty-five years. Consequently, the Civil Service seems the last resort to absorb the new work force in the country and hence, its social contribution is immense to focus the research studies on this area that can be able to transform the sector.

Therefore, upholding efficiency and effectiveness using reform measures in the public-sector is compulsory to sustain the development and good governance endeavor of a country. Hence, this paper is organized as follows: The introductory section gives a description of the intention of the document. This is followed by examination of PCT in the public-sector, which includes brief description of the literature review pertaining to history, definition of terms, and a background to reform the public-sector. Then it is followed by a summary that are crucial in understanding its application and challenges in the public-sector.

### 1.1. Scope of the Study

The objective of this article is to assess the characteristic features, achievements, and challenges of PCT in the public-sector. So, thematically, the study deals with understanding the similarities and differences of PCT in private and public-sector plus its application and future trends of the public-sector. Therefore, geographically, the scope of the study is limited to studying Public Choice Theory in public-sector in the wide perspective and adoption of it in the public-sector, whereas methodologically, the scope of the study is limited to studying Public Choice

Theory in public-sector using secondary sources of data.

## 2. Research Method and Questions

Basically, the idea for this study was generated through systematic review of existing literature on “examining Public Choice Theory in public-sector.” The paper is a conceptual one, in which it considers secondary sources of data as an input for research results. This study followed qualitative type of research method and content analysis as a research design. So, secondary sources of data have been applied for this study. The secondary data included information that obtained mainly from different sources, like Research works, reference books, including articles from magazines, journals, literature reviews, websites, and conference papers. The research question is, “does the Public Choice Theory universally works in public-sector as in private-sector?”

## 3. Results and Discussion

The Public-sector administration has a record of long history (Katsamunskas, 2012) and it is as old as the government. The Public-sector adopted different administrative systems in different times and in different countries. The beginning of the Traditional Public Administration (TPA) model went back to the 1850s; and in the 1980s and in the 1990s a new managerial approach called the “New Public Management (NPM)” appeared in the public-sector, in response to what many regarded as the insufficiencies of the traditional model of public administration (Hughes, 2003; Rosenbloom, Kravchuk, & Clerkin, 2009; McCourt, 2013; Robinson, 2015).

The NPM has been considering the Rational or Public Choice Theory of the private-sector management. Here, individuals are seen as the primary unit of analysis and the maximization of self-interest as the central factor of both economic and social behavior. The Public Choice Theory has been the reason behind the rise of the NPM and Competition has been central to the development of NPM (Haque, 2004; Hughes, 2003; Pollitt, 1993; Osborne & Gaebler, 1992; Hood, 1991).

Then, which of the theories are the foundation of the NPM or the Managerialism model? What are the theories that trigger the NPM? In short, from where does Managerialism model come? Writers proposed different ideas toward the true theory that represent behind Managerialism theory.

The most significant economic theory applied to the Bureaucratic model, mainly in the earlier debate over NPM or Managerialism, was the PCT. The PCT is a sub-branch of economic thought concerned with the application of micro-economics to political and social areas (Robinson, 2015; Hughes 2003; Mueller, 2004). Other writers, in contrast, showed that the NPM approach is based on Public Choice Theory, Principal-Agent theory, and Transaction-Cost Theory (Walsh; Boston *et al.*, as cited in Hughes, 2003). Moreover, the other writers showed that there are basically four theories underlying NPM; Transaction-Cost Theory, Principal-Agent Theory, Property-Rights Theory and Public Choice Theory (Moe as cited in Gültekin, 2011).

However, the theory of Principal-Agent has been implemented in the public-sector, specifically with regard to accountability under Managerialism model (Hughes, 2003). The Principal-Agent Theory is one element within what is often called the “New Institutional Economics”, or “Rational Choice Theory” (Peters as cited in Pollitt, 2003). Similarly, the other crucial economic theory in the Managerialism practice has been that of the “Transaction-Costs” (Williamson as cited in Hughes, 2003). Moreover, the conventional wisdom holds that the NPM has its roots in the PCT and Managerialism (Dunsire; Aucoin; Lueder; Naschold *et al.*; Reichard; and Schedler as cited in Gruening, 2001). Therefore, it is possible to say that priorly the NPM approach is based on Public Choice Theory.

So, this ruling requires us to provide the definition for Public Choice Theory. According to Butler (2012) Public Choice is more an approach to political science. It does not try to explain how the economy functions. Rather, the PCT uses the methods and tools of economics to explore how politics and government functions (Butler, 2012). Similarly, Public Choice has been defined as the use of the methodology of economics to politics. So, according to this definition, PCT is an inherently interdisciplinary field (Mueller, 2004).

Economists say that when people make choices, they consider rationality and self-interest motives. So, for Butler (2012) Public Choice is about applying these simple economic concepts to the study of how collective choices are made, i.e., the use of such things to constitutions, elections, politics, interest groups, bureaucracy, parliaments, and other governmental systems.

When we look at the emergence of the theory of Public choice, it was developed primarily upon the work of James Buchanan (awarded the Nobel Prize in Economics in 1986). Then, James Buchanan and Gordon Tullock wrote in 1962, the “Calculus of Consent: Logical Foundations of Constitutional Democracy.” This seminal work reflected as the origins of the PCT revolution (Gwartney and Wagner as cited in Free & Free, 2010). Besides, the issue of voting and majority rule also echoed the development of PCT (Free & Free, 2010).

If so, who are the pioneer contributors of the PCT? Writers differ relating to whom and when the PCT started. According to Scaff & Ingram (1987) the PCT had begun with Kenneth Arrow, who received the Nobel Prize in Economics in 1972, and continued through the classic studies of Anthony Downs, James Buchanan, who in 1986 received the Nobel Prize in Economic Sciences, and Gordon Tullock, William Riker and Mancur Olson, Jr., to

Rike.

On the other hand, Butler (2012) showed that modern PCT can be traced back to the opinions of two 18<sup>th</sup> century French mathematicians on the procedure of voting and elections. Accordingly, the first French mathematician, Marquis de Condorcet clarified the difficulty of cycling in 1785. He specified that in a majority rule to decide between policy options or election, as there are different pairs were prepared for vote; we would cycle from one winner, to the next, to the next. The second French mathematician, Jean-Charles de Borda had also developed a ranked preferential voting system in 1781.

The Public Choice Theory (UPSC, 2017) appeared in public administration during in the 1960s and 1970s. The pioneer contributors of the PCT were:

- Gordon Tullock (For him, the study of politics, bureaucracy, and policy making should be centered on certain assumptions of human behavior that human beings are rational and mainly pursue self-interest);
- William Niskanen (his work was “the first systematic effort to study bureaucracy within a public choice framework”);
- Anthony Downs (in his book “Inside Bureaucracy” argued that motivations of individual officials are diverse and he categorizes bureaucrats into 5 types: (1) Climbers: concerned with power and prestige, (2) Conservers: concerned with minimizing change, (3) Zealots: highly motivated individuals committed to push for a policy or a program, (4) Advocates: concerned with maximizing the resources of their bureau, (5) Statesman: have sense of “Public Interest,” which may be advanced by increasing their power so as to realize their goals.);
- Vincent Ostrom (criticized central assumption of classical paradigm that: There must be a single center of power, and Hierarchical order maximizes organization efficiency).

The primary concern of Public Choice Theory is allocation of scarce resources in the economy (UPSC, 2017). The field of economics is primarily interested in solving the basic economic problem, i.e., about scarcity and choice. The basic economic problem asserts that while the desire of people is endless, our resources are limited or scarce and due to scarcity of resources, choices have to be made by consumers, private-sectors, and public-sectors. For example, dwellers or residents in Addis Ababa make choices and decisions each day how to travel: whether to use the train, to use the bus, to walk, or to use the taxi.

The concept of PCT considers three major propositions (UPSC, 2017; Buchanan as cited in Free & Free, 2010). First, Methodological Individualism: Rejects outright viewing the society as an entity or organism and considers holistic approach misleading; even while studying collective entities and groups, individuals should remain the unit of focus; and groups, organization, or even society are nothing more than sum of individuals comprising them.

The individual is the unit of analysis and the decision maker. The individual like in the TPA is considered as an “Economic Man,” is self-interested, rational, and seeks to maximize his or her own “utilities.” so, the individual seeks the greatest benefit (at the least cost-wise) in any option, acting to “always seek the biggest possible benefits and the least costs in the decisions. People are basically egoistic, self-regarding, and instrumental in their behavior” (Dunleavy as cited in Denhardt & Denhardt, 2007).

Second, Rationality of Man: Here, the individual has the capability to rank alternatives in order of priority of preference and choose the best alternative available; human behavior is dominated by self-interest; each individual is utility maximizer; and all participants in the political field: politicians, bureaucrats, and voters deed to enhance their own goods and interests.

Finally, the Concept of Politics as Means of Exchange: It challenges the idea of “Public Preference or Interest Theory.” The simple view that government collective decision making process will solve the social problems selflessly is just romanticism in politico administrative theory; and the normal consequence of the “Public Preference or Interest” approach is sate overload or enlargement of public sphere (UPSC, 2017).

Scholars showed that the change from small to big government is also encouraged by the self-interest of public servants (Butler, 2012). According to PCT scholars, public servants seek job security and status of a large department with a big budget. For them public servants often discourse with legislators into expanding the regulations and laws that they administer. However, the opinion of the public (Butler, 2012) is ignored and pay for these actions and suffer the effects.

The size of government (large government) is the concern of PCT theoreticians. The elements of the Public Choice Theory have influenced the public-sector to adopt business mechanisms. As a result, the NPM has been adopted as an appropriate way of restructuring the public-sector bodies to bring their management approaches from public to business methods. Therefore, problems in the TPA, like size of the public-sector, centralization, inadequate accountability, lack of pluralism of institutions, waste and inefficient use of resource etc., are all the concerns, which the NPM wanted to address (Kalimullah, Ashraf, & Ashaduzzaman, 2012).

In a similarly way, the PCT consists of three main propositions (UPSC, 2017; Buchanan as cited in Free & Free, 2010): (1) Methodological Individualism: The action and the decision process happens only with in individuals. It does not occur at an organization, or group, or society level; (2) Rational Choice: Here, individuals

make actions and decisions by comparing the prices and profits and choose the action and decision with the highest net-profits. However, the actions and decisions of an individual is restricted by his or her cognitive ability, availability of information, availability of time, and knowledge of the subject matter called Bounded Rationality; and (3) Political Exchange: According to PCT theoreticians, political affairs function like private business with individuals making transactions and exchanges that are equally advantageous.

The PCT assumes that the people that make public actions and decisions are self-interested as anyone else. They are, after all, the same people; individuals do not become angels, all of a sudden, when they are entitled a job in government (Butler, 2012). The behavior of the people is similar whether they get job in private or public-sector. According to PCT theoreticians, actions and decisions of the government policy are influenced by self-interest. Therefore, one should not undertake that people behave differently in the marketplace from how they behave in government decisions (Butler, 2012). It is sensible to undertake that self-interest might stimulate people. However, for Free & Free (2010) this assumption is not always practical to the realm of collective action and decision making.

### **3.1. Adopting Public Choice Theory in the Public-Sector**

The Public Choice Theory considers the private business management style. It basically, focuses on the market mechanism or competition and in turn the application of this management style in the public-sector. Therefore, worthwhile and main aspects of the Public Choice Theory, like scarce resource allocation, outsourcing or contracting out, institutional pluralism, service decentralization, and accountability through performance management are some of the important doctrines of PCT and NPM that needs to be applied in the public-sector as follows.

First, authors argued that a gap subsists between the population's needs for public service and available resources. So, decisions must be made regarding how to best use the scarce resources based on solid grounds (Liss, 2006). For example, when we think about the budget of a country, there is an immediate issue of dividing up the overall national scarce resource, and assessing how much the federal government can contribute to different tiers. Therefore, it is imperative to consider issues that require priority areas with the involvement and participation of stakeholders before resources are allocated to different levels and across agencies. Allocation of scarce properties is a reality in public-sector. For example, the Ministry of Education (the responsible ministry for educational policy, program, and activity) as grand public-sector in is concerned with scarce resource allocation, like human, fiscal, and material resources.

However, given majority voting could raise public costs unnecessarily the scarce resource allocation, especially in the case of logrolling (vote trading). When logrolling occurs it will always increase public costs unnecessarily (Tullock as cited in Free & Free, 2010) and in the public-sector these settlement come at the cost of others. The other important point mentioned by (Free & Free, 2010) is Rent Seeking. Rent Seeking is also a hindrance to efficient distribution of limited resources in a Public Choice Theory.

Second, the PCT deals with the possibility of "Institutional Pluralism" in the provision of public services. Institutional pluralism is a normative position about fair delivery of services and goods (Claassen, 2009). It requires a menu of institutions, rather than a single master institution. The pluralistic set-up allows us to ask questions such as whether education, for example should be provided through the government provision or delivered through the private provision or both.

Institutional pluralism, for example in the Ministry of Education, as practiced currently in different countries, can promote and make more functional the private-sector involvement in the education sphere. The major transformation for NPM as compared to the Bureaucratic model is the possibility of arranging options of government service provision. Of course, the approach has a market flavors. It basically, concentrates on decreasing cost and considers the intention of government to focus on its core mission. However, it does not mean that the core functions of an agency cannot be delivered by others, since the public-sector services can be delivered in many ways.

Alternatives (though, the debate for greater or less privatization persists to the present) range from complete public provision to complete private provision or a mix of these two, including public-private partnerships (Kitchen as cited in Shah, 2005). In Ethiopia, there are around forty-four government universities responsible to the Ministry of Education. Here, take for example, the Addis Ababa University's core function may include education, curriculum development, training and consultancy to mention some. But it also provides non-core functions such as food service (cafeteria service), accounts and payroll, sanitation and greening, vehicle maintenance, and security or guarding services. The non-core functions (though it is not limited to non-core functions) can be provided by private firms. The university can outsource sanitation, accounts and payroll, vehicle maintenance, and guarding or safety activities to private firms and the rest non-core functions to bring about performance effectiveness.

Thirdly, the Public Choice Theory and hence, Managerialism model established accountability in the form of result oriented management or balanced scorecard (Hughes, 2003; Hood, 1995). The institutionalization of performance management changed from accountability for inputs (obeying the rules on spending and staffing) to

accountability for outputs (performance). Polidano (1999) also showed that many nations have tested with performance management initiatives and the difficulty of performance-based accountability comes in linking evaluations and appraisals to career rewards, promotion, and sanctions.

With the introduction of NPM reform, incentives became more emphasized as instruments of accountability and control. However, some observers of public administration argued that NPM decreases accountability and increases the risk of malpractices (Lundquist as cited in Røiseland et al., 2015). However, others argued that accountability in NPM can be ensured by creating incentives (Toonen; Maclagan as cited in Røiseland et al., 2015) and by focusing on performance, outcomes, and auditing.

Hence, it is clear that in the late 1980s that the realization of more comprehensive approaches to manage and reward performance was needed. The Bureaucratic model used job for life, payment and salary was based on seniority, and there was no incentive based on performance management. Therefore, the application of performance appraisal and later on performance management can motivate employees for more creativity and incentive and in turn the public-sector can enhance accountability with setting clear standards of performance. Therefore, the shift to incentives is significant to achieve goals, to motivate employees, to improve responsiveness to consumers and citizens, and to deal with costs and the most effective use of limited resources.

Fourth, decentralization of service facilitates organizations to respond quickly, flexibly, and creatively to problems, opportunities, and customers' needs—something that is impossible if everyone must wait for orders from the top (Osborne, 2007). Decentralized organizations have a better autonomy, and an autonomous public-sector employee have positive correlation to job satisfaction, in turn to performance effectiveness (Robinson, 2015).

### 3.2. Challenges of the Public Choice Theory

The assumptions that the public actions and decisions are self-interested as anyone else have practical problems. There are circumstances where markets may not provide all the goods and services that are desired, or may do so in ways which adversely affect the society as a whole. The market (demand and supply) mechanism itself cannot accomplish all economic allocation functions. There is a need for public policy to guide and correct the competition in certain respects (Musgrave and Musgrave as cited in Hughes, 2003). The market failure, in case of lack of technology, infrastructure, and skilled human resource are the ways in which government action can be justified (Walsh as cited in Hughes, 2003).

Similarly, theoreticians of the New Public Service (NPS) argued (Denhardt, & Denhardt, 2007) that the approach of customer service (Public Choice Theory) has both practical and theoretical problems in the public-sector. Primarily, the idea of choice (buying and selling) is essential to the economic concept of the customer not citizens. However, unlike PCT in government, there may not be options or choices available to receive service from. In the business sphere, customers who are unhappy with goods or services will go for another option elsewhere.

However, with regards to the public-sector, unhappy customers do not have such a choice. That means there may be only one justice department, agricultural department, information and communication technology department, electric power department. Moreover, many services provided by government are services the specific recipient may not want, like intelligence bureau, being held in jail, and so on. Moreover, identifying the customers of government is problematic, for example, identifying the customers of the fire department and weather department is problematic (Denhardt & Denhardt, 2007; McDonald, 2006; and Pagnato, 1997).

For this reason, there are scholars (Harvey, 2012) who adhered to government provision of the services to citizens. He is convinced that there are many businesses that also make the customer's life unpleasant. For example, in the *US Medical Association*, very few people have much choice in the health care, a vague coverage, and delay reimbursement. On the contrary, government agencies, like fire departments, they are dedicated to the extent of losing their lives every day since they believe it's the right thing to do.

Both the principal-Agent and Stewardship Theory try to bring about effective performance and service delivery. Investigating whether principal-Agent Theory (PAT) or Stewardship Theory (ST) is more applicable within a public-sector context requires its own research study, but some writers argued that the theories, at least depend on attitudes of the parties and contexts of the situations (Forsyth, 2016). It is apparent that there is a dissimilarity between PAT and ST theories (economic versus humanistic). As shown above in detail, PAT assumes the self-interest of the manager (methodological individualism or economic man or maximizing individual utility) and can conflict with the goal and interests of the principal, which finally necessitated the prevalence of contract agreement based on an outcome between the parties. The contract agreement faces problems when the principal lacks information to properly assess the agent's performance (Lee & O'Neill, 2003).

Stewardship Theory refers to the affiliation between the principal or the owner and the steward or the manager (Davis, Schoorman, & Donaldson, 1997) and it assumes a humanistic behavior of man, where steward behavior is based on serving others and here, the preference of the manager can go with the preference of the principal plus the organization. The ST suggests that involvement-oriented (employees are trusted with challenges and responsibility), collectivist (collective goals proceed ahead of individual personal goals), and low power distance

organizational cultures (equality between different levels of the organizational) help influence the choice of stewardship interest (Davis et al., 1997). Individuals who have high levels of identification with their organization are more expected to choose stewardship and become further effective, as they feel a strong sense of membership with their organization and they work for the same goal (Lee & O'Neill, 2003).

### 3.3. Recommendations

The Public Choice Theory played foundational contribution to the development, efficiency, and effectiveness of private-sector. In the 1980s and 1990s, the public-sector adopted the principles and practices of the private-sector management. Therefore, the public-sector by applying the market flavors, like scarce resource allocation, outsourcing or contracting out, institutional pluralism, service decentralization, and accountability through performance management, to mention some can be more efficient and effective to realize its mission.

However, other approaches can be applied side by side with the Public Choice Theory. The private-sector may not invest in schools, since it is not promising to gain profits in rural areas (for example, 80% of the people of Ethiopia live in rural areas). Second, the approaches of Public Service Motivation (PSM) should also be considered. PSM is about the motivation that people have to contribute to society and community (Perry and Hondeghem as cited in Vandenberghe, Ritz, & Neumann, 2018). PSM refers to the yearning to serve the society and the public interest. The shared characteristic in all the definitions of PSM is the individual's keenness to afford to the public and to possibly disregard one's own interests in doing so (Vandenberghe et al., 2018). Horton (as cited in Vandenberghe et al., 2018) also summarized the quintessence of the idea as that a public servant sets aside his personal interest because he sees it as his duty to serve his community.

Here, it is the real situation on the ground in developing countries. There was a meeting with the prime minister of Ethiopia in the House of People's Representative with the Members of Parliament in October 17, 2018. The question raised by the Members of Parliament was salary increment of the civil servants across the country. The prime minister is convinced with the salary increment issue raised by the members as well as the civil servants. However, the Prime Minister explained that the country has faced budget pressure due to displacement of citizens in different places of the country and hence, salary increment will not be considered this year. Rather, the Premier requested and emphasized civil servants to be more committed and motivated than ever before to curb the problems the country has faced.

### 3.4. Conclusion

The Public Choice Theory is based on the private-sector efficiency and effectiveness. As a result, academicians and leaders at the head of the government prescribed the role of state to be minimized, especially Ronald Reagan of the United States in 1980, and Margaret Thatcher of the United Kingdom in 1979, played significant roles in transferring public-sector services to the private-sector (Hood, 1991; Haque, 2004). They argued that less government brings about public-sector efficiency, effectiveness, and economy.

But, as shown above, there is no one best theory or approach in the public-sector (the need to pluralism of theories). For example, in public value, writers come up with clear difference between individual preference and public preference. The public value approach centers on the collective preferences which differentiate it from the individual interest of the NPM (Alford; Kelly, Mulgan and Muers; Moore as cited in O'Flynn, 2007). This completely contradicts with the idea that individual preferences can be aggregated to reflect the public preference. Under NPM individual preferences are summed or aggregated, whereas under public value collective preferences are articulated.

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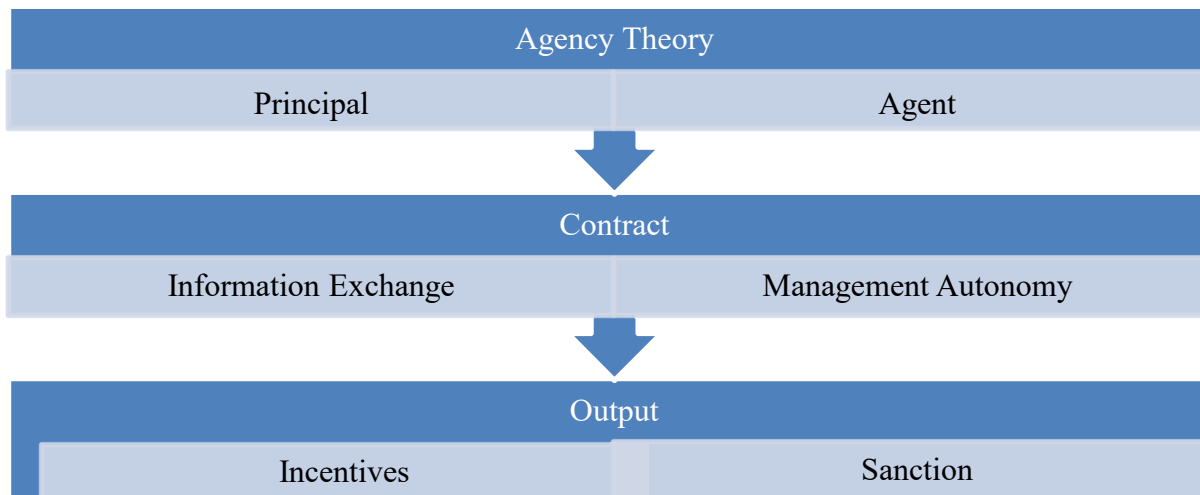


Figure 2-2: Agency Theory  
Source: Own Design