Political Game Theory: Why no one likes what comes out of Washington

The field of Public Choice extends the study of economics to governments. It assumes that people in government behave the same as do people in the private sector. By behave the same, they (according to [Steven Horwitz](http://myslu.stlawu.edu/~shorwitz/)) mean that people have intentions, use information, respond to incentives, and act in accordance to institutional rules set before them. The problem is not that people in government have inherently bad intentions, it is that they lack information due to the absence of price signals; they lack proper incentives due to their inability to be the residual claimant for efficiency increases; and they serve institutions that serve their own needs at the expense of the public. As a result, governments are neither efficient nor fair.

Take the sequester. Left and right leaning economists alike think the sequester is an inefficient way to reduce government spending. They also agree that entitlements reform is the real key to fiscal sanity. Alan Simpson and Erskine Bowles can even create a bipartisan approach to budget control, but [no one listens to them](http://www.businessweek.com/articles/2013-02-28/why-wont-americans-listen-to-alan-simpson-and-erskine-bowles#p1). While reasonable people can agree upon facts, interest groups manipulate facts to spin an economic story that suits their political or economic interests.

The [progressive Center for American Progress claims](http://www.americanprogress.org/issues/budget/report/2013/02/22/54244/the-impact-of-the-sequester-on-communities-across-america/) the sequester will harm communities across America. To them, any reduction in the rate of increased government spending is, by definition, a bad idea. Even if they won’t admit it, all leftists aren’t equal. Some are smarter than others. At the liberal Brookings Institute, Bill Frenzel notes that [a bad sequester is worlds better than no budge deal at all](http://www.brookings.edu/research/opinions/2013/02/26-sequester-costs-opportunities-frenzel).

Even the right has areas of concern regarding the sequester. When it comes to military cuts, the conservative [Heritage Foundation claims](http://blog.heritage.org/2013/02/27/sequestration-will-make-the-u-s-less-safe-despite-catos-claims-to-contrary/) the cuts will make the US less safe, while the libertarian [Cato Institute argues otherwise](http://www.cato.org/blog/sequestration-will-not-make-united-states-less-safe). In any event, even the sequester’s supporters acknowledge that it is only worth doing because Congress and the President aren’t competent at reaching efficient and fair solutions to the nation’s budget woes.

Another example of inefficient outcomes that resulted from political game theory is the Affordable Health Care Act. The [Government Accountability Office now admits](http://www.nationalreview.com/corner/341589/gao-report-obamacare-adds-62-trillion-long-term-deficit-andrew-stiles) that Obamacare adds $6.2 Trillion to the long term deficit in their rosiest projection. [Forbes Magazine calls it](http://www.forbes.com/sites/aroy/2012/11/09/obamacare-americas-last-entitlement/) the last American entitlement. With states opting in an out of the Medicaid expansion, mandates for employers to cover more procedures for more employees, and undefined cost control measures, the complex Affordable Health Care Act cannot possibly be deemed as efficient.

[Fewer Americans are now getting their insurance from their employer](http://www.gallup.com/poll/160676/fewer-americans-getting-health-insurance-employer.aspx) – a trend likely to continue given the incentives in Obamacare. A single payer Canadian or Australian health care system is more efficient than what the US will have under Obamacare. So too would be a privatized health care system that gives every American money In their own health savings account from birth and then lets people make their own choices. That’s right, the liberal nirvana and the conservative heaven are both more efficient (and fair) than what the political process as wrought on the American Public.

The list goes on. Can the federal government efficiently administer student or home loans? Half of student loan holders are now [deffering payments](http://www.chicagotribune.com/business/breaking/chi-half-of-student-loan-holders-defering-payments-20130130,0,1361885.story). Student loan debt is nearing $1 trillion. The [default rate on student loans](http://www.businessweek.com/articles/2012-11-28/the-needless-tragedy-of-student-loan-defaults) is now higher than that for car and credit card loans. The [federal government now insures](http://online.wsj.com/article/SB10001424127887323699704578324141792357594.html?mod=ITP_pageone_1) over 80% of home loans as well while losing billions of dollars a year doing so. It turns out that the offspring of political decision making is most often poorly, or altogether, unplanned.

When my wife and I named our youngest son we both knew for certain what each of us wanted to name him. The problem was that we had strong, but different, preferences. In the end, the compromise was to assign the kid with the fourth or fifth best option from each person’s list, and we are forever irritated with his name (at least I am, which means my strong preference should have won in a world of fairness).

If sensible compromise is difficult in loving households, how much harder must it be heavily partisan government? No wonder nothing sensible ever comes out of Washington.

“In my many years I have come to a conclusion that one useless man is a shame, two is a law firm, and three or more is a congress.” - JOHN ADAMS