Public choice, economics of institutions and the Italian school of public finance

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Abstract A vast, multi-disciplinary, literature has investigated the reasons why, in democracies, policies may actually pursue vested narrow goals, to the benefit of restricted groups but at the expense of the community. This analysis constitutes the foundation of influential contributions in the growing field of economics of institutions. This study highlights how the concepts of narrow interest groups and ruling elites can be found in the largely forgotten strand of research conducted by leading scholars of the so-called Italian School of Public Finance (ISPF), which emerged over the end of the nineteenth century and the first half of the twentieth. The chapter also indicates how the fundamental insights on the political decision-making provided by the economics of institutions and the ISPF are able to shed a light on central problems concerning the definition and implementation of cultural policies.

my main thesis – the permeation of public choice theory not only
with echoes from past generations of thinkers but with ideas
of such thinkers that have maintained their potency
Alan Peacock
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1 Introduction

Governments are not so popular nowadays, as they face a diffuse and increasing criticism. In the US, surveys show that public trust in government decreased almost steadily from 1958 to 2014, going from 73% to 24%, with a maximum of 77% in 1964 and a minimum of 18% in 2011 (Pew Research Center, 2014). A similar decline is detected in surveys conducted in OECD countries where the average confidence was 45% in 2007 and went down to 40% in 2012, amid the 2008 crisis (OECD, 2013). Not

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surprisingly, in those countries, we also observe a strongly negative correlation between perceived corruption and government confidence. The situation is even worse in Europe, where an already low public trust in government went further down, from 40% in 2005 to about 32% in 2013. Confidence in political parties is further lower in each European country (but Denmark), as it fluctuates around 20%, in that period. These figures offer a rather disturbing picture of a generalised dissatisfaction about the outcome of policymaking and raise serious doubts about the ability of democracies to pursue collective goals.

A fundamental contribution of the economic analysis of political decision-making, or public choice theory, has been to highlight how political opportunism, rather than efficiency and equity, may guide public policies. Lack of information is often described as a formidable hurdle for the public in its attempts to oversee and evaluate the political process,[1] putting aside the voting paradox (Downs, 1957; Riker and Ordeshook, 1968), which questions the very fundament of representative democracy, namely voting participation of rational individuals. This lack of information translates into a problem of political accountability. If the political system is indeed unable to systematically ‘punish’ policies that are not consistent with the maximization of social welfare, we may expect a substantial degree of autonomy for policymakers pursuing selfish goals. Moreover, the outcome of the public sector may be difficult to predict for the vast, and hardly avoidable, array of incomplete contracts characterising bureaucracy. Their existence, as well as the asymmetric information affecting elected representatives when they deal with managers and experts in the public sector, hinder the control that politicians - and the public in general - may exert on bureaucrats.

In a system where political accountability is weak, organized groups representing specific economic interests have the opportunity to influence the decisions of elected representatives as well as public managers (here generally defined as bureaucrats), leading to policies that are biased in favour of those few citizens (Grossman and Helpman, 2001, 2002). Similarly, powerful elites may find grounds for reinforcing and perpetuating their influence on the political and economic sphere of a country. Recent additional empirical support for oligarchic policymaking is provided by the study of Gilens and Page (2014), which examines 1,779 policy issues in the US and finds that economic elites and organized interest groups have substantial impact on US government policy, while average citizens and unorganized groups have little or no independent influence.[2]

The cultural sector is a notable example of a situation in which obstacles to public oversight of policies are likely to surface. In this sector, asymmetric information naturally tends to be pervasive. The widespread belief that the appreciation of cultural production needs a high level of cultural capital tends to neuter the impact of external criticisms on the activity of the experts, who have a great

[1] This widespread assumption underlying most theoretical analysis of Public Choice (for a review, see Mueller, 2003), has been partially curtailed by the new approach to political economy (see, among others: Besley, 2007; Wittman and Weingast, 2008). This approach, following the earlier contributions by the ‘Chicago School’ which somewhat reconciled public choice with Paretian welfare economics, supports a more ‘positive’ view of the political sector than that presented by the scholars associated to the ‘Virginia School’. In particular, institutions and fully rational agents would guarantee some degree of public control over policymaking and a fairly competitive electoral system resulting in an outcome that, in principle, would ‘tend’ towards efficiency.

[2] According to a traditional classification in political science, the evidence in favour of the influence of economic elites would support the theory of economic-elite domination, while the evidence in favour of the influence of organized interest groups would provide support for the theory of biased pluralism.

influence on the definition of the goals of cultural policies and, especially, on their implementation. In the case of heritage, experts can go as far as defining what artefacts can be identified as such (Peacock, 1994ab).[3] A similar phenomenon happens to be true also for visual and performing arts, where experts are the main gatekeepers deciding what kind of art is worthy to receive public support. The marginalisation of the public's voice in policymaking casts some doubts on whether cultural policy in the end always tends to pursue the collective benefit (Towse, 1994) or rather the goals of a self-referential cultural elite of experts and of specific lobbies with the means 'to capture' decision-makers. These risks have encouraged scholars to resort to direct democracy through referenda (Frey and Pommerehne, 1995), or to apply institutional remedies such as the arm's-length principle (van der Ploeg, 2006).[4]

A vast, multi-disciplinary, literature has investigated the reasons why, in democracies, policies may actually pursue vested narrow goals, to the benefit of restricted groups at the expense of the community. The analysis is prevalently microeconomic, but some of its main economic insights have been used also in a macroeconomic perspective in the blossoming research on the economics of institutions and development (Acemoglu et al., 2005; Banerjee and Duflo, 2011; Bardhan, 2005, Brady and Spence, 2010; Galor and Moav, 2004, 2006; Galor et al. 2009). In their recent acclaimed book *Why Nations Fail. The Origins of Power Prosperity and Poverty* (2012), Acemoglu and Robinson show how concentration of power and wealth in hands of few hampers economic development. For its focus on biased redistribution in favour of restricted elites, this study connects to an earlier contribution exploring institutional explanations for the long vexed question of the determinants of growth, namely Olson's *Rise and Decline of Nations: Economic Growth, Stagflation and Social Rigidities* (1982). Both contributions interpret the slow-down in growth, and the subsequent decline of economies, as a consequence of the predominance of restricted groups of people over government output.

Their analyses, however, show undetected links to the advances made in the economic analysis of government made by Italian scholars who constituted the so-called Italian School of Public Finance (ISPF) at the turn of the nineteenth century and the beginning of the twentieth. The relevance of ISPF to the development of modern Public Finance and Public Choice was acknowledged by some prominent scholars (Musgrave and Peacock, 1958; Buchanan, 1960, 1967; Peacock, 1992; Wagner, 2003).[5] However, its early contribution to the analysis of the disproportionate influence that a limited segment of the population, either organized interest groups or power elites, may have over public policy, is yet to be fully acknowledged. Our aim is to highlight the neglected links between that analysis and the literature on the economics of institutions, pointing at the influence of powerful restricted highlighted by the political economy of institutions and the early contributions to this issue of the ISPF. We will show how the political economic framework introduced by the ISPF and, especially, the studies on the ruling class and power elites, by Mosca and Pareto respectively, anticipate Olson's

[3] For references on the political economic literature of cultural heritage see: Rizzo and Throsby (2006), Peacock and Rizzo (2008), Holler and Mazza (2013).
[4] Mazza (2011) and Holler and Mazza (2013) provide some comments on the limits of such institutions to effectively overcome the discussed problems.
[5] Surveys on the contributions of the ISPF are also Backhaus and Wagner (2005), Fausto (2003, 2010), Fausto and De Bonis (2003), Fossati (2010).

theory of interest groups and the political economic analysis on institutions and development of nations provided by Acemoglu and Robertson (2012).

This chapter is organised as follows. Next section summarizes the analyses by Olson and by Acemoglu and Robertson on how interest groups and elites may come to influence the process of political decision-making and hinder growth. The third section highlights some important insights of the ISPF on the study of public policy and, in particular, on the development of an elitarian system of government. The fourth section applies some indications emerging from the analysis to the process of decision-making and implementation of cultural policies. Few comments end the chapter.

2 Lobbies, Elites and the Economics of Institutions

The possibility that government policies may not fulfil the preferences of the majority of voters, but rather the specific interests of a relatively small group has been thoroughly investigated in the last fifty years by an extensive political economy literature initiated by the pioneering study of Olson (1965) and the subsequent influential contributions by Tullock (1967), Stigler (1971), Krueger (1974), Peltzman (1976), and Becker (1983, 1985).[6]

Olson Olson (1965) provides an explanation for the formation of an interest group. This is in general a narrow group of subjects with a common interest that has found sufficient selective incentives – which apply just to those who contributed to the common cause - to pursue their goal(s). The limited size of the group is crucial to overcome free-riding and slash organisation and decision costs that affect large groups (generally riven also by heterogeneous preferences) and make them impossible to organize. Moreover, it allows the group to obtain large per-capita benefits for each member of the group with a small spread of costs for the society. In this way, the negligible cost paid by each citizen for so narrow a redistribution - from the many contributors to the few beneficiaries of the group - are substantially smaller than the costs of mobilizing a collective reaction.

If its limited size helps an interest group to develop, the information the public lacks regarding the policy formation process makes the group powerful. Interest groups have resources available (financial support and information useful for a politician to be elected, instruments of pressure such as strikes and newspaper articles, revolving-doors, etc.) to influence (capture) politicians. But, in principle, voters could punish the government enacting biased policies. However, voters are expected be "rationally ignorant" of politics (Downs, 1957).[7] Any single voter has a negligible influence on the result of elections. The expected collective benefits of casting a vote for the right candidate are, therefore, inferior to the individual costs of acquiring information about the candidates (and even to go to the ballot to cast a vote). Moreover, information about politics, which is a collective good, is itself a collective good and, hence, subject to the well-known free-riding problem. The ultimate outcome, then,

[6] See also Buchanan and Tullock (1962).
[7] See footnote 1 for a disclaimer on that hypothesis.

is that in a representative democracy, every vote does not count for the same: interest groups are politically powerful disproportionately with respect to their relatively tiny size.

In the subsequent literature following Olson (1965), the activity of lobbies has mostly be analysed from a microeconomic perspective, investigating, for example: the formation of groups, the instruments of influence, the institutional conditions favouring or discouraging such influence, the efficiency losses that interest groups may generate in their attempt at influencing policies and obtaining rents, and the overall (positive and negative) impact in the political decision-making process. Several years later than this seminal work, Olson applied the theory developed in the *Logic of Collective Action* (1965) to the economic analysis of institutions, in a macroeconomic perspective, in order to provide explanations for the *Rise and Decline of Nations: Economic Growth, Stagflation and Social Rigidities* (1982). That study provides a number of testable hypotheses on the influence of interest groups. We mention four of them that are particularly relevant also for what follows in this chapter.

Firstly, stable societies tend to accumulate more interest groups over time; therefore long periods of peace tend to favour the consolidation of cartels. Secondly, special interest groups reduce efficiency and GDP in the societies where they operate. Thirdly, 'umbrella' organisations (in contrast to narrow interest groups) have incentives to make the society in which they operate more prosperous. Fourthly, interest groups slow down the ability of a society to adopt new technologies and also obstruct the reallocation of resources in response to changing conditions, with a negative impact on the rate of growth. Decline, therefore, is interpreted as being mainly due to the consolidation over time of the power of interest groups protecting and incrementing their rents at the expense of efficiency and, thus of growth. Extraordinary events that subvert the status quo - such as wars, revolutions, international political (dis)integration - can wipe out old elites and lobbies, signing the end of biased and inefficient redistribution, and the beginning of a new period of sustained growth. Olson's analysis would then offer an explanation for the remarkable growth of Japan and Germany, whose productive apparatus was indeed destroyed in WW2, but so was the old system of privileges and rents for narrow interest groups. On the contrary, the victorious Great Britain kept its old established almost intact and suffered a period of post-war stagnation.

Acemoglu and Robinson Some of the main intuitions presented in Olson (1982) are returned to and considerably extended by Acemoglu and Robinson (2012). In their ambitious study, they draw on several historic examples, spanning from Neolithic times to the present day and across more continents, to derive arguments in support of their analysis. After a rebuttal of some popular theories that have occasionally put forward to explain prosperity or poverty, the fundamental proposition from their analysis is that world inequality has institutional origins. Institutions regulate the economy and provide incentives that motivate people in their economic decisions.

In particular, there are two kinds of economic institutions: inclusive or extractive. There are two necessary conditions for inclusiveness: a pluralist system and a centralized political authority. In pluralist political institutions, "instead of being vested in a single individual or narrow group, political power rests with a broad coalition or a plurality of groups" (Acemoglu and Robinson, 2012: 80). However pluralism is not a sufficient condition for inclusive economic institutions, since we need some kind of political centralization that is able to enforce the law to guarantee economic activity and trade.

In this case, norms of the legal system are designed with the goals of constraining power, guaranteeing equal rights and opportunities, and safeguarding property rights. This environment is in turn expected to have a positive impact on education, the spread of technology, and thus growth. The reader can easily see the resemblance with the above third hypothesis indicated by Olson (1982).

In contrast, the absence of one of the conditions needed for inclusiveness is sufficient to have what Acemoglu and Robinson call 'extractive' economic institutions. In this case, the preservation of property rights is insecure and the distribution of legal and economic power tends to be narrow: powerful elites choose the legal and economic system that enriches them and regulate the market in a way that sustains themselves in a perverse loop reinforcing their power. Therefore, entry to the market is allowed as long as it supports the existing elites and technological improvement may be inhibited for the fear of destabilization.

In contrast to Olson (1982), Acemoglu and Robinson provide a dynamic analysis of transition.[8] Being based on dynamic optimization, it presents the feature that small differences at critical junctures may have long-run impact on a country's development (e.g. the Spanish failure to invade England). Moreover, a wrong path can be chosen that leads to poverty not prosperity. Recalling the Schumpeterian concept of creative destruction helping growth, Acemoglu and Robinson warn that some countries may fear to change old businesses for new ones. Elites will naturally resist the emergence of new technologies of production (e.g. the industrial revolution), which may subvert old privileges and jeopardize the power of elites. In contrast, 'soft' transitions are less likely to be opposed if they do not immediately threaten power elites. Again, the similarity with previous fourth hypothesis by Olson is quite evident.

In conclusion, we notice that the choice of which economic institutions are indeed inclusive remains rather subjective. For example, whether the US has inclusive or extractive economic institutions is open to debate. While Acemoglu and Robinson (2014) support the first option, Gilens and Page (2014) show that interest groups and elites rule in the United States rather than the majority. Moreover, the arguments presented by Acemoglu and Robinson, as compelling and fascinating as they are, surprisingly overlook to properly refer to previous analysis which also investigated similar topics.[9] In the following section, we refer to the legacy of the ISPF that provided a very early investigation of the role of elites and interest groups and which has been widely disregarded by the political economy literature.

3 Narrow-Interest Policymaking in the Italian School of Public Finance

The remarkable and lasting attention of scholars in economics and political science to the role that elites and interest groups have in shaping policies and influencing growth and income redistribution is not at all a recent phenomenon. It is deeply rooted in the political and economic thinking between the

[8] For an analytical treatment of the issues presented in Acemoglu and Robinson (2012), see Acemoglu (2010).

[9] Leaving aside Olson (1982), which is just briefly mentioned, no prominent scholars among the founders of Public Choice is cited, in spite of the closeness of the topics and insights. Equally surprising is that Acemoglu and Robinson (2012) does not refer to important investigations on the topic of political and economic elites (in the US) carried in political science, such as Mills (1956) and Winters (2011).

second half of nineteenth century and the first half of the twentieth century (see Olson, 1965). In that period, we also observe the development of the ISPF, which contributed to the foundation of the modern public finance and offered an analysis of the fiscal decision-making process and of the participation of political forces: both anticipated the path-breaking contribution of Public Choice (Giardina, 1992). Its importance was indeed recognized by the Virginia School, and Buchanan (1960) published the first review in English of the Italian tradition, two years before the publication of the *Calculus of Consent*. It is arguable, however, whether Public Choice theory indeed originated from the analytical framework developed by the ISPF, and by other prominent European scholars such as Alexis De Tocqueville, Knut Wicksell, Eric Lindahl, Duncan Black, Frederick von Hayek. In any case, as recognized also by Peacock (1992) and Wagner (2003), the ISPF provided an early view of the non-organic form of the state, which is one of the pillars of modern public finance, where policies result from the interaction of groups having different political powers.

The ISPF was reputedly initiated by the seminal works of Maffeo Pantaleoni (1883) and Antonio De Viti de Marco (1888, 1914, 1934, 1939), although Buchanan (1960) highlights how the stimulus provided by the studies of Francesco Ferrara was overlooked for a long time. Mazzola, Montemartini, Mosca, Puviani, Barone, Pareto, Einaudi, Griziotti e Fasiani are among the most prominent names who contributed to the establishment of an Italian tradition that was for some time unknown outside of Italy (with the exception of Pareto who held the chair of political economy at the University of Lausanne).

De Viti de Marco claimed, as did several authors in the present study, that oligarchies may rule also in the institutional framework of representative democracy. Having founded his theory of government on the juxtaposition between 'absolute' and 'democratic' State, he also predated recent theories of collective choice (Acemoglu, 2010).

The English translation of *Principi di Economia Finanziaria* in 1936 gave some international recognition to De Viti de Marco (1934) notwithstanding that work was scorned by some and praised by others. The *Principi* signalled a sharp discontinuity with the normative view of public finance sustained by Edgeworth, and then by Pigou, in which the government has the main role of defining an optimal plan of intervention in order to minimize efficiency losses (Wagner, 2003). De Viti de Marco did not separate the market from the state. On the contrary, he envisaged government decisions as emerging from the interaction of the same people operating in the market.[10] An analogy would be the associations of a democratic State to a cooperative firm - which operates for the welfare of its members in the same fashion as elected representatives should do - and of an absolute State to a monopolist - which maximizes rent similarly to a ruler exploiting his subjects for his personal interest (Giardina, 2008). This connection between market and government shows some similarities to the catallactic approach put forward by Friedrich von Hayek. The notion that fiscal phenomena have to be investigated in the same way as market phenomena is an important breakthrough that widely characterizes the ISPF (Wagner, 2003). Eighty years after the publication of the *Principi*, we see that the contribution of ISPF to the foundation of modern public finance (which now does include the

[10] For De Viti de Marco, as with Pantaleoni and later Fusiani, the government is a cooperative agent of the public, although its mandate can be implemented in different ways, maximising the number of votes or rather the aggregate intensity of preferences (Giardina, 2008).

political economy approach) is still remembered, as indicated by some recent surveys (Backhaus and Wagner, 2005; Fausto, 2003, 2010; Fossati, 2010; Wagner, 2003).

Browsing through a modern textbook of Public Finance, however, the exponents of the ISPF most likely to be found are Puviani and, of course, Pareto, although the latter was critical about the possibility of building an economic theory of public finance, since actions in this field in his view pertain more to the sociological sphere (Dallera, 2013), as explained in his *Trattato di Sociologia* (1923). Puviani owes his fame primarily to the concept of fiscal illusion that has provided a heuristic underpinning to several studies connecting the growth of the public sector to the substantial misperception that individuals have about their fiscal burden. Vilfredo Pareto's contribution to modern microeconomics and the innovation of ordinal utility and (Pareto) optimality are well known and studied by every first year student in economics.[11]

Relatively less is known internationally about Pareto's analysis of power elites. The study of elites has a statistical foundation (Forte and Silvestri, 2013). If we consider the distribution of individuals according to their wealth and according to their political power, Pareto states that we would see that the people who are the richest are also the most powerful. In the top percentiles, we find the 'elected', namely the elites. For Pareto, inequality is quite natural, since society is heterogeneous in terms of different variables (or indexes) related to different individual capacities (such as wealth, education, political power), and elites enjoy higher values for each. Then, in every society, we find in the lower tier those who are ruled and in the upper tier those who rule. Pareto, moreover, warns that if those who own great wealth are also those who control the political power, they will be able to perpetuate themselves at the top of the socio-political-economic hierarchy. This vicious cycle is indicated also by Acemoglu and Robinson (2012), and similarly to the latter Pareto envisages a transition mechanism: social change is due to the transformation or replacement of elites. The transformation happens when new external elements become part of the elite, until they are assimilated. In the end, since the struggle for power is endless and heterogeneity is structural, no social system is eternal: sooner or later it will disappear ("history is a cemetery of elites").

The ultimate problem is then how to give power to those who will use it properly for the collective welfare. On this account, Pareto is sceptical that a pluralist system enfranchising the masses will exclude an elitist government: those who will be elected will govern for their own good. Democracies are doomed to clientelism and populism and unable to unseat the system of power elites. Possibly, this cynical view of democracy (which to some extent recalls the most liberalist positions within Public Choice) and his full endorsement of fascism contributed to the future oblivion of Pareto's political studies. Incidentally, it is worth mentioning the striking resemblance between the central insights by Buchanan and Tullock (1062), Olson (1965), Peltzman (1976) and Becker (1983, 1985) and Pareto's analysis of 'conflictual relations' in policymaking. Pareto (1896-7) highlights the reasons why it is politically viable for a democratic government to implement a transfer to a restricted - not necessarily poor - group of people which has to be financed by a mass of citizens. This transfer would

[11] Pareto's analysis is however more complicated than it generally appears in textbooks. Pareto in fact distinguishes two separate concepts: ophelimity, concerning pure economic satisfaction, and utility, referring to broader satisfaction than the economic one. For a discussion of these concepts and of the maximum of ophelimity/utility *of* or *for* the collectivity, see Giardina (2008), and Forte and Silvestri (2013).

in fact be possible only if the political gains (in terms of votes) expected by groups competing for public expenditure and satisfying their specific interests are greater than the losses of votes of the many taxpayers financing that expenditure. The justification lies, for Pareto, in the asymmetry that we have to expect between the political reaction of a small, organized group having high stakes (per capita benefits) in that policy, and the reaction of the opposing mass of citizens bearing small individual costs for that biased policy and, therefore, having feeble incentives to resist against its implementation.[12] For his contribution, here briefly summarized, we believe that Pareto deserves to be recognized as one of the precursors of the economic theory of interest groups (Giardina, 1992).

As suggested by Forte and Silvestri (2013), the theory of elites elaborated by Pareto was part of a more widespread reflection in Europe about the feasible ways to integrate the people in the process of political decision-making that was instead dominated by elites. This analysis was not very distant, although different, from Mosca's theory of a ruling class (which is equivalent to the restricted ruling minority that Pareto calls the elite) and Pantaleoni and Bartolini (1892) attention to the distinction between contractual agreements and coercive political arrangements (Giardina, 1992). In fact, these scholars demonstrate how democracy was never sufficient to stop a restricted share of society from having control over the masses of the governed.

Mosca's line of research, however, focused on the relationship between government and citizen, while for Pareto, the existence of inequalities and, thus, of elites was perfectly natural, and the hierarchical relationship between ruled and rulers almost constant along the endless succession of elites. In Mosca, there is a different attention to the necessity of finding arguments to legitimate power and of a normative definition of good government (Forte and Silvestri, 2013). These issues are resolved by indicating the middle class as that having superior abilities with respect to all other classes (Mosca, 1939).[13]

4 Narrow Interests in Cultural Policy

The ISPF scholars did not specifically investigate the case of cultural policy. A notable and early exception is De Luca (1858), a professor of public economics and statistics at the university of Naples, who specifically addressed the topic of public support to the fine arts. De Luca interprets arts as instrumental for the intellectual development of a society, as a source of beauty and relief sought by all individuals. They also represent a 'high' form of recreation, which actually generates an incentive to work more in order to pay for its enjoyment. Although arts are a secondary - rather than primary - want, De Luca is in favour of public support, mainly for equity reasons, only when private associations are not able to sustain arts adequately. De Luca's view of government support is interesting for its rarity, at a time when the reasons for a cultural public policy were not as widely recognized as today, and for the surprising 'modernity' of his reference to the third sector and the world of associations (see the chapter by Mignosa, in this book). Moreover, regarding the specific content of this chapter, his opinion is particularly interesting for the observation that arts are themselves expression of the

[12] See Pareto (1896-97) par. 1046 and 1047. See also De Viti de Marco (1890) for a similar point.
[13] For an empirical verification of Mosca's theory in the Italian politics, see Fedeli et al. (2014).

dominant thinking in a society (De Luca 1858: 255-6). And this dominant thinking naturally stems from the intellectual, economic, and political elites.

But is culture policy indeed necessarily responding to the goals of some elites? Are policymakers and bureaucrats expected to be 'captured' by narrow groups? The prospect of biased policies in favour of vested interests and, ultimately, the problem of guaranteeing democratic representation in the definition and implementation of policies are central issues in the analysis of government support to culture. Normative analysis has provided several justifications for government intervention and compared different instruments in terms of efficiency (Towse, 1994; van der Ploeg, 2006). Positive analysis has, however, warned that the decision-making process concerning the allocation of public funds or, more generally, the direction to follow in the implementation of cultural policies does not guarantee, in principle, (public) choices that are consistent either with welfare maximization or at least the goals of a majority (Peacock, 1993).[14]

Actually, taking a closer look at the characteristics of the cultural sector, we see elements that are quite propitious to the formation of narrow interest policies, which are directed to satisfy the political goals of decision-makers (see Guccio and Mazza, 2014, for empirical support) or the interests of organized groups (Grampp, 1989), or socio-economic elites and other gatekeepers. Firstly, we often observe a substantial lack of public information and limited political accountability in the cultural sector because the general public is inclined to accept the idea of having little voice on cultural policies due to the (presumed) higher knowledge of experts. In other words, people may not believe they have sufficient cultural capital needed to evaluate cultural expenditure. In fact, while everyone may feel confident in evaluating and eventually protesting for the poor condition of a school, hospital or road, the same feeling may not exist in case of judging a play, a concert, or an exhibition.[15] Secondly, the high opinion that people generally have for culture together with their lack of information about the (economic) outcome of policies, make supporting culture a useful and acceptable stratagem to propose policies that appear to endorse culture but end up favouring specific economic interests. An example is international regulation to protect cultural diversity, which is an effective way to protect domestic cultural industries (music and cinema, in particular), especially in non-English speaking countries. Thirdly, public policies are likely to determine narrow benefits with diffuse costs: the size of the group of direct beneficiaries of public expenditure (artists, producers in the cultural sector, critics…) is rather restricted and redistribution in their favour can determine high per-capita benefits with rather marginal individual costs for the society, and thus with little negligible political costs for the public decision-makers.

The literature has recognized the discussed problems and suggested some institutional remedies. If we accept that this is a problem of representation embedded in any representative democracy, we could resort to direct democracy and use referenda. Frey (2000) supports the idea that people are adequately aware of the benefits of cultural expenditure and, therefore, capable to preserve culture:

[14] Is it well known that the median voter outcome, obtained under specific circumstances in direct or representative democracy systems, does not necessarily maximize social welfare.

[15] It is, however, correct to mention that particular cultural events, especially art exhibitions or art displays in public spaces, did occasionally generate a public outcry, in different countries. However, the reason was almost inevitably an alleged offense to public decency or to religious creeds. Therefore, the protest did not directly imply a judgement about the artistic value of the sponsored event but rather the open violation of shared norms or beliefs.

there is no real danger of cultural impoverishment if we directly ask citizens to express their preference on public support to culture. There are a number of difficulties with such a solution. Even if we leave aside the costs of referenda – which may indeed may be lower than those of representative politics – and the fact that a minority of people may be sufficient to pass a bill – which, again, it is not excluded by a representative system – referenda have the shortcoming of being potentially subject to transitory emotions. Moreover, their outcome can be influenced by grassroots lobbying, where the general public is contacted and informed in such a way as to induce a certain reaction that is consistent with the goal of whom finances such a campaign. Finally, and most importantly, experimental economics has highlighted how the format of a question has a serious impact on the type of answer we get (see the problem of framing, for example). Therefore, the outcome of a referendum can indeed be influenced by those who decide the way a question is going to be asked. And this power of the agenda setter takes us back to the original problem of democratic representation introduced before.

An alternative institutional solution could be provided by the application of the arms-length principle, which was adopted by the Arts Council in the UK and then was widely adopted in the UK and USA. Autonomous agencies could avoid that cultural policies are subject to the influence of politicians, bureaucrats, interest groups, and powerful elites as it could be the case if we had direct public management (van der Ploeg, 2006). Such agencies, although publicly funded, are substantially independent in their decision of the allocation of resources and are managed and supervised by experts. This system of independent agencies has, however, some pros and cons, as far as democratic participation is concerned. It is designed in a way to forestall political influence in the allocation of public funds for culture, but it raises the problem of accountability of those agencies with respect to the taxpayers. In fact, the public is basically unable to contrast their decisions. Moreover, decisions taken by several independent agencies may lack coordination and lead to a fragmented national cultural policy. In order to try "to resolve the oxymoron of accountability and autonomy" (Quinn, 1998: 293), the Netherlands adopt a mixed system of separation of powers, where agencies have the power of proposing which projects to subsidise but the government keeps the financial and regulatory power. But political control, although restricted, may open the door to interferences from politically powerful lobbies. In order to reconcile cultural policies with the collective preferences in arm-length bodies, Peacock (1998) suggests having representatives from local cultural organizations in the boards of public agencies implementing cultural policy. An additional alternative is the National Trust model, where private associations, independent from the political - and, in principle, more accountable to the community preferences - administer cultural programmes.

In conclusion, arms-length bodies, with or without the participation of external members representing different community interests, or National Trust-type organisations can represent an institutional remedy for the independency of cultural programs from politics and vested interests of organised groups. But do they also prevent the formation of cultural policies satisfying the aims of *intellectual* elites rather than those of a community? Our opinion is that they do not, in general, for at least two reasons. First the experts managing the activities of such agencies, for their specific cultural formation, are naturally focused on their specific fields and have little understanding or concern about the opportunity cost of their decisions for the whole society. Second, due to their independence, they do not have adequate incentives to take fully into account the interests of the public. Moreover, the procedures of selection and appointment of board members, managers, and consultants (what we could call the politics *within* the organisations) should be investigated more thoroughly to verify whether they are sufficiently open to account for the preference of the public rather than dominant elites.[16]

5 Concluding Remarks

This brief chapter has investigated the theoretical links between two fundamental contributions in the field of the economics of institution, both based on the influence of narrow interest groups, and those between this strand of research and early and often neglected analysis provided by the ISPF on ruling elites, or ruling class. The succinct analysis has highlighted points in common between modern economic of institution and the theory elaborated by Pareto and Mosca. It is however difficult to say whether the ISPF studies on power elites and ruling class really anticipates the theory of narrow interest groups. In particular, the emergence of ruling elites or class is explained by Pareto and Mosca more as a natural (statistical) event than the consequence of economic phenomena. Under a more general perspective, this study offers interesting insights to interpret the growing discomfort of the public with respect to policymaking in many advanced economies.

The attention has then been devoted to the decision-making process for the definition and implementation of cultural policies. The issues presented in this paper lead us to think that cultural policies are potentially subject to the influence of elites, although different institutional frameworks may help to reduce their impact on the government output.

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[16] Holler and Mazza (2013) also highlight the question concerning the choice of the decision rule in any committee in these bodies, and how such a choice affects the outcome of the decision process.

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