

Instrument Choice and Political Equilibrium: Why Governments Suppress Marginal Adjustment

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Abstract

Public choice theory has largely explained why inefficient policies persist. This paper examines a logically prior question: why do political systems systematically choose particular classes of policy instruments. It develops a model of political instrument choice in which governments choose between marginally adjusting instruments that rely on prices, entry, exit, and decentralized choice and suppressive instruments that rely on administrative allocation, quantity restrictions, and discretionary control. The model implies that suppressive instruments may be politically preferred even when marginally adjusting alternatives generate higher aggregate welfare because they reduce the visibility of adjustment costs, preserve administrative discretion, stabilize governing coalitions, and diffuse responsibility for economically costly outcomes. Applications across water pricing, education, healthcare, housing, and labor markets illustrate the framework. The paper concludes that repeated political selection of suppressive instruments generates institutional complementarity and cumulative institutional drag, providing one political mechanism through which persistent resource misallocation and slower long-run economic adaptation may emerge.

JEL Classifications: D72, D78, P16, H11, L51, O43

1. Introduction: From Policy Outcomes to Instrument Choice

Public choice theory has devoted enormous attention to explaining why inefficient policies persist. This paper asks a logically prior question: why do political systems repeatedly choose a particular class of policy instruments in the first place? These choices recur across sectors with very different technologies, constituencies, and moral narratives. Water is rationed administratively rather than priced at marginal cost; education systems restrict exit while expanding oversight; healthcare policy suppresses price awareness through third-party payment; housing shortages are addressed through rent controls rather than supply expansion; labor markets are regulated through uniform floors rather than local or individual adjustment.

The persistence of these arrangements is puzzling only if policy choice is viewed primarily as a response to technical inefficiency or informational constraints. In fact, the allocative consequences of these instruments are well understood and extensively documented. Their endurance therefore raises a different question: why do political systems repeatedly select the same class of instruments across unrelated domains?

Public choice theory offers powerful explanations for the persistence of inefficient outcomes, emphasizing concentrated benefits, diffuse costs, and bureaucratic incentives (Olson 1965; Buchanan and Tullock 1962; Niskanen 1971). This paper builds on that tradition while shifting the object of analysis from policy persistence to instrument choice. It asks why political equilibria systematically select policy instruments that suppress marginal adjustment—such as administrative controls, quantity restrictions, and limits on exit—over price-based or decentralized alternatives that are widely understood, administratively feasible, and known to improve allocative performance.

The central claim is straightforward: instruments that suppress marginal adjustment—administrative controls, quantity restrictions, categorical rules—dominate politically because they diffuse responsibility, preserve discretion, and stabilize governing coalitions. Marginal instruments—prices, exit, decentralized choice—generate visible tradeoffs and identifiable losers, making them politically fragile. As a result, political equilibrium systematically favors suppression over adjustment.

The remainder of the paper proceeds as follows. Section 2 develops the theoretical framework, distinguishing instrument choice from policy persistence and presenting a model of political instrument selection together with its principal propositions. Sections 3 through 6 examine the framework across a series of policy domains, while Section 6.1 considers circumstances under which marginally adjusting instruments have proven politically sustainable. Section 7 examines the broader implications of repeated suppressive instrument selection for institutional complementarity, resource misallocation, and long-run economic adaptation. The final section concludes by considering the implications of instrument choice for public-choice theory and political economy.

2. Instrument Choice and Political Equilibrium

2.1 From Policy Outcomes to Policy Instruments

Public-choice theory has traditionally concentrated on the political forces that produce or preserve inefficient outcomes. Concentrated benefits and diffuse costs allow organized groups to secure favorable treatment while imposing relatively small burdens upon a much larger population (Olson 1965). Competition among pressure groups influences the taxes, subsidies, and regulations selected through the political process (Becker 1983). Bureaucratic organizations possess their own interests in budgets, authority, and institutional survival and therefore need not behave as neutral instruments of an independently defined public interest (Niskanen 1971). These arguments explain why political outcomes may depart persistently from conventional welfare benchmarks.

The present argument accepts these mechanisms but shifts the object of analysis. Political actors do not choose only the distribution of benefits and costs. They also choose the institutional form through which those benefits and costs will be delivered. A transfer may be explicit or concealed within regulation. Scarcity may be allocated through prices or through queues. Consumers may be permitted to exit or required to seek administrative redress. Adjustment may occur continuously through decentralized decisions or discretely through rules, waivers, mandates, and permissions.

This distinction matters because economically similar policies may have very different political properties depending upon the instrument used to implement them. An explicit tax and transfer makes both the beneficiary and the payer comparatively visible. A price ceiling, licensing restriction, mandated benefit, or administrative entitlement may redistribute resources less transparently. The allocative consequences may be inferior, but the political costs may also be less immediate or less attributable.

Political equilibrium therefore concerns not merely who gains and who loses, but how those gains and losses are organized, perceived, and assigned.

Previous work has recognized that political systems may prefer inefficient or indirect instruments when direct redistribution would be politically difficult. Coate and Morris (1995), for example, show how inefficient policies may be used to transfer resources to special interests when voters are imperfectly informed about political motives. The argument developed here is broader in one particular respect. It identifies a recurring characteristic shared by many politically selected instruments: they suppress marginal adjustment. The relevant contrast is therefore not simply between efficient and inefficient redistribution, or between transparent and concealed transfers. It is between instruments that allow individuals and organizations to respond continuously to scarcity, preferences, and opportunity, and instruments that replace that adjustment with administrative allocation.

2.2 Marginal Adjustment and Administrative Suppression

Marginally adjusting instruments permit economic actors to respond incrementally as conditions change. Prices convey changes in scarcity. Entry and exit reveal the relative attractiveness of institutions and suppliers. Decentralized choice permits heterogeneous actors to make different decisions in response to different circumstances. These mechanisms do not guarantee efficient outcomes, but they preserve channels through which information, incentives, and behavior can adjust continuously.

Suppressive instruments operate differently. Price ceilings, quotas, licensing restrictions, uniform mandates, categorical eligibility rules, and administrative permissions constrain or displace marginal responses. Adjustment still occurs, but it is redirected into queues, shortages, waiting times, quality deterioration, informal side payments, reduced entry, political appeals, or bureaucratic discretion. The relevant distinction is therefore not between adjustment and no adjustment. It is between adjustment through visible marginal signals and adjustment through less transparent non-price mechanisms.

From a conventional welfare perspective, marginal instruments often possess important informational and incentive advantages (Pigou 1920; Coase 1960). From a political perspective, however, those same characteristics may become liabilities. Prices make scarcity visible. User fees identify who pays. Exit reveals dissatisfaction with incumbent institutions. Decentralization transfers authority away from political and administrative actors. Continuous adjustment can expose distributional conflict rather than conceal it.

Administrative suppression reduces these political costs. It allows officials to promise stable prices, uniform entitlements, or protection from market forces while displacing the resulting adjustment elsewhere. A shortage can be attributed to an emergency, a waiting list to excessive demand, and restricted entry to quality protection. Because the losses emerge indirectly, responsibility becomes harder to assign. The instrument may consequently remain politically attractive even when its economic costs are widely understood.

2.3 Equilibrium Selection of Suppressive Instruments

An instrument that suppresses marginal adjustment becomes a stable political equilibrium when four conditions hold.

First, visible marginal adjustment creates politically identifiable losses. A price increase, benefit reduction, closure, or withdrawal of a subsidy produces a recognizable group of losers with strong incentives to oppose the change. Political competition therefore places greater weight on visible losses than on diffuse gains. This is consistent with the broader public-choice emphasis on differential organization and political pressure (Olson 1965; Becker 1983).

Second, administrative instruments preserve authority and institutional rents. Agencies that allocate permissions, enforce standards, determine eligibility, or administer shortages acquire continuing roles that would diminish under decentralized adjustment. Niskanen's analysis of bureaucratic incentives establishes why administrative actors may value the expansion or preservation of their jurisdiction independently of the allocative merits of the policy (Niskanen 1971). Suppressive instruments are politically complementary to bureaucratic authority because they create continuing demands for interpretation, enforcement, exception, and supervision.

Third, the costs generated by suppression are commonly diffuse, delayed, or displaced. Reduced entry, lower investment, foregone mobility, diminished quality, and slower innovation rarely appear as a single budgetary charge. They emerge across individuals, locations, and periods. The political system therefore compares visible and concentrated opposition to reform with gains that may be individually small, uncertain, or realized only in the future. Even when aggregate gains from marginal adjustment are substantial, no individual political actor necessarily receives enough of those gains to bear the cost of reform.

Fourth, suppressive instruments frequently possess a moral or rhetorical advantage. Price-based adjustment can be portrayed as withdrawing protection, commodifying an essential service, or favoring those with greater ability to pay. Administrative instruments can instead be presented as guarantees of fairness, universality, stability, or protection. Moral framing does not merely conceal economic effects. It changes the political comparison by making the marginal instrument bear the burden of justification while allowing the administrative instrument to be judged by its stated objective rather than by the adjustment process it creates.

When these conditions hold, movement toward a marginally adjusting instrument may be politically unattractive to every actor capable of initiating or sustaining reform. Elected officials incur visible opposition. Agencies surrender authority. Organized beneficiaries risk explicit losses. The gains are distributed among consumers, taxpayers, potential entrants, and future participants who may be difficult to identify or organize. No assumption of ignorance is required. Political actors may understand that the marginal instrument would improve aggregate welfare and still rationally prefer administrative suppression.

The equilibrium argument therefore differs from the claim that policymakers simply make mistakes. It also differs from the claim that one organized group captures a policy and then prevents its repeal. The more general proposition is that the political properties of the instrument itself influence selection. Instruments that conceal scarcity, diffuse responsibility, preserve discretion, and reduce the visibility of distributional conflict possess an endogenous political advantage. The same advantage can operate across policy domains even when the beneficiaries, technologies, and stated purposes of the policies differ substantially.

2.4 Political Equilibrium as Instrument Selection

The concept of political equilibrium employed here differs subtly from the way equilibrium is often discussed in public-choice analysis. Much of the literature examines the equilibrium persistence of particular policies, asking why inefficient regulations, subsidies, transfers, or administrative arrangements survive despite their allocative costs. The equilibrium object is therefore the policy outcome itself. The present paper instead treats the policy instrument as the object of political selection.

This distinction is important because policymakers frequently possess multiple instruments capable of pursuing broadly similar political or distributional objectives. Housing affordability, educational access, healthcare financing, environmental quality, and income redistribution can each be pursued through a variety of institutional arrangements. Some rely primarily upon decentralized adjustment through prices, exit, or consumer choice. Others rely upon administrative discretion, quantity restrictions, eligibility rules, or direct allocation. The central claim developed here is that these alternatives possess systematically different political properties even when they pursue similar stated objectives.

Political equilibrium therefore refers not simply to the persistence of an existing policy, but to a stable configuration in which no politically relevant actor possesses sufficient incentive to replace a suppressive instrument with a marginally adjusting alternative. Politicians anticipate electoral responses. Bureaucracies seek to preserve authority, discretion, and organizational relevance. Organized interests protect existing advantages. Diffuse beneficiaries of more efficient adjustment frequently remain weakly organized, geographically dispersed, or separated from the political decision by time and uncertainty. Under these conditions, suppressive instruments may remain politically stable even when their allocative costs are widely recognized.

This interpretation complements rather than replaces several established strands of public-choice theory. Olson (1965) explains why organized interests successfully defend concentrated benefits. Becker (1983) models political competition among organized groups. Niskanen (1971) explains why bureaucratic organizations possess incentives to preserve administrative authority. Stigler (1971) demonstrates how regulation may be acquired by the industries it governs. Each identifies mechanisms through which political incentives diverge from conventional welfare analysis.

The present argument differs in both its object of analysis and its level of generality. Regulatory capture explains why particular regulations may favor particular industries. The framework developed here asks

why political systems repeatedly choose an entire class of policy instruments characterized by the suppression of marginal adjustment, regardless of the identity of the beneficiaries. The mechanism therefore extends beyond industry capture. Rent-controlled housing, administratively priced water, restrictions on educational exit, healthcare price opacity, and nationally uniform labor regulation involve different interest groups, different administrative structures, and different political coalitions. What they share is not a common beneficiary but a common political property: they substitute administrative allocation for decentralized marginal adjustment. The central contribution of this paper is to identify that recurring pattern of instrument selection.

The framework also differs from Olson's *The Rise and Decline of Nations* (1982). Olson argues that the accumulation of distributional coalitions gradually reduces economic dynamism and growth. The present paper accepts that political equilibria generate long-run economic costs but focuses on an earlier stage of the process: the systematic selection of suppressive policy instruments. Distributional coalitions help explain why particular political equilibria remain stable. The present argument seeks to explain why those equilibria repeatedly take a particular institutional form. In this sense, the paper complements Olson's analysis by shifting attention from the persistence of political coalitions to the political selection of the institutional mechanisms through which those coalitions operate.

This perspective also differs from the view that inefficient instruments survive simply because political actors are uninformed or voters misunderstand economic relationships. The argument does not require ignorance. Political actors may fully understand the allocative advantages of marginal-cost pricing, decentralized choice, or greater reliance upon price signals. Suppressive instruments may nevertheless be preferred because they reduce immediate political costs even while increasing longer-run economic costs. Instrument choice therefore reflects political optimization rather than political error.

Viewed in this way, the equilibrium concept employed here concerns the political selection of institutional mechanisms rather than the selection of policy objectives. Governments may pursue affordability, access, redistribution, or stability under either suppressive or marginally adjusting arrangements. The contribution of the present framework is to suggest that the political characteristics of the instrument itself constitute an independent determinant of equilibrium selection. Instrument choice therefore represents a distinct margin of political competition that has received less attention than the persistence of policy outcomes themselves.

The contribution of the present framework is therefore not simply to identify another source of political inefficiency. Rather, it identifies instrument choice as a distinct margin of political equilibrium. Traditional public-choice analysis has primarily explained why politically rational actors select inefficient policy outcomes. The present framework suggests that political systems also optimize over the institutional mechanisms through which those outcomes are pursued. The recurrent selection of suppressive instruments is therefore interpreted not as a collection of independent policy failures, but as the equilibrium outcome of political optimization over policy instruments.

Once equilibrium is understood in these terms, several empirical implications follow naturally. If the framework is correct, suppressive instruments should recur across policy domains that differ substantially in technology, constituency, and stated purpose, because their political attractiveness derives from common institutional properties rather than from sector-specific considerations. Likewise, marginally adjusting instruments should become politically feasible primarily where the visibility of losses can be reduced, administrative rents are comparatively limited, or the political gains from decentralized adjustment become sufficiently concentrated to overcome the advantages of administrative suppression. These implications are examined in the policy domains that follow.

2.5 A Model of Political Instrument Choice

Consider a political system choosing between two instruments intended to pursue the same broad policy objective. Let M denote a marginally adjusting instrument and S a suppressive instrument. A marginally adjusting instrument relies primarily on prices, entry, exit, or decentralized choice. A suppressive instrument relies primarily on administrative allocation, quantity restrictions, categorical rules, or discretionary control. Let W_M and W_S denote aggregate economic welfare under instruments M and S , respectively, and let Π_M and Π_S denote the corresponding political payoffs from selecting each instrument.

The purpose of the model is not to represent the internal structure of every political institution. Rather, it provides a reduced-form representation of the political incentives faced by elected officials, administrative agencies, organized interests, and affected voters. The political value assigned to an instrument reflects the combined effect of electoral consequences, administrative rents, coalition stability, and the visibility of the losses produced by adjustment.

Let W_M and W_S denote aggregate economic welfare under the two instruments. Assume:

$$W_M > W_S.$$

This assumption does not imply that every marginal instrument is superior to every suppressive instrument. Rather, it defines the class of cases examined in this paper: those in which a marginally adjusting alternative is economically preferable but a suppressive instrument nevertheless remains politically attractive. The model therefore separates two distinct questions. First, which instrument generates greater aggregate economic welfare? Second, which instrument generates the greater political payoff? The first question is taken as given for the purposes of the present analysis and has been extensively examined elsewhere in the economics literature. The purpose of the present model is to explain why political optimization may nevertheless favor the welfare-inferior instrument.

The political payoff from selecting the marginal instrument is:

$$\Pi_M = \theta W_M + G - V,$$

where:

- $\theta \geq 0$ is the weight the political system places on aggregate economic welfare;
- $G \geq 0$ represents political gains generated by the marginal instrument; and
- $V \geq 0$ represents the political cost created by the visible losses associated with marginal adjustment.

The term G permits marginal instruments to generate political as well as economic benefits. Auction revenues may benefit governments. Tradable permits may receive support from regulated firms. User charges may become acceptable when revenues are visibly returned to affected constituencies. Marginal instruments are therefore not assumed to be politically unattractive in all circumstances.

The term V captures the distinctive political disadvantage emphasized in this paper. Marginal instruments make scarcity and incidence visible. A price increase identifies who pays. Exit reveals dissatisfaction with incumbent institutions. Decentralization transfers authority away from political and administrative actors. Even when the aggregate welfare effect is positive, the immediate losers may be identifiable and politically organized.

The political payoff from selecting the suppressive instrument is:

$$\Pi_S = \theta W_S + A + D + C,$$

where:

- $A \geq 0$ represents the administrative rents associated with discretion, supervision, enforcement, and control;
- $D \geq 0$ represents the political benefit from diffusing, delaying, or displacing the costs of adjustment; and
- $C \geq 0$ represents the coalition-stabilizing value of the suppressive instrument.

Administrative rents include both narrow organizational benefits and the broader value of preserving political authority. Diffusion benefits arise when adjustment occurs through queues, shortages, waiting times, quality deterioration, or reduced entry rather than through an explicit price or benefit change. Coalition benefits arise when an instrument protects organized beneficiaries, avoids direct confrontation with identifiable losers, or permits competing political constituencies to support the same policy for different reasons.

The political system selects the suppressive instrument whenever:

$$\Pi_S \geq \Pi_M.$$

Substituting the two payoff expressions gives:

$$\theta W_S + A + D + C \geq \theta W_M + G - V.$$

Rearranging yields the central instrument-selection condition:

$$A + D + C + V - G \geq \theta (W_M - W_S).$$

The right-hand side is the politically weighted welfare advantage of the marginal instrument. The left-hand side is the net political advantage of suppression. It combines administrative rents, diffusion of responsibility, coalition stability, and the avoidance of visible adjustment costs, less any direct political gains created by the marginal instrument.

Proposition 1

Suppressive Instrument Selection

A politically feasible suppressive instrument is selected over an economically superior marginal instrument whenever:

$$A + D + C + V - G \geq \theta (W_M - W_S).$$

Proof

The result follows directly from comparing Π_S and Π_M . The suppressive instrument is selected whenever its political payoff is at least as large as the political payoff associated with the marginal instrument. $\square$

The proposition makes clear that suppressive instrument selection does not require political ignorance or analytical error. The political system may recognize that $W_M > W_S$ and nevertheless select S . The selection is politically rational whenever the net political advantages of suppression exceed the political value assigned to the welfare improvement generated by marginal adjustment.

Proposition 2

Administrative Rents and Political Payoff

The political payoff advantage of the suppressive instrument increases with the political value of administrative discretion.

Proof

Holding all other terms constant,

$$\frac{\partial (\Pi_S - \Pi_M)}{\partial A} = 1 > 0.$$

An increase in administrative rents raises the political payoff from the suppressive instrument without affecting the political payoff associated with marginal adjustment. Suppressive instruments therefore become more attractive as the political value of administrative authority increases. $\square$

This proposition provides a direct link to Niskanen (1971). Administrative organizations do not merely administer policy; they also possess incentives to preserve the institutional arrangements through which authority is exercised. Instruments requiring continuing supervision, interpretation, licensing, enforcement, or discretionary allocation therefore possess an inherent political advantage over instruments that rely primarily upon decentralized adjustment.

Proposition 3

Visibility and Political Payoff

The political payoff advantage of the suppressive instrument increases as the political visibility of the adjustment costs associated with the marginal instrument increases.

Proof

Holding all other terms constant,

$$\frac{\partial (\Pi_S - \Pi_M)}{\partial V} = 1 > 0.$$

An increase in the visibility of the losses associated with marginal adjustment increases the relative political attractiveness of suppressive instruments. Conversely, institutional arrangements that reduce the visibility or concentration of those losses increase the political feasibility of marginal adjustment. $\square$

This proposition captures the central intuition underlying the paper. Prices, user charges, benefit reductions, and institutional exit identify who bears the costs of adjustment. Administrative instruments frequently displace those same adjustments into queues, shortages, waiting times, quality reductions, or delayed investment, making responsibility less immediate and therefore politically easier to sustain.

The condition can also be expressed in terms of a threshold welfare weight. Define:

$$\theta^* = \frac{A + D + C + V - G}{W_M - W_S}.$$

Provided that $W_M - W_S > 0$, the suppressive instrument is selected whenever:

$$\theta \leq \theta^*.$$

A political system that places relatively little weight on diffuse aggregate welfare gains will therefore be more likely to select suppression. But even a system that places substantial weight on welfare may select S when visible losses, administrative rents, and coalition benefits are sufficiently large.

The model therefore generates a straightforward interpretation of instrument choice under political equilibrium. Suppressive instruments need not be economically superior to be politically selected. They are chosen whenever the political advantages associated with administrative discretion, coalition

stability, and the diffusion of visible adjustment costs outweigh the politically weighted welfare gains generated by marginal adjustment. The remaining sections examine whether this framework helps explain the recurring selection of suppressive instruments across otherwise unrelated policy domains.

3. Water Pricing: Discretion over Marginal Cost

Water policy illustrates the instrument-choice logic in its simplest form. In many jurisdictions, water is priced administratively at average cost or through politically negotiated rates rather than at marginal cost reflecting scarcity and delivery (Easter, Rosegrant, and Dinar 1998).

Marginal-cost pricing would signal scarcity, reduce waste, and finance infrastructure investment. Yet it would also make distributional tradeoffs explicit, exposing cross-subsidies and generating visible opposition from politically influential users. Administrative pricing avoids this conflict. Scarcity is instead managed through restrictions, emergency measures, and rationing, which diffuse responsibility and shift adjustment to non-price margins (OECD 2015).

The persistence of administrative pricing is therefore not a technical failure. It reflects an equilibrium preference for discretionary control over transparent adjustment.

From the perspective of the model developed in Section 2.5, administrative water pricing illustrates all four political mechanisms. Marginal-cost pricing would impose visible price increases upon identifiable users, increasing the political cost of reform (V). Administrative allocation preserves continuing discretion over pricing, exemptions, and emergency measures (A). The resulting shortages and deferred infrastructure costs are distributed broadly across users and over time (D), while politically influential constituencies benefiting from subsidized pricing remain protected (C). The suppressive instrument therefore remains politically attractive despite its allocative disadvantages.

Water therefore illustrates the broader mechanism developed in this paper. The politically preferred instrument is selected not because it allocates resources more efficiently, but because it suppresses visible marginal adjustment while preserving administrative discretion. The resulting equilibrium reflects the political properties of the instrument itself rather than disagreement over the economic consequences of marginal-cost pricing.

4. Education: Suppressing Exit to Preserve Control

Public education systems rely heavily on centralized provision and limited exit. Where vouchers or choice mechanisms exist, they are typically constrained by eligibility rules, administrative burdens, or funding caps. Reform efforts instead emphasize standards, compliance, and oversight.

This pattern reflects instrument choice rather than disagreement over outcomes. Exit undermines monopsony control, redistributes authority, and weakens organized producer interests. Administrative

standards preserve centralized control while avoiding the political disruption associated with parental choice (Chubb and Moe 1990).

The instrument chosen—administrative oversight rather than exit—suppresses marginal adjustment while stabilizing administrative authority.

The model developed in Section 2.5 helps clarify why administrative oversight remains politically attractive. Expanding parental exit through vouchers or broader school choice would create visible losses for organized producer interests, increasing the political cost of reform (V). Existing administrative structures also derive continuing authority from centralized standards, funding rules, and regulatory oversight (A). The costs of reduced competition—including weaker matching between students and schools, slower innovation, and diminished responsiveness—are broadly dispersed and realized only gradually (D). At the same time, the existing institutional structure preserves stable coalitions among educational administrators, organized labor, and political actors committed to centralized provision (C). The resulting equilibrium therefore favors administrative oversight even when the incentive effects of decentralized choice are well understood.

Education exhibits the same underlying structure. The central political choice is not simply between different educational outcomes but between instruments that permit decentralized adjustment through parental exit and those that preserve administrative allocation through centralized oversight. The persistence of the latter reflects the political equilibrium surrounding instrument selection rather than uncertainty regarding the incentive effects of competition.

5. Healthcare: Price Suppression as Institutional Design

Healthcare policy is characterized by systematic price opacity. Third-party payment, bundled insurance, and extensive regulation insulate consumers from marginal costs. Consumer-directed mechanisms such as Health Savings Accounts reintroduce price awareness while preserving catastrophic coverage yet face persistent opposition.

This opposition is rarely grounded in efficiency analysis. Instead, it reflects institutional incentives. Price transparency reduces administrative discretion and exposes tradeoffs in benefit design and provider compensation. Suppressive instruments preserve centralized control and diffuse responsibility for cost growth, while price opacity weakens the ability of patients and purchasers to compare providers and respond to price differences (Sood et al. 2013; Wang, Whaley, and Bai 2025).

Here again, the political equilibrium favors suppression of marginal signals despite well-understood economic consequences.

The framework developed in Section 2.5 likewise clarifies the political attractiveness of healthcare price suppression. Greater reliance on transparent pricing or consumer-directed mechanisms would expose visible distributional consequences for patients, providers, and insurers, increasing the political cost of

reform (V). Existing institutional arrangements preserve substantial administrative discretion over reimbursement, benefit design, regulatory oversight, and payment systems (A). The resulting costs—including higher expenditures, weaker price competition, and slower innovation—are broadly distributed across taxpayers, employers, and future beneficiaries (D). At the same time, the existing structure supports durable political coalitions among providers, insurers, regulators, and organized beneficiaries (C). The persistence of healthcare price opacity is therefore consistent with the broader theory of equilibrium instrument selection rather than simply reflecting disagreement over healthcare economics.

Healthcare therefore illustrates a broader pattern extending beyond medicine itself. Political resistance is directed less toward particular prices than toward institutional arrangements that restore marginal adjustment. Administrative allocation remains politically attractive because it diffuses responsibility for rising costs while preserving organizational discretion over the allocation process.

6. Housing and Labor: Blunt Instruments and Moral Narratives

Rent control and national minimum wages illustrate how moral framing and administrative convenience reinforce suppressive instrument choice. Rent controls substitute uniform price ceilings for supply expansion, reducing housing availability and mobility over time, particularly in high-productivity regions (Diamond, McQuade, and Qian 2019). National wage floors similarly impose uniform adjustments on heterogeneous labor markets, limiting local adaptation in regions with lower productivity or cost-of-living conditions. Policy-oriented analyses emphasize the geographic heterogeneity underlying these effects, highlighting the tension between national instruments and local labor-market conditions (Neumark and Wascher 2008; Clemens and Strain 2021).

In both cases, the political appeal of blunt, uniform instruments lies in their visibility and moral clarity. Short-run benefits are salient, while longer-run adjustment costs—reduced mobility, suppressed entry, and foregone skill acquisition—are diffuse and delayed. As a result, administrative instruments dominate politically even when alternative, margin-preserving mechanisms are well understood.

The model developed in Section 2.5 helps explain why these blunt instruments remain politically resilient. Greater reliance on localized wage adjustment or market-based housing prices would impose visible losses upon identifiable groups, increasing the political costs of reform (V). Uniform national standards and administrative housing controls preserve continuing governmental authority over allocation and enforcement (A). The resulting costs—including reduced labor mobility, constrained housing supply, and slower regional adjustment—emerge gradually across workers, firms, and communities rather than appearing as immediate budgetary losses (D). Existing political coalitions therefore continue to support suppressive instruments whose long-run economic costs are widely dispersed while their short-run political benefits remain concentrated (C). The persistence of these policies is therefore consistent with the equilibrium logic developed earlier in the paper.

Housing and labor markets demonstrate that this mechanism is not confined to any particular sector or political constituency. In both cases, instruments that suppress decentralized marginal adjustment

remain politically durable because they transform explicit price adjustments into less visible forms of allocation. Their recurrence across unrelated domains is consistent with the broader theory of equilibrium instrument selection developed in this paper.

6.1 When Marginal Instruments Prevail

The framework developed here does not imply that political systems invariably select suppressive instruments. Rather, it predicts that instrument choice depends upon the relative political advantages of suppression and marginal adjustment. The existence of successful market-based instruments therefore provides an important test of the theory rather than a contradiction of it.

Several prominent policy domains illustrate circumstances under which marginally adjusting instruments have proven politically sustainable. The U.S. sulfur dioxide (SO_2) emissions trading program created under the 1990 Clean Air Act Amendments relied upon tradable permits rather than administrative allocation and is widely regarded as one of the most successful market-based environmental policies. Likewise, competitive spectrum auctions replaced discretionary administrative assignment with decentralized bidding in many countries, increasing transparency while generating substantial public revenues. Congestion pricing schemes adopted in cities such as London and Stockholm similarly substituted explicit pricing for administrative rationing of scarce road capacity.

These examples share several characteristics predicted by the framework. First, the political gains from marginal adjustment became more visible. Spectrum auctions generated immediate and measurable public revenues. SO_2 trading achieved environmental objectives while allowing regulated firms flexibility in compliance. Congestion pricing frequently earmarked revenues for transportation improvements, making the benefits more politically attributable.

Second, the political costs of marginal adjustment were reduced. Existing users were often grandfathered into new systems, transition periods softened immediate losses, or compensation mechanisms reduced concentrated opposition. In terms of the model developed above, the visibility of political losses (V) declined while the direct political gains associated with marginal adjustment (G) increased.

Finally, these cases typically involved relatively limited opportunities for continuing administrative discretion once the institutional framework had been established. Because ongoing allocation increasingly occurred through decentralized adjustment rather than administrative decision-making, the political value of bureaucratic discretion (A) was correspondingly smaller.

These cases therefore reinforce rather than weaken the present argument. The theory predicts neither universal suppression nor universal reliance on market instruments. It predicts that instrument choice depends upon the political balance between administrative rents, coalition stability, visible adjustment costs, and politically attributable gains. Marginally adjusting instruments prevail when that balance shifts

sufficiently in their favor. The recurring predominance of suppressive instruments across many other domains therefore remains the phenomenon requiring explanation.

7. Institutional Complementarity and Cumulative Drag

The preceding analysis has focused on the political selection of individual policy instruments. Yet governments rarely choose a single instrument in isolation. Modern economies are characterized by hundreds of policy domains, each governed by its own institutional arrangements. The broader economic consequences therefore depend not only on the efficiency of each individual instrument but also on the interaction among them.

This interaction gives rise to what may be termed **institutional complementarity**. Suppressive instruments selected independently across different policy domains need not generate independent economic costs. Instead, they frequently reinforce one another by reducing the economy's overall capacity for decentralized adjustment. Housing restrictions reduce labor mobility. Healthcare regulation increases the cost of changing employment. Educational monopolies constrain the matching of students to schools and workers to occupations. Occupational licensing limits geographic and occupational flexibility. Water mispricing distorts investment location. Each suppressive instrument independently constrains adjustment, yet together they reduce the economy's capacity to reallocate labor, capital, and entrepreneurial effort toward higher-valued uses.

This perspective extends, but differs from, Olson's *The Rise and Decline of Nations* (1982). Olson argued that the accumulation of distributional coalitions gradually reduces economic dynamism by increasing institutional rigidity and slowing adaptation. The present argument accepts that political equilibria generate long-run economic costs but identifies a distinct mechanism through which those costs arise. The central claim is not simply that coalitions accumulate. It is that political systems repeatedly select instruments that suppress marginal adjustment. Institutional rigidity therefore emerges not only from the persistence of organized interests but also from the repeated political choice of institutional mechanisms that reduce decentralized adaptation.

The modern literature on resource misallocation demonstrates that policy distortions preventing labor and capital from moving toward their highest-valued uses can substantially reduce aggregate productivity (Hsieh and Klenow 2009; Restuccia and Rogerson 2008, 2017). That literature generally treats such distortions as exogenous features of the economic environment and examines their allocative consequences. The present framework addresses an earlier political question: why governments repeatedly generate and preserve institutional arrangements that create those distortions. Instrument choice therefore provides one political mechanism through which persistent misallocation may emerge. Rather than taking distortions as given, the paper suggests that they may themselves be endogenous outcomes of political equilibrium.

An important implication follows. Individual suppressive instruments may appear politically modest when considered separately. Each addresses a particular constituency, market, or administrative

problem. Political actors therefore evaluate them individually, while their economic consequences accumulate across the broader institutional environment. No single instrument appears responsible for declining dynamism, slower productivity growth, or reduced mobility. Yet the interaction among many individually rational political choices may substantially reduce the economy's adaptive capacity.

The result is institutional drag: a reduction in the economy's ability to reallocate resources in response to changing technologies, preferences, and opportunities arising from the cumulative interaction of suppressive policy instruments. Viewed in this way, institutional drag is not simply the accumulation of independent distortions. It is the macroeconomic consequence of repeated political equilibrium over policy instruments. Individual suppressive instruments may appear modest when evaluated separately, yet together they reduce the economy's capacity for decentralized adaptation. This interaction provides one possible political foundation for the persistent misallocation documented in the productivity literature. Growth slows not because innovation is absent, but because governance increasingly constrains the marginal adjustments through which innovation is translated into investment, organizational change, and productivity growth.

This interpretation has an important implication for public-choice analysis. Traditional public-choice theory explains why individually rational political actors select policies that may reduce economic welfare. The present framework suggests that these individually rational choices may also interact across policy domains, producing aggregate consequences considerably larger than the sum of their individual distortions. Political equilibrium therefore shapes not only the efficiency of particular markets but also the adaptive capacity of the economy as a whole.

From this perspective, the principal long-run cost of suppressive instrument selection is not simply static deadweight loss. It is the gradual erosion of the decentralized adjustment processes through which market economies continually discover, coordinate, and exploit new opportunities. Institutional drag is therefore not merely an unintended consequence of individual political decisions. It is the cumulative macroeconomic outcome of repeated equilibrium selection over policy instruments.

8. Conclusion

Public choice has greatly improved our understanding of why inefficient policies persist. Concentrated benefits, diffuse costs, bureaucratic incentives, and collective-action problems explain why politically rational actors often sustain economically inefficient arrangements. This paper has argued that an additional question deserves attention. Political systems do not merely choose policy outcomes. They also choose policy instruments.

The central claim has been that political equilibrium systematically favors instruments that suppress marginal adjustment over those that permit decentralized responses to prices, scarcity, and changing economic conditions. Administrative controls, quantity restrictions, centralized allocation, and limits on exit share a common political advantage. They diffuse visible losses, preserve administrative discretion, and reduce the immediate political conflict generated by explicit marginal adjustment. Their recurrence

across otherwise unrelated policy domains suggests that they represent more than isolated policy mistakes. They reflect a common mechanism of equilibrium instrument selection.

This perspective also highlights the importance of examining policies collectively rather than individually. Suppressive instruments rarely operate in isolation. Housing constraints, healthcare regulation, educational monopolies, occupational licensing, and administratively determined resource allocation interact to reduce the economy's overall capacity for decentralized adaptation. The resulting institutional drag arises not from a single policy failure but from the cumulative interaction of many individually stable political equilibria.

The contribution of this paper is therefore not to demonstrate once again that particular policies are inefficient. That conclusion is already well established in much of the economics literature. Rather, it is to suggest that public choice should devote greater attention to the political selection of policy instruments themselves. Understanding why governments repeatedly suppress marginal adjustment may prove equally important as understanding why inefficient policies persist.

If this argument is correct, the principal long-run cost of political equilibrium is not simply the deadweight loss associated with individual interventions. It is the gradual erosion of the decentralized adjustment processes through which modern economies continually adapt to new technologies, new opportunities, and changing patterns of scarcity.

Declarations

Generative AI Statement

During the preparation of this manuscript, the author used OpenAI's ChatGPT to assist with editing, grammar, organization, and literature and reference checks. All research questions, theoretical arguments, analysis, interpretations, and conclusions are entirely the author's own. The author reviewed, verified, and edited all AI-assisted output and accepts full responsibility for the accuracy and integrity of the manuscript.

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S.L. solely conceived the study, conducted the research, developed the theoretical framework, wrote the manuscript, and approved the final version.

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