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THE POLITICAL MARKET IN THE FRAMEWORK OF MARKET FAILURE THEORY: AN ANALYTICAL APPROACH

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ABSTRACT

The political market is a mechanism like the traditional economic market, in which the players act within the framework of the utility function, the exchange process, and formed market strategies. Although the economic necessity of political markets is obvious, it should be called an economic market in terms of the effect it has on social welfare. The effectiveness of the political market depends on whether it have the characteristics of a perfectly competitive market. A perfectly competitive market refers to a market of goods and services with the lowest possible price and the lowest cost, from which the players in the market benefit. However, when the market mechanism has difficulties in providing an optimal level of resource allocation in the current system, it begins to lose its perfectly competitive market feature and its effectiveness in economic terms. Since the market mechanism cannot be balanced naturally itself, it needs legal regulations that are called as non-market intervention and that have economic consequences, in order to regulate the market functions. The main purpose of this study is to reveal the economic market nature of the concept of political market. The political market is explained theoretically through the theory of market failures and the political market mechanism is revealed based upon conventional market logic.

Keywords: *Political Market, Market Failures, Market Mechanism, Economic Analysis.*

Jel Codes: *A12, P48, P40.*

1. INTRODUCTION

The actions of rational individuals are an effort in order to meet needs and wants under external constraints. Regardless of the market, they act with the motive created by the limited supply of tools or resources. The things that are individually available and obtainable depend on the way that society defines property rights as property allows for division among members of society. From this point of view, the individual behaves by choosing the most efficient choice that satisfies his wishes at an optimum level. The efficient distribution of resources in the markets and the existence of the mechanism that provides the most benefits for individuals reveal the concept of market mechanism and market

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society. It is assumed that individuals know the tools they will use to achieve their goals based on their limited rational preferences.

Political markets can be explained by the tools of economic markets. Voters choose their behavior in this direction in order to maximize their own benefits, and therefore, they always find an optimal choice point because they have rational preferences. This situation parallels the rational expectations theorem. According to the rational expectations point of view, the expectations of the voters are rational rather than adaptive, so the voter/individual does not make systematic mistakes. They can make mistakes, but this will never be in a systematic way.

The government will always have real and complete information, while the electorate will try to make their rational choice under the limited information. Besides information asymmetry, voters consider whether the government has the ability to manage the economy. Politicians, on the other hand, try to get the votes of the voters by applying populist economic policies to prove that they have the necessary talent before the election. On the other hand, monopoly effects, externalities, oligopoly, cartel effect, asymmetric information are the types of failures that occur in political markets. As it is clear, there is a failure in the political markets as well as in the economic markets. Therefore, the concept of the political market can be explained through the economic analysis of political processes. Political markets, which are explained on the basis of the theory of market failures, can be regulated by the endless game strategy and rules, that is, by constitutional regulations.

2. ECONOMIC ANALYSIS OF POLITICAL PROCESS AND POLITICAL MARKET CONCEPT

The concept of a political market can be explained by the theories and methods of modern political economy. This concept is the expression of the institutional and market side of political economy. It is also a term that emerges from the interplay of economics and politics and needs to be defined using the tools of these fields. The political market is also an economic institution that has economic output and affects social welfare. The mainstream approach included in the field of modern political economy is the neoclassical approach. It is a doctrine that includes economic concepts such as individual utility, marginalist calculation method, theory of value, marginal product and finite demand, and explains material efficiency and the reproduction process with rational human behavior. In terms of its structural features, the theory is based on the notion of choices under constraint. Individuals decide by considering the effects on themselves because they act with the motivation of satisfying needs and wants. In other words, rational preferences are shaped around the individual's utilitarian motive. From this point of view, it is possible to say that the individual economizes his whole life. In a system where scarcity determines both individual wishes and needs and other conditions, the individual's evaluation of the alternative is realized with this method. Social outcomes occur following the outcome of subjective, that

is, individual choices. The link between the individual, the market and welfare are established through the efficient distribution of resources, in other words, through efficiency.

Accordingly, the factor that provides the most benefit for individuals in the allocation of resources is the preference factor and this factor is included in the market mechanism and in the market society. The basic assumptions of economic analysis are also applicable to policy. However, the main problem arises at the point of achieving the goal of economic activity. At this point, it is necessary to consider whether the existing tools are used effectively by the individuals.

What is political? It is mainly understood with reference to the concepts of power, authority, public life, power, state, conflict, and conflict resolution[1]. In this framework, politics is explained with three basic approaches. These are respectively: politics as power (state), politics as public, and politics as authority in the allocation of values (Caporaso, et al., 1992: 8-16). Politics as a power (state) expresses the official political mechanism. These are institutions, laws, secondary legislation and public policies. Therefore, politics as power; points to the actions of the power, processes and structure of power. In this approach, the press, interest and pressure groups and economic classes constitute a part of the definition of power (state), even if indirectly. On this occasion, while they have the power to influence public policies, vice versa, it becomes possible for them to be affected by these public policies (Caporaso, et al., 1992: 8-10). The politics-as-public approach, on the other hand, is one way of thinking about economic policy and the economic relationship to what is private, political, and public. It is quite difficult to identify the sharp distinction between the concepts of private and public. It is the activity of exchange between individuals or groups that is sought to be expressed by the private. The public is defined as the area of action or activities in which others are involved. Marginalist economists make use of price theory when distinguishing between private and public. According to this approach, Caporaso, et. al., (1992) stated that externalities that arise as a result of benefits and losses are politics as the authority in the allocation of values, stated that politics and economics are similar concepts and they use similar methods in the allocation of resources. At this point, economic and political processes are seen as alternatives to each other in the allocation of scarce resources. Here, politics does not imply a formal state structure (Caporaso, et. al., 1992: 16).

The concept of the political market can be explained by the economic analysis of political processes by looking at the information expressed above. Thus, the concept of the political market is defined. Although the fields of economics and politics are interdisciplinary, they interact with each other and can be expressed with common methods and tools. Therefore, within the framework of this study, the concept of political market refers to the goods and services (public goods and services) offered by the state and/or governments in economies. And also, it is a market that occurs with the demand of citizens. The answer of which public goods and services are in the market and the problems that may

[1] For example; For Lasswell, the political is who gets what, when and in what way; For Morgenthau, the political is the struggle for power; For Schattschneider, the political is the science and art of government; According to Easton, the political is the authority in the allocation of values. See: Caporaso, et. al., 1992:8.

arise in this process, express the effective distribution of resources and market failures in the political market. Citizens in the role of buyer or consumer are the players that reveal the demand side of the market, bureaucrats and politicians in the role of constructor or producer are the players that reveal the supply side of the market. The public goods and services in question are given by the party in power in the parliamentary election market. In this context, the natural monopoly structure reveals that it exists in the political market itself.

3. THEORETICAL BACKGROUND: MARKET FAILURE THEORY

In a market economy that is based on the competition of economic decision units, the ultimate goal of competition is to increase social welfare. The main factor that determines the existence and level of competition in the markets is the relationship between the market price and the natural price (Hunt, 2002: 53). The market price is determined by supply and demand in the short run under competitive conditions. In contrast, the natural price is determined in the long run by the cost of production. In this respect, the natural price is an equilibrium price. In other words, the natural price is the ideal price in a perfectly competitive market model. As the market price gets closer to the natural price, competition in the market increases, otherwise competition decreases. For this reason, the perfect competition market model is a reference that represents ideal markets, and social welfare increases if the markets get closer to the perfect competition model.

In the perfectly competitive market model, since the market is in a competitive equilibrium, an efficient distribution of resources is ensured. In a perfectly competitive market, all firms produce homogeneous output, producers and consumers have full information about the goods and services, there are no transaction costs and externalities, and producers and consumers cannot determine prices and accept prices as given. In other words, producers and consumers are price takers instead of price makers. The market is a social mechanism by which resources are allocated in the most efficient way under conditions of perfect competition. However, the existence of market failures in real life prevents the constitution of perfectly competitive market conditions.

Market failure is the ineffective use of scarce resources (Bator, 1958: 351; Mitchell, 2006: 50). It is possible to examine market failures in two ways: structural and behavioral market failures[2]. Structural market failures are the inability to achieve competitive equilibrium in the relevant market as a result of the failure of one or more of the perfectly competitive market conditions. Behavioral market failures are when undertakings in the market disrupt, prevent, or limit competition in the market by acting against it. The importance of the distinction between structural and behavioral market failures manifests itself in the characteristics of the intervention for these failures. The state carries out the intervention through

[2] In the classification of regulations, the distinction between structural and behavioral regulation is adopted. See Hertog, 210: 3. From this point of view, it is possible to classify market failures as structural and behavioral market failures.

its national regulatory agencies. On the other hand, successive competition law rules are applied to eliminate behavioral market failures.

The market can't occur because of the absence of some goods and services. The structural factors are the lack of free or costly entry to the markets, externalities, and the asymmetric information that arises due to the fact that buyers and sellers in the market do not have full information about the products.. They prevent the realization of perfect competitive market conditions (Akerlof, et. al., 1970: 488). Structural market failures are monopoly[3], oligopoly[4], externalities[5], public goods[6] and asymmetric information[7]. There are two different views in order to solve structural market failures and bring the market to competitive equilibrium. According to one of them, it is possible to solve market failures through government intervention. In this approach, the state intervenes in market failures through independent administrative authorities. Although independent administrative authorities are included in the administration for the basic organization of the state, their functional characteristics as well as their structural features place them in a specific position within the classical administrative structure. Independent administrative authorities intervene in market failures by using their regulatory powers in the field they are in charge of. The functional characteristics of independent administrative authorities do not consist of just the authority to regulate. In addition to the regulatory authority, the independent administrative authorities also have powers of oversight and supervision[8], enforcement of sanctions[9], consultancy[10] and dispute resolution[11]. One of the important views, who do not see government intervention as legitimate in the correction of structural market failures, argues that the state cannot

[3] Monopoly is the supply of a good by only one seller to a large number of demanding buyers. See. Guerrien, B., 1999: 143. The monopolistic structure of the market may be due to reasons such as the firm's ownership of all the means of production and resources, the patent right for a good or the production method of that good, and the cost of entering a second company in the market. Monopoly can sell less output at a higher price, unlike firms operating in a perfectly competitive market. Therefore, monopoly causes loss of social welfare. A firm is said to have monopoly or market power if it can profitably set its price without losing more than its marginal cost. See. Carlton, 2005:93.

[4] In oligopoly markets, market shares are controlled by a few firms. See. Caporaso, 1992. It is possible for companies operating in oligopoly markets to set prices above competitive prices, and these companies can reduce output and raise prices.

[5] Individuals who are not parties to the transactions in question are also affected by the transactions that take place in the process of mutual and voluntary exchange in the market. As a result, external benefits and external costs arise. Since there are no transaction costs in a perfectly competitive market, the externality problem does not arise. On the other hand, the markets with perfect competition in real life are limited. This is because external effects arising from production and consumption in imperfect markets are not compensated by the people who cause this effect. See Caporaso, et. al., 1992: 90. The main reason why externalities are called as market failures is that they prevent the efficient allocation of resources.

[6] Public goods are goods that cannot be produced by the market due to their exclusion and free-riding characteristics. See. Caporaso et. al., 1992: 93-94.

[7] In order to allocate the resources effectively through the market, symmetrical information must exist between the buyer and the seller. If the information flow between the buyer and the seller is asymmetrical, market failure occurs. See. Akerlof, et. al., 1970 :488-500.

[8] Independent administrative authorities are authorized to observe and supervise whether the rules set by the laws and secondary regulations on matters related to their field of duty are followed. Such as Article 88 and Article 89, which regulate the supervision activities of the CMB (Capital Markets Board) in capital markets.

[9] Independent administrative authorities have the authority to impose administrative and monetary sanctions in their areas of duty. The power to impose sanctions is an extension of the power to regulate and control.

[10] Independent administrative authorities can perform a consultative function by expressing their opinions to the relevant ministries and other independent administrative authorities or organizations with similar status on matters related to their field of duty.

[11] It is argued that independent administrative authorities are equipped with powers similar to legislative, executive and judicial powers due to their functional characteristics, and therefore they are a mixed administrative institution.

correct market failures due to the existence of government failures (Buchanan, 1988:1). Since the markets have the function of self-regulation and supervision, it is necessary to find solutions to the problems within the market. In this approach, it is accepted that the cost of government intervention to society will be higher than the cost of market failures.

According to the economic regulation theory, regulations that aims to eliminate market failures increase the private benefits of interests and pressure groups rather than the public interest in many cases. It is used as a means of wealth transfer in favor of the related groups. (Stigler, 1971:3). Sectoral regulations are shaped according to the economic interests of groups in the relevant markets and the political interests of independent administrative authorities. According to the public choice theory, it is not possible to allocate scarce resources effectively through government intervention. Because politicians and bureaucrats make and implement regulations in accordance with their personal interests. Thus, regulations turn into a means of generating rent[12] for the benefit of politicians, bureaucrats and powerful interest and pressure groups.

4. MARKET FAILURE AND POLITICAL MARKET RELATIONSHIP: ADAPTING CONVENTIONAL MARKET LOGIC TO THE POLITICAL MARKET

The term of market failure basically refers to failures in economic markets. On the other hand, with the help of the methodological imperialist nature of the neoclassical school of economics, the application area of the market failure term has expanded considerably. Different types of markets have begun to be analyzed with the tools of the economic market. The concept of market failure is one of the main tools of neoclassical economics in explaining economic markets. At this point, the basic assumption of the neoclassical school is as follows: As a rule, markets can come into balance with their own internal dynamics (supply and demand), in other words, they can regulate themselves. In exceptional cases, a limited number of market failures arising from the structure of the market and/or the behavior of the players in the market prevent the market from functioning together with its internal dynamics, preventing supply and demand from reaching the equilibrium point. In markets where a limited number of failures occur, the market cannot regulate itself, contrary to the general rule. Therefore, the loss of social welfare occurs. In order to prevent a welfare loss, the state should intervene in the economy. It is accepted that the market should be regulated through the intervention of the state in order to create balance by correcting only the limited number of failures.

The term economic efficiency, which is indispensable in the transition to the concept of market failure, indicates the goal of maximizing social welfare (Gürkaynak, 2003: 4-5). Economic efficiency can be defined as maximizing welfare by ensuring optimum resource allocation in a free market system.

[12] Rent-seeking is; the behavior of the powerful interest and pressure groups to spend scarce resources on the political decision-making process instead of using them in profit-seeking activity. The aim is obtaining monopoly rights and similar benefits from the political authority. One of the important empirical study contain the findings which support the public choice theory, it was concluded that regulations became a means of generating rent for politicians, bureaucrats and incumbent operators. See. Djankov et. al., 2002:22.

In order to achieve economic efficiency, first of all, the efficient distribution of resources (efficiency in distribution) [13] and production (efficiency in production) [14] must be realized. In addition to these, the type of activity expressed as efficiency (dynamic activity) in technology and innovation has a function that will maximize social welfare and also realize the creative destruction process[15]. This is the market mechanism[16].

In this part of the study, the market logic and the political market relationship are established through monopoly effects, information asymmetry, externalities, oligopoly, and cartel effects.

4.1. Monopoly and Political Market Relationship

In a perfectly competitive market, price is equal to marginal cost (P=MC), whereas in a monopoly market, marginal revenue is equal to marginal cost (MR=MC). The main reason is that a monopoly is not a price taker. Monopoly is aware that the change in supply will directly affect prices and reflects this in its behavior. In other words, it is argued that monopoly reduces supply and increases prices, resulting in a loss of social welfare. (Carlton, vd., 1994: 97-98). According to this study, the political market has the monopoly effect of the ruling party. If a single party comes to power according to the election results, especially in the t+2 period, the government exhibits similar behaviors to the monopoly firm in the economic market. The tools that the government can offer are included in the party policy that is created. In this framework, the main tools are monetary and fiscal policy. Reducing these policies will increase the price of these policies in terms of voters. Because what we mean by reducing the policy supply is expansionary fiscal policies and inflationary effect. A situation where there is perfect competition in the political market means a balanced budget and a reasonable inflation rate slightly above zero.

Therefore, in a monopoly market where there is no competition, a monopoly will increase the vote rate by applying populist policies very easily, but it will cause political cyclicals and cause a loss of social welfare. In other words, in the monopoly political market, the government will reduce the supply (ie, budget expansion and inflation increase), especially in the t+2 period of time, and will increase the prices well above the competitive price in the political market. At this point, voters will be willing to pay this high price as they will want to benefit from both populist expenditures and the short-term positive effect of inflation. As it is obvious, although the supply structure in economic markets and the supply structure in non-economic markets and their effects on prices differ; this differentiation explains the single-party rule in the form of a monopolistic market.

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[13] Distribution efficiency refers to the optimal level of resource allocation that occurs at the point where price equals marginal cost. See. Ardıyok, 2007:155, end note:12.
[14] Efficiency in production refers to the amount of goods and services produced per unit of input used in production, such as labor, capital or land. See. Ardıyok, 2007: 55, end note: 13.
[15] For details See. Gürkaynak, 2003:76-78.
[16] The assumptions of the perfectly competitive market can be listed as follows: 1. There are many buyers and sellers in the market, 2. The product is homogeneous, 3. The buyers and sellers have full information, 4.There is a free entry and exit to the market 5. The goods are sold in small quantities and this does not affect the sale, 6. There is a freedom of exchange and protection of property right without exception, 7. There is no transaction costs.

At this point, when we look at the first post-election period (t+1); The monopoly party has less incentive to reduce supply and increase prices compared to the second post-election period (t+2). The main reason is the promise that the policy price given by the monopoly party to the electorate before the election will be close to the price in competitive markets. Under the assumption that monetary and fiscal policies are determined by the government under the control of the government, monopoly will try not to reflect the negative effects of monopoly as much as possible in the first period in order to ensure the credibility of the party. After the single-party government provides this credibility in the care of the voters, the negative effect of monopoly will begin to reflect in the second period and the policy price in the competitive markets promised in the election will increase with the reduction in supply.

The opinion of the party in power (in a single-party government), which has a monopoly character, is important. However, for any period in the political market, the monopoly party can be opportunistic and/or partisan. However, for any period in the political market, the monopoly party can be opportunistic and/or partisan. When each period is evaluated independently, for example; the partisan effect of the monopoly in the t+1 period and its reflection on its behaviors, as a result of the policies with the monopolistic effect applied in the t+2 period, convergence/harmony with the policies of the opposing view increases, it is a purely pure form for this period. It is appropriate to adopt a partisan approach. When the periods are considered independently in themselves, even if a partisan approach is felt in the election period and the first post-election period, the tendency of similarity in policies in the second period after the election can overwhelm the opportunistic model. In this respect, the opinion of the monopoly ruling party gains importance in the evaluation of the election period and the first post-election period.

The left monopoly party that came to power in the first post-election period, in line with the assumption of the partisan model[17], predicts unemployment and growth above the natural rate. At this point, the left monopoly party seeks to expand the budget in a way that reduces unemployment and increases growth. In other words, the left monopoly, in terms of its partisan view, does not tend to any supply constraints in the first period or cuts supply very slowly towards the end of the first period. The supply that voters expect from the left monopoly party is to reduce unemployment and budget expansion that will provide growth above the natural rate. On the other hand, what voters expect from the right monopoly party is supply, low inflation and a balanced budget. In the first period, no reduction wass observed in the expected supply from both monopoly parties. However, with the end of the first period and the second period, there is a decrease in the policy supply that monopoly parties with different views undertake to realize. While the price of the promised policies increases, the price of populist policies decreases. Therefore, voters prefer populist policies with lower costs. This myopic attitude of the

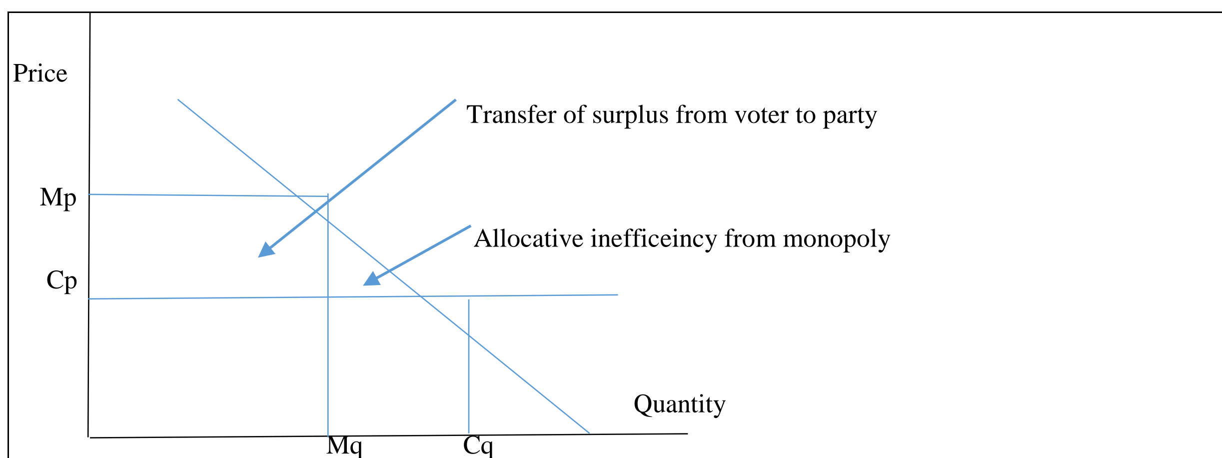
[17] In the basic assumption of the model, it is stated that each party will consider different preferences because each represents different interests. Political parties have different goals and motives, as they take into account the effects of their policies on the economy. Alesina, et al., 1987: 652.

electorate is closely related to the costs and prices of policies. In other words, in a non-competitive one-party (monopoly) political market, the monopoly party is the only one authorized to implement the policies. The situation is similar for the right- monopoly party in power. In this respect, in the first post-election period, the effect of a monopoly on social welfare in the political market may not be capable of creating political cyclicals. In fact, the monopoly party in power in the first period can create an atmosphere of stability, especially in terms of economic and legal matters (the time cost of enacting laws is approaching zero), and this can increase the credibility of the monopoly party.

The period in which the monopoly party in power causes social welfare loss (Begg, D., et al., 1997: 280) as in the economic markets is essentially the second post-election period. At this point, the monopoly party in power, regardless of its view, will deviate from the partisan policies that it has undertaken. Through the partisan policies that were realized in the first period and thus gained credibility, it will maximize its profit, it will act with the aim of being re-elected, and will turn to economically ineffective policies. The monopoly party's tendency towards populist policies means that it goes to supply constraints in the policies it has committed to the election. Therefore, whatever opinion the ruling monopoly party has, it turns to policies that can gather votes in the short term, with the complacency given by the monopoly nature.

The monopoly party determines its own level of output in order to maximize its profits, i.e. to be re-elected. Because the demand curve in the political market also slopes down (Carlton, et al., 2005:89). In other words, in the second period, the ruling monopoly party knows that the more the non-populist policies increase the supply, the lower the price[18] of the policies and the less their profits (their votes). For this reason, it cuts down on the policies it has committed.

Figure-1: Demand Curve of the Monopoly Party in Power in the Political Market [19]



According to Figure-1, Mp represents monopoly price, Cp represents competitive market price (marginal cost/ MC), Mq represents monopoly quantity, Cq represents competitive market quantity. The

[18] The monopoly party sets its price above its marginal cost.
[19] It is an adaptation from the demand curve of the monopoly market.

monopoly party obtains its marginal revenue (MR) by subtracting the Mq and Cq (if we say area B) area from the Mp and Cp area (if we say area A). In other words, MR=A-B. In addition, if the marginal revenue of the monopoly party is negative, its total revenue will decrease as it implements the policies it undertakes. Knowing this, the monopoly party tries to maximize its total revenue by setting its marginal revenue equal to zero. If we try to explain this situation with an analytical expression; $MR= p + (dp/dQ) Q = 0$ then the total revenue of the party will be maximized.

When the monopolistic party wants to maximize its total profit, it sets its marginal profit to zero. Another meaning of this is; the point at which the monopoly party maximizes its profits, i.e., votes, is the point where marginal revenue equals marginal cost (MC) [20]. If we equate marginal profit to zero; $d\pi/dQ = MR-MC = (p+ (dp/dQ) Q) – dC/dQ = 0$. Since the output of the monopoly party, the policies it undertakes, is based on marginal revenue and marginal cost. Therefore, the monopolistic party does not have a supply curve (Begg, et al., 1997: 141).

The demand elasticity of the monopoly party in terms of voters is low, that is, between -1 and 0. The elasticity of demand for the price of the policies committed by the ruling monopoly party (party in power) is inelastic. Therefore, a 1% change in policy prices may have little impact on demand for the quantity of policies committed. The monopoly party's marginal revenue is negative because its demand curve is inelastic. As we mentioned above, if the monopoly party's marginal revenue is negative, its total revenue will decrease because it implements the policies it has committed to.

The monopoly party who knows this, tries to maximize its total revenue by setting its marginal revenue equal to zero. If the price elasticity of demand is positive in the political market it can be easily said that a competitive price is approached in the political market. In this case, the loss of social welfare caused by political cyclicals can be minimized.

In the political market, there are manifested reflections of the short-term myopic populist policies that the monopoly party in power will implement in order to maximize its profits. The most main and clear results will be as follows:

1. The coordination between monetary and fiscal policies disappears.
2. Monopoly will use the monetary policy in its favor at the expense of creating cyclical fluctuations. The aim is achieved success in expansionary fiscal policies that will maximize the party's profits.
3. Populist, that is, ineffective, expansionary policies will create inflationary pressure.
4. In the second term of the monopoly party, budget deficits will increase within the framework of ineffective expansionary policies.

[20] Contrarily, price will equal marginal cost whenever the political market is close to a perfectly competitive market.

5. If a left side monopoly party in power follows ineffective expansionary policies, it will increase unemployment above the first period figures.
6. Although the growth rate seems to have increased for a very short time due to the shock effect of the populist policies in the second period, the negative side of growth will be understood in the medium and long term. However, the monopoly party will tell the electorate about this improvement in growth in the short run as if it were a structural improvement.
7. A monopoly party will increase the populist spending if its popularity is low, in order to increase its probability of being elected.
8. Ineffective policies in the second period cause time inconsistency for the monopoly party (Özkan, 1997:24-27).
9. The credibility and stability of the monopoly party disappears in the second period.

The above-mentioned and more expandable populist policies will lead to political cyclical fluctuations, resulting in loss of social welfare. Therefore, the profits of the monopoly party in the political market, that is, the votes it receives, are expressed as a resource transfer from the consumer voter to the monopoly party (Carlton, et al., 2005: 96). The monopoly profit, that is, the increase in the probability of gaining more votes, creates the incentive for other parties in the political market to spend their resources to become a monopoly party. Therefore, although its popularity is not enough to become a monopoly party, it will be a single party in the next elections and it will prevent entry into the political market and disrupt the competitive structure of the political market.

4.2. Asymmetric Information and Political Market Relationship

Asymmetric information is a type of permanent market failure that prevents the market from reaching equilibrium in economic and non-economic markets. In a perfectly competitive market, there is no asymmetric information between buyers and sellers. In other words, both the buyer and the seller have complete information. However, since it is not possible to talk about a perfectly competitive market in today's economies, asymmetric information is one of the obstacles to Pareto optimality. As soon as the seller uses the asymmetric information in his favor, it will become more costly for the buyer (consumer) to act rationally in a way that maximizes their utility. Therefore, the cost of information is high for the buyer as well as the seller. Since complete information is not possible in real life, the parties exchange optimal decisions under incomplete information (Baumol, 1988: 646).

Decisions made by the parties under incomplete information are not Pareto optimum. Akerlof (1970), in his study on the effects of information asymmetry on quality and uncertainty, emphasized that buyers and sellers do not have the same level of knowledge about the same type of goods of different quality in the market. Sellers have more information regarding the quality of the goods. Since the buyer has no knowledge of this difference in quality between the goods, the price of both goods is the same. The buyer's lack of information will directly increase the cost of decision making and cause uncertainty.

The buyer will have the information about the goods after he starts using it. For this reason, the goods in the second-hand market, where there are goods are defective but not seen, are considered as the lemon market (Akerlof, 1970: 490-99). In this framework, the seller determines the price of the goods between low and high quality. The buyer's misinformation about product quality increases the demand for information and the price of information[21]. Asymmetric information causes three basic problems in economic markets. These are adverse selection[22], moral corruption[23] and principal-agent[24] problems. The problems caused by the asymmetric information in the economic markets also appear in the political market. In the political market, these are between the voter and party, the party and bureaucracy. All of mentioned consequences of this asymmetric information among the players in the political market are realized also as well.

In the political market, voters have less information than the parties. This prevents active political participation and political disregard occurs. Here, the asymmetric information problems of the electorate in the political market, especially party policies and practices will be discussed. While the voter makes a political choice, party policies also had great importance. The information problem that arises in this process can be caused by the players, or it can be caused by the natural reasons. First, the voter may be naturally or rationally ignorant. From a public choice perspective, the main reasons why voters are naturally ignorant are as follows;

1. There is the sense of political passivity is dominant for some voters: If being politically informed is costly, the voter prefers to remain ignorant. Participation in elections varies according to the degree of political passivity. In addition, voters may not be interested in politics.
2. Presenting the decisions in packages prevents voters from reaching full information. Parties generally try this way and protect the asymmetric information between them and the voters in their favor. It can be seen more intensely, especially in the second period of power. This situation creates the problem of credibility and time inconsistency in terms of power.
3. Information asymmetry is more intense for voters with low education levels.

As it is seen the voters will prefer to be ignorant. If the voter sees the cost of collecting information as higher than the benefit, she will not prefer to collect the information that she needs. (Downs, 1957a:.137). It occurs when voters think that their own votes will not affect the election. And also, if the voter has a lot of knowledge, it means he or she has self- interests. In other words, the level of knowledge of the voters depends on the subjects. To sum up, according to Downs (1957a: 139) there are three main reasons for the lack of political information in the political market. According to him

[21] As a result, specialized knowledge and the sale of this knowledge to the buyer will occur.
[22] Although the buyer has more information, he does not realize that he has less information than the seller, so he thinks his decision is optimal. However, in such cases, the goods purchased by the buyer may be have very poor quality. See. Aktan, 2007: 84.
[23] It is the fact that the party increasing the cost of the buyer with acting unethically in exchanges .
[24]This problem, which arises from the institutions, is based on the maximization of the benefit of the executive deputies with authority by using the information asymmetry against the principal with using for their own interests

parties cannot fully know the demands of the electorate, voters cannot know whether the parties are working for the public good or for their own benefit and finally eliminating this lack of knowledge is very costly. Because of the asymmetric information in the political markets, incomplete knowledge of the electorate prevents reaching coherent social preferences from individual preferences, voter ignorance leads to waste of resources and the use of resources will be inefficient and it reduces net social welfare, voter ignorance increases corruption and lobbying, it pushes parties to act ideologically (Aktan, 2007: 99-102).

4.3. Externalities and Political Market Relationship

Externalities in economic markets (Aktan, 2007: 111-14) are the fact that consumers or companies do not bear the cost of the losses or benefits they cause or they cannot meet from the market (Carlton, et al., 2005: 82). Externalities are divided into two as positive and negative. For negative externalities it is said that the actor causing the externality does not bear its cost. In other words, it does not internalize the social cost created by the negative externality. In positive externality, the actor who causes the positive externality cannot receive any compensation due to the provided benefit.

In the political market, the loss of social welfare due to the political cyclical fluctuations created by the power manifests itself as a negative externality. The voters who will bear the social costs arising from the negative externality caused by the ineffective expansionary monetary policy of the government in the second period can be a sample. Therefore, the social cost that arises in the political market should be internalized with regulations. In addition, election thresholds also create network externalities. This situation, which is in favor of a group of parties that can exceed the threshold, reduces the election costs of the party in power and prevents the political market from functioning competitively. At this point, small parties (competitive fringes) that cannot exceed the threshold in the political market will emerge. However, since small parties with a low market share (the rate of votes) cannot bring the policy price below the marginal cost, their prices will be higher than the parties that have high market share. The main reason for this is the high selection costs. In other words, the cost of voting will be high because the high policy costs directly increase the price in the eyes of the voters. At this point, the voters act rationally and take into account the opportunity cost and vote for the parties that can pass the threshold in order to prevent the waste of resources.

In the political market, transaction costs need to be reduced in order to prevent the loss of welfare which is caused by externalities. In a situation where transaction costs are close to zero, the party that can internalize the social cost through the punishment mechanism in unlimited repetitive games and it will be possible to internalize the externality. However, since the transaction costs are not close to zero in real life and there is an asymmetric information also, internalizing the externality with repetitive games is not possible. Therefore, until the transaction costs approach zero, the second-best solution is to create rules that can internalize this externality.

4.4. Oligopoly, Cartel Effect and Political Market Relationship

In economic markets, firms have the incentive to act in a coordinated manner in order to increase their profits in terms of production and pricing activities. Companies that form a cartel increase the price of the product by reducing the amount of output. This behavior of the cartel creates a monopoly effect in the market and leads to a decrease in social welfare. Cartel behaviors occur mostly in oligopoly markets.

Some companies that are active in the oligopoly market, exhibit many cartel behaviors, from reducing the supply to market sharing by agreeing with each other. If there are few companies in the market, the cost of establishing a cartel will be lower, so cartel agreements will be more. Cartel agreements are subject to competition rules, as one of the temporary market disruptions causes loss of social welfare such as monopoly effect. The state tries to prevent the incentive to make cartel agreements between companies through rules and ensures competitive price in the economic markets.

Similarly, to the oligopoly economic markets, there is an oligopoly relationship between parties in the political markets. Through supply constraint in the policy output, the parties increase the price of policy decisions. It should be emphasized that the effect same as monopoly ruling party. The conditions where cartels cause in the political market are;

1. If the re-election popularity of the party in power is low, it can make a cartel agreement with a party. It can form a coalition in order to be re-elected, in terms of expansionary policies for the second term after being elected.
2. After the election, the opposition party and the party in power can make a cartel agreement, especially for the second term. According to this agreement, while the government implements its expansionary policies, the opposition party will not present the information regarding its falsification to the electorate. In return, the opposition party and the party in power can share market (votes) and the party in power may leave certain markets to the opposition party. This is called as line “vote trading” in the public choice literature. In other words, it is the exchange of votes between parties (Aktan, 2007: 25-26) in terms of having the necessary majority.
3. After the election, a cartel agreement can be made between the coalition parties to reduce the output of the promised policies and to reduce the cost of implementing populist policies by raising the price.

In order to survive as a cartel in the political market, it is necessary to increase the cost of the players' deviation from the cartel agreement. In the cartel scenarios created above, the parties make the marginal cost curves of the cartel members inelastic in order to prevent the deviance of the formed cartel players. Cartel members know the profit and loss that they will gain from deviation in a short term. Knowing this, the cartel leader takes various measures such as; fixing the policy price, sharing the political market and fixing the political market shares of cartel members. In addition, there are four ways

to protect the cartel by preventing deviation from the promised policies in the political market and to control the one who signals deviation: there are few lots in the market, policy prices do not fluctuate independently, members' policy prices are known by the other members. In other words, there is very little information asymmetry among members. Finally, all cartel member parties sell the same type of product, namely the policy.

If there is a cartel in the coalition government and if the popularity of one of the cartel members is increasing, the other one will want to maximize its votes by deviating from the cartel near the end of the second term. It means that the motive of deviation will arise. However, if the popularity of the coalition government in other words the probability of being re-elected, is higher than the re-selection probability of the party that will deviate, there will be no deviation motive for both parties. As, in short term, the benefit obtained from deviation will be lower in the short run and the cost will increase. If the coalition can give the impression that it has the ability to be re-elected, the asymmetric information (for the transition from the policies committed in the second period to the populist expansionist policies) will remain in the oligopoly coalition and the lack of information of the electorate will not be eliminated. In essence, the competition and talent signal within the cartel determines how much of this information reaches the voters. If one of the cartel members deviates in the second term through reducing the asymmetric information between the politician and the voter, the other party will be out of the political market. It is possible especially by using non-economic variables such as; terror, justice, culture, international relations, etc. The party which has the largest market share in cartel in the political market can be able to do this.

5. SOLUTIONS TO POLITICAL MARKET FAILURES

Political market failures that are analyzed in this study cause loss of social welfare. In order provide equilibrium in political markets, they must be eliminated. These failures can be eliminated in two ways. The first one is unlimited repetitive games that eliminate disruptions in a situation where transaction costs are close to zero. However, in real life there is a high transaction costs and there is a rational apathy of the electorate due to the asymmetric information. These realities prevent the efficient functioning of the penalization mechanism through repetitive games. Therefore, as the second-best solution, the political market should be regulated within the framework of constitutional rules. The nature and methods of the economic constitutional regulation are discussed within the framework of the constitutional economics literature of the public choice point of view.

5.1. Infinitely Repetitive Games Strategy

Unlimited repetitive games represent deregulation-based market solutions in the political market where political cyclical fluctuations occur due to market disruptions. The solutions advice to left the market compatible with unlimited repetitive games within the framework of the government failure theory which oppose to state intervention. Because unlimited repetitive games include penalty policies.

In other words, it is possible that the government, which increases the price of the policies it has undertaken as a result of the unlimited repetitive game played between the electorate and the parties. It is possible by reducing the supply but it can be a punishment for candidate parties as it will prevent to collect votes for the upcoming elections. The efficiency of the strategy can be controversial as punishment mechanism in the free political market system will increase the transaction costs.

The efficiency of punishment strategy through repetitive games depends upon the decreasing costs. The most important tools to in order reduce the costs in democracies are; opposition parties, press, technology and non-governmental organizations in the opposition market, both inside and outside the parliament. However, may be apart from technology, the effect of penalizing these institutions on reducing transaction costs can be limited by the government. Therefore, it depends upon the government's strategic behavior. In addition, the principal-agent problem that may arise in these institutions. It also may prevent the decreasing costs of the punishment mechanism.

5.2. Constitutional Regulation Through Rules

The introduction of rules to prevent failures in the political market raises the question of which economic constitution should be adapted. The types of economic constitutions discussed in the literature are as follows (Savaş, 2007: 48);

1. Monetary Constitution: It is the type of economic constitution that is consist of rules in order to prevent inflationary pressure by printing money. Therefore through the rules against the expansionary policies, the freedom of movement of the political power in the field of money and credit should be restricted.
2. Fiscal Constitution: It aims to limit the use of financial instruments of political power. In this way, as predictable fiscal policies will be created, the asymmetric information that is explained in detail above will be eliminated in terms of voters. With the fiscal constitution, open-budget democracies will be left behind and the balanced budget target will be achieved.

As a rule, limiting the authority of the party in power with rules aims to prevent political cyclical fluctuations. One of the criticisms to the constitutional regulation can be the danger to limit effective ones. For example, limiting the decision-making initiative of the government especially in times of crisis. However, the main constitutional framework will protect the general responsibilities of the governments. It also strictly depends upon the rule of law perspective of nations.

6. CONCLUSION

Market economies are based on the competition of decision units. In the perfect competitive markets; all players produce homogeneous output, producers and consumers have full information about the goods and services in the market, there are no transaction costs and externalities, producers and consumers cannot determine prices and accept prices as given. In other words, producers and consumers

are price takers, not price makers. The market is a social mechanism where resources are allocated in the most efficient way under conditions of perfect competition. However, inefficient use of scarce resources reveals market failures. The political market or the economic analysis of political processes can be defined through the tools of economic markets. Political markets are formed by the goods and services that the parties representing the supply to the consumer which is to the electorate in political market. In the process, the effective distribution of resources, similar to economic markets, is important in terms of achieving social welfare. Therefore, the theoretical infrastructure of the political market concept is based on economic market failures.

In this study, the political market is defined by explaining what is economic and what is political one. If there is an outcome or output in the economy it means that this market refers to economic market. Therefore, to the political market which consists of voter behavior, we adopt the methodological tools of marginalist theory and especially the utility-value approach that focus on the philosophy of utilitarianism. The economic one can be considered same with the economic calculation. Individuals' behavior is considered as an effort to reach needs and wants under the external constraints. The economic calculation method shows the way to reach what is available under the constraints created by the limited supply of tools or resources. What is individually 'available' depends on the way society defines property rights and allows for the division of property among members of society and efficient allocation of resources. This is called economic efficiency and in other words, the basic assumption of this approach is the individual makes a rational choice under the existing possibilities and constraints, he chooses the most effective option that satisfies his wishes as much as possible and in general he behaves in this motive.

What is political one? Question is mainly explained through the concepts of power, authority, public life, power, state, conflict and conflict resolution. In this framework, the political one is explained with three basic approaches. These are respectively: politics as power (state), politics as public, and politics as authority in the allocation of values. The economic analysis of the political process is not completely separate and isolated concepts and these two concepts are embedded in. For instance, the mechanisms to be involved in the allocation of resources may be the market or political structures. In addition, a number of organizations, banks, firms, interest groups and unions may exhibit political or economic activities. As a concept, political market is the market that occurs with the demand of citizens for the goods and services (public goods and services) which offered by the state and/or governments in the economies.

Political markets are based on the competition of economic decision units, just like the market economy. While efficient distribution of resources can be ensured in a perfectly competitive market in other words, all producers (supply side) produce homogeneous output and all consumers have full information about the service in the market, the political market as like the economic market, is deprived of the conditions of perfect competition. The appearance of structural or behavioral problems in the

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political market is the monopoly effect, information asymmetry, externalities, oligopoly and cartel effects, just like in economic markets. Monopolistic political market failure depends upon the monopoly party in power. It acts in a way that maximizes its profit by deviating from the partisan policies that it has committed, tried to realize and gained credibility. Regardless of the ideology it behaves with the motive of being re-elected. Therefore, it tends to make economically ineffective policies. The monopoly party's tendency towards populist policies means that it prefers supply constraints in the policies. Therefore, the monopoly party in power turns to policies, in the short term, to get votes with the comfort of its monopolistic nature. In the political market, there is an information asymmetry between the voter-party and the party-bureaucracy. All of the economic consequences of this asymmetric information among the players in the economic markets are realized in political markets as well. In the political market, the loss of social welfare due to the political cyclical fluctuations created by the power, manifests itself as the negative externality such in the economy. In addition, election thresholds also create network externalities. This situation, which is in favor of a group of parties that can exceed the threshold, reduces the election costs of the party in power and prevents the political market from functioning competitively. Some companies in the oligopoly market exhibit many cartel behaviors, from reducing the supply to market sharing by agreeing with each other. If there are few companies in the market, the cost of establishing a cartel will be lower, so cartel agreements will be more. Cartel agreements are subject to competition rules. As one of the temporary market failures it causes loss of social welfare by having a monopoly-like effect. In political markets with an oligopoly structure, inter-party and like cartel behaviors are possible. The parties increase the price of these policy decisions. They go to the supply constraint in the policy output and they have committed with the cartel they will establish. Failures in the political market cause the loss of social welfare. Political markets need two basic solutions in order to create efficient political market. The first and most ideal one is to let the market to balance on its own, that is, the strategy of endless repetitive games. The second-best solution is to regulate the political market through constitutional rules, that is, economic constitutional regulations.

To conclude, with depending upon the main purpose of the study, the concept of political market is explained through economic market mechanisms. Political processes and the efficiency of these processes ultimately bring the economic outcomes. Therefore, political processes create political markets, and the economic necessity of these political markets is revealed. The main argument of this study that "political markets are also behave as like traditional market mechanism" is explained through the theory of market failures. Political markets, just like economic markets, ensures that the activity is visible under perfect competition conditions. However, there are market failures in political markets as well. This study methodically reveals the political market mechanism based on the conventional market logic through the theory of market failures. The rational individual acts with the motivation to meet his wishes and needs and evaluates the services offered by the players in the political markets with this motivation. At that point, we are talking about the rational preferences that emerge with the utilitarian

motives under the limited preferences ratio. Similarly, the supply side, in other words the political or the government, allocate political or public policy values and while doing this it also exhibits rational behaviors.

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