

## Public Choice I

Instructor : Roger D. Congleton  
Office : 11 Carow Hall  
Phone: 993 2328 office  
E-Mail: congleto@gmu.edu  
Web Site: rdc1.net

Office Hours: Monday and Wednesday 2:00 - 3:30, and by appointment

### Required text

Mueller, D. C. (2003) *Public Choice III*. New York: Cambridge University Press.

Congleton, R. D. and B. Swedenborg (2006) *Democratic Constitutional Design and Public Policy*. Cambridge Mass: MIT Press.

Persson, T. and Tabellini, G. E. (2000) *Political Economics: Explaining Economic Policy*. Cambridge Mass: MIT Press. ISBN: 0262161958

### Optional Texts:

Buchanan, J. M. and G. Tullock (1962) *The Calculus of Consent*. Chicago: University of Chicago Press.

Olson, M. (1971) *The Logic of Collective Action: Public Goods and the Theory of Groups*. Cambridge Mass.: Harvard University Press.

Tullock, G. (2005) *The Social Dilemma*. Indianapolis: Liberty Fund (reprints of the Social Dilemma, 1974, and Autocracy, 1987).

Hillman, A. L. (2009) *Public Finance and Public Policy: Responsibilities and Limitations of Government*. Cambridge: Cambridge University Press. ISBN 052173805.

### Course Aims and Approach:

The rational choice approach to politics has produced a very broad literature in which there is some disagreement about the nature of that equilibria (for example, over the relative importance of voting, interest groups, the bureaucracy, and political institutions). In general, however, the rational choice approach assumes that essentially all public policies can be characterized as political equilibria among self-interested participants in some political process. Public policies change when these equilibria change. It is clear that political and legal institutions affect those equilibria, because they create the rules of the "political game."

This course provides a survey of the public choice literature and explores the connections between political institutions, politics, and public policy. The course is lecture oriented, in that all models relevant for the exams are developed during class time. Extensive "web notes" for the lectures are provided at the class website.

Planned Lectures (See the Long Form of the Syllabus for Associated Literature)

Date	Topic	Reading
9/03	<b>I. Introduction: Rational Choice and Governance</b>	M: 1-2, 6; PT: 2, CS: 1
	<p>Why study public choice? Why do people form groups and adopt formal rules for making decisions? In what ways do governments differ from clubs? Three main strands of the literature center on: elections, interest groups, and constitutions. The reductionist approach. Two economic theories of the state: stationary bandits and social compacts: force and/or cooperation.</p>	
9/10	<b>II. Elected Governments</b>	M: 7, PT: 3, CS: 1
	<p>Collective Decision making methods. Pros and cons of democratic decision making. The Median Voter and Median Estimator. On the durability of king and council. Hierarchies as a method of control. How can government be made responsive to voter/national interests? How responsive should a government be?</p>	
9/17	<b>III. Elections and Public Policies</b>	M: 11, 13; PT: 6, 12
	<p>Most electoral models have equilibria at or near the center (median) of the distribution of voter positions. If elections determine policies, the median voter gets what she wants. Electoral competition determines public policies if candidates deliver on their campaign promises.</p>	
9/24	<b>IV. Democratic Cycles and Public Policy</b>	M: 7, 17; PT: 16
	<p>Democracies may be affected by a number of cycles. The most analyzed of these is the cyclic majorities--the potential intransitivity of the majoritarian decision rule. But, there are other cycles as well, for example there are electoral cycles each two year at the national level, and budget cycles every year. These may also affect policies and institutions through effects on policy maker incentives and policy uncertainty.</p>	
10/01	<b>V. Elections and Interest Groups</b>	M: 16, PT: 4
	<p>In a pure election model in which voters are perfectly informed, interest groups may cast their votes as single issue voters, but have no other channel by which they can influence policies. However, the information problems of modern democracies potentially allow organized interest groups to potentially influence policy in a number of ways--many of them legal.</p>	
10/08	<b>VI. How Efficient is Democracy?</b>	M: 10; PT: 9, CS: 9
	<p>If elections are competitive and majoritarian, there is a tendency for the median voter to get his or her way. However, the median voter is not perfectly informed about public policies or public policy alternatives. This allows the possibility of a variety of political agency problems and a variety of informational strategies to affect public policy outcomes. The informational problems of fiscal illusion are partially offset by the Jury</p>	

Theorem, jury theorem, but this surprisingly powerful information aggregating property of majority rule cannot fully solve all informational and agency problems.

## 10/08 TAKE HOME EXAMS DISTRIBUTED

### 10/15 VII. Collective Action, Regulatory Capture, and Rent Seeking M:15,16, PT: 7; CS: 9

Along side the election literature and for the most part independent of it, emerged a literature on interest groups and the manner in which they affect public policies. The interest group literature began as an explanation for specific public policies and gradually became a general model of policy formation. In large number of cases, the details of policies are important for specific groups who actively attempt to manipulate those details to advance their own interests.

### 10/22 VIII. Rent Seeking, Corruption, and Welfare Losses M: 2, 19, PT: 14

The rent-seeking literature took off during the 1980s following the publication of an edited volume *Toward a Theory of the Rent-Seeking Society* in 1980. The basic theme of that literature is that conflict over public policy--can itself be a source of dead weight loss, because it consumes resources that could better be used elsewhere. In effect such conflict is a "transactions cost" of collective decision making; a transactions cost that can potentially consume all of the net advantages that policies can confer. Corruption from this perspective is the illegal part of the rent-seeking industry. How much is lost to conflict between rent-seekers and poor public policy depends on the rules of the game and the "prizes" to be awarded to the winner(s).

## 10/22 TAKE HOME EXAMS COLLECTED

### 10/29 IX. Political Economy of Economic Regulation M: 16,17; PT: 4; CS: 8

The normative theory of regulation tends to imply that policy debates are all framed in terms of social welfare, cost benefit analysis, or the Pareto criteria. The public choice approach suggests that politics: elections, interest groups, and the bureaucracy will dominate. Most empirical evidence of the behavior of regulators suggests that real-world policy is partly a product of self-interest and partly of broader interests. That is to say, the institutions that tend to align the interests of agents with those of principals tends to work imperfectly.

### 11/05 X. International Political Economy M: 22; PT: 18; CS: 11

International political economy in many ways resembles anarchy. There is no super-national law enforcing agency to enforce any laws agreed to. Wars often occur between neighboring countries, and national boundaries and political institutions are clearly shaped by the outcomes of past battles and alliances. Yet there is much nonviolent intercourse between nations. How does this come about? Partly this is the result of "contracts" or treaties signed between nations to promote trade by providing various protections to traveling citizens and their property. Most treaties also create international

agencies with the authority to make recommendations to their governments. These new levels of government create new principal-agent problems.

### **11/12 XI. Political Institutions and Public Policy**

CS: 1-5; PT: ch 14

Public choice and the other rational choice approaches to understanding political decisionmaking tend to represent policy outcomes as temporary equilibria in various contests and games between politicians, voters, interest groups, and nation states. When those equilibria change, policies change. These reductionist, rational-choice models also imply that a variety of factors contribute to political equilibria, such as the information, tastes, and wealth of pivotal decisionmakers. They also imply that institutions matter, because these determine the “rules of the game” and indirectly the rate of return from various strategies and policies. Constitutional political economy studies how those institutions come into existence, their effects on political outcomes and public policies, and how they change through time.

### **11/19 TAKE HOME EXAMS DISTRIBUTED**

### **11/19 XII. Political Institutions and Economic Development**

M: 22; PT: 14; CS: 10

Economics predicts that political decisions have a broad range of effects upon the wealth and growth prospects of a national economy. Insofar as political institutions affect the decisions reached, institutions are predicted to affect economic growth and development.

For example, the western democracies have been the wealthiest places on the earth for the past century. How much of their success is the result of their political institutions?

### **12/03 TAKE HOME EXAMS COLLECTED**

### **12/3 XIII. Constitutional Design and Evolution**

Perfecting Parliament

Political institutions are not static. They are modified through time by political participants. How they do so is an important research issue. If institutions have significant effects on public policies, then so can institutional reform. There are essentially three models of reform, one based on revolutions and revolutionary threats, one based on constitutional bargaining and exchange, and one based on survivorship and natural selection.

### **12/10 XIV. Overview of Course**

Choosing Institutions / final paper workshop / Roundtable on Public Choice

### **12/17 FINAL DRAFT OF RESEARCH PAPER DUE AT CAROL HALL**