

## Public Choice II

Instructor : Roger D. Congleton

Office : 11 Carow Hall

Phone: 993 2328 office

E-Mail: Congleto@gmu.edu

Web Site: rdc1.net

Office Hours: Tuesday and Thursday 3:00 - 4:30, and by appointment

### Required text

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

### Optional Texts:

*Improving Democracy through Constitutional Reform: Some Swedish Lessons.* Dordrecht: Kluwer Academic Press (2003)

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

### Course Aims and Method:

Public choice analysis suggests that essentially all public policies can be characterized as political equilibria among self interested participants in some political process. Although there is some disagreement about the nature of that equilibria (for example, over the relative importance of voting, interest groups, and the bureaucracy), it is clear that political and legal institutions must affect those equilibria. They are the rules of the "political game." This course explores the connection between political institutions, politics, and public policy. It is lecture oriented, in that all models relevant for the exams are developed during class time.

## TENTATIVE COURSE OUTLINE

Date	Topic	Readings
1/25	<b>I. Public Choice and Political Science: Some Methodological Distinctions</b>	<b>M 1</b>
	Long-standing puzzles in political science (the use and abuse of Aristotle). The "new" rational choice approach to politics and public policy. The meaning of rationality.	
	How predictable is politics? The difference between history and social science.) What alternative methodologies allow? (Deduction, Induction, and Refinement) Why there are so many unasked and unanswered questions in Political Science and Public Choice? Methodological blinders of historical and rational choice approaches, number of researchers, and "literature" driven research. What do we know?	

- ◆ Congleton, R. D. (2005) "Social Science and History: How Predictable is Political Behavior?" in *Understanding Change: Economics, Natural and Social Sciences in Dialogue*. A. Wimmer, Ed. , New York: Palgrave Macmillan (forthcoming).
- ◆ Leamer, E. E. (1983) "Let's Take the Con Out of Econometrics," *American Economic Review* 73: 31-43.
- ◆ Mueller, D. C. (1993) "Rational Egoism versus Adaptive Egoism as Fundamental Postulate for a Descriptive Theory of Human Behavior," *The Public Choice Approach to Politics*. Brookfield Vt: Ashgate.
- ◆ Buchanan, J. M. and Vanberg, V. J. (1994) "Constitutional Choice, Rational Ignorance and the Limits of Reason," *Economics as Social Theory*. New York: Routledge.
- ◆ MacDonald, P. K. (2003) "Useful Fiction or Miracle Maker: The Competing Epistemological Foundations of Rational Choice Theory," *American Political Science Review* 97: 551-65.
- ◆ Sobel, R. S. and Taylor, J. J. (2004) "The Last 30 Years of Public Choice: An Analysis of Author and Institutional Rankings," *Public Choice* 120:351-357.

## 2/1 II. Two Simple Rational Choice Models of Public Policy

**M 5, 14, 18; PT 2**

The two simplest models of public policy formation are the dictatorship model (one man rule) and the median voter model (decisive voter) of policies in competitive democracies. Both of these models have clear implications for public policy. Some of these are fairly similar; for example, both models suggest that public policies reflect individual preferences and circumstances. Both models suggest that public goods will be provided and that transfers will tend to favor those controlling government. On the other hand, the two models differ in their predictions about the size of government and the extent to which redistribution takes place. Moreover, just as the slope of a private demand curve is an empirical question so are the slopes of public demand curves.

- ◆ Congleton, R. D. "The Median Voter Model," *The Encyclopedia of Public Choice*, C. K. Rowley and F. Schneider, Eds, Kluwer Academic Press (2003): 382-386.
- ◆ Brennan, G.; Buchanan, J. M. (1977) "Towards a Tax Constitution for Leviathan," *Journal of Public Economics* 8:255-273.
- ◆ Olson, M (1993) "Dictatorship, Democracy, and Development," *American Political Science Review* 87: 567-576.
- ◆ Meltzer, A. H. and Richard, S. F. (1981) "A Rational Theory of the Size of Government," *Journal of Political Economy* 89: 914 - 927.
- ◆ Buchanan, J. M. and Lee, D. R. (1992) "Open Markets in the Transfer State," *Southern Economics Journal* 59: 1-8.
- ◆ Poole, K. T. and Daniels, R. S. (1985) "Ideology, Party and Voting in the US Congress, 1959-1980," *American Political Science Review* 79.
- ◆ Congleton, R. D. and Shughart, W. (1990) "The Growth of Social Security Expenditures, Electoral Push or Political Pull?" *Economic Inquiry* 28: 109-132.

In cases in which a pivotal (median) voter exists, electoral competition clearly constrains the policies that an elected agents can promise to put in place. In the two party setting, the platforms of both parties (and their candidates) tend to converge to the median voter's ideal point. To the extent that politicians care about reelection as well, electoral competition also constrains the policies that they actually put in place. Competitive elections also tend to aggregate voter information in a surprisingly efficient manner.

In addition to electoral competition, there is also competition for residents (tax base) among governments tends to produce efficient production of public services financed via Lindahl taxes. In less mobile circumstances, yardstick competition may also encourage innovation and efficiency in public policies.

- ◆ Coughlin, P. J. (1990) "Majority Rule and Election Models," *Journal of Economic Surveys* 4:157-88.
- ◆ Besley, Timothy; and Coate, Stephen Source (1997) "An Economic Model of Representative Democracy," *Quarterly Journal of Economics*.
- ◆ Tiebout, C. "A Pure Theory of Local Expenditure," *Journal of Political Economy* 64: 416 - 424.
- ◆ Epple, D. and Zelenitz, A. (1981) "The Implications of Competition among Jurisdictions: Does Tiebout Need Politics?" *Journal of Political Economy* 89:1197 - 1217.
- ◆ Inman, R. P. and Rubinfeld, D. L. (1997) "Rethinking Federalism," *Journal of Economic Perspectives* 11: 43-64.
- ◆ Besely, T. and Case, A. (1995) "Incumbent Behavior: Vote-Seeking, Tax-Setting, and Yardstick Competition," *American Economic Review* 85: 25-45.
- ◆ Becker, G. (1983) "A Theory of Competition Among Pressure Groups for Political Influence," *The Quarterly Journal of Economics* 98: 371-400.
- ◆ McLennan, A. (1998) "Consequences of the Condorcet Jury Thoerem for Beneficial Information Aggregation by Rational Agents," *American Political Science Review* 92:413-18.
- ◆ Goodin, R. E. and Estlund, D. (2004) "The Persuasiveness of Democratic Majorities," *Politics, Philosophy, and Economics* 3: 132-42.

Both the theory of competitive markets and electoral competition focus on well-developed institutional settings in which competition is an efficiency enhancing process. However, the theory of competition advanced by Gordon Tullock in 1967 suggests that some forms of competition are inherently wasteful!

The rent-seeking literature demonstrates that some forms of conflict--especially over public policy--can be a source of dead weight loss. In effect, resources invested in political contests are a "transactions cost" of collective decision making; a transactions cost that potentially can consume all of the net advantages that policies can confer. How much is lost to conflict between rent-seekers depends on the rules of the game and the "prize" to be awarded to the winner(s).

Seen in a broader light, the rent seeking literature implies that conflict is a natural implication of rational choice in a setting of scarcity. Institutions matter because the rules of the game shape the types of competition that we observe.

- ◆ Tullock, G. (1980/95) "Efficient Rent-Seeking," in *The Economic Analysis of Rent Seeking*
- ◆ Tullock, G. (1967/95) "The Welfare Costs of Tarriffs, Monopolies, and Theft," *Western Economic Journal* V:224-232. (also in *The Economic Analysis of Rent Seeking*)
- ◆ Laband, D. W. and Sophocleus, J. P. (1992/6) "An Estimate of Resource Expenditures on Transfer Activity in the United States," *Quarterly Journal of Economics*, reprinted in *The Economics Analysis of Rent Seeking*.
- ◆ Becker, G. (1983) "A Theory of Competition Among Pressure Groups for Political Influence," *The Quarterly Journal of Economics* 98.
- ◆ Tollison, R. D. and Congleton, R. D. Eds. (1995) *The Economic Analysis of Rent Seeking*. Cheltenham Glos. UK: Edgar Elgar Publishing Ltd.
- ◆ Congleton, R. D. (1988) "Evaluating Rent Seeking Losses: Do the Welfare Gains of Lobbyists Count?" *Public Choice* 56: 181-184.
- ◆ Congleton, R. D. (1986) "Rent-Seeking Aspects of Political Advertising" *Public Choice* 49.
- ◆ Kruger, A. O. (1974/95) "The Political Economy of the Rent-Seeking Society," *American Economic Review* 54: 291-303. ( also in *The Economic Analysis of Rent Seeking*)
- ◆ McCormick, R. E.; Shughart, W. F., and Tollison, R. D. (1984) " The Disinterest in Deregulation," *American Economic Review* 74:1075-79.
- ◆ (The rent-seeking literature "took off" during the 1980s following the publication of *Toward a Theory of the Rent-Seeking Society* (1980) edited by Buchanan, J. M., Tollison, R. D. and Tullock, G., College Station Tx: Texas A&M Press.)

## 2/22 V. Origins of Government: Conflict, Conquest, and Compacts

M 2; C 1

The theory of rent seeking implies that some forms of conflict are inherently unproductive. If so, it can potentially explain the emergence of institutions that redirect competitive efforts into more productive channels. This idea is not new, for example it is evident in Hobbe's theory of Leviathon published in 1651. (1651 was approximately the midpoint of the English civil, just after the execution of Charles I in 1649, but prior to the take over by Cromwell in 1653.)

Two modern rational choice theories of the state have been developed in the public choice tradition that are linked to both rent-seeking and public goods theory. The first draws on the Hobbesian conception of the social contract as extended by Rawls and Buchanan. The second stresses conquest and explores the incentives of successful dictators, authoritarians, and kings.

- ◆ Buchanan, J. M. (1975) *The Limits of Liberty*. Chicago: University of Chicago Press. Chapters 2-4
- ◆ Olson, M. (2000) *Dictatorship, Democracy and Development*. Oxford: Oxford University Press.
- ◆ Demsetz, H. (1977) "Toward a Theory of Property Rights" *AER* 57, 1967.

- ◆ Congleton, R. D. (1980) "Competitive Process, Competitive Waste, and Institutions," in *Towards a Theory of the Rent-Seeking Society*, Edited by J. Buchanan, R. Tollison, and G. Tullock, Texas A & M Press:153-179.
- ◆ Axelrod, R. (1986) "An Evolutionary Approach to Norms," *American Political Science Review* 80.
- ◆ Olson, M (1993) "Dictatorship, Democracy, and Development," *American Political Science Review* 87: 567-576.
- ◆ Grossman, H. I. (1995) "Swords or Plowshares? A Theory of the Security of Claims to Property," *Journal of Political Economy* 103: 1275-1288.
- ◆ Hirshleifer, J. (1995) "Anarchy and its Break Down," *Journal of Political Economy* 103:26-52.

### 3/1 VI. Rational Choice and the Emergence of Democracy

**M 25, 26; C 3, 4**

Whether government emerges by contract or by conquest, it is by no means obvious that the result would resemble anything like modern constitutional democracies. One can build a hypothetical model of the selection of government forms as in Rawls' *Theory of Justice* (1971), or Buchanan's *Limits to Liberty* (1975). These theories suggest, that if social contracts were commonplace, so would constitutional democracies. However, insofar as stable democracies emerged only in the past two hundred years, some processes other than writing new social contracts must be involved.

There are two public choice based theories of the emergence of democracy, one emphasizing revolution and the other emphasizing gradual reform through constitutional exchange.

- ◆ "On the Durability of King and Council: The Continuum Between Dictatorship and Democracy," *Constitutional Political Economy* 12 (2001): 193-215.
- ◆ Congleton, R. D. (2004) "Economic Development and Democracy, Does Industrialization Lead to Universal Suffrage?" *Homo Economicus* 21 (2004):283-311.
- ◆ Acemoglu, D. and Robinson, J. A.,(2001) "A Theory of Political Transitions," *American Economic Review* 91: 938-63
- ◆ Dudley, L. (2000) "The Rationality of Revolution," *Economics of Governance* 1: 77-103
- ◆ Kuran, T. (1989) "Sparks and Prairie Fires: A Theory of Unanticipated Political Revolution," *Public Choice* 61: 41-74.
- ◆ McGuire, M. C. and Olson, Mancur, Jr. (1996) "The Economics of Autocracy and Majority Rule: The Invisible Hand and the Use of Force," *Journal of Economic Literature* 34:72-96.
- ◆ Buchanan, J. M. and Tullock, G. (1962) *The Calculus of Consent*. Ann Arbor: University of Michigan Press. (Chapters 5-8).
- ◆ Mueller, Dennis C. (1996) *Constitutional Democracy*. New York: Oxford University Press.

### 3/8 VII. Democratic Constitutional Design: Avoiding Democratic Failures

M 27; C 9

Historically, democratic government--even broadly construed--is a rare event. The most common structure is a version of the "king and council" regime with a weak "council" and a dominant "king." On the other hand, in the past century there has been a great increase in the number of stable democracies. This long history suggests that something fundamental has changed. One possibility is that democratic institutional designs have become more robust in the past century or two.

- ◆ Congleton, R. D. (2003) "Economic and Cultural Prerequisites for Democracy" in *Rational Foundations of Democratic Politics*. Breton, A., Galeotti, G., Salmon, P., and Wintrobe, R. Eds. New York: Cambridge University Press (pp. 44-67).
- ◆ Shepsle, K. A. and Weingast, B. R. (1981) "Structure-Induced Equilibrium and Legislative Choice," *Public Choice* 37: 501-19.
- ◆ Schap, D. (1986) "Executive Veto and Informational Strategy: A Structure-Induced Equilibrium Analysis" *American Journal of Political Science* 30.
- ◆ Hammond, T. H. and Miller, G. J. (1987) "The Core of the Constitution" *American Political Science Review* 81.
- ◆ Wittman, Donald. 1995. *The Myth of Democratic Failure: Why Political Institutions are Efficient*. Chicago, Ill.: University of Chicago Press.
- ◆ Black, Duncan. (1987) *The Theory of Committees and Elections*. Dordrecht: Kluwer Academic Publishers.
- ◆ Arrow, K. J. (1963) *Social Choice and Individual Values* 2nd Edition, New Haven: Yale University Press.
- ◆ Schumpeter, J. 1947. *Capitalism, Socialism, and Democracy*. New York: Harper and Bros.

3/15 **No Lecture. (Spring Break: Have a nice time, see you next week)**

3/22 **VIII. Applications and Review for take home midterm**

3/22 **TAKE HOME EXAMS DISTRIBUTED**

3/29 **TAKE HOME EXAMS COLLECTED**

3/29 **IX. Effects of Democratic Constitutional Design at the Margin M 21, 22; C11, 12; PT 8, 9**

There is more to democratic constitutional design than holding elections with relatively broad suffrage. Some of these constitutional features may actually help democracy work--that is to say democracy, per se, may be a relatively unstable and ineffective form of government without additional constitutional provisions, as noted in the previous lecture. Others provide dimensions in which bargaining over constitutional detail may take place, which may facilitate the emergence of democratic states. (Of course, bargaining would not occur unless the details of constitutional design are believed to matter.)

In the past decade and a half, a new body of theoretical and empirical work has emerged in public choice and political economy that attempts to determine whether the details of

democratic constitutional design matter. The available evidence suggests that the detail of constitutional design can have substantial effects on the manner in which political competition takes place, the size of government, and economic growth rates.

- ◆ Persson, T. and Tabellini, G. (2003) "Constitutions and Economic Policy," *Journal of Economic Perspectives* 18: 75-98.
- ◆ Persson, T. and Tabellini, G. (2002) "Do Constitutions Cause Large Governments? Quasi-experimental Evidence," *European Economic Review* 46: 908-18.
- ◆ Frey, B. S. and A. Stutzer. 2000. "Happiness, Economy, and Institutions." *Economic Journal* 110: 918-38.
- ◆ Persson, Torsten; Roland, Gerard; Tabellini, Guido (1997) "Separation of Powers and Political Accountability," *Quarterly Journal of Economics* 112:1163-1202.
- ◆ Besley T. and A. Case (2003) "Political Institutions and Policy Choices: Evidence from the United States." *Journal of Economic Literature* 61: 7-73.
- ◆ Kenny, L. and Lott, J. (1999) "Did Women's Suffrage Change the Size and Scope of Government?" *Journal of Political Economy* 107: 1163-98
- ◆ Glazer, Amihai (1989) "Politics and the Choice of Durability," *American Economic Review* 79: 1207-13.
- ◆ Bradbury, J. C. and Crain, W. M. (2001) "Legislative Organization and Government Spending: Cross Country Evidence," *Journal of Public Economics* 82: 309-25.
- ◆ Tsebelis, G. 2002. *Veto Players: How Political Institutions Work*. Princeton, NJ: Princeton University Press.
- ◆ Diermeier, D., H. Eraslan, and A. Merlo. 2002. "Coalition Governments and Comparative Constitutional Design." *European Economic Review* 46: 893-907.

#### 4/5 X. Fiscal Federalism: Why Are Most Countries Decentralized?

M 10; C 10

For the most part, the rational choice models attempt to characterize the policy choices of unitary governments--governments that act independently of one another. However, most modern states, both democratic and autocratic--are decentralized. That is to say, they are composed of a hierarchy of national, state, county, and local governments, each of which is somewhat independent of the others, but not completely so.

The scientific issue is why do such decentralized systems exist? To address this question requires a theory of the consequences of decentralization and also a theory of the procedures that determine the degree of decentralization.

- ◆ Oates, W. E. (1972) *Fiscal Federalism*. New York: Harcourt Brace Jovanovich.
- ◆ Panizza, U. (1999) "On the Determinants of Fiscal Centralization: Theory and Evidence," *Journal of Public Economics* 74: 97-139.
- ◆ Congleton, R. D., Kyriacou, A. and Bacaria, J. (2003) "A Theory of Menu Federalism: Decentralization by Political Agreement" *Constitutional Political Economy* 14 (2003):167- 190.
- ◆ Salmon, P. 1987. "Decentralisation as an Incentive Scheme." *Oxford Review of Economic Policy* 3: 24-43.

- ◆ Congleton, R. D. (1994) "Constitutional Federalism and Decentralization: A Second Best Solution," *Economia delle Scelte Pubbliche*, 15-29.
- ◆ Qian, Y. and Weingast, B. (1997) "Federalism as a Commitment to Preserving Market Incentives," *Journal of Economic Perspectives* 11: 83-92.
- ◆ Congleton, R. D. (2000) "A Political Efficiency Case for Federalism in Multinational States: Controlling Ethnic Rent Seeking," in Galeotti, G., Salmon, P. and Wintrobe, R. Eds. *Competition and Structure*. New York: Cambridge University Press.

#### 4/12 **XI. (Professor Congleton Out of Town)**

#### 4/19 **XII. The Domain of Governance: Government Clubs and International Governmental Organizations** **PT 18**

In addition to intra-national governmental structures, there are also a number of international governmental structures. We are all familiar with the major international organizations: the United Nations, the European Union, the World Trade Organization, the International Monetary Fund, the North Atlantic Treaty Organization, the Organization of Petroleum Exporting Countries, etc. There are many many smaller international organizations as well.

Why do these "international clubs" exist, and how well do they work?

- ◆ Olson, M. and Zeckhauser, R. (1966) "An Economic Theory of Alliances," *Review of Economics and Statistics* 48: 266-79.
- ◆ Vaubel, R. (1994) "The Public Choice Analysis of European Integration: A Survey," *European Journal of Political Economy* 10: 227-49.
- ◆ Murdoch, J. C. and Sandler, T. (1997) "The Voluntary Provision of a Pure Public Good: The Case of Reduced CFC Emissions and the Montreal Protocol," *Journal of Public Economics* 63: 331-49.
- ◆ Congleton, R. D. (2001) "Governing the Global Environmental Commons: The Political Economy of International Environmental Treaties and Institutions," in Schulze, G. G. and Ursprung, H. W. Eds. *Globalization and the Environment*. New York: Oxford University Press (pp. 241-263).
- ◆ Nielson, D. L. and Tierney, M. J. (2003) "Delegation to International Organizations: Agency Theory and World Bank Environmental Reform," *International Organization* 57: 241-76.
- ◆ Congleton, R. D. (2005, forthcoming) "Mutual Advantages of Coercion and Exit within Private Clubs and Treaty Organizations: Toward a Logic of Voluntary Association," *Revista de Political Economy*.

#### 4/26 **XIII. Overview of the Course / Research Workshop (for Student Papers)**

#### 5/3 **XIV. Research Workshop**

#### 5/10 **FINAL DRAFT OF PAPER DUE at [congleto@gmu.edu](mailto:congleto@gmu.edu) (via E-mail!)**



**Have a Good Summer!**