Public Choice II

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

Required text


Optional Texts:


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

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<td>I. Public Choice and Political Science: Some Methodological Distinctions</td>
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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?
II. Two Simple Rational Choice Models of Public Policy

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.


III. The Discipline of Political Competition

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 policians 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 Lindalh taxes. In less mobile circumstances, yardstick competition may also encourage innovation and efficiency in public policies.


IV. Wasteful Competition

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.

- (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**

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 Hobbes's theory of Leviathan 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.

VI. Rational Choice and the Emergence of Democracy

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.

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.


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

VIII. Applications and Review for take home midterm

TAKE HOME EXAMS DISTRIBUTED

TAKE HOME EXAMS COLLECTED

IX. Effects of Democratic Constitutional Design at the Margin

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.


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.

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

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

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?


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 (via E-mail!)
Have a Good Summer!