

Econ 852
GMU

Public Choice
Paper Topics

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The purpose of the paper is to develop some original research based on the materials and topic areas covered in class. The paper should attempt to extend the public choice literature in some fairly narrow area of research, rather than provide a survey of the literature.

Grades will be based upon the originality and quality of the public choice - political economy analysis conducted in the paper. Style counts--in so far as good reasoning is best revealed by clear well-organized prose. I will read your paper as if it were a submission to a third tier journal. (A publishable paper is an "A," but even non-publishable papers will receive various shades of B's as long as they are thoughtful, on a public choice topic of interest, and well written.)

All papers should be typed *double* spaced (at least 12 pt fonts and 1 inch margins) and be **eight to twelve** pages in length, as necessary. Complete references should appear in a bibliography at the end of the paper and do not count in the page quota. The page constraints essentially limit the papers to "notes," which are often published in academic journals.

As a first semester course, I expect the papers to be serious attempts to apply the core models to a policy area of interest, rather than the beginning of a dissertation or longer publishable paper. So I am inclined to ask for somewhat more narrow and somewhat technical papers.

The **most natural** of these for the purposes of this course will use one or more of the core models (election, interest group, bureaucracy, and constitutional models) to analyze some policy choice or problem. Similar work could be undertaken using recent extensions of one of those lines of research.

Empirical work and statistical tests are also possible. There is much data available on line, which makes it possible to write empirical papers that test particular hypotheses to be undertaken during the second half of the semester. Analytical essays (careful case studies) are also permissible, but have to be conducted with care and use modes of analysis and models from the core public choice literature, and should for the most part be "positive" rather than "normative" analyses.

[A good recipe for a paper is: (i) introduction and main thesis (ii) short survey of the relevant literature, (iii) theoretical analysis and discussion (iv) optional--an empirical test of the theory, (v) conclusion summarizing the main contributions of the paper and short statement of possible applications and/or extensions.]

The **papers are due** in physical form during the first 15 minutes of the exam period. Alternatively, electronic submissions will be accepted by **e-mail until 23:59 (midnight) of the final exam day.**

The topics below are meant to be "intellectual seeds" to catalyze your thinking, rather than recipes for papers. You need not answer all of the questions raised. Most papers will carefully analyze just one or two of the questions listed.

Some Long-Standing Areas of Public Choice Research

1. Governmental Growth

Develop a public choice explanation or a collection of explanations for government growth in general or in the level of a particular program or tax (say Medicare, Social Security, Defense, Public Parks, etc.). Identify unique features of that service or the budget process through which it is funded.

Given your analysis, discuss ways that a bias toward growth (if any exists) can be reduced (or increased).

2. Public Goods, Externalities, and Public Policy

Analyze a particular public good or free rider problem and analyze the likely method(s) that a democratic (or authoritarian) polity would use to "solve" the public goods problems of interest. Contrast politically feasible or likely solutions to public goods problems with economically efficient solutions.

Is it possible to determine empirically whether the level of public services is provided at Pareto efficient levels or not?

Compare and contrast the ability of alternative public choice models to explain policy development in a particular area of policy, say health care, education, defense, social security, etc. Develop models of voter and/or interest group demands for the public service of interest, and estimate those models using readily available data. Determine which model explains the data better.

3. Fiscal Illusion

Analyze the logic and effects of rational ignorance and fiscal illusion with a focus on a particular policy area (financial regulation, health care, environmental regulation, etc.).

How does rational ignorance affect policy in the area of interest? To what extent might politicians or interest groups use rational ignorance to promote their own interest? Are there specific institutions or policies that increase (or reduce) fiscal illusion in the case(s) of analyzed?

Analyze the limits on the extent to which voter ignorance can be exploited. Analyze how elections and fire alarms (public scandals) inhibit politicians and induce policy reforms.

Estimate your model using available US or OECD data. Do the factors analyzed in your model explain the extent of fiscal illusion or the types of policies that we see adopted as a consequence of such information problems?

4. Fiscal Federalism

Develop an electoral rationale for the optimal level of fiscal decentralization, that is to say division of responsibilities among local, state and federal governments. How are responsibilities divided up between levels of government in the real world?

Consider whether the U. S. is over or under centralized. How would you determine which case obtains in the real world. Are there political problems that prevent us from reaching the ideal? How so?

Based on your analysis, estimate the determinants of centralization in the US or internationally. Are some states more likely to be centralized than others? What institutional, fiscal, and demographic factors account for this difference?

Are there cases in which significant centralization or decentralization have taken place. What were their effects?

5. Democracy vs. Dictatorship

The majority of public choice theorists personally prefer majority rule institutions over dictatorship. Are there any institutional features of democracy that make democracies more pleasant places to live than dictatorships. Are rent seeking losses smaller in democracies than in authoritarian government? Explain.

Empirically test the positive proposition that dictatorships adopt systematically economic or political policies than democracies.

In most real world cases, neither of these polar types of government exist. Rather one observes various forms of the “king and council” template for governance. This template allows a wide variety of “mixed” or “divided” forms of government. Analyze a policy area using such a model.

Is there evidence that intermediate forms of government exist. If so how would they differ from the extreme versions (dictatorship and democracy)? Are the changes in political or economic circumstances that tend to cause policy making authority to shift from the king to the council (executive to legislatures) or vice versa?

Test your hypothesis using historical data.

6. Deterministic and Stochastic Voting Models

One important difference between deterministic and stochastic voting models is that electoral equilibria are far more stable in the latter than in the former. On the other hand, deterministic voting models are more similar to ordinary economic models of consumer choice. Try to bridge the gap. Develop a model of voter choice which explains why a deterministic voter (with clear well understood rankings over policy outcomes) might vote as if he or she were a stochastic voter. Compare the voting equilibrium that results from your model with the more ad hoc models elaborated in Mueller.

Subject these alternative models of voting behavior to some kind of empirical test (whether statistical or experimental) and determine which model best fits the data.

7. Single Issue Voting

Special interest groups have essentially two methods by which they can affect electoral outcomes. They can vote as a block or they can provide economic resources for the candidate of their choice. Try to distinguish between these two methods of influence. Does your theory suggest that interest groups strategies may differ according to the policy issues being decided?

Is there any evidence to support your model? What data would you need to conduct a test of your theory?

8. Bureaucracy

A government bureaucracy always has some autonomy to allocate its resources as it sees fit. Partly this reflects monitoring costs and partly it reflects the delegation of authority to experts. How much authority should be delegated to bureaucracy? Is government bureaucracy just a special case

of the so-called agency problem or is government bureaucracy different from private bureaucracy?

Do specific institutional arrangements or demographics make bureaucratic agency problems less significant? Is there statistical support for your hypothesis.

9. Pressure Groups and the Efficiency of Public Policy

Suppose that special interest groups completely dominate political outcomes as is assumed by, for example, Becker's (1983) paper on interest groups. Is the outcome necessarily Pareto efficient? Are there institutional steps that can be taken to make rent-seeking activities more efficient? Analyze the effects that institutions can have on the costs and/or effectiveness of special interest group activities.

10. Rational Ignorance

What do voter efforts to economize on information imply about a special interest group's ability to affect public policy outcomes? If voter ignorance enhances the power of interest groups, does it also place constraints on that power? What institutional features will affect the degree of rational ignorance or biased expectations about public policy?

Can your hypothesis be tested empirically? If so, conduct a test using readily available data (such as that available in the *Statistical Abstract*.)

11. The Decline of Highway Quality

Casual observation suggests that highway expenditures have declined relative to highway demand over the last twenty years. Construct a model that explains this. Have roads gotten more expensive, the median voter's tastes and circumstances changed, or has the balance of power among relevant interest groups changed during this time?

12. Relatively Decline in Education and National Defense Budgets

Support for higher education and national defense has fallen for about two decades. Construct a public choice model (electoral, special interest, or combined) that explains one of these trends, and empirically test the model using readily available data.

13. Environmental Political Economy

Environmental regulations have increased substantially in the past twenty years. The arguments used are nearly always "public interest" arguments, yet environmental policies clearly have distributional consequences.

Analyze incentives for voters and interest groups to advance environmental aims. Have public goods problems been "optimally" solved for the development of such policies?

Is there evidence supporting your hypothesis?

14. Endogenous Rent-Seeking

The rules of most rent-seeking games are determined by government policies. Explain why those rules may (i) promote excessive rent-seeking activity, (ii) tend to reduce the inefficiency of rent-seeking efforts, (iii) be unavoidable consequences of open political processes. What would distinguish accidental rent-seeking games from those that are intentional?

To what extent are rent-seeking contests contrived by government rather than accidents of institutional designs? If rents are extracted through this process, attempt to estimate the magnitude of the extraction relative to the investment in rent-seeking activities. The difference is a possible measure of the deadweight loss from rent seeking in the setting of interest.

15. Trade Barriers: Interest Group or Voter Interests?

Is there a median voter model explanation of trade barriers of any sort? Try to construct a model of tariffs from a median voter model. Explain why "he" might prefer a tariff to, say a broad based tax on all commodities. (Hint: your model will need at least three goods, a domestically produced commodity, an imported commodity, and a government service financed by tax revenues.)

16. International Organizations

International organizations can be analyzed using the tools of public choice, although they differ in many respects from "ordinary" policy making bodies (e.g. governments). For example, most international organizations cannot impose taxes or punishments on their members.

Analyze the procedures of collective choice that affect the policies and recommendations of an international organization. Is there any evidence that the agency or treaty organization of interest (or their member states) behaves as predicted?

17. Any other topic that lends itself to a public choice analysis.

(Please clear other topics with me. I will try to give you a sense of whether your idea is sufficient or too much for the purposes of this class and the time that we have left in the semester.)