

# EC260: The Political Economy of Public Policy

**Session:** Two

**Prerequisites:** Introductory Microeconomics, basic knowledge of calculus and statistics

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Does democracy promote economic growth and welfare? What determines the size and evolution of the welfare state? Is regulation done in the interest of consumers? Is there a feasible third way between markets and governments in the delivering of public services? To answer these and many related questions it is necessary to understand the complex relationships between politics and economics. Governments and political processes define the boundaries of economic relationships and the rules of market interactions. Moreover, governments themselves allocate resources and these allocations reflect complex political bargaining. Understanding the interaction between politics and economics can help us to gain insight into the key questions of public policy making.

This course will examine public-policy making, its characteristics, determinants and consequences in liberal democracies. The course will first provide theoretical foundations from both economics and political science and then examine a number of topics from both theoretical and applied areas of political economy: collective action, electoral competition, fiscal policy and redistribution, bureaucracy, rent-seeking, regulation, information and accountability, constitutional reforms.

The course is organized around 12 lectures (3 hours each). Each lecture will cover a topic and classes (1 hour each) will then be devoted to solve problems and discuss specific questions related to that topic. Problems and questions on each topic will be distributed during the first lecture.

**Assessment.** This course is assessed by one written examination at the end of the course. This will account for 50% of the mark. Additionally, students are required to write a 5,000 words essay that will account for the remaining 50% of the final mark. A list of essay titles will be distributed during the first lecture.

## **Texts**

### *Main Textbook*

D.C. Mueller            Public Choice III, Cambridge: Cambridge University Press (2003)  
(Library reference: JF.1001.M94).

This is the main reference for this course. It will cover most (but not all!) of the material. It can be usefully complemented by other readings that will be indicated in the syllabus.

### *Useful books for beginners*

Kenneth A Shepsle & Mark S Bonchek *Analyzing Politics* London: W.W. Norton (1997)  
(This is an excellent introductory text that you will certainly find useful during this course)

P. Dunleavy *Democracy, Bureaucracy and Public Choice* (Hemel Hempstead: Harvester-Wheatsheaf, 1991).  
(Useful for some topics on elections, parties, interest groups and bureaucracies).

P. A. McNutt *The Economics of Public Choice*, Second Edition, Aldershot, Edward Elgar, 2002.  
(Okay for selected topics, but not comprehensive for this course)

*A stimulating read, definitely recommended:*

A.K. Dixit: *The Making of Economic Policy*, The MIT Press, 1996.

#### *Advanced Textbooks*

These two books are harder but some might enjoy:

Allan Drazen *Political Economy in Macroeconomics* (Princeton, 2000)

Torsten Persson & Guido Tabellini *Political Economics: Explaining Economic Policy*, MIT Press (2000).

#### *Classic Books*

A. Downs *An Economic Theory of Democracy* (New York: Harper and Row, 1957).

M. Olson *The Logic of Collective Action* (Cambridge, Mass: Harvard Univ Press, 1965).

W. Niskanen *Bureaucracy and Representative Government* (Chicago: Aldine-Atherton, 1971), now republished as *Bureaucracy and Public Economics* (Edward Elgar, 1995)

Journals which are especially useful for this course are *American Political Science Review*, *American Journal of Political Science*, *Journal of Political Economy*, *American Economic Review*, *Quarterly Journal of Economics*, *Journal of Theoretical Politics*, *Public Choice*, *British Journal of Political Science*, *Journal of Politics*.

In the following, readings marked \* are recommended.

## Syllabus and Reading List

### 1. Introduction to Political Economy. Rationality and methodological individualism. Preference Aggregation and Manipulation

This lecture will introduce the basic method of political economy. We will explore the possibility of aggregating individual preferences into collective decisions and the challenges that this process poses.

*Drazen, A.	Ch. 1.
*Persson, T. & Tabellini, G.	Ch. 1.
*Mueller	Chs. 23, 24, 28.
Shepsle & Bonchek	Chs 1-4

### 2. Public goods and the collective action problem.

The particular characteristics of public goods pose a number of problems for what concerns their supply. Free-riding and collective action problems will be analysed with the aid of simple game-theoretic concepts.

*Mueller	Ch.2
*Shepsle & Bonchek	Chs. 8-10
M. Olson,	<i>The Logic of Collective Action</i> , pp. 1-16.
K. Dowding,	<i>Power</i> (Buckingham, Open University Press, 1996) ch. 2.

### 3. Interest Groups

Interest groups have an impact on the policy making process, but what is the extent of their influence, what tactics do they use and how might political mechanisms affect their impact.

*Mueller	Ch. 15
Drazen	Ch. 8

Groseclose, Tim, and James Snyder. 1996. "Buying Supermajorities."  
*American Political Science Review* June: 303-15.

Landes and Posner (1975) The Independent Judiciary in Interest Group Perspective  
*Journal of Law and Economics* , 18,875-77

#### **4. Time-Inconsistency and Commitment**

The relationship between the economy and political incentives to manipulate the economy is a central theme of the political economy literature. We look at the problems faced by governments in credibly committing to policy initiatives focussing in particular on macro-economic performance.

Drazen Ch 4, 5 and 6  
Mueller Ch 19

\*Persson, T. &  
Tabellini, G. chs. 4, 11\* and 12.

\*\*Drazen, A. *Political Economy in Macroeconomics* (2002), chs 2.2, 4, 5 and 7.

\*A.K. Dixit *The Making of Economic Policy*, (The MIT Press,1996).

#### **5. Elections and public policy. Majority rule**

The majority rule has a special place in collective decision-making. We will see why and will analyse electoral competition in majority systems. We will derive several results on public policy formation under majority voting

\*Mueller Ch. 5, 11

Shepsle & Bonchek Ch. 5

Persson & Tabellini Ch. 3

#### **6. Organisation of Legislatures and Legislative Procedures**

The organisation of legislatures can have a big impact on how resources are allocated. We look at a number of features of the legislative process which may have an impact such as the dynamics of legislative voting , the role of committees and the process of bargaining

Mueller p104-123 p278-295

Shepsle and Bonchek Ch 12,14

Baron. D and Ferejohn. J (1987) 'Bargaining in Legislatures', *American Political Science Review*, vol 83.

Weingast.B (1979) 'A Rational Choice Perspective on Congressional Norms', American Journal of Political Science, 23, 246-262.

B. Weingast and Marshall 'The Industrial Organization of Congress. Or why legislatures like firms are are not organized as markets', Journal of Political Economy, 96 (2) 1988 pp. 132-63

K. Krehbiel Information and Legislative Organization Michigan 1991

## 7. Electoral rules and policy outcomes

Institutions might influence the way voters and their elected representatives act. Thus, constitutional rules might have important consequences for public policy. We will focus on electoral rules and their impact on the provision of public goods and overall public spending.

\*Mueller Ch. 13

Persson & Tabellini, Ch. 10

Shepsle & Bonchek Chs. 11, 12

A. Lijphart *Patterns of Democracy*, Yale University Press, 1999, Chs. 1, 8

V.Larcinese L, Rizzo, C. Testa  
Allocating the US Federal Budget to the States: the Impact of the President, *Journal of Politics*, 68 (2), 447-456.

## 8. The public choice of redistribution. Welfare spending and the size of the public sector

Why countries with apparently very similar economic characteristics differ in the amount of resources that are redistributed to the poor? We will use the models developed in lecture 3 to analyse welfare spending and the size of the public sector

\*Mueller Ch 19.

\*Drazen. Ch. 8.

\*V.Larcinese *Voting over redistribution and the size of the welfare state: the role of turnout*. Forthcoming in *Political Studies* (downloadable from the author's web page).



Dewan, T and Myatt, D (2007) 'Scandal, Protection and Recovery in Political Cabinets' , *American Political Science Review*, 101, no.1

Ferejohn, J (1999) *Accountability and Authority, Toward a Theory of Political Accountability*, in Preworski, Manin and Stokes ed.

## **10 Information, Mass media and Public Policy**

The mass media appear to be increasingly important in elections. Ultimately they might have a powerful influence on public policy. Is this true? And if yes, to which extent? We will analyse several theories of mass media influence in politics and have a look at what the data say.

\*V. Larcinese *Information, Elections and Public Policy*. (downloadable from the author's web page).

V.Larcinese The Instrumental Voter Goes to the News-Agent: Information Acquisition, Marginality, and the Media, *Journal of Theoretical Politics*, 19(3), 249-276

V.Larcinese Does Political Knowledge Increase Turnout? Evidence from the 1997 British General Election, *Public Choice*, 131, 387-411.

Grofman, E. (ed.) *Information, Participation, and Choice* (The University of Michigan Press,1993). Introduction (Grofman), ch. 1 (Popkin), ch 3 (Grofman – Withers), 4(Uhlaner), 6(Grofman)

A. Lupia & M.D. McCubbins *The democratic dilemma: can citizens learn what they need to know*. New York: Cambridge University Press

M.X. Delli Carpini & S. Keeter *What Americans know about Politics and why it matters*, New Haven: Yale University Press, 1996.

J.G. Matsusaka Explaining voter turnout patterns: an information theory, *Public Choice*, 84, 91-117, 1995.

J. Zaller *The nature and origins of mass opinion*, New York, Cambridge University Press, 1991

J. Zaller The myth of mass media effectiveness revived, in "*Political Persuasion and attitude change*"\_(D. Mutz ed.), Ann Arbor, University of Michigan Press, 1996.

## **11. The Origins and Effects of Political Institutions**

What is the difference between Democracy and Oligarchy; what are the economic origins of institutional forms; what are the effects of democratisation and regime type on economic performance; what is the role of political leadership.

Shepsle and Bonchek, chapter 14

Acemoglu, D and Robinson, J (2006) 'The Economic Origins of Dictatorship and Democracy', *Cambridge University Press*

Acemoglu, D and Robinson, J (2001) 'Why did the West Extend the Franchise: Distribution and growth in Comparative Perspective', *Quarterly Journal of Economics*, 115 (4), 1167-1199

Acemoglu, D and Robinson, J (2000) 'A Theory of Political Transitions', *American Economic Review*, 91, pp 938-963

Dewan, T and Myatt, D (2007) 'Leading the Party: Coordination, Direction and Communication', *American Political Science Review*, 101, no. 4, available from . <http://personal.lse.ac.uk/DEWANTA/>

Dewan, T and Myatt, D (2007) 'The Qualities of Leadership: Direction, Communication and Obfuscation', available from . <http://personal.lse.ac.uk/DEWANTA/>

Greif, A, Milgrom, P and Weingast, B (1994) 'Coordination, commitment, and enforcement: The case of the merchant guild', *Journal of Political Economy*, 102, 745-776.

Mackie, G (1996) Ending Footbinding and Infibulation: A Convention Account. *American-Sociological-Review*; 61, 6, Dec, 999-1017

North D.C, *Institutions, Institutional Change and Economic Performance*

North D.C and Weingast, B 'Constitutions and Commitment: The Evolution of Institutional Governing Public Choice in Seventeenth Century England', *Journal of Economic History*, Vol 49, no 4, 803-832.

## **12. Bureaucracy**

How does the relationship between the legislature and the bureaucratic administration affect policy outcomes? Who is the dominant player in this relationship? In this session we look at how principal –agent analysis can illuminate some of the aspects of bureaucracy

Mueller

Ch 17



J. Bendor, S. Taylor  
& R. van Gaalen 'Bureaucratic Expertise versus Legislative Authority: A Model of  
Deception and Monitoring in Budgeting' *American Political Science  
Review*, 79: 1041-1060

B. Weingast and  
M. Moran 'Bureaucratic Discretion or Congressional Control? Regulatory  
Policymaking by the Federal Trade Commission' *Journal of Political  
Economy* 91, 1983, pp. 77.