

GV 481: PUBLIC CHOICE AND PUBLIC POLICY

2007-08

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Availability:

Core course for the degree MSc Public Policy and Administration, MSc Public Policy and Administration (Research), and MRes/PhD students. Optional course for MSc Comparative Politics, MSc Comparative Politics (Empire), MSc Comparative Politics (Latin America), MSc Regulation and MSc Regulation (Research).

Content:

The objective of the course is to provide an introduction to public choice theory and the ways in which it analyzes the political and policy processes of advanced liberal democratic states. The course focuses mainly on institutional public choice, although a brief introduction to social choice will be given in the first sessions. A one term course cannot offer a comprehensive introduction to the complex working of political systems. The emphasis is on introducing key concepts to simplify and analyze broad classes of situations. Topics covered include the theory of voting and party competition, collective action, interest groups and rent-seeking, lobbying strategies, coalition theory, log-rolling, legislative organization and principal-agent models. Some of the topics of this course are covered at an advanced level in GV482.

By the end of the course you should be able:

- to demonstrate a working knowledge of public choice theory - its assumptions, 'tools' and limitations.
- to critically evaluate and apply the core arguments of public choice theory, the principles of spatial analysis, and game theory.
- to apply these arguments and principles to political situations, institutions and complex political processes in liberal democracies.

Examples are mainly drawn from the U.S., Western Europe and the European Union. You are encouraged to use examples from other countries.

Public choice theory has a high level of technical sophistication. You are not expected to understand the mathematical proofs on which some of the arguments are based. You are, however, expected to familiarize yourself with the tools used in the lectures and presented in the core readings (e.g., spatial modelling). Please feel free to consult the seminar teacher if you have any questions on technical aspects.

Assessment:

The course is assessed by an essay (about 2,000 words including notes and bibliography) essay handed in at the beginning of the second term (the last day of the end of the first week) and a two hour unseen examination in June, where two out of eight questions must be answered. The assessed essay constitutes 25% of the mark and the exam 75%. The essay topic has to be agreed upon with the seminar teacher by the end of week 6 in the Michelmas term. We require two copies of the assessed essay handed in to the departmental office. The cover sheet (available from the office) must be filled in and your name must not appear on this or the essay. Your essay will be identified by your exam number (not student ID number). Note that exam questions can be broader than seminar topics. This course and the exam vary from year to year. Please bear this in mind when looking at exam papers from previous years.

Coursework:

One formative essay (not more than 1,500 words) to be handed in at the end of the 6th week of the Michelmas term. This essay will be marked and handed back to students with comments. A separate mark for the assessed essay will not be communicated to students.

Students are expected to make seminar presentations and actively contribute to seminar discussions. The coursework essay and presentation must be on different topics. Your assessed essay must be on a different topic to your coursework essay but may be on the topic of your presentation.

Introductory Reading

No single text is sufficient for the whole course. Shepsle and Bonchek (1997) provides an excellent starting point and will be the main reference for many topics. Mueller (2003) is a bit technical but covers many of the topics and is a useful summary of the state-of-the-art. Dunleavy (1991) is good for selected topics.

Recommended Texts

- K. Shepsle & M. Bonchek Analyzing Politics London: W.W. Norton (1997)
- D.C. Mueller Public Choice III, Cambridge: Cambridge UP (2003).
- P. Dunleavy Democracy, Bureaucracy and Public Choice, Hemel Hempstead: Harvester-Wheatsheaf (1991).

Useful Books for Beginners

- M. Laver Private Desires and Political Action, London: Sage (1997). Introductory, lively, not comprehensive. Good introductory section on collective action.
- S. Heap et al. The Theory of Choice, Oxford: Blackwell (1992). Very good for selected topics.

Classics:

- A. Downs An Economic Theory of Democracy, New York: Harper and Row (1957)
- M. Olson The Logic of Collective Action, Cambridge, Mass: Harvard UP (1965)
- W. Niskanen Bureaucracy and Representative Government, Chicago: Aldine-Atherton (1971), republished as Bureaucracy and Public Economics, Aldershot: Edward Elgar (1995)

For purely introductory reading, students should also consult the relevant entry in The New Palgrave Dictionary of Economics.

Journals which are especially useful for this course are Journal of Theoretical Politics, Public Choice, American Political Science Review, American Journal of Political Science, Journal of Politics, Quarterly Journal of Political Science. Economics journals sometimes have relevant articles too.

TOPICS COVERED

There will be a weekly one hour lecture during Michaelmas term on Tuesdays from 17.00-18.00. Weekly two-hour classes are associated with these lectures, which discuss the topics of the lecture from the previous week. The seminars are lead by the teacher giving the lecture with the exception of the lecture in week 9. The lecture on bureaucracy is given by JW but the seminars are taught by AW. There is no lecture for the first seminar (Concepts of Public Choice).

Topics	Week		Teacher
	Lecture	Seminar	
Introduction and foundations	-	1	VL/RH
Public policy as the aggregation of individual preferences	1	2	VL
Spatial Models of Political Choice	2	3	VL
Public Goods and Collective Action	3	4	VL
Turnout	4	5	RH
Role and Impact of Interest Groups on Public Policy	5	6	RH
Institutional Foundations of Power	6	7	RH
Legislative Organization	7	8	RH
Delegation and Oversight	8	9	RH
Bureaucracy	9	10	JW
Revision Session	ST1		VL
Revision Session	ST2		RH/JW

There will be two revision seminars where we will go through past examination questions in weeks 1 and 2 of the Summer Term, in order to help you prepare for your examinations.

It cannot be sufficiently emphasised that reading lists offer only a flavour of the available literature. If a particular book is unavailable another (probably equally good one) can be found to take its place.

INTRODUCTION AND FOUNDATIONS

Explain the following concepts:

- Preferences
- Ordinal utility
- Cardinal utility
- expected utility
- risk-aversion
- Indifference curves
- Nash Equilibrium
- ‘Prisoners Dilemma’
- ‘Battle of the sexes’

Core readings:

- Shephse & Bonchek Analyzing Politics, Chs 1 & 2
- D. Morrow Game Theory for Political Scientists, Princeton: Princeton UP (1994)
Ch. 2 (Utility Theory)
- H. Varian Intermediate Microeconomics, New York: Norton (1999), pp. 55-62
(cardinal utility) and 492-499 (game theory)

Further readings:

- E. Rasmusen Games & Information, Malden: Blackwell (2001), pp. 25- 31
- S. Heap et al. The Theory of Choice
- P. Ordeshook Game Theory and Political Theory, Cambridge: Cambridge UP (1986),
Ch. 1 (pp. 10-52)
- J. Friedman ‘Economic Approaches to Politics’, in J. Friedman (ed.), The Rational Choice Controversy (New Haven: Yale University Press, 1996),
originally published in *Critical Review*, Vol.9, No. 1-2
- G. Tsebelis ‘In Defense of the Rational-Choice Approach’, in G. Tsebelis, Nested Games (Los Angeles: UC Press, 1990)

PUBLIC POLICY AND THE AGGREGATION OF PREFERENCES

- a) What are the implications of Arrow’s impossibility theorem for the study of politics?
- b) Are Arrow’s requirements too strict for a democracy? Are all requirements equally important?

Core readings:

Shepsle & Bonchek Analyzing Politics, Chs 3 & 4.

Further readings:

W. Riker Liberalism against Populism, Prospect Heights: Waveland Press (1982), Ch. 5 (The Meaning of Social Choices)

K. Dowding ‘Can Populism be defended?’, Government and Opposition, Vol. 41 (2006), No. 3, pp. 327-346

G. Mackie Democracy Defended, Cambridge: Cambridge University Press (2003), Ch. 3 (Is democratic voting inaccurate?)

Mueller Public Choice III, Ch. 24 (The Impossibility of a Social Ordering)

Ordeshook Game Theory and Political Theory, Ch. 2 (Individual preferences and social choice)

Hinich & Munger Analytical Politics, Ch. 5 (Social Choice)

J. Enelow Cycling and majority rule, in D. Mueller (ed.), Perspectives on Public Choice, Cambridge: Cambridge University Press (1997)

Miller, Grofman Feld The Geometry of Majority Rule, Journal of Theoretical Politics, Vol. 1 (1989) , No. 4, pp. 379-406

Brian Barry & Russell Hardin (eds) Rational Man and Irrational Society? An Introduction and Sourcebook, Beverly Hills: Sage (1982)

J. Kelly Social Choice: An Introduction, Berlin: Springer (1988)

PUBLIC GOODS AND COLLECTIVE ACTION

- a) Illustrate the prisoners' dilemma and discuss to which extent can be used to analyse collective action problems.
- b) How can the collective action problems be overcome? Give examples.

Core readings:

- M. Olson The Logic of Collective Action, pp. 22-52.
- Mueller Public Choice III, Ch. 2 – pp. 9-18 & 39-42
- Sheplse & Bonchek Analyzing Politics, Ch. 9 (Collective Action) + 10 (Public Goods)

Further readings:

- Michael Laver Political Solutions to the Collective Action Problem, Political Studies 28 (1980), pp. 195-209
- M. Taylor & H. Ward Chickens, Whales and Lumpy Goods: Alternative Models of Public Goods Provision, Political Studies, Vol. 30 (1982), pp. 350-70
- K. Dowding Power, Buckingham: Open University Press, pp. 31-43
- P. Dunleavy Democracy, Bureaucracy and Public Choice, Ch. 2.
- R. Hardin Collective Action, Baltimore: John Hopkins University Press (1982).
- J. Esteban & D. Ray 'Collective action and the Group Size Paradox', American Political Science Review, Vol. 95 (2001), pp. 663-672
- M. Taylor The Possibility of Co-operation, Cambridge: Cambridge UP (1987)
- Todd Sandler Collective Action, Hemel Hempstead: Harvester-Wheatsheaf (1992)
- Richard Cornes & Todd Sandler The Theory of Externalities, Public Goods and Club Goods, Cambridge: Cambridge UP (1996)
- E. Ostrom Governing the Commons, Cambridge: Cambridge University Press (2000)

VOTING AND ELECTIONS

a) Carefully state all the assumptions of the median voter theorem (MVT). Does the MVT theorem only apply in one dimension? Discuss the relevance of the MVT for understanding collective decisions.

b) Can we explain the success of Blair in the 1997 election in terms of the Downsian model? How about the success of the US president G.W. Bush in 2004?

Core readings:

Shepsle & Bonchek Analyzing Politics, Ch. 5 (Spatial Models of Majority Rule), pp. 103-136

P. Dunleavy Democracy, Bureaucracy and Public Choice, Ch. 4

Further readings:

Mueller Public Choice III, Ch. 5 (Majority rule)

J. Bonner Introduction to the theory of social choice, The Johns Hopkins University Press (1986). Chs. 5 & 6.

Hinich & Munger Analytical Politics, Ch. 2 (Model of Downs and Black)

Ordeshook Game Theory and Political Theory, Ch. 2 (Individual preferences and social choice)

P. Moser The Political Economy of Democratic Institutions, Cheltenham: Elgar (2000), Ch. 1 + 2

A. Downs An Economic Theory of Democracy Harper and Row (JF.1351.D75)

TURNOUT

- a) Explain the equation $PB + D > C$
- b) What can we learn from the empirical evidence on voter turnout?

Core readings:

Mueller	<u>Public Choice III</u> , Ch. 14 (The Paradox of Voting)
A. Downs	<u>An Economic Theory of Democracy</u> , Ch. 11-14, New York: Harper and Row (1957)
P Fiorina	<u>Perspectives on Public Choice</u> , Ch. 18, Cambridge University Press, ed DC Mueller (1997)

Further readings:

W Riker & P Ordeshook	'A Theory of the Calculus of Voting', <u>American Political Science Review</u> 62 (1968) pp. 25-42
J Ferejohn & P Fiorina	'The Paradox of Not Voting: A Decision Theoretic Analysis' <u>American Political Science Review</u> 68 (1974), pp. 525-36
P Fiorina	'The Voting Decision: Instrumental and Expressive Aspects', <u>Journal of Politics</u> 38 (1976), pp. 390-415
J Aldrich	'Rational Choice and Turnout', <u>American Journal of Political Science</u> 37 (1993), pp. 246-78
J Matsusaka	'Explaining Voter Turnout Patterns: An Information theory', <u>Public Choice</u> 84 (1995), pp. 91-117
T Feddersen & W Pesendorfer	'Abstention in Elections with Asymmetric Information and Diverse Preferences', <u>The American Political Science Review</u> 93 (1999), pp. 381-398
D Lassen	'The Effect of Information on Voter Turnout: Evidence from a Natural Experiment', <u>American Journal of Political Science</u> 49 (2005), pp. 103-118
T Palfrey & D Levine	'The Paradox of Voter Participation: A Laboratory Study', <u>The American Political Science Review</u> <i>forthcoming</i>

http://www.idea.int/elections/voter_turnout.cfm

ROLE AND IMPACT OF INTEREST GROUPS ON PUBLIC POLICY

- a) What aims does public choice theory attribute to interest groups?
- b) When and how do interest group influence public policy?
- c) What effects does interest group activity have?

Core readings:

- G. Tullock 'The Costs of Special Privilege' in J. Alt & K. Shepsle (eds), Perspectives on Positive Political Economy, Cambridge: Cambridge UP (1990)
- R. Hall & A. 'Lobbying as Legislative Subsidy', *American Political Science Review*,
Deardorff Vol. 100 (2006), No. 1., pp. 69-84
- W. Mitchell 'Interest groups: economic perspectives and contributions', Journal of Theoretical Politics, Vol. 2 (1990), No.1, pp. 85-108

Further readings:

- Mueller Public Choice III, Ch. 20 (Interest Groups)
- P. A. McNutt The Economics of Public Choice, Cheltenham: Elgar (1996), Ch. 6
- W. Mitchell & 'Economic theories of interest groups', American Journal of Political Science, Vol. 35 (1991), No. 2, pp. 512-46.
M.Munger
- D. Austen-Smith Interest groups: money, information and influence, in D. Mueller (ed.), Perspectives on Public Choice, Cambridge: Cambridge University Press (1997)
- G. Becker 'A Theory of Competition Among Pressure Groups for Political Influence' Quarterly Journal of Economics, Vol. XCVIII (1983), pp. 371-400
- G. Becker 'Public Policies, Pressure Groups and Deadweight Costs' Journal of Public Economics, Vol. 28, pp. 329-47.
- G. Tullock The Economics of Special Privilege and Rent Seeking, Boston: Kluwer (1989)

- G. Stigler ‘The Theory of Economic Regulation’, Bell Journal of Economics and Management Science, Vol. 2 (1971), No. 1, pp. 3-21
- S. Peltzman ‘Towards a more general Theory of Regulation’, Journal of Law and Economics, Vol. 19 (1976), No. 2, pp. 211-240
- G. Posner ‘Taxation by Regulation’, Bell Journal of Economics and Management Science, Vol. 2 (1971), No. 1, pp. 22-50
- G. Grossman & E. Helpman Special Interest Politics, Cambridge: MIT Press (2001)
- M. Olson The Rise and Decline of Nations, New Haven: Yale Univ Press (1982)
- C. Rowley et al. The Political Economy of Rent-Seeking, Boston: Kluwer (1988)
- I. Bischoff ‘Determinants of the increase in the number of interest groups in western democracies’, Public Choice, Vol. 114 (2003), pp. 197-218
- J. Potters
F Winden ‘Lobbying and Asymmetric Information’, Public Choice 74 (1992) pp. 269-92
- D. Austen-Smith & J. Wright ‘Theory and Evidence for Counteractive Lobbying’, American Journal of Political Science, Vol. 40 (1996), No. 2., pp. 543-564 .
- D. Austen-Smith & J. Wright ‘Counteractive Lobbying’, *American Journal of Political Science*, Vol. 38 (1994), No. 1., pp. 25-44
- T. Stratmann ‘The Effects of Logrolling on Congressional Voting’, American Economic Review 82 (1992), pp 1162-76

Week 6 Lecture

Week 7 Seminar

INSTITUTIONAL FOUNDATIONS OF POWER

- a) Contrast theories of coalition formation. What are the differences in terms of assumptions and predictions? Can minority governments occur? Can coalitions coalesce?
- b) Compare the effects of ex ante veto and ex post veto power?
- c) How powerful is the party that sets the agenda?

Core readings:

- M. Laver & N. Schofield Multiparty Government: The Politics of Coalition in Europe, Ann Arbor: University of Michigan Press (1998), Ch. 3 (What are the stakes) + 5 (Who gets in?)
- M. Laver & K. Shepsle Making and Breaking Governments, Cambridge: Cambridge UP (1996) Ch. 2-4 (government formation, government equilibrium)
- K Krehbiel Pivotal Politics, Chicago: University of Chicago press (1998), Ch. 2 (theory)
- J. Harrington 'The power of the proposal maker in a model of endogenous agenda formation', Public Choice 64 (1990), pp. 1-20

Further readings:

- P. Dunleavy 'Modelling Coalitions that Cannot Coalesce', West European Politics, Vol. 24 (2001), No. 1, pp. 1-26
- W. Riker The Theory of Political Coalitions, New Haven: Yale UP (1962)
- R. Axelrod Conflict of Interest, Chicago: Markham (1970)
- A. de Swaan Coalition Theories and Government Formation, Amsterdam: Elsevier (1973)
- K. Dowding 'Interpreting Formal Coalition Theory; in K. Dowding and D. King (eds) Preferences, Institutions and Rational Choice (Clarendon Press, 1995)
- L. Martin & R. Stevenson 'Government Formation in Parliamentary Democracies', American Journal of Political Science, Vol. 45 (2001), pp. 33-50
- D. Baron 'A spatial bargaining theory of government formation in parliamentary systems', American Political Science Review, Vol. 85 (1991), No. 1, pp. 137-164
- M. Laver & K. Shepsle Government Coalitions and Intraparty Politics, British Journal of Political Science, Vol. 20 (1990), No. 4., pp. 489-507
- M Hinich & M. Munger Analytical Politics, Cambridge: CUP (1997) Ch. 2 + 3 (spatial model in one and more dimensions)
- G Tsebelis Veto Players, Princeton: Princeton UP (2002), Ch. 1 (individual veto players)
- D Baron & J Ferejohn 'Bargaining and Agenda formation in Legislatures', American Economic Review 77 (1987), pp. 33-47

P. Moser The Political Economy of Democratic Institutions, Cheltenham: Elgar (2000)

K Shepsle & B Weingast The Institutional Foundations of Committee Power, American Political Science Review, Vol. 81 (1987), No. 1, pp. 85-104

T, Romer & H. Rosenthal Political resource allocation, controlled agenda, and the status quo, Public Choice, Vol 33 (1978), pp27-43

Week 7 Lecture

Week 8 Seminar

LEGISLATIVE ORGANIZATION

a) Compare and illustrate the distributive, informational and partisan approaches to legislative committees. Are they mutually exclusive?

b) How does the committee structure affect policy stability according to Shepsle?

Core readings:

K. Shepsle & B. Weingast Positive Theories of Congressional Institutions, Legislative Studies Quarterly, Vol. 19 (1994), pp. 149-79 (*reprinted in the volume edited by the authors of the same name*)

K. Krehbiel Spatial Models of Legislative Choice, Legislative Studies Quarterly, Vol. 13 (1988), No. 3, pp. 259-319

Further readings:

Shepsle & Bonchek Analysing Politics, Ch. 11 + 12

Morrow Game Theory for Political Scientists, pp. 138-145

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

K. Krehbiel Information and Legislative Organization, Ann Arbor: University of Michigan Press (1991)

G. Cox & M. McCubbins Legislative Leviathan, Los Angeles: UC Press (1993)

- K. Shepsle Institutional Arrangements and Equilibrium in Multidimensional Voting Models, American Journal of Political Science, Vol. 23 (1979), No. 1., pp. 27-59
- Krehbiel, Shepsle & Weingast 'Why are Congressional Committees Powerful?', American Political Science Review, Vol. 81 (1987), No. 3, pp. 929-945
- K. Krehbiel 'Where's the party?', British Journal of Political Science, Vol. 23 (1993), No. 2, pp. 235-266
- K. Krehbiel 'Are congressional committees composed of outliers?', American Political Science Review, Vol. 84 (1990), No. 1, pp. 149-163

Week 8 lecture

Week 9 Seminar

DELEGATION AND OVERSIGHT

- a) Explain adverse selection, moral hazard and transaction costs.
- b) What role does expertise play in principal-agent relationships?
- c) How do legislatures exercise oversight according to McCubbins and Schwartz?
- d) What impact does the existence of multiple principals have on delegation?

Core readings:

- J. Huber & C. Shipan 'The Costs of Control: Legislators, Agencies, and Transaction Costs.' Legislative Studies Quarterly, Vol. 25 (2000), No. 1, pp. 25-52
- M. McCubbins & T. Schwartz 'Congressional Oversight Overlooked: Police Patrols versus Fire Alarms.' American Journal of Political Science, Vol. 28 (1984), No. 1, pp. 165-179
- K. Bawn 'Political Control Versus Expertise: Congressional Choice About Administrative Procedures' American Political Science Review, Vol. 89 (1995), pp. 62-73

Further readings:

- Mueller Public Choice III, Ch. 16 + Ch. 17
- Shepsle & Bonchek Analyzing Politics, Ch. 13 (Bureaucracy)

- E. Rasmusen Games & Information, Malden: Blackwell (2001), Ch. 7, 8 +9
- B. Weingast and
M. Moran ‘Bureaucratic Discretion or Congressional Control? Regulatory
Policymaking by the Federal Trade Commission’, Journal of Political
Economy, Vol. 91 (1983), pp. 775-800
- A.K. Dixit: The Making of Economic Policy, Boston: MIT Press (1996)

Week 9 lecture

Week 10 Seminar

BUREAUCRACY

- a) According to Niskanen’s theory of budget maximizing bureaucrats, what is the level of supply by a budget-constrained bureau? Is this level of output efficient?
- b) In what ways, if any, does the bureau-shaping approach differ from Niskanen’s theory of bureaucratic supply? Which is superior?

Core readings:

- Mueller Public Choice III, Ch. 16.
- A. Hindmoor Rational Choice. New York, Palgrave Macmillan (2006), Ch. 6.

Further readings:

- W. A. Niskanen Bureaucracy and Representative Government. Chicago, Aldine Atherton (1971). Republished as Bureaucracy and Public Economics. Aldershot, Edward Elgar (1994). In particular pp. 3-48.
- P. Dunleavy Democracy, Bureaucracy and Public Choice: Economic Explanations in Political Science. London, Prentice Hall (1991; Longman 2001 reissue). Especially Ch. 7, as well as 6 and 8 as further reading.
- Breton & Wintrobe ‘The Equilibrium Size of a Budget-Maximizing Bureau: A Note on Niskanen’s Theory of Bureaucracy’ Journal of Political Economy Vol. 83 (1975) No. 1, pp. 195-208.
- O. James The Executive Agency Revolution in Whitehall: Public Interest Versus Bureau-Shaping Perspectives. New York, Palgrave Macmillan (2003).
- A. Breton Competitive Governments: An Economic Theory of Politics and Public Finance. Cambridge, Cambridge University Press (1996), Ch. 4.
- Blais & Dion The Budget Maximizing Bureaucrat: Appraisals and Evidence.

Pittsburgh, University of Pittsburgh Press (1991).

- D.-J. Kraan Budgetary Decisions: A Public Choice Approach. Cambridge, Cambridge University Press (1996), Ch. 4.
- Miller & Moe ‘Bureaucrats, Legislators, and the Size of Government’ American Political Science Review Vol. 77 (1983) No. 2, pp. 297-322.
- J. Bendor et al. ‘Bureaucratic Expertise versus Legislative Authority: A Model of Deception and Monitoring in Budgeting.’ American Political Science Review Vol. 79 (1985) No. 4, pp. 1041-1060.