Glossary of Public Choice

ECO1028 — Politics Without Romance

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Contents

The Core Foundations & The Virginia School

Methodological Individualism
The principle that social phenomena must be explained by the actions and incentives of *individuals*, rather than abstract entities like "The State."

Rational Choice
The assumption that individuals act consistently to maximize their own utility subject to the constraints (rules, income, time) they face.

Politics as Exchange
Viewing the political process as a mechanism for coordination where individuals trade votes, taxes, and support for policies.

Politics Without Romance
James Buchanan's description of the field: analyzing politics without the wishful thinking that participants act purely for the "common good."

Constitutional Political Economy
The study of the "rules of the game" (the Constitution) versus the choices made within those rules (ordinary legislation).

External Costs
The cost or "pain" imposed on an individual when a group makes a decision that goes against their preferences.

Decision-Making Costs
The time, effort, and resources required to reach a collective agreement. These costs increase as the required majority approaches unanimity.

Leviathan Hypothesis
The theory that unconstrained governments naturally seek to expand their taxing and spending power to the maximum possible limit.

Wicksellian Unanimity
The ideal state (proposed by Knut Wicksell) where a policy requires 100% agreement, ensuring that the policy is a genuine Pareto improvement.

Voters, Social Choice & Voting Theory

Paradox of Voting
The puzzle of why people vote when the probability of being the tie-breaker is near zero ($P \cdot B < C$).

Pivotal Voter
The voter whose vote determines the election outcome; the one who breaks or creates a tie. The probability of being pivotal is P in the voting calculus.

Civic Duty (D)
The psychic benefit from the act of voting itself, independent of the outcome. In Riker & Ordeshook's formulation: $R = PB + D - C$. Explains why people vote even when P is infinitesimal.

Rational Ignorance
Choosing not to acquire political information because the cost of learning outweighs the likely benefit of one's single vote.

Rational Abstention
The calculated decision to not participate in an election because the opportunity cost of time is too high or the expected benefit ($PB + D$) is less than the cost (C).

Expressive Voting
Voting to signal an identity, fulfill a duty, or support a "team," rather than to influence the actual policy outcome. Voting as consumption, not investment.

Ethical Voter
A voter who places positive weight on the utilities of others when deciding how to vote. Formalized as $O_i = U_i + \theta \sum_{j \neq i} U_j$, where θ measures altruism.

Sociotropic vs. Egotropic Voting
Sociotropic voting is based on perceptions of the national economy ("What's good for the country?"); egotropic voting is based on personal economic circumstances ("What's good for me?"). Empirical studies suggest $\theta \approx 0.5$ to 0.7 in most countries.

Strategic (Tactical) Voting
Voting for a less-preferred but viable candidate rather than "wasting" a vote on a candidate with no chance of winning. Common in first-past-the-post systems.

Sincere Voting
Voting for your true first preference, regardless of strategic considerations or likelihood of winning.

Swing Voter's Curse
The problem that uninformed voters, if they vote, risk canceling out the votes of informed citizens. Rationally, uninformed voters should abstain even when the cost of voting is zero.

Behavioral Conditioning
The theory (Mueller) that voting is a learned, habitual behavior reinforced through childhood socialization and maintained by occasional positive reinforcement (winning candidate delivers on promises).

Minimax Regret
A decision rule (Ferejohn & Fiorina) where voters minimize their maximum regret rather than maximizing expected utility. Under this rule, only B matters, not P.

Median Voter Theorem (MVT)
Predicts that in a one-dimensional policy space with single-peaked preferences, candidates will converge to the preference of the voter in the exact middle.

Single-Peaked Preferences
A preference ordering where there is a single most-preferred option, with utility declining monotonically on either side. Essential assumption for the Median Voter Theorem to hold.

Arrow's Impossibility Theorem
Kenneth Arrow's proof that no rank-order voting system can simultaneously satisfy all of the following: unrestricted domain, non-dictatorship, Pareto efficiency, and independence of irrelevant alternatives.

Condorcet Paradox (Cycling)
A situation where collective preferences can be cyclic ($A > B > C > A$) even if individual preferences are rational and transitive. Shows that majority rule can produce intransitive social preferences.

Agenda Setting
The strategic power to control which issues are voted on and in what order, which can determine the final outcome when preferences cycle.

The Supply Side: Politicians & Bureaucrats

Political Business Cycle (PBC)
The manipulation of the economy (e.g., increasing spending, lowering interest rates) by incumbents just before an election to improve re-election odds.

Time Inconsistency
When a policy that is optimal in the long run becomes unattractive in the short run, leading politicians to break promises. Example: pre-election promise of fiscal discipline abandoned post-election.

Budget-Maximizing Bureaucrat
Niskanen's model where bureaucrats seek to expand their agency's budget to gain power, staff, prestige, and perquisites.

Principal-Agent Problem
The friction that occurs when an Agent (bureaucrat or politician) has different goals and more information than the Principal (voter or legislature). Creates problems of monitoring and accountability.

Fiscal Illusion
When the true cost of government is hidden (via debt, deficit financing, or indirect taxes) so that public services appear "free" or cheaper than they actually are.

Flypaper Effect
The observation that government grants tend to "stick" to the bureaucracy and increase spending rather than being passed to citizens as tax cuts. "Money sticks where it hits."

Distributive Politics
The strategic allocation of government benefits (projects, grants, contracts) to specific constituencies or districts to build political support and ensure re-election.

Pork Barrel Spending
Government spending for localized projects secured primarily to bring money and jobs to a representative's district, often with little regard for national efficiency or need.

Universalism
A legislative norm where benefits (e.g., infrastructure projects) are distributed to all districts or members rather than forming a minimum winning coalition. Leads to overspending but reduces conflict.

Iron Triangle
The mutually reinforcing relationship between (1) congressional committees, (2) bureaucratic agencies, and (3) interest groups in a specific policy area. Each supports the others to perpetuate programs and funding.

Interest Groups & Lobbying

Rent-Seeking
The socially wasteful act of spending resources to capture unearned wealth transfers or favors from the government (licenses, subsidies, tariffs, monopoly rights).

Rent Creation vs. Rent Extraction
Rent creation involves lobbying to create new government-granted privileges; rent extraction involves competing for existing rents. Both are wasteful, but creation may be more socially costly.

Regulatory Capture
When a regulatory body is essentially "taken over" by the industry it was intended to oversee, serving the industry's interests instead of the public's.

The Logic of Collective Action
Mancur Olson's theory that small, concentrated groups (special interests) out-organize large majorities due to the free-rider problem. Small groups have lower organization costs and higher per-capita stakes.

Free Rider Problem
When individuals benefit from a collective good (e.g., lobbying success, public good) without contributing to its provision. Leads to under-provision of public goods and under-participation in large groups.

Selective Incentives
Private benefits (Olson) provided exclusively to group members to encourage participation and overcome the free-rider problem. Examples: magazine subscriptions, insurance discounts, networking events.

Logrolling
The trading of votes between legislators ("I'll support your dam if you support my highway"), often leading to pork-barrel spending and passage of projects that wouldn't pass individually.

Vote Trading
A broader term than logrolling; includes any explicit or implicit exchange of political support. Can be efficient (if it reflects intensity of preferences) or inefficient (if it leads to rent-seeking).

Concentrated Benefits vs. Dispersed Costs
The mechanism that allows inefficient policies to persist: winners gain a lot per person and organize; losers (taxpayers) each lose very little and remain rationally ignorant.

Institutional Design & Constitutional Rules

Tiebout Sorting
The efficiency gain when citizens "vote with their feet" by moving to local jurisdictions that best match their tax and service preferences. Competition among governments improves outcomes.

Choice Architecture
The design of how choices are presented (nudges, defaults, framing) to influence political and economic behavior without restricting options. Example: opt-out vs. opt-in organ donation.

Path Dependence
The idea that historical decisions create a trajectory that makes it difficult and costly to change current institutions. Past choices constrain present options (QWERTY keyboard effect).

Extractive vs. Inclusive Institutions
(Acemoglu & Robinson) Inclusive institutions share power broadly and protect property rights; extractive institutions are designed by elites to siphon wealth from the majority.

Polycentricity
(Ostrom) A system with multiple, overlapping centers of authority that allows for more flexible, adaptive, and local self-governance. Contrast with monocentricity (single authority).

Minimum Winning Coalition
The smallest coalition necessary to win a vote. Riker's size principle predicts that rational actors will form minimum winning coalitions to maximize per-member payoffs.

Issue Bundling
Combining multiple issues into a single vote (e.g., omnibus legislation). Can lead to inefficiency when voters must accept bad provisions to get good ones, or can facilitate logrolling.

Electoral Systems & Representation

First-Past-The-Post (FPTP)
A plurality electoral system where the candidate with the most votes wins, even without a majority. Tends to produce two-party systems (Duverger's Law) and strategic voting.

Proportional Representation (PR)
Electoral system where parties receive seats in proportion to their vote share. Tends to produce multiparty systems and coalition governments. Encourages sincere voting.

Single Transferable Vote (STV)
A ranked-choice PR system used in Ireland. Voters rank candidates; votes are transferred based on rankings until all seats are filled. Combines proportionality with candidate choice.

Duverger's Law
The empirical regularity that plurality (FPTP) electoral systems tend to produce two-party systems, while PR systems tend to produce multiparty systems. Driven by strategic voting and elite coordination.

Gerrymandering
Strategic manipulation of electoral district boundaries to favor one party, either by "packing" opposition voters into few districts or "cracking" them across many districts.

Public Goods, Commons & Market Failures

Public Goods
Goods that are non-excludable (can't prevent people from using) and non-rivalrous (one person's use doesn't diminish another's). Examples: national defense, lighthouses, clean air. Markets tend to under-provide.

Club Goods
Goods that are excludable but non-rivalrous up to a congestion point. Examples: private parks, cable TV, toll roads with light traffic. Can be efficiently provided by voluntary clubs.

Common Pool Resources (CPR)
Resources that are subtractable (rivalrous) but difficult to exclude users from. Examples: fisheries, forests, groundwater. Vulnerable to overuse (Tragedy of the Commons).

Tragedy of the Commons
(Hardin) When shared resources are overused and degraded because individuals acting in self-interest deplete the resource faster than it can regenerate. Classic example: overfishing.

Externalities
Costs or benefits imposed on third parties not involved in a transaction. Negative externalities (pollution) are over-produced; positive externalities (education, vaccination) are under-provided by markets.

Coase Theorem
The principle that with zero transaction costs and well-defined property rights, parties can negotiate efficient solutions to externalities regardless of the initial allocation of rights. In practice, transaction costs matter greatly.

Transaction Costs
The costs of negotiating, enforcing, and monitoring agreements. Include search costs, bargaining costs, and enforcement costs. When high, they prevent Coasean bargaining and may justify government intervention.

Key Formulas & Models

The Calculus of Voting

Riker & Ordeshook (1968):

$$R = P \cdot B + D - C$$

where:

- R = Net utility from voting
- P = Probability of being pivotal
- B = Benefit differential between candidates
- D = Civic duty / expressive benefit
- C = Cost of voting

Individual votes if $R > 0$. Since $P \approx 0$ in large elections, voting is explained primarily by $D > C$.

Optimal Majority Rule

Buchanan & Tullock (1962):

$$\text{Total Cost} = \text{External Costs} + \text{Decision-Making Costs}$$

Optimal majority rule k^* minimizes total costs. Unanimity ($k = N$) eliminates external costs but maximizes decision-making costs. Simple majority ($k = N/2 + 1$) minimizes decision-making costs but allows high external costs.

Median Voter Model

Under single-peaked preferences on a one-dimensional issue space:

$$\text{Equilibrium policy} = x_m$$

where x_m is the ideal point of the median voter.

Both candidates/parties converge to x_m to maximize votes.

Quick Reference: Who Said What?

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