

Introduction to Public Choice Theory

Instructor:

Prof. Christoph Vanberg

Office hours: By appointment

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Time / Place:

- Lecture WED 9⁰⁰ – 12⁰⁰ (s.t.!) AWI Room 00.010
- Tutorial will be integrated into the course as needed

Language: English

Books

*Mueller, D. 2003. *Public Choice III*. Cambridge University Press.

*Shepsle, K. 2010. *Analyzing Politics*. Norton.

Buchanan, J. 1975. *The limits of liberty*. University of Chicago Press.

Olson, M. 1971. *The logic of collective action*. Harvard University Press.

Grossman, G. and E. Helpman 2002. *Special Interest Politics*. MIT Press.

Shepsle, K. and B. Weingast (ed.) 2002 *Positive theories of congressional institutions*. Michigan.

What is Public Choice Theory?

- Point of departure: Traditional Public Finance Theory
 - Role of government in a democratic society
 - Interest in problems of “market failure”
 - But: Rejection of “Social Planner” perspective
- Economic theory of
 - collective (as opposed to individual) choice
 - political (as opposed to market) exchange
- Political Science using economic methodology
- Other labels:
 - Political Economics
 - Economic Theory of Politics
 - Rational Choice Theory (in Political Science)
 - Positive Political Theory

Economic methodology

- Methodological individualism
- Rational Choice + Game Theory
- Self interest
- Normative individualism

Methodological individualism

- Social phenomena explained as resulting from individual behavior.
- Outcomes emerge from *interactions* within institutions.
- Institutions = rules of the game
 - Norms and conventions
 - Contractual relationships
 - Laws, constitutions

Examples

- Markets: Prices and allocations *emerge* from individuals interacting (buying, selling goods) within *market institutions* (auctions, stock markets,...) .
 - No one *chooses* the prices and allocations that result.
 - ‘The market’ is not a conscious goal-directed agent.
- Politics: Policy results from individuals interacting (voting, executive and administrative decisions) in *political institutions* (parliaments, government ministries,...).
 - Political outcomes are also not chosen by a single entity.
 - ‘The government’ is also not an individual.

Methodological individualism

“Collective action is viewed as the action of individuals when they choose to accomplish purposes collectively rather than individually, and the government is seen as nothing more than the set of processes, the machine, which allows such collective action to take place.” (Buchanan and Tullock 1965)

Economic methodology

Rational Choice Theory

Economic methodology

Rational Choice Theory

The behavior of individuals is explained by assuming that they pursue their own interests as best they can given the constraints implied by institutions and others' behavior.

- Markets:

- Individuals derive utility from private goods (bananas, tv sets,...)
- Economic behavior (working, trading) to maximize individual utility from private consumption

- Politics

- Individuals derive utility from *public policies* (tax rates, military spending,...)
- Political behavior (voting, declaring war) to maximize individual utility from government action

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Self interest

- Individuals' interests \neq 'public' or 'general' interest
 - not necessarily "selfish" (e.g. supporting foreign aid)
 - preferences are "individual" because they *differ*

Normative Individualism

Normative Individualism

- Public Choice Theory rarely aims to make statements about the desirability of specific *policies* (e.g. taxes, regulations).
- More often, we compare alternative political *institutions* (e.g. rules of decision making, ways of organizing elections, etc.)
- Normative statements (which institution is better?) are to be based only on the *interests of the individuals* involved (citizens).
 - Some authors attempt to ‘aggregate’ or ‘trade off’ different individual interests to derive statements about ‘social welfare’.
 - Others focus exclusively on the realization of *common* interests (Pareto improvements)

Course Outline (preliminary)

- 1 'Market failure' as a rationale for government intervention
- 2 Origins of the state
- 3 Social choice and voting theory
- 4 Electoral competition
- 5 Legislative bargaining
- 6 Rent seeking and lobbying
- 7 Campaign finance

Logistics

Time

- We start at 9.00 and end at 12.00 (with a short break)
- We will have 14 sessions, exercises integrated as needed.
- The exam is *likely* to be on Feb 5 (no guarantee possible)