Public Choice III

DENNIS C. MUELLER

University of Vienna
Contents

Preface page xvii

1 Introduction 1

Part I Origins of the state 9

2 The reason for collective choice – allocative efficiency 9
  2.1 Public goods and prisoners’ dilemmas 9
  2.2 Coordination games 14
  2.3 Public goods and chickens 16
  2.4* Voluntary provision of public goods with constant returns to scale 18
  2.5* Voluntary provision of public goods with varying supply technologies 22
  2.6 Externalities 25
  2.7 The Coase theorem 27
  2.8 Coase and the core 30
  2.9 A generalization of the Coase theorem 32
  2.10 Does the Coase theorem hold without predefined property rights? 34
  2.11 Externalities with large numbers of individuals 35
  2.12 Externalities with large numbers of individuals – a second time 39
  2.13 Experimental results in the voluntary provision of public goods 40

3 The reason for collective choice – redistribution 44
  3.1 Redistribution as insurance 45
  3.2 Redistribution as a public good 47
  3.3 Redistribution to satisfy fairness norms 49
  3.4 Redistribution to improve allocative efficiency 51
  3.5 Redistribution as taking 53
  3.6 Income transfers in the United States 56
  3.7 Redistribution and the distribution of income 58
  3.8 Redistribution to special interests 61

Part II Public choice in a direct democracy 67

4 The choice of voting rule 67
  4.1 The unanimity rule 67
  4.2 Criticisms of the unanimity rule 72
  4.3 The optimal majority 74
  4.4 A simple majority as the optimal majority 76
Contents

5 Majority rule – positive properties 79
  5.1 Majority rule and redistribution 79
  5.2 Cycling 84
  5.3* The median voter theorem – one-dimensional issues 85
  5.4 Majority rule and multidimensional issues 87
  5.5* Proof of the median voter theorem – multidimensional case 92
  5.6 Majority rule equilibria when preferences are not defined in spatial terms 94
  5.7* Proof of extremal restriction – majority rule theorem 95
  5.8 Restrictions on preferences, on the nature and number of issues, and on the choice of voting rule that can induce equilibria 97
    5.8.1 Preference homogeneity 97
    5.8.2 Homogeneous preferences and qualified majority rules 99
    5.8.3 The relationship between numbers of issues and alternatives and the required majority 103
  5.9 Logrolling 104
  5.10* Logrolling and cycling 108
  5.11 Testing for logrolling 109
  5.12 Agenda manipulation
    5.12.1 Agenda control in a spatial environment 112
    5.12.2 Agenda control in a divide-the-cake game 113
  5.13 Why so much stability? 114
    5.13.1 Issues are indeed of one dimension 115
    5.13.2 Voting one dimension at a time 116
    5.13.3 Logrolling equilibria 118
    5.13.4 Empirical evidence of cycling 120
    5.13.5 Experimental evidence of cycling 123
  5.14 Conclusions 124

6 Majority rule – normative properties 128
  6.1 Condorcet’s jury theorem 128
  6.2 May’s theorem on majority rule 133
  6.3* Proof of May’s theorem on majority rule 135
  6.4 The Rae-Taylor theorem on majority rule 136
  6.5 Assumptions underlying the unanimity rule 137
  6.6 Assumptions underlying the two rules contrasted 138
  6.7 The consequences of applying the rules to the “wrong” issues
    6.7.1 Deciding improvements in allocative efficiency via majority rule 140
    6.7.2 Deciding redistribution by unanimity 143
  6.8 Conclusions 144

7 Simple alternatives to majority rule 147
  7.1 The alternative voting procedures defined 147
  7.2 The procedures compared – Condorcet efficiency 148
  7.3 The procedures compared – utilitarian efficiency 151
  7.4 The Borda count
    7.4.1 Axiomatic properties 152
    7.4.2 The Borda count and the “tyranny of the majority” 154
    7.4.3 The Borda count and strategic manipulation 155
  7.5 Approval voting 156
  7.6 Implications for electoral reform 157
Contents

8 Complicated alternatives to majority rule 159
  8.1 The demand-revealing process 160
    8.1.1 The mechanics of the process 160
    8.1.2 Vernon Smith’s auction mechanism 168
  8.2 Point voting 169
  8.3* An explication of the Hylland-Zeckhauser point-voting procedure 170
  8.4 Voting by veto 174
  8.5 A comparison of the procedures 179

9 Exit, voice, and disloyalty 182
  9.1 The theory of clubs 183
  9.2 Voting-with-the-feet 186
  9.3 Global optimality via voting-with-the-feet 189
  9.4* Clubs and the core 194
  9.5 Voting-with-the-feet: empirical evidence 199
  9.6 Voluntary association, allocational efficiency, and distributional equity 202
  9.7 The theory of revolution 204

Part III Public choice in a representative democracy

10 Federalism 209
  10.1 The logic of federalism 209
    10.1.1 The assignment problem 209
    10.1.2 Federalism with geographic representation 212
  10.2 Why the size of government may be “too large” under federalism 213
    10.2.1 Logrolling 213
    10.2.2 Universalism 215
  10.3 Intergovernmental grants under federalism 215
    10.3.1 Intergovernmental grants to achieve Pareto optimality 216
    10.3.2 The empirical evidence on intergovernmental grants 221
  10.4 Why the size of government may be “too large” and “too small” under federalism 223
    10.5 The problem of centralization under federalism 227

11 Two-party competition – deterministic voting 230
  11.1 Outcomes under two-party democracy 231
  11.2 Two-party competition in a constrained policy space 236
    11.2.1 The uncovered set 236
    11.2.2 The uncovered set with high valence issues 240
  11.3 Relaxing the assumptions of the Downsian model 241
    11.3.1 Candidates have preferences over policies 241
    11.3.2 Candidates can enter and exit the contests 242
  11.4 Testing the median voter hypothesis 243
  11.5 Are local public expenditures public or private goods? 246

12 Two-party competition – probabilistic voting 249
  12.1 Instability with deterministic voting 249
  12.2 Equilibria under probabilistic voting 252
  12.3 Normative characteristics of the equilibria 253
  12.4 Equilibria with interest groups 255
  12.5 An application to taxation 257
x

Contents

12.5.1 The logic 257
12.5.2 The evidence 259
12.6 Commentary 260

13 Multiparty systems 264
13.1 Two views of representation 264
13.2 Selecting a representative body of legislators 265
13.3 Proportional representation in practice 266
13.4 Electoral rules 266
  13.4.1 The Hare, Droop, Imperiali, d’Hondt, and Sainte-Lagué formulas 267
  13.4.2 The single-transferable vote (STV) 269
  13.4.3 Limited voting 270
  13.4.4 Single-nontransferable-vote systems (SNTV) 271
13.5 Electoral rules and the number of parties 271
13.6 Electoral rules and the degree of proportionality 276
13.7 The goals of parties 278
  13.7.1 Coalition theories with a one-dimensional issue space 280
  13.7.2 Coalition theories with two- or more-dimensional issue spaces 285
    13.7.2.1 The political heart 285
    13.7.2.2 The dimension-by-dimension median 286
13.8 Cabinet stability 290
  13.8.1 The duration of governments 290
  13.8.2 The death of governments 292
  13.8.3 Summary 295
13.9 Social stability 295
13.10 Strategic voting 296
  13.10.1 Strategic voting under the plurality rule 296
  13.10.2 Strategic voting in multiparty systems 297
13.11 Commentary 298

14 The paradox of voting 303
14.1 The rational voter hypothesis 304
  14.1.1 Expected utility maximization 304
  14.1.2 A taste for voting 306
  14.1.3 Voting as a game of cat and mouse 306
  14.1.4 The rational voter as minimax-regret strategist 307
14.2 The rational voter hypothesis: the evidence 308
14.3 The expressive voter hypothesis 320
14.4 The ethical voter hypothesis 322
14.5 Ethical preferences as selfish behavior 325
14.6 The selfish voter 326
14.7 Summary and implications 329

15 Rent seeking 333
15.1 The theory of rent seeking 333
  15.1.1 The basic rent-seeking model with a fixed number of players 335
    15.1.1.1 Diminishing or constant returns, $r \leq 1$ 336
    15.1.1.2 Increasing returns with $1 < r \leq 2$ 336
    15.1.1.3 Increasing returns with $r > 2$ 337
Contents

15.1.2 The impact of free entry 337
15.1.3 Rent seeking with sequential investments 338
15.1.4 Rent seeking among groups 338
15.4.1 Risk-neutrality 340
15.1.4.2 Rent seeking among groups 342
15.1.4.3 Rent seeking when the probability of winning is not defined logistically 342
15.1.4.4 Designing rent-seeking contests 342
15.2 Rent seeking through regulation 343
15.3 Rent seeking and the political process 347
15.4 Rent seeking through tariffs and quotas 348
15.4.1 The economic effects of tariffs, quotas, and voluntary export restraints 348
15.4.2 Endogenous protection models 350
15.4.3 Remaining puzzles 353
15.5 Rent seeking in other governmental activities 354
15.6 How large are the welfare losses from rent seeking? 355

16 Bureaucracy 359
16.1 Uncertainty, information, and power 360
16.2 The budget-maximizing bureaucrat 362
16.2.1 Environment and incentives 362
16.2.2 The model 363
16.3 Extensions of the model 365
16.3.1 Alternative institutional assumptions 365
16.3.2 Bargaining between sponsor and bureau 368
16.4 Alternative behavioral assumptions 368
16.4.1 The slack-maximizing bureaucrat 368
16.4.2 The risk-avoiding bureaucrat 370
16.5 Empirical tests 371
16.5.1 Power of the agenda setter 371
16.5.2 Cost differences between publicly and privately provided services 373
16.6 The government as Leviathan 380
16.6.1 Theory 380
16.6.2 Empirical testing – government expenditures and taxes 382
16.7 Conclusions 384

17 Legislatures and bureaucracies 386
17.1 The Congressional-dominance model 386
17.1.1 Congressional dominance through administrative structure 386
17.1.2 Congressional dominance through administrative procedure 388
17.2 The impact of uncertainty and transaction costs 388
17.2.1 Uncertainty and the locus of responsibility 389
17.2.2 Uncertainty, transaction costs, and commitment 389
17.3 Congress and the president 391
17.3.1 The legislature controls the president 391
17.3.2 Presidential control over the legislature 393
17.3.3 The problem of deadlocks 395
## Contents

17.4 Congress, the president, and the judiciary 399
17.4.1 Adding the judiciary to the model 399
17.4.2 The goals of the judiciary 399
17.5 Legislative decision making in the European Union 401
17.6 Conclusions 405

18 Dictatorship 406
18.1 The origins of dictatorship 407
18.2 The goals of dictators 409
18.2.1 The consumption of the dictator 409
18.2.2 Power 411
18.2.3 Security 411
18.3 The functioning and survival of dictatorships 412
18.3.1 The utility-maximizing dictator 412
18.3.2 Tin pots and totalitarians 413
18.3.3 Selective strategies to survive 414
18.3.4 The dictator’s dilemma 416
18.3.5 The limits of totalitarianism 417
18.4 The rise and decline of dictatorships 417
18.5 Dictatorship and economic performance 420
18.5.1 The relative advantages of dictatorship and democracy 420
18.5.2 The relative economic performance of dictatorships and democracies 422
18.5.2.1 A direct test of Wintrobe’s model of dictatorship 424
18.6 Conclusions 424

### Part IV Applications and testing

19 Political competition and macroeconomic performance 429
19.1 Macroeconomic performance and political success 429
19.1.1 Vote and popularity functions 429
19.1.2 Whom do voters hold responsible? 433
19.2 Opportunistic politics 437
19.2.1 With myopic voters 438
19.2.2 With rational voters 439
19.3 Partisan politics 440
19.3.1 Partisan politics with retrospective voters 443
19.3.2 Partisan politics with rational, forward-looking voters 444
19.4 The evidence 446
19.4.1 Do politicians try to manipulate the macroeconomic environment? 446
19.4.2 Are there partisan biases? 447
19.4.3 Which theories fit the data best? 451
19.4.4 Additional evidence for the Alesina/Rosenthal model 455
19.4.5 Discussion 456
19.5 Voter behavior 459
19.5.1 Myopic, retrospective, rational 459
19.5.2 Sociotropic or egotropic 460
19.6 Politics and inflation 461
Contents

19.6.1 Hypotheses 461
19.6.2 The facts 462
19.6.3 Central bank independence 465
19.7 Deficits 466
19.7.1 The facts 466
19.7.2 Hypotheses 466
19.7.2.1 Fiscal illusion and Keynesian delusions 466
19.7.2.2 Political business cycles 467
19.7.2.3 Partisan effects 467
19.7.2.4 Government paralysis 467
19.7.2.5 Budgetary rules 468
19.7.3 The evidence 468
19.8 Reflections 469

20 Interest groups, campaign contributions, and lobbying 472
20.1 The logic of collective action 473
20.2 Models of interest group behavior in politics 475
20.2.1 Informative campaigning in a Downsian model 476
20.2.2 Persuasive campaigning in a Downsian model 477
20.3 Empirical studies of the causes and consequences of campaign contributions 481
20.3.1 Votes for a candidate are a function of campaign expenditures 481
20.3.2 Determinants of campaign contributions 486
20.3.3 Determinants of representative voting behavior – campaign contributions 489
20.3.4 Determinants of representative voting behavior – ideology or pure survival 489
20.3.5 Evaluation 493
20.4 Lobbying 496
20.5 The welfare effects of interest group activities 497

21 The size of government 501
21.1 The facts 501
21.2 Explanations for the size and growth of government 506
21.2.1 The government as provider of public goods and eliminator of externalities 506
21.2.1.1 “Taste variables” 507
21.2.1.2 Income 509
21.2.1.3 The Baumol effect 510
21.2.2 The government as redistributor of income and wealth 511
21.2.2.1 The Meltzer and Richard model 512
21.2.2.2 Additional redistribution–growth-of-government hypotheses 514
21.2.2.3 Some logical/empirical difficulties with the redistribution–growth-of-government hypothesis 515
21.2.2.4 Direct empirical tests of the redistribution–government-size hypothesis 516
21.2.3 Interest groups and the growth of government 519
21.2.4 Bureaucracy and the growth of government 523
### Contents

21.2.5 Fiscal illusion 527  
21.2.6 Tax elasticity 529  
21.3 Conclusions 530  

22 Government size and economic performance 535  
22.1 The welfare losses from taxation 536  
22.2 Government size and black market activity 539  
22.3 Government size and corruption 544  
22.4 Government size and economic productivity 545  
22.5 Government size and economic growth 548  
22.5.1 Methodological issues 548  
22.5.2 The evidence 551  
22.6 Government activity and the economic decline of nations 554  
22.6.1 The logic 554  
22.6.2 Empirical evidence 556  
22.7 Conclusions 559  

Part V Normative public choice 563  
23 Social welfare functions 563  
23.1 The Bergson-Samuelson social welfare function 563  
23.2 Axiomatic social welfare functions 568  
23.2.1 Fleming’s social welfare function 568  
23.2.2 Harsanyi’s social welfare function 569  
23.2.3 Two criticisms of Harsanyi’s social welfare function 571  
23.2.3.1 Should individual attitudes toward risk count? 571  
23.2.3.2 Can individuals agree on a value for $W$? 572  
23.2.4 Ng’s social welfare function 575  
23.2.5 Nash’s and other multiplicative social welfare functions 576  
23.3 What form of social welfare function is best? 578  

24 The impossibility of a social ordering 582  
24.1 Logic of the proof 583  
24.2 Relaxing the postulates 585  
24.2.1 Transitivity 586  
24.2.2 Unrestricted domain 589  
24.2.3 Independence of irrelevant alternatives 590  
24.3 Strategy-proof social welfare functions 592  
24.4 Implications for public choice 595  

25 A just social contract 597  
25.1 The social contract 598  
25.2 The two principles of justice 599  
25.3 Extensions of the theory to other political stages 602  
25.4 Critique of the Rawlsian social contract 603  
25.4.1 The social contract 603  
25.4.2 The two principles of justice 607  
25.4.3 Experimental evidence 609  
25.5 Two utilitarian defenses of the maximin principle 609  
25.5.1 Maximin as a means to obtain compliance 609  
25.5.2 Maximin as a redistribution principle 611  
25.6 The social contract as a constitution 612
Contents

26 The constitution as a utilitarian contract 615
   26.1 The constitutional context 616
   26.2 The two-action case 617
   26.3 The constitutional contract
      26.3.1 Optimal collective action with only identity uncertainty 620
      26.3.2 Optimal collective action with identity and numbers uncertainty 622
      26.3.3 Optimal collective action with identity, numbers, and payoff uncertainty 624
   26.4 Symmetric and asymmetric bans and obligations 624
   26.5 Continuous actions with interdependent utilities 625
   26.6 Decision-making costs
      26.6.1 Prisoners’ dilemmas 628
      26.6.2 Direct conflicts 631
   26.7 Rights and obligations 631
   26.8 Constitutions: contracts or conventions?
      26.8.1 Constitutions as contracts 634
      26.8.2 Constitutions as conventions 636
      26.8.3 Discussion 637
   26.9 Conclusions regarding two-stage theories of social choice 639
   26.10 From the normative, two-stage theory of constitutions to hypothesis testing 640

27 Liberal rights and social choices 643
   27.1 The theorem 643
   27.2 Resolving the paradox
      27.2.1 Rights over Pareto 644
      27.2.2 Pareto trades of actions 646
      27.2.3 Pareto trades of rights 648
   27.3 Rights over social states versus rights over actions 650
   27.4 Liberal rights and obligations 651
   27.5 Constitutional rights and liberal rights 652

Part VI What have we learned?

28 Has public choice contributed anything to the study of politics? 657
   28.1 The failures of rational actor models of politics 658
   28.2 The rational choice approach to modeling 659
   28.3 The prediction of cycling 662
   28.4 The predictions of spatial models 663
   28.5 Predicting voting and free-riding 666
   28.6 Can public choice contribute to the positive study of political institutions? 668
   28.7 Has public choice contributed anything to the normative study of political institutions? 670
   28.8 Conclusions 671

29 Allocation, redistribution, and public choice 675

References 683
Name index 749
Subject index 763
CHAPTER 1

Introduction

Man is by nature a political animal.

Aristotle

This division of labour ... is the necessary, though very slow and gradual, consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another.

Whether this propensity be one of those original principles in human nature ... or whether, as seems more probable, it be the necessary consequence of the faculties of reason and speech, it belongs not to our present subject to enquire. It is common to all men and to be found in no other race of animals, which seem to know neither this nor any other species of contracts.

Adam Smith

Aristotle, observing the Greeks in the fourth century B.C., thought that man’s natural proclivities were toward discourse and political activity. Adam Smith, observing the Scots in the eighteenth century A.D., saw instead a propensity to engage in economic exchange. From the observations of these two intellectual giants, two separate fields in the social sciences have developed: the science of politics and the science of economics.

Traditionally, these two fields have been separated by the types of questions they ask, the assumptions they make about individual motivation, and the methodologies they employ. Political science has studied man’s behavior in the public arena; economics has studied man in the marketplace. Political science has often assumed that political man pursues the public interest. Economics has assumed that all men pursue their private interests, and has modeled this behavior with a logic unique among the social sciences.

But is this dichotomy valid? Could both Aristotle and Smith have been right? Could political man and economic man be one and the same? In the field of public choice, it is assumed that they are.

Public choice can be defined as the economic study of nonmarket decision making, or simply the application of economics to political science. The subject matter of public choice is the same as that of political science: the theory of the state, voting rules, voter behavior, party politics, the bureaucracy, and so on. The methodology of public choice is that of economics, however. The basic behavioral postulate of public choice, as for economics, is that man is an egoistic, rational, utility
2 Introduction

maximizer.\(^1\) This places public choice within the stream of political philosophy extending at least from Thomas Hobbes and Benedict Spinoza, and within political science from James Madison and Alexis de Tocqueville. Although there is much that is useful and important in these earlier contributions, and much that anticipates later developments, no effort is made here to relate these earlier works to the modern public choice literature, for they are separated from the modern literature by a second salient characteristic. The modern public choice literature employs the analytic tools of economics. To try to review the older literature using the analytic tools of its descendants would take us too far afield.\(^2\)

Public choice has developed as a separate field largely since 1948. During the thirties, disenchantment with market processes was widespread, and models of “market socialism” depicting how governments could supplant the price system and allocate goods as efficiently as markets do, if not more so, came into vogue. Abram Bergson’s (1938) seminal analysis of social welfare functions (SWFs) appeared to indicate how the economist’s individualistic, utilitarian ethics could be incorporated into the government planner’s objective function and help him to achieve a social welfare maximum as he managed the state.

Arrow’s 1951 book was a direct follow-up to both Bergson’s (1938) article and Paul Samuelson’s parallel discussion of SWFs in *Foundations of Economic Analysis* (1947, ch. 8). Arrow’s concern was to characterize the process, whether market or political, through which the SWF Bergson and Samuelson had described was achieved (rev. ed. 1963, pp. 1–6). Since Arrow’s book, a large literature has grown up exploring the properties of social welfare or social choice functions.\(^3\) It focuses on the problems of aggregating individual preferences to maximize an SWF, or to satisfy some set of normative criteria, that is, on the problem of which social state ought to be chosen, given the preferences of the individual voters. This research on optimal methods of aggregation naturally has spurred interest in the properties of actual procedures for aggregating preferences via voting rules, that is, on the question of which outcome will be chosen for a given set of preferences under different voting rules. The problem of finding a social choice function that satisfies certain

---

\(^1\) For a detailed justification of this postulate in the study of voting, see Downs (1957, pp. 3–20), Buchanan and Tullock (1962, pp. 17–39), and Riker and Ordeshook (1973, pp. 8–37). Schumpeter’s (1950) early use of the postulate also should be mentioned. One of the curiosities of the public choice literature is the slight direct influence that Schumpeter’s work appears to have had. Downs claims that “Schumpeter’s profound analysis of democracy forms the inspiration and foundation for our whole thesis” (1957, p. 27, n. 11), but cites only one page of the book (twice), and this in support of the “economic man” assumption. Most other work in the field makes no reference to Schumpeter at all.

Tullock has made, in correspondence, the following observation on Schumpeter’s influence on his work: “In my case, he undeniably had immense impact on me, although it was rather delayed. Further, although I read the book originally in 1942, I didn’t reexamine it when I wrote *The Politics of Bureaucracy* (1965). In a sense, it gave me a general idea of the type of thing that we could expect in government, but there weren’t any detailed things that could be specifically cited.” I suspect that Schumpeter’s work has had a similar impact on others working in the public choice field.

For an interesting discussion of the public choice content of Schumpeter’s work, see Mitchell (1984a,b).


normative criteria turns out to be quite analogous to establishing an equilibrium under different voting rules. Thus, both Arrow’s study (1963) of SWFs and Black’s (1948a,b) seminal work on committee voting procedures build on the works of de Borda (1781), de Condorcet (1785), and C.L. Dodgson (Lewis Carroll) (1876). We discuss the most directly relevant topics of the SWF literature as part of normative public choice in Part V.

Part I also contains a normative analysis of collective action. The models of market socialism developed in the thirties and forties envisioned the state as largely an allocator of private goods. State intervention was needed to avoid the inefficient shortfalls in private investment, which Keynesian economics claimed were the cause of unemployment, and to avoid the distributional inequities created by the market. The immediate prosperity of the post–World War II years reduced the concern about unemployment and distributional issues. But concern about the efficiency of the market remained high among academic economists. The seminal works of the forties and fifties gave rise to a large literature on the conditions for efficient allocation in the presence of public goods, externalities, and economies of scale. When these conditions were unmet, the market failed to achieve a Pareto-optimal allocation of goods and resources. The existence of these forms of market failures provides a natural explanation for why government ought to exist, and thus for a theory of the origins of the state. It forms the starting point of our analysis of the state and is reviewed in Chapter 2. Chapter 3 takes up models of collective action that see redistribution as its main objective. Together these two activities—improving allocative efficiency and redistribution—constitute the only possible normative justifications for collective action.

If the state exists in part as a sort of analogue to the market to provide public goods and eliminate externalities, then it must accomplish the same preference revelation task for these public goods as the market achieves for private goods. The public choice approach to nonmarket decision making has been (1) to make the same behavioral assumptions as general economics (rational, utilitarian individuals), (2) often to depict the preference revelation process as analogous to the market (voters engage in exchange, individuals reveal their demand schedules via voting, citizens exit and enter clubs), and (3) to ask the same questions as traditional price theory (Do equilibria exist? Are they stable? Pareto efficient? How are they obtained?).

One part of the public choice literature studies nonmarket decision making, voting, as if it took place in a direct democracy. The government is treated as a black box or voting rule into which individual preferences (votes) are placed and out of which collective choices emerge. This segment of the literature is reviewed in Part II. Chapter 4 examines criteria for choosing a voting rule when the collective choice is restricted to a potential improvement in allocative efficiency. Chapters 5 and 6 explore the properties of the most popular voting rule, the simple majority rule. Chapters 7 and 8 present a variety of alternatives to the majority rule—some equally simple, others more complex. Part II closes with a discussion of how individuals can reveal their preferences for public goods not through the voice mechanism of voting, but by choosing to join different polities or public good clubs (Chapter 9).
Introduction

Just as Arrow’s book was stimulated in part by Bergson’s essay, Downs’s 1957 classic was obviously stimulated by the works of both Bergson and Arrow (pp. 17–19). To some extent, Downs sought to fill the void Arrow’s impossibility theorem had left by demonstrating that competition among parties to win votes could have the same desirable effects on the outcomes of the political process as competition among firms for customers has on the outcomes of the market process. Of all the works in public choice, Downs’s book has had perhaps the greatest influence on political scientists.

In the Downsian model, the government appears not merely as a voting rule or black box into which information on voter preferences is fed, but as an institution made up of real people – representatives, bureaucrats, as well as voters – each with their own set of objectives and constraints. The Downsian perspective on government underlies Parts III and IV of this book. Part III begins with a discussion of the implications of having multiple levels of government as in a federalist system. Chapters 11 and 12 examine the properties of two-party representative democracies. Although Chapter 11 reveals that Downs’s original formulation of a model of two-party competition did not succeed in resolving the “Arrow paradox” of aggregating individual preferences to maximize an SWF, Chapter 12 discusses more recent models of two-party competition that do appear to achieve this goal.

All of the “founding fathers” of the public choice field were either American or British. Not surprisingly, therefore, most of the early literature in the field focused on two-party systems. In the last two decades, however, the study of multiparty systems by public choice analysts has expanded greatly. This work is reviewed in Chapter 13.

Although Downs’s goal was to resolve the Arrow paradox, ironically one of the most important contributions of his book was to put forward a paradox of its own – namely, the paradox of why rational, self-interested people bother to vote at all. Downs’s original model of the rational voter and the many extensions and modifications to it that have been made form the subject matter of Chapter 14.

The redistributive potential of representative government – which is generally treated under the heading of “rent seeking” – is the subject matter of Chapter 15. Part III closes with three chapters that review several theories of the state in which the state itself – in the form of the bureaucracy, the legislature, or an autocratic leadership – dictates outcomes with the citizenry relegated to playing a more passive role.

In arguing that government intervention is needed to correct the failures of the market when public goods, externalities, and other sorts of impure private goods are present, the economics literature has often made the implicit assumptions that these failures could be corrected at zero cost. The government is seen as an omniscient and benevolent institution dictating taxes, subsidies, and quantities so as to achieve a Pareto-optimal allocation of resources. In the sixties, a large segment of the public choice literature began to challenge this “nirvana model” of government. This literature examines not how governments may or ought to behave, but how they do behave. It reveals that governments, too, can fail in certain ways. This largely empirical literature on how governments do perform is reviewed in Chapters 19 through 22.
Introduction

One of the major justifications for an increasing role for government in the economy during the first couple of decades following World War II was the Keynesian prescription that government policies are required to stabilize and improve the macroeconomic performance of a country. The evidence that governments’ macroeconomic policies are affected by their efforts to win votes is examined in Chapter 19, which also looks at the impact of electoral politics on macroeconomic performance.

One of the early classics in the public choice literature is Olson’s (1965) *The Logic of Collective Action*. In this book Olson applied public choice reasoning to the analysis of various collective action problems involving interest groups. Interest groups have been a focal point within the public choice literature ever since. Although their activities are discussed at several junctures in the book, Chapter 20 is devoted exclusively to the literature that models and measures the impact of interest groups on political outcomes.

One of the most remarkable developments over the half century following World War II has been the growth in size of governments around the world. Is this growth a response to the demands of citizens for greater government services because of rising incomes, changes in the relative price of government services, or a change in “tastes”? Does it reflect the successful efforts of some groups to redistribute wealth from others by means of the government? Or is it an unwanted burden placed on the backs of citizens by a powerful government bureaucracy? These and other explanations for the growth of government are discussed in Chapter 21.

Where Chapter 21 treats the size of government as the dependent variable in political/economic models of the state, Chapter 22 treats it as an explanatory variable. It reviews the literature that has tried to measure the impact of the growth of the government sector in the industrial democracies of the world on various measures of economic performance, like the growth of income per capita and the distribution of income in each country.

The Bergson-Samuelson SWF, which helped spark interest in preference aggregation procedures, is discussed along with other derivations of an SWF in Chapter 23. The Arrowian SWF literature is reviewed in Chapter 24. Although both of these approaches build their aggregate welfare indexes on individual preferences, both tend to shift attention from the preferences of the individual to the aggregate. Moreover, in both cases, the aggregate (society) is expected to behave like a rational individual, in the one case by maximizing an objective function, and in the other by ordering social outcomes as a rational individual would do. Therefore, the SWF literature bears more than a passing resemblance to organic views of the state in which the state has a persona of its own.

Buchanan’s first article (1949) appearing before Arrow’s essay was an attack upon this organic view of the state; Buchanan (1954a) renewed this attack following the publication of Arrow’s book. In place of the analogy between the state and a person, Buchanan offered the analogy between the state and a market. He suggested that one think of the state as an institution through which individuals interact for their mutual benefit – that one think of government, as Wicksell (1896) did, as a quid pro quo process of exchange among citizens (Buchanan, 1986, pp. 19–27). The view of government as an institution for reaching agreements that benefit all citizens leads
6  Introduction

naturally to the perspective that the agreements are contracts binding all individuals. The contractarian approach to public choice is developed in Buchanan and Tullock’s *The Calculus of Consent* (1962) and Buchanan’s *The Limits of Liberty* (1975a). The approach taken in the former work also has a strong affinity to Rawls’s (1971) influential contribution to the contractarian theory. Chapter 25 takes up Rawls’s theory, while Chapter 26 reviews and integrates the models of collective choice which – following Buchanan and Tullock – have viewed politics as a two-stage process in which the “rules of the political game” are written in the first stage and the game is played in the second stage.

One indication of the significance of public/social choice’s intellectual impact is the fact that three of the major figures in this field have been awarded Nobel prizes – Kenneth Arrow, James Buchanan, and Amartya Sen. Although Sen’s contributions to social choice go far beyond the topic of “the liberal paradox,” this contribution of his has stimulated such a vast amount of work that it warrants separate treatment, which it gets in Chapter 27.

Although most of this book focuses on the accomplishments of public choice in extending our positive and normative understanding of politics, some criticisms that have been leveled against the public choice approach to politics are taken up in Chapter 28. A reader who is skeptical about whether rational actor models can offer anything to the study of politics might wish to glance ahead at Chapter 28 before plunging into the next 26 chapters. But I do not think that the reader can obtain a full appreciation for the advantages – and limitations – of the public choice approach without submerging him- or herself into its subject matter. Thus, my recommendation is to save Chapter 28 and the critiques of public choice until after the reader has absorbed its lessons.

One of Wicksell’s important insights concerning collective action was that a fundamental distinction exists between allocative efficiency and redistribution and that these two issues must be treated separately, with separate voting rules. This insight reappears in Buchanan’s work in which the constitutional and legislative or parliamentary stages of government are separated, and in Musgrave’s *The Theory of Public Finance* (1959) in which the work of government is divided into allocative and redistributive branches. The distinction is also featured in this book and constitutes the theme of its closing chapter.

---

4 One might arguably claim that four economists working in the field have won Nobel prizes, since William Vickrey’s prize was awarded for his research on incentive systems, which anticipated the development of the family of “demand-revealing” voting mechanisms reviewed in Chapter 8.

5 Rather than continually write “his or her,” I shall sometimes make voters (politicians, bureaucrats, dictators, and so forth) men and sometimes women. I have tried to treat the two sexes evenhandedly in this regard.

6 Wicksell’s 1896 essay is part of the contribution of the “continental” writers on public economics. Besides Wicksell’s work, the most important papers in this group are those of Lindahl (1919). Of the two, Lindahl has had greater influence on public goods theory, and Wicksell on public choice and public finance. Their works, along with the other major contributions of the continental writers, are in Musgrave and Peacock (1967).