

ECONOMICS 738: PUBLIC CHOICE

DEPARTMENT OF ECONOMICS, CORNELL UNIVERSITY FALL 2008

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COURSE DESCRIPTION:

This course provides an introduction to the field of political economy. Part I discusses the behavior of the key actors in the political arena - voters, candidates, legislatures, interest groups, political parties, and the media. Part II discusses how political decisions are distorted away from those that would be made by a benevolent social planner. Part III discusses aspects of the optimal design of political institutions. Topics here include campaign finance policy, federalism, and fiscal restraints. Part IV discusses how political institutions change over time.

The focus of the lectures will be primarily on theoretical work, but relevant empirical work will be identified and discussed. Much of the theory is designed with the American political system in mind and most of the empirical work concerns American politics. The course should prove useful for any student interested in analyzing policy issues. It will be particularly valuable background for those students intending to specialize in public economics.

GRADING:

There will be an in class mid-term exam and a final exam. Both exams will be closed book and will cover the material from the lectures. The mid-term will determine 40% of the grade and the final the remaining 60%.

TEXTS AND READING:

I will put the lecture notes on my website before class and you should print them out and bring them to each class. This will help you follow the lectures. In addition, I have ordered six books for the course. They are:

Besley, T., *Principled Agents: Motivation and Incentives in Politics*, Oxford University Press, 2006. (B)

Drazen, A., *Political Economy in Macroeconomics*, Princeton University Press, 2000. (D)

Grossman, G. and E. Helpman, *Special Interest Politics*, MIT Press, 2001. (G&H)

Morton, R., *Analyzing Elections*, Norton, 2006. (R)

Persson, T. and G. Tabellini, *Political Economics: Explaining Economic Policy*, MIT Press, 2000. (P&T)

Weingast, B. and D. Wittman, *Oxford Handbook of Political Economy*, Oxford University Press, 2006. (W&W)

P&T is a graduate textbook covering the field of public choice. It covers most of the material discussed in Part I of the course as well as applications of the theory to a wide variety of policy problems. It is well written and interesting. G&H is a graduate text, more tightly focused around the issue of the influence of interest groups on policy-making. It is a fine book. D is another graduate text on political economy with a macro focus. It is pretty interesting, but spends less time on the political science stuff and more on macro applications. R is an advanced undergraduate textbook on American Politics. It contains useful institutional detail and discussion of the substantive issues. It also has an excellent bibliography. B provides an excellent and accessible treatment of the political agency model. W & W is a new handbook for the field and contains 59 distinct essays on various parts of the literature. In addition to readings from these books, I have assigned a variety of journal articles and working papers. The articles marked (E) are empirical.

COURSE OUTLINE

I. POLITICAL BEHAVIOR

I.1 VOTERS

We will discuss voter turnout, voting in multi-candidate elections, and voting with incomplete information.

(1) Voter turnout

G&H: Ch 3.1; R Chs 2 & 3.

(E) Coate, S. and M. Conlin, "A Group Rule-Utilitarian Approach to Voter Turnout: Theory and Evidence," *American Economic Review*, 2004.

(E) Coate, S., M. Conlin and A. Moro, "The Performance of Pivotal-Voter Models in Small-Scale Elections: Evidence from Texas Liquor Referenda," *Journal of Public Economics*, 2008.

(E) Duffy, J. and M. Tavits, "Beliefs and Voting Decisions: A Test of the Pivotal Voter Model," *American Journal of Political Science*, 2008.

Feddersen, T., "Rational Choice Theory and the Paradox of Not Voting," *Journal of Economic Perspectives*, 2004.

Feddersen, T. and A. Sandroni, "A Theory of Participation in Elections," *American Economic Review*, 2006.

(E) Gerber, A. and D. Green, "The Effect of Canvassing, Telephone Calls and Direct Mail on Voter Turnout: A Field Experiment," *American Journal of Political Science*, 2000.

(E) Gerber, A., D. Green and C. Larimer, "Social Pressure and Voter Turnout: Evidence from a Large-Scale Field Experiment," *American Political Science Review*, 2008.

(E) Levine, D. and T. Palfrey, "The Paradox of Voter Participation? A Laboratory Study," *American Political Science Review*, 2007.

Palfrey, T. and H. Rosenthal, "Voter Participation and Strategic Uncertainty," *American Political Science Review*, 1985.

(E) Shachar, R. and B. Nalebuff, "Follow the Leader: Theory and Evidence on Political Participation," *American Economic Review*, 1999.

(E) Washington, E., "How Black Candidates Affect Voter Turnout," *Quarterly Journal of Economics*, 2006.

(2) *Voting in multi-candidate elections*

R: Ch 13 & 14.

(E) Burden, B. and D. Kimball, "A New Approach to the Study of Ticket Splitting," *American Political Science Review*, 1998.

(E) Degan, A. and A. Merlo, "Do Citizens Vote Sincerely," mimeo, Penn, 2007.

(E) Degan, A. and A. Merlo, "A Structural Model of Turnout and Voting in Multiple Elections," mimeo, Penn, 2007.

Myatt, D., "On the Theory of Strategic Voting," *Review of Economic Studies*, 2007.

Myerson, R., "A Comparison of Scoring Rules in Poisson Voting Games," *Journal of Economic Theory*, 2002.

(3) *Voting with incomplete information*

Feddersen, T. and W. Pesendorfer, "The Swing Voter's Curse," *American Economic Review*, 1996.

I.2 CANDIDATES

We consider candidate positioning in two candidate elections under various assumptions about candidate objectives. We then discuss candidate entry. Finally, we discuss candidate policy choices in dynamic models of elections.

(1) *Candidate positioning in two candidate elections*

G&H: Ch 2.2; P&T: 47-58; R: Ch 4.

Ansolabehere, S., "Voters, Candidates, and Parties," Ch 2 in W & W.

(E) Ansolabehere, S., J. Snyder and C. Stewart, "Candidate Positioning in U.S. House Elections," *American Journal of Political Science*, 2001.

Dixit, A. and J. Londregan, "Ideology, Tactics, and Efficiency in Redistributive Politics," *Quarterly Journal of Economics*, 1998.

Duggan, J., "Candidate Objectives and Electoral Equilibrium," Ch 4 in W & W.

(E) Gerber, E. and J. Lewis, "Beyond the Median: Voter Preferences, District Heterogeneity, and Political Representation," *Journal of Political Economy*, 2004.

(E) Glaeser, E., G. Ponzetto, and J. Shapiro, "Strategic Extremism: Why Republicans and Democrats Divide on Religious Issues," *Quarterly Journal of Economics*, 2005.

Kartik, N. and P. McAfee, "Signaling Character in Electoral Competition," *American Economic Review*, 2007.

Larcinese, V., J. Snyder and C. Testa, "Testing Models of Distributive Politics Using Exit Polls to Measure Voter Preferences and Partisanship," mimeo, Royal Holloway College, 2006.

(E) Lee, D., E. Moretti, and M. Butler, "Do Voters Affect or Elect Policies? Evidence from the U.S. House," *Quarterly Journal of Economics*, 2004.

Ledyard, J., "A Pure Theory of Large Two-Candidate Elections," *Public Choice*, 1984.

Lindbeck, A. and J. Weibull, "Balanced-Budget Redistribution as the Outcome of Political Competition," *Public Choice*, 1987.

Londregan, J., "Political Income Redistribution," Ch 5 in W & W.

(E) Stromberg, D., "How the Electoral College Influences Campaigns and Policy: The Probability of Being Florida," *American Economic Review*, 2008.

(2) *Candidate entry.*

P&T: 97-104; G&H: Ch 2.2.

Besley, T. and S. Coate, "An Economic Model of Representative Democracy," *Quarterly Journal of Economics*, 1997.

Osborne, M. and A. Slivinski, "A Model of Political Competition with Citizen-Candidates," *Quarterly Journal of Economics*, 1996.

(3) *Candidate policy choice in dynamic models*

B: Ch 3; P&T: 77-89; D: 223-228, 268-278.

Banks, J. and R. Sundaram, "Optimal Retention in Agency Problems," *Journal of Economic Theory*, 1998.

(E) Besley, T. and A. Case, "Does Electoral Accountability Affect Economic Policy Choices? Evidence from Gubernatorial Term Limits," *Quarterly Journal of Economics*, 1995.

(E) Diermier, D., M. Keane and A. Merlo, "A Political Economy Model of Congressional Careers," *American Economic Review*, 2005.

Ferejohn, J. "Incumbent Performance and Electoral Control," *Public Choice*, 1986.

(E) Levitt, S., "How do Senators Vote? Disentangling the Role of Voter Preferences, Party Affiliation and Senator Ideology," *American Economic Review*, 1996.

I.3 LEGISLATURES

Standard models of electoral competition notwithstanding, policy decisions are typically made by a legislature consisting of representatives from a number of jurisdictions. A large literature is devoted to the study of how such legislatures might behave. This part reviews some of this literature. We begin with the celebrated chaos results of McKelvey which suggest that any policy outcome is possible. We then discuss the literature which models legislative decision making as non-cooperative bargaining.

(1) Chaos Theorems

McKelvey, R., "Intransitivities in Multidimensional Voting Models and Some Implications for Agenda Control," *Journal of Economic Theory*, 1976.

(2) Legislative Bargaining

(E) Baqir, R., "Districting and Government Overspending," *Journal of Political Economy*, 2002.

Baron, D. and J. Ferejohn, "Bargaining in Legislatures," *American Political Science Review*, 1989.

Bernheim, D., Rangel, A. and L. Rayo, "The Power of the Last Word in Legislative Policy-Making," *Econometrica*, 2006.

Eraslan, H., "Uniqueness of Stationary Equilibrium Payoffs in the Baron-Ferejohn Model," *Journal of Economic Theory*, 2001.

(E) Frechette, G., Kagel, J. and M. Morelli, "Behavioral Identification in Coalitional Bargaining: An Experimental Analysis of Demand Bargaining and Alternating Offers," *Econometrica*, 2005.

(E) Knight, B., "Estimating the Value of Proposal Power," *American Economic Review*, 2005.

Morelli, M., "Demand Competition and Party Compromise in Legislative Bargaining," *American Political Science Review*, 1999.

Volden, C. and A. Wiseman, "Bargaining in Legislatures over Particularistic and Collective Goods," *American Political Science Review*, 2007.

Weingast, B., Shepsle, K. and C. Johnsen, "The Political Economy of Benefits and Costs: A Neoclassical Approach to Distributive Politics," *Journal of Political Economy*, 1981.

I.4 INTEREST GROUPS

Interest groups are collections of citizens with a common interest who try to further that interest by influencing politicians' policy decisions. We review the literature modeling precisely how such groups influence the process. We begin by looking at how interest groups can influence policy by providing information to policy-makers. We then discuss the provision of campaign contributions. We start with models in which politicians simply trade policy favors for contributions and then incorporate the role of contributions in influencing voters.

(1) *Information*

G&H: Ch. 4, 5 & 6

(2) *Campaign Contributions*

G&H: Ch. 7, 8 & 9

(E) Ansolabehere, S., Figueiredo, J. and J. Snyder, "Why is There so Little Money in U.S. Politics," *Journal of Economic Perspectives*, 2003.

(E) Bombardini, M. and F. Trebbi, "Votes or Money? Theory and Evidence from the U.S. Congress," mimeo, University of Chicago, 2008.

Deardorff, A. and R. Hall, "Lobbying as Legislative Subsidy," *American Political Science Review*, 2006.

(E) Erikson, R. and T. Palfrey, "Equilibria in Campaign Spending Games: Theory and Data," *American Political Science Review*, 2000.

Fox, J., "Electoral Donations and Interest Group Influence," mimeo, Yale University, 2006.

(E) Gerber, A., "Estimating the Effect of Campaign Spending on Senate Election Outcomes in the US House," *American Political Science Review*, 1998.

(E) Gerber, A., "Does Campaign Spending Work?" *American Behavioral Scientist*, 2004.

(E) Jayachandran, S., "The Jeffords Effect," *Journal of Law and Economics*, 2006.

(E) Levitt, S., "Using Repeat Challengers to Estimate the Effect of Campaign Spending on Election Outcomes in the U.S. House," *Journal of Political Economy*, 1994.

Morton, R. and C. Cameron, "Elections and the Theory of Campaign Contributions: A Survey and Critical Analysis," *Economics and Politics*, 1992.

Prat, A., "Rational Voters and Political Advertising," Ch 3 in W & W.

I.5 POLITICAL PARTIES

We discuss the role of political parties in political systems.

Ansolabehere, S., Leblanc, W. and J. Snyder, "When Parties are not Teams: Platform Choice in Single Member Districts and Proportional Representation," mimeo, MIT, 2005.

Besley, T., "Electoral Strategy and Economic Policy," mimeo, London School of Economics, 2007.

Levy, G., "A Model of Political Parties," *Journal of Economic Theory*, 2004.

Roemer, J., "Modeling Party Competition in General Elections," Ch 58 in W & W.

Snyder, J. and M. Ting, "An Informational Rationale for Political Parties," *American Journal of Political Science*, 2002.

I.6 THE MEDIA

We discuss the role the media plays in policy determination.

R: Ch 8.

(E) Besley, T. and A. Prat, "Handcuffs for the Grabbing Hand? Media Capture and Political Accountability," *American Economic Review*, 2006.

(E) DellaVigna, S. and E. Kaplan, "The Fox News Effect: Media Bias and Voting," *Quarterly Journal of Economics*, 2007.

(E) Eisensee, T. and D. Stromberg, "News Droughts, News Floods and U.S. Disaster Relief," *Quarterly Journal of Economics*, 2007.

(E) Gentzkow, M., Glaesar, E. and C. Goldin, "The Rise of the Fourth Estate: How Newspapers Became Informative and Why it Mattered," NBER working paper #10791, 2004.

(E) Gentzkow, M. and J. Shapiro, "What Drives Media Slant? Evidence from U.S. Daily Newspapers," mimeo, University of Chicago, 2007.

(E) Groseclose, T. and J. Milyo, "A Measure of Media Bias," *Quarterly Journal of Economics*, 2005.

II. POLITICAL DISTORTIONS

II.1 INTRODUCTION

How do the policies that emerge from political decision-making differ from those that would be chosen by a benevolent social welfare maximizing planner? We begin with a general overview of this question.

B: Ch 2

Robinson, J., "Theories of Bad Policy," *Journal of Policy Reform*, 1998.

Wittman, D., "Why Democracies produce Efficient Results," *Journal of Political Economy*, 1989.

II.2 INEFFICIENT REDISTRIBUTION

In static models, an interesting form of political distortion is inefficient redistribution. We discuss some explanations of this phenomenon.

B: Ch 3; D: Ch 8.

Acemoglu, D. and J. Robinson, "Inefficient Redistribution," *American Political Science Review*, 2001.

Coate, S. and S. Morris, "On the Form of Transfers to Special Interests," *Journal of Political Economy*, 1995.

II.3 CAREER CONCERNS

Perhaps the most common type of political distortion arises because of politicians' career concerns. We discuss a couple of examples of this type of distortion.

Canes-Wrone, B., Shotts, K. and M. Herron. "Leadership and Pandering: A Theory of Executive Policy-Making," *American Journal of Political Science*, 2001.

Majumdar, S. and S. Mukand, "Policy Gambles," *American Economic Review*, 2004.

II.4 DYNAMIC PROBLEMS

In dynamic models, numerous interesting political distortions emerge, primarily stemming from lack of commitment. We discuss some examples.

D: Ch 4; P&T; Ch 11-13.

Acemoglu, D., "Why not a Political Coase Theorem? Social Conflict, Commitment, and Politics," *Journal of Comparative Economics*, 2003.

Alesina, A. and G. Tabellini, "A Positive Theory of Fiscal Deficits and Government Debt,"

Review of Economic Studies, 1990.

Battaglini, M. and S. Coate, "Inefficiency in Legislative Policy-Making: A Dynamic Analysis," *American Economic Review*, 2007.

Battaglini, M. and S. Coate, "A Dynamic Theory of Public Spending, Taxation, and Debt," *American Economic Review*, 2008.

Besley, T. and S. Coate, "Sources of Inefficiency in a Representative Democracy: A Dynamic Analysis," *American Economic Review*, 1998.

Hassler, J. et al, "The Survival of the Welfare State," *American Economic Review*, 2003.

III. ALTERNATIVE POLITICAL INSTITUTIONS

III.1 INTRODUCTION

Any political system operates under a certain set of rules. The "political constitution" determines the rules by which policy-makers are elected. The "fiscal constitution" determines the policy choices from which policy-makers can choose. How should such constitutions be designed? We begin with a general discussion of alternative electoral systems.

Cox, G., "Electoral Equilibrium under Approval Voting," *American Journal of Political Science*, 1985.

Cox, G., "Electoral Equilibrium under Alternative Voting Institutions," *American Political Science Review*, 1987.

Dellis, A. and M. Oak, "Approval Voting with Endogenous Candidates," *Games and Economic Behavior*, 2006.

Lizzeri, A. and N. Persico, "The Provision of Public Goods under Alternative Electoral Incentives," *American Economic Review*, 2001.

(E) Milesi-Ferreti, G., Perotti, R. and M. Rostagno, "Electoral Systems and Public Spending," *Quarterly Journal of Economics*, 2002.

Myerson, R., "Theoretical Comparisons of Electoral Systems: 1998 Schumpeter Lecture," *European Economic Review*, 1999.

Myerson, R., "Effectiveness of Electoral Systems for Reducing Government Corruption: A Game-Theoretic Analysis," *Games and Economic Behavior*, 1993.

Myerson, R., "Incentives to Cultivate Favored Minorities under Alternative Electoral Systems," *American Political Science Review*, 1993.

Persson, T. and G. Tabellini, "Electoral Systems and Economic Policy," Ch 40 in W & W.

Taagepera, R. and M. Shugart, *Seats and Votes*, Yale University Press, 1989. Chp 3.

III.2 CAMPAIGN FINANCE POLICY

We discuss the optimal regulation of campaign giving.

R: Chs 6 & 7.

Ashworth, S., "Campaign Finance and Voter Welfare with Entrenched Incumbents," *American Political Science Review*, 2006.

Coate, S., "Pareto Improving Campaign Finance Policy", *American Economic Review*, 2004.

(E) Houser, D. and T. Stratmann, "Selling Favors in the Lab: Experiments on Campaign Finance Reform," *Public Choice*, 2008.

Prat, A., "Campaign Advertising and Voter Welfare," *Review of Economic Studies*, 2003.

(E) Prat, A., R. Puglisi and J. Snyder, "Is Private Campaign Finance a Good Thing? Estimates of the Potential Informational Benefits," mimeo, LSE, 2006.

(E) Vanberg, C., "One Man, One Dollar? Campaign Contribution Limits, Equal Influence, and Political Communication," *Journal of Public Economics*, 2008.

III.3 FEDERALISM

We discuss some work focusing on the optimal assignment of policy responsibility between local and central governments.

Besley, T. and S. Coate, "Centralized vs. Decentralized Provision of Local Public Goods: A Political Economy Analysis," *Journal of Public Economics*, 2003.

Epple, D. and A. Zelenitz, "The Implications of Competition among Jurisdictions: Does Tiebout Need Politics?" *Journal of Political Economy*, 1981.

(E) Knight, B., "Parochial Interest and the Centralized Provision of Local Public Goods: Evidence from Congressional Voting on Transportation Projects," *Journal of Public Economics*, 2004.

Rodden, J., "Federalism," Ch 20 in W & W.

III.4 CITIZENS' INITIATIVES

In some U.S. states, citizens can place legislation directly on the ballot via citizens' initiatives. We discuss the pros and cons of such initiatives.

Besley, T. and S. Coate, "Issue Unbundling via Citizens' Initiatives," mimeo, Cornell, 2002.

(E) Gerber, E., "Legislative Response to the Threat of Popular Initiatives," *American Journal of Political Science*, 1996.

Matsusaka, J., "Direct Democracy Works," *Journal of Economic Perspectives*, 2005.

Matsusaka, J., "The Eclipse of Legislatures: Direct Democracy in the 21st Century," *Public Choice*, 2005.

III.5 BUREAUCRATS OR POLITICIANS

An interesting issue concerning public officials concerns their method of selection – elected or appointed. We review some recent papers that analyze this issue from a welfare perspective.

Alesina, A. and G. Tabellini, "Bureaucrats or Politicians? Part I: A Single Policy Task," *American Economic Review*, 2007.

(E) Besley, T. and S. Coate, "Elected versus Appointed Regulators: Theory and Evidence," *Journal of the European Economic Association*, 2003.

Maskin, E. and J. Tirole, "The Politician and the Judge: Accountability in Government," *American Economic Review*, 2004.

III.6 DISTRICTING

We discuss the problem of districting, focusing in particular on socially optimal districting.

(E) Besley, T. and I. Preston, "Electoral Bias and Policy Choices: Theory and Evidence," *Quarterly Journal of Economics*, 2007.

(E) Cameron, C., D. Epstein and S. O'Halloran, "Do Majority-Minority Districts Maximize Substantive Black Representation in Congress?" *American Political Science Review*, 1996.

Coate, S. and B. Knight, "Socially Optimal Districting: A Theoretical and Empirical Exploration," *Quarterly Journal of Economics*, 2007.

Epstein, D. and S. O'Halloran, "The 45% Solution: Racial Gerrymandering and Representative Democracy," mimeo, Columbia University, 2003.

Friedman, J. and R. Holden, "Optimal Gerrymandering: Sometimes Pack but never Crack," *American Economic Review*, 2008.

Fryer, R. and R. Holden, "Measuring the Compactness of Political Districting Plans," mimeo, Harvard University.

(E) Gelman, A. and G. King, “Estimating the Electoral Consequences of Legislative Redistricting,” *Journal of the American Statistical Association*, 1990.

(E) Gelman, A. and G. King, “Enhancing Democracy Through Legislative Redistricting,” *American Political Science Review*, 1994.

Gul, F. and W. Pesendorfer, “Competitive Redistricting,” mimeo, Princeton University, 2007.

(E) King, G., “Representation Through Legislative Redistricting: A Stochastic Model,” *American Journal of Political Science*, 1989.

(E) Tufte, E., “The Relationship between Seats and Votes in Two-Party Systems,” *American Political Science Review*, 1973.

III.7 FISCAL RESTRAINTS

We discuss the desirability of restraining government’s ability to tax, spend and borrow via constitutional fiscal restraints.

B: Ch 4.

Azzimonti, M., M. Battaglini and S. Coate, “On the Case for a Balanced Budget Amendment for the U.S. Constitution,” mimeo, Texas.

Besley, T. and M. Smart, “Fiscal Restraints and Voter Welfare,” *Journal of Public Economics*, 2007.

Brennan, G. and J. Buchanan, “Towards a Tax Constitution for Leviathan,” *Journal of Public Economics*, 1977.

(E) Knight, B., “Supermajority Requirements for Tax Increases: Evidence from the States,” *Journal of Public Economics*, 2000.

(E) Poterba, J., “Budget Institutions and Fiscal Policy in the U.S. States,” *American Economic Review*, 1996.

Von Hagen, J., “Political Economy of Fiscal Institutions,” Ch 26 of W & W.

IV. ENDOGENOUS POLITICAL INSTITUTIONS

From a positive perspective, how does institutional change occur in societies? We review some papers that look at this basic question.

(E) Aghion, P., A. Alesina and F. Trebbi, “Electoral Rules and Minority Representation in US Cities,” *Quarterly Journal of Economics*, 2008.

Acemoglu, D. and J. Robinson, "Paths of Economic and Political Development," Ch 37 in W & W.

Acemoglu, D. and J. Robinson, "A Theory of Political Transitions," *American Economic Review*, 2001.