

**ECON 5403 F – Topics in the Theory of Public Economics**  
**(An Introduction to the Political Economy of Public Finance and Public Policy)**

**Winter, 2019. Patterson Hall 234, 11:35-14:25.**

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**Course Objectives:** This term ECON 5403 will offer an introduction to the study of political economy, with emphasis on the political economy of public finance. In this course, microeconomics, public economics and analytical political theory are combined in the search for a more comprehensive vision of the economic and political forces underlying the structure and evolution of the public sector and the consequences of political institutions for the allocation and distribution of resources. Topics covered include selected aspects of public goods and externalities, the free-rider problem and collective action, the operation of collective choice mechanisms such as pure majority rule, the relationship between the institutions of representative democracy and economic welfare, the modelling of political competition, special interest politics, time consistency, electoral competitiveness, the efficiency of democracy, and other issues. Some attention is paid to the historical evolution of ideas. In addition to foundational issues and the methods used to study them, we will also look carefully at some recent research papers.

**Course Requirements:** There will be take-home questions to answer at two points over the term (worth 50% of your mark in total), and a project (worth 50%). Due date for the project will be at the end of the regular exam period. Sets of questions will be handed out periodically that review material considered in class. Questions from these sets to be answered and handed in will be assigned periodically. The purpose of the project is to help you make the transition from consumers of research to producers of it, *as applied to the topic of this course*. Please see the description of the project at the end of this outline.

**Note:** \*= a book or reading on reserve.

**Reference Textbook:**

\*Dennis Mueller. *Public Choice III*. Cambridge University Press. 2003. An excellent overview of the field that is partly a text and partly a reference book. We will not rely only on this book however, and it is not a course text because not enough of it is assigned as required reading. A copy of Mueller's book will be on reserve.

**Additional References:**

\*Allan Drazen. *Political Economy in Macroeconomics*. Princeton University Press, 2000. (A recent textbook with many useful chapters surveying some of the topics we will cover. Emphasizes applications to macroeconomic policy issues).

\* T. Persson and G. Tabellini. *Political Economics: Explaining Economic Policy*. MIT Press, 2000. A good introduction to some of the models we will consider.

\* Kenneth Shepsle and Michael Bonchek. *Analyzing Politics: Rationality, Behavior and Institutions*. Norton, 1997. (An excellent introduction to analytical political science, especially for economists).

\* Dan Usher. *The Economics of Voting: Studies of Self-interest, bargaining, duty and rights*. Routledge 2016.

### Some interesting books:

- Albert Breton. *Competitive Governments: An Economic Theory of Politics and Public Finance*. Cambridge University Press 1996. A modern attempt at a Wicksellian approach to public finance.
- G. Brennan and J. Buchanan (1980). *The Power to Tax*. Cambridge University Press.
- Timothy Besley (2006). *Principled Agents? The Political Economy of Good Government*. Oxford University Press,
- Timothy Besley and Torsten Persson (2011). *Pillars of Prosperity: The Political Economics of development Clusters*. Princeton University Press.
- Richard Cornes and Todd Sandler. *The Theory of Externalities, Public Goods and Club Goods*. 2nd ed, Cambridge 1996. (A great summary of the relevant theory).
- \* Gene Grossman and Elhanan Helpman. *Special Interest Politics*, MIT Press 2001. (The latest word on the topic.)
- \* Walter Hettich and Stanley Winer. *Democratic Choice and Taxation: A Theoretical and Empirical Analysis*. Cambridge University Press, 1999. (A study of why tax systems look the way they do).
- Arye Hillman. *Public Finance and Public Policy: Responsibilities and Limitations of Government*. Cambridge 2003. (The first undergraduate text on public economics that truly integrates economics with the study of collective choice issues. )
- \* Melvin Hinich and Michael Munger. *Analytical Politics*. Cambridge University Press, 1997. (A sophisticated introduction and analysis emphasizing the probabilistic voting approach on which I will rely extensively.
- Dennis Mueller. *Constitutional Democracy*. Oxford University Press. 1996.
- \* Luis Medina. *A Unified Theory of Collective Action and Social Change*. University of Michigan Press, 2007.
- Adam Przeworski. *Democracy and the Limits of Self-Government*. Cambridge 2010. (An excellent, sophisticated introduction to the study of democracy.)
- \* William Riker. *The Art of Political Manipulation*. Yale 1986. (Riker calls this the art of heresthetics - something all good politicians know a lot about).
- \* John Roemer. *Political Competition: Theory and Applications*. Yale University Press 2000. (A review of literature and a new approach to political competition between parties. Mathematically sophisticated.)
- \* Todd Sandler. *Collective Action: Theory and Applications*, University of Michigan Press, 1992. (An excellent recent text on the theory of groups from Olson to the present.)
- Todd Sandler. *Global Collective Action*. Cambridge 2004. (Public goods on a global scale).
- George Tsebelis. *Veto Players: How Political Institutions Work*. Princeton University Press, 2002

### Some administrative matters:

#### (i) Academic Accommodation

You may need special arrangements to meet your academic obligations during the term because of disability, pregnancy or religious obligations. Please review the course outline promptly and write to me with any requests for academic accommodation during the first two weeks of class, or as soon as possible after the need for accommodation is known to exist. Students with disabilities requiring academic accommodations in this course must register with the Paul Menton Centre for Students with Disabilities (PMC) for a formal evaluation of disability-related needs. Documented disabilities could include but are not limited to mobility/physical impairments, specific Learning Disabilities (LD), psychiatric/ psychological disabilities, sensory disabilities, Attention Deficit Hyperactivity Disorder (ADHD), and chronic medical conditions. Registered PMC students are required to contact the PMC, 613-520-6608, every term to ensure that your Instructor receives your Letter of Accommodation, no later than two weeks before the first assignment is due or the first in-class test/midterm requiring accommodations. You can visit the Equity Services website to view the policies and to obtain more detailed information on academic accommodation at <http://carleton.ca/equity/accommodation>.

**(ii) University policy on plagiarism:** Please be aware that plagiarism is serious offence at Carleton and should be recognized and avoided. For the university policy, please see <https://carleton.ca/registrar/academic-integrity/>

**Course Outline and Reading List:**

Subject to revision. The timetable by week is tentative.

Required reading on Reserve in the library (when marked with a "\*"), available online at the library on ARES, or at cuLearn, as indicated. Always check cuLearn first, then online journals and ARES. Some material is found on my website: <https://carleton.ca/winer>, as indicated

***Please let me know right away if anything is missing from the reserve shelves or web sites listed.***

**NOTE:** The reading list may be amended to incorporate recently published or other material. You will be advised well in advance of any changes in the outline, and reminded as to what reading is required.

**Important notes on the outline:** (i) While the whole outline is lengthy, I have kept the amount of *required* reading within reasonable bounds. (ii) Note also that we will study only a modest subset of the material listed here, especially in the applications sections. I will keep you well informed as to what material is relevant for the coming week.

*Week 1*

**1. Background to The Political Economy of Public Finance: Economics vs. Politics**

*What is 'politics' versus 'economics'. How should we approach the political economy of public finance? Basic issues concerning the direction of contemporary research.*

Lecture notes on economics vs. politics and the nature of political competition. See cuLearn.

**Supplementary:** *Some background reading*

Paul Rubin. Deep Political Economy (2013). Unpublished. With Rubin's permission. A nice paper on the meaning of economics vs. politics, explaining why economics is about cooperation and politics is about conflict. See cuLearn.

Stanley L. Winer (2016). The Political Economy of Taxation: Power, Structure, Redistribution. Preliminary version. Forthcoming in the Oxford Handbook of Public Choice. See cuLearn. (Provides an introduction and overview of the kind of issues and problems that arise in studying the political economy of public policy, with a focus on taxation.). At [carleton.ca/winer](http://carleton.ca/winer).

Winer, Stanley L. and Walter Hettich (2006). "Structure and Coherence in the Political Economy of Public Finance". in Don Wittman and Barry Weingast, Oxford Handbook of Political Economy, Oxford University Press. Chapter 25, 442 – 463. At [carleton.ca/winer](http://carleton.ca/winer).

Richard Musgrave (1985). "A Brief History of Fiscal Doctrine", Chapter 1 in A. Auerbach and M. Feldstein (eds.), Handbook of Public Economics, vol. 1, North-Holland. (A thoughtful survey by someone who lived through much of what he talks about).

Gary Miller (1997). The Impact of Economics on Political Science. Journal of Economic Literature 35(3), 1173-1204. (A thoughtful review that touches on many of the ideas that the course covers. )

*Week 2*

**2. From Public Goods to Political Economy**

*From the Samuelson condition to the Wicksell-Lindahl solution. Why social planning is not adequate as a basis for understanding why governments do what they do.*

\* Robin Boadway and David Wildasin. Public Economics. 2nd edition. Little Brown 1984. Chapter 4 (the theory of public goods). For some or perhaps most of you, this is a review of standard normative theory.

**OR**

\*Dennis Mueller. Public Choice III. Chapter 2 ("The reason for collective choice – allocative efficiency"). Overlaps with Boadway and Wildasin.

### Supplementary: the Wicksellian perspective

- J. Martinez-Vasquez and Stanley L. Winer eds. (2014). *Coercion and Social Welfare in Public Finance: Economic and Political Dimensions*. Cambridge University Press. Especially the overview in the Introduction.
- Knut Wicksell (1896). "A New Principle of Just Taxation (1896)" in R. Musgrave and A. Peacock. *Classics in the Theory of Public Finance*. MacMillan, 1958, pp. 72-97. (the Wicksellian approach to public finance and political economy)
- James Buchanan (1976). "Taxation in Fiscal Exchange". *Journal of Public Economics* 6, 17-29. (Reincarnation of the Wicksellian view).

*Weeks 3 and 4*

### 3. The Free Rider Problem and the Evolution of Cooperation

*Why people join, or do not join, with others in the pursuit of common goals. The essential free-rider problem in collective action. Introduction to basic non-cooperative game theory, and its use to study the evolution of cooperation in legislative institutions and other applications. The Folk Theorem.*

Notes on non-cooperative game theory: backward induction and subgame perfection. To be supplied on cuLearn.

- \* T. Sandler, *Collective Action*. Chapter 2 " (Basic themes..." . Overlaps with, but emphasizes different issues than Mueller, chp 2.)
- T. Sandler and D. G. Acre (2003). "Pure Public Goods versus Commons: Benefit-Cost Duality" *Land Economics* 79(3): 355-368.
- Charles Tiebout (1956). "A Pure Theory of Local Expenditures." *Journal of Political Economy* 64(5), 416-424.
- Barry Weingast (1997). "The Political Foundations of Democracy and the Rule of Law". *American Political Science Review*, 91(2), 1997, 245-263. (On the evolution and stability of constraints on the power of government in democratic systems as a problem of collective action. This paper reminds us not to take the existence of the rule of law or democracy for granted).
- Luis Medina. *A Unified Theory of Collective Action and Social Change*. University of Michigan Press, 2007, pages 76-79 (On the folk theorem. The book is a recent treatise on collective action, dealing especially with the possibility that there are multiple equilibria in collective action games.). cuLearn

### Applications

- Mancur Olson and Richard Zeckhauser, "An Economic Theory of Alliances", *Review of Economics and Statistics*, 43, 1966. (On the structure of defence spending in the NATO and other military alliances, especially applicable to countries like Canada and the U.S.).
- Nordhaus, W. (2015). "Climate Clubs: Overcoming Free-riding in International Climate Policy". *American Economic Review* 105(4): 1339-1370. (A neat model of global warming as a free-rider problem.)

### Supplementary

- Mancur Olson. *The Logic of Collective Action*. Harvard University Press, 1965
- Elinor Ostrom, *Governing the Commons: The Evolution of Institutions for Collective Action*, Cambridge University Press, 1990. (A study of the nature of collective action in the absence of government intervention.)
- T. Sandler. *Global Collective Action*, Cambridge 2004, chapter 4 (on transnational public goods and bads.)
- Robert Axelrod, *The Evolution of Cooperation*, Basic Books 1984. (Extension of the study of prisoner's dilemmas to dynamic or repeat play contexts. See especially chapter 4 on local truces in trench warfare of WW I and the last chapter on golden rules for cooperation).

Weeks 5 and 6

#### **4. Majority Rule, and the Interaction of Preferences and Collective Choice Mechanisms in the Determination of Policy Outcomes**

*Mechanisms used by groups to allocate resources. The median voter theorem of Black. The instability of pure majority rule and the interaction of voting rules and preferences. Structure-induced equilibrium and the evolution of legislative institutions. Veto Players. Agenda control and other heresthetic manoeuvres. Cybersenate software and exercises*

\*K. Shepsle and M. Bonchek. Analyzing Politics. Chapter 5: Spatial Models of Majority Rule, and Chapter 6: Strategic Behavior.

\*D. Mueller, Public Choice III. Chapter 5. (A more technical introduction. Don't focus on proofs unless instructed. Overlaps somewhat with Shepsle and Bonchek, but worth reading for its technical details and its different perspective).

Cybersenate software by J. Godfrey - Software to experiment with voting games. Provided on cuLearn.

Barry Weingast and W. Marshall (1988), "The Industrial Organization of Congress; or, Why Legislatures, Like Firms, Are Not Organized as Markets". *Journal of Political Economy* 96(1), 132-163. (An application of the structure induced equilibrium approach to the organization of Congress, with hints about parliamentary government. Transactions costs are important too).

#### **Additional Applications:**

Weingast, Barry R., Kenneth A. Shepsle, and Christopher Johnsen (1981). A The Political Economy of Benefits and Costs: A Neoclassical Approach to Distributive Politics. *Journal of Political Economy* 89: 642-664. (On the common pool problem in politics.)

\* G. Tsebelis. *Veto Players: How Political Institutions Work*. Princeton University Press, 2002. Chapter 1 (Individual Veto Players).

\*W. Riker (1986). *The Art of Political Manipulation*. Yale University Press. Chapter 10 (on "Warren Magnusson and Nerve Gas", and Conclusion.)

Thomas Romer and Howard Rosenthal (1978). "Political Resource Allocation, Controlled Agendas and the Status Quo," *Public Choice* 33(4) (Winter): 27-43. (On control by the bureau of the median voter by agenda manipulation).

David Baron and John Ferejohn (1989). Bargaining in Legislatures. *American Political Science Review* 83(4), 1181-1206. (Studies how legislative structure and legislator behaviour affects agenda power and legislative outcomes).

#### **Supplementary**

\*M. Hinich and M. Munger. *Analytical Politics*. Chapter 2: The Spatial Model of Downs and Black; and Chapter 3: Two Dimensions - Elusive Equilibrium. (An alternative to Shepsle and Bonchek.)

A. Kessler (2014). Communication in Federal Politics: Universalism, Policy Uniformity, and the Optimal Allocation of Fiscal Authority. *Journal of Political Economy* 122(4), 766-805.

R. Baqir (2002). "Districting and Government Overspending." *Journal of Political Economy* 110(6), 1318-1354. (On the common pool problem in all democratic systems.)

M. Laver and K. Shepsle. *Making and Breaking Governments: Cabinets and Legislatures in Parliamentary Democracies*. Cambridge University Press, 1996. (Application of the structure-induced equilibrium model to coalition politics in parliamentary systems)

Weeks 7, 8 and 9

### **5. Modelling Representative Democracy When the Allocation of Economic Resources Matters**

*Models of political equilibria. Anthony Downs formalized as spatial, probabilistic voting. The Representation Theorem and the 'invisible hand' in a democracy. Special interest politics. The time-consistency problem as conflict of interests. Majoritarian (winner take all) and proportional electoral systems.*

- \* Joseph Schumpeter (1950). *Capitalism, Socialism and Democracy*. Allen and Unwin. Chapter 21, "The Classical Doctrine of Democracy" and chapter 22, "Another Theory of Democracy". (A classic introduction to modern political economy.)
- Anthony Downs (1957) "An Economic Theory of Political Action in a Democracy," *Journal of Political Economy* 135-150.
- D. Mueller. *Public Choice III*. Chapter 12: Two Party Competition - Probabilistic Voting. (And the invisible hand in politics!)
- A. Dixit and J. Londregan (1996). "The Determinates of Success of Special Interests in Redistributive Politics". *The Journal of Politics* 58, 1132-55.
- T. Iverson, D. Soskice (2006). "Electoral Institutions and the Politics of Coalitions: Why some Democracies Redistribute More than Others". *American Political Science Review* 100: 165-181.
- G. Becker. "Public Policies, Pressure Groups and Deadweight Costs. *Journal of Public Economics* 28, 1985, 329-347. [OR \* Gary Becker. *Political Competition Among Interest Groups*, in J. Shogren (ed). *The Political Economy of Regulation*. Kluwer 1989, 13-27.] (Becker's approach emphasizing the role of special interest groups.)
- Tim Besley and Stephen Coate (1997). "A Model of Representative Democracy". *Quarterly Journal of Economics* 112(1), 85-114. (The citizen-candidate model.)
- D. Rodrik and R. Zeckhauser. "The Dilemma of Government Responsiveness". *Journal of Policy Analysis and Management* 7(4), 1988, 601-620. (On the commitment problem in democracies, or why political discretion can be a bad thing in dealing with flood control and similar issues).

#### **Additional Applications**

- W. Hettich and S. Winer. "Economic and Political Foundations of Tax Structure," *American Economic Review* 78(4), 1988, 701-712. (Using a probabilistic voting model to explain why tax systems look the way they do, and to explore implications for tax reform.)
- S. Bernard, L. Hotte and S. Winer (2014). *Democracy, Inequality and the Environment When Citizens Can Mitigate the Health Consequences of Pollution Privately or Act Collectively*. *European Journal of Political Economy* 34, 142-156 (Spatial voting model of pollution in democracies versus autocracies).
- \* Gene Grossman and Elhanan Helpman (2001). *Special Interest Politics*, MIT Press. Chapter 2, 56-64 (on politicians with preferences and endogenous candidates).
- Dan Usher. "The Significance of the Probabilistic Voting Theorem". *Canadian Journal of Economics* 27(2), 1994, 433-445. (A criticism of the probabilistic voting model.)
- Dan Usher (2016). "Assessing the Citizen-Candidate Model". Chapter 11 in Usher's *The Economics of Voting*, Routledge. (A criticism of the citizen-candidate model.)

#### **Supplementary: Modelling democracy**

- Martin Osborne and Al Slivinski (1996) . *A Model of Political Competition with Citizen-Candidates*. *The Quarterly Journal of Economics* 111 (1)96), 65-96. (Alternative citizen-candidate model to Besley/Coate 1997)
- \*T. Persson and G. Tabellini. *Political Economics*. Chapter 8: Electoral Rules and Electoral Competition.
- Torsten Persson, Gerard Roland and Guido Tabellini (2006). " Electoral Rules and Government Spending in Parliamentary Democracies. *Quarterly Journal of Political Science*, 2007, xx: 1–34.
- Peter Coughlin. *Probabilistic Voting Theory*. Cambridge University Press, 1992.
- John Roemer (2003). "Indeterminacy of the Citizen Candidate". Cowles Discussion Paper No. 1410. March.

\*John Roemer (2001). *Political Competition: Theory and Applications*. Harvard U. Press. Chapter 1&8 (on modeling representative democracy when parties are explicit coalitions).

Gilat Levy. "A Model of Political Parties". *Journal of Economic Theory* 115, 2004, 250-277. (A different model of coalition formation and political equilibrium with a reason for political parties to form).

### **Supplementary: The role of governance from various perspectives**

T. Besley and A. Case (2003). *Political Institutions and Policy Choices: Evidence from the United States*. *Journal of Economic Literature* 61, 7-73.

M. Palmer. "Toward an Economics of Comparative Political Organization: Examining Ministerial Responsibility". *Journal of Law Economics and Organization*, 11(1), 1995, 164-188. (Explores how government authority is controlled in parliamentary and congressional systems)

A. Breton. *Competitive Governments*. 1996. Chapter 4 (On how budgetary processes in congressional and parliamentary systems evolve to control spending.)

Peter Moser. *The Political Economy of Democratic Institutions*. Edward Elgar Publishing, 2000. (Chapter 10 and 11 on independence of the central bank and legislative checks and balances.)

W. Pommerehne, "The Empirical Relevance of Comparative Institutional Analysis", *European Economic Review* 34, 1990, 458-469. (Summarizes empirical work from Switzerland and elsewhere on the importance of direct vs. representative democracy.)

Weeks 10 and 11

### **6. Some Contemporary Political Economy Issues: A Closer Look**

*A closer look at several interesting papers that combine theory and empirics to deal with (i) the consequences of political competitiveness; (ii) redistribution and inequality*

*(i) political competitiveness:*

S.L. Winer, L. Kenny and B. Grofman (2014). "Explaining Variation in the Degree of Political Competition in a Mature democracy: U.S. Senate Elections, 1922 – 2005". *Public Choice* 161(3): 471–497  
2014. See also [carleton.ca/winer](http://carleton.ca/winer)

T. Besley, T. Persson and D. Sturm (2010). "Political Competition, Policy and Growth: Theory and Evidence from the United States". *Review of Economic Studies* 77: 1329-1352

*(ii) redistribution:*

Meltzer, Allan H. and Scott F. Richard (1981). "A Rational Theory of the Size of Government," *Journal of Political Economy*, 89 (October): 914-27.

Meltzer, Allan H. and Scott F. Richard (1983). "Tests of a Rational Theory of the Size of Government" *Public Choice*, 41(3): 403-18.

Aidt, Toke, Stanley L. Winer and Peng Zhang. "Franchise Extension and Redistribution: Evidence from the United Kingdom 1802-1913". Unpublished working paper. See cuLearn. (Introduces the issue of how to study causality with observational data, applied to the Meltzer/Richard model)

L. Kenny and J. Lott (1999). Did Women's Suffrage Change the Size and Scope of Government? *Journal of Political Economy* 107(6), 1163-1198. (Where it does look like the franchise matters.)

### **Supplementary**

\*A. Drazen. *Political Economy in Macroeconomics*, Princeton 2000. (Chapter 8 provides a nice survey regarding redistribution.)

Acemoglu, D. S. Naidu, P. Restrepo and J. Robinson (2013). "Democracy, Redistribution and Inequality". In A. Atkinson and F. Bourdignon (eds.) *Handbook of Income Redistribution*. Online.

A. Meltzer and S. Richard (2014). "A Rational Theory of the Growth of Government and the Distribution of Income". Unpublished. Available at [www.ssrn.com](http://www.ssrn.com).

Thomas Piketty, *Capital in the Twenty-first Century*. Harvard University Press, 2014. (Lecture notes briefly introducing his model to be provided. Many reviews and discussions online and in the *JEL*, etc.)

Steven Callander (2005). "Electoral Competition in Heterogeneous Districts". *Journal of Political Economy* 13, 1116-1145.

### **Additional Supplementary: Special interest politics**

T. Persson and G. Tabellini. *Political Economics*. Chapter 7, section 7.3 (171-175) and problem 3, p. 197. (On the role of special interests and lobbying. Based on Grossman/Helpman, *Special Interest Politics*, MIT Press 2001).

Stephen Asolabehere, John Figueiredo, James Snyder. "Why is There so Little Money in U.S. Politics". *Journal of Economic Perspectives* 17(1), 2003, 105-130.

A. Denzau and M. Munger, "Legislators and Interest Groups: How Unorganized Voters Get Represented", *American Political Science Review* 80(1), March 1986, 89-106.

Robert Feenstra. *Advanced International Trade*. Princeton 2004. Chapter 9 (on the political economy of trade policy)

Fernanda Broilo, Tommaso Nannicini, Roberto Perotti, and Guido Tabellini. (2013). The Political Resource Curse. *American Economic Review* 103(5): 1759–1796.

*Week 12 (If we dont run out of time)*

### **10. Is Democracy Efficient?**

*We turn briefly to the normative side of political economy, which we have already considered in the context of our study of electoral equilibrium. Interest groups: good or bad for economic efficiency? Is there an invisible hand in a competitive political system? Under what circumstances? What can go wrong? What is a failure in a policy process?. How do we think about these matters? Alternative views about whether and how collective choice should be incorporated into the study of public policy, and in the formulation of policy advice*

Regarding sources of inefficiency: Timothy Besley.(2006). *Principled Agents? The Political Economy of Good Government*. Oxford University Press, 2006. Chapter 2: The anatomy of government failure. (see also Olson, Acemoglu and Stiglitz below)

Regarding sources of efficiency: Don Wittman. "Why Democracies Produce Efficient Results", *Journal of Political Economy* 97(6), December 1989, 1395-1424. A rosy picture of democracy. (See also Becker below)

W. Hettich and S. Winer (1995). "Decision Externalities, Economic Efficiency and Institutional Response". *Canadian Public Policy* 21(3), 344-361. (An ecumenical approach?)

Robin Boadway, "The Role of Public choice Consideration in Public Economics" in S. L. Winer and H. Shibata (eds) *Political Economy of Public Finance*, Edward Elgar Publishing, 2002.

**versus**

Walter Hettich, "Better Than What? :Policy Analysis and the Standard of Reference in a Comprehensive Framework with Collective Choice"." In Winer and Shibata (eds) *Political Economy of Public Finance*, Edward Elgar Publishing 2002.

### **Applications (the debate in the context of tax policy):**

Randall. Holcombe. "Tax Policy From a Public Choice Perspective". *National Tax Journal* 51(2), 1998,359-371.  
**versus**

Stanley Winer and Walter Hettich "What Is Missed If We Leave Collective Choice Out of the Analysis of Taxation?" *National Tax Journal* 51(2), 1998, 373-389. (stresses the beneficial role of political competition).

**versus**

James Poterba. "Public Finance and Public Choice". *National Tax Journal* 51(2), 391-396. (A different defence of the traditional approach to policy making).



**Supplementary:**

- A. Glazer and L. Rothenberg. *Why Government Succeeds and Why it Fails*. Harvard, 2001. (A nice overview of the issues.)
- Mancur Olson. "The Political Economy of Comparative Growth Rates," in D. Mueller, *The Political Economy of Growth*, Yale University Press, 1983. (The harmful effect of special interest groups)
- Joseph Stiglitz, "The Private Uses of Public Interests: Incentives and Institutions". *Journal of Economic Perspectives* 12(2), 1988, 3-22. (A survey of things that can go wrong).
- Darin Acemoglu (2003). "Why Not a Political Coase Theorem?" *Journal of Comparative Economics* 31(4), 650-652.
- Timothy Besley and Stephen Coate. "On the Public Choice Critique of Welfare Economics". *Public Choice* 114, 2003, 253-273.
- R. Zerbe and H. McCurdy (1999). "The Failure of Market Failure". *Journal of Policy Analysis and Management* 18(4), 558-578.
- Jack Wiseman, "The Way Ahead: A New Political Economy" in *Cost and Choice*, chp 14. Edward Elgar, 1989. (The Wicksellian approach by a seasoned policy advisor).
- Mancur Olson. *The Rise and Decline of Nations*, Yale University Press, 1982.
- Don Wittman. *The Myth of Democratic Failure: Why Political Institutions are Efficient*. University of Chicago Press, 1995.
- Michael Munger. "Demobilized and Demoralized: Negative Ads and Loosening Bonds". In Albert Breton et al. *Rational Foundations of Democratic Politics*. Cambridge University Press 2003.
- Roger Congleton. "Economic and Cultural Prerequisites for Democracy". In Albert Breton et al. *Rational Foundations of Democratic Politics*. Cambridge University Press 2003.

***The following topics are included for your interest – It is likely that we will not have time to cover them directly.***

**Commitment and Contracting over Time in the Presence of Collective Choice**

*Dynamic issues, mostly stemming from commitment problems that arise over time. The readings here just scratch the surface of these topics.*

- Peter Howitt. "Intergenerational Redistribution". Chapter 13 in (\*) A. Asimakopoulous. *Economic Theory, Welfare and the State*. McGill Queen's Press, 1990, 218-237. (An elegant yet simple model of conflict among the generations).
- T. Persson and G. Tabellini. *Political Economics*. Chapters 11 and 12 (on dynamic problems).
- \*Allan Drazen. *Political Economy in Macroeconomics*. Princeton University Press, 2000. Chapter 4: The Time-Consistency Problem. (Time inconsistency as a result of heterogeneous interests.)

**Dictatorship**

*Just a taste of recent work on this fascinating topic.*

- R. Wintrobe. *The Political Economy of Dictatorship*. Cambridge, 1998.
- D. Acemoglu and J. Robinson. *Economic Origins of Dictatorship and Democracy*. Cambridge University Press 2006.

Econ 5403, Winter 2019.  
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## SHORT RESEARCH PROJECT

**Due date: at the end of the exam period, to me by email or in person.**

The research paper is designed to help you to go beyond being merely a consumer of research done by others. It allows you to start from the work of others, but then to propose your own research project that goes beyond what you have read. Combining this paper with an assignment for another course is fine provided you discuss this with me first. The project paper consists of two related parts:

**Part I** (approximately 6-8 pages double-spaced): This part represents a review of one or two research articles. One or both of the articles may be empirical in nature (review statistical or case study evidence concerning a main hypothesis), or, if you wish, you may deal with theory only. Articles chosen must deal with the same general topic or issue.

You are responsible for choosing the article(s). One of them may be a research article from the readings assigned for the course. The main topic treated in the articles must relate to some aspect of the course material. You may wish to seek my advice in choosing a specific topic and in locating relevant articles. I will suggest topics as we proceed through the term.

Your discussion in Part I should touch on the following:

- main thesis or hypothesis in each article
- analytic techniques used in each article
- type of data used and sources of the data
- main conclusions reached in each article
- how the articles complement and/or contradict each other, and why they do so

It is suggested that you use these or similar headings to organize the first part of your paper.

*Copies of articles that are not part of the readings for the course must be attached to the paper when handing it in.*

**Part II** (approximately 6-8 pages, double-spaced): In this part, you develop a research proposal on one aspect of the topic discussed in the two papers reviewed in Part I. You may start from the research design in one of the papers and amend it to make it your own. (This can be done, for example, by changing or extending the theoretical model in some manner; by changing the list of explanatory variables in an empirical analysis, or by changing the time period for which the statistical analysis is carried out.) You must explain why you are proposing these changes in the research design. Alternatively, you may propose your own research design that takes a different approach from the designs used in the two articles. Again, you must justify your design. Your proposal should have the following elements:

- (1) An hypothesis or clearly formulated economic question that can be investigated with either a theoretical model or empirical data, or both.
- (2) If you plan to do *theory*, a discussion of the model that you will use to examine your hypothesis or research question. This discussion should not be a general introduction to methodology. What is required is a discussion of the properties of the model in relation to the research question of interest, including:
  - what general features is it necessary for the model to have in order to deal with this question;

- the critical aspects of the particular model you are proposing that will play key roles in determining the nature of conclusions. (You may wish to build on ideas from other papers here.);
- how the treatment of the points above differ from that in the papers reviewed earlier;
- justification as to why this alternative model structure is well suited to answer your research question, including a discussion of why there is likely to be some interesting 'distance' between your assumptions and your conclusions;
- a time estimate for completing the project (assuming that would devote 15 hours a week to it);
- a brief discussion of how your research project will add to economic knowledge

(2') If you plan to do *empirical work*, you should discuss:

- the essential or critical aspects of the statistical model that will play key roles in determining the nature of conclusions about the question of interest;
- how your treatment in the points above differs from that in the papers reviewed earlier;
- justification as to why this alternative model structure is well suited to answer your research question;
- the data that will have to be collected for the research project and of the likely sources where they can be found;
- an example of such data (such as a relevant statistical table) and a discussion of how the numbers in the data set relate to the examination of your hypothesis or research question;
- a time estimate for completing the project (assuming that would devote 15 hours a week to it);
- a brief discussion of how your research project will add to knowledge.

It is suggested that you use above headings (or similar ones) in organizing your proposal that correspond to these points.

In designing your research proposal, it is important to be realistic. This means that you must *be very clear about the question that you are investigating, the nature of the model used for theoretical work, and the data required for empirical work*. It is generally better to choose a narrow topic than a broad one.

**Bibliography:** The paper must have a separate page with proper bibliographic citations of the two articles reviewed and any other articles cited. The bibliography should also include proper entries for the source of the data example in Part II and for the data sources that you plan to use in the proposed research.

**Team Research:** You may combine with another member of the class and turn in a joint paper. If you choose to do this, both authors will receive the same grade. Groups of more than two authors are not allowed.