

**Government of Russian Federation**  
**State University – Higher School of Economics**

Author: **professor Rustem M. Nureev**

**Program of Course**  
**PUBLIC CHOICE**

Moscow - 2009

## I. EXPLANATION

**Author, lecturer:** professor Rustem M. Nureev

**Class teacher:** professor Rustem M. Nureev

### *Course description*

Public Choice is one semester course for fourth year students.

The course is taught in English.

### *Course objectives:*

The purpose of the course is to give students a thorough understanding of the Public Choice Theory. This course is devoted to the study of basic concepts, public choice in a direct democracy, public choice in a representative democracy, normative and positive Theories of Public Choice, Constitutional Economics.

### *The methods and forms of study*

The following methods and forms of study are used in the course:

- lectures (3 hours a week);
- classes (1 hour a week, the main problems of home assignments are discussed);
- paper in Russian (1 per semester);
- presentation of paper;
- teachers' consultations;
- self-study.

In total the course includes 36 hours of lectures, 16 hours of classes. Self-study is the main method in the course.

## II. TEACHING HOURS for TOPICS and ACTIVITIES

№ №	Topics titles	Total (hours)	Contact hours		Self- study
			i.e.		
			Lectures	Classes	
1.	Introduction. Basic Concepts	16	6	2	8
2.	Public Choice in a Direct Democracy	16	6	2	8
3.	Public Choice in a Representative Democracy	16	6	2	8
	Mid-term	6		2	4
4.	Applications of the Theory of Public Choice	16	6	2	8
5.	Normative Public Choice	16	6	2	8
6.	Normative and Positive Theories of Public Choice Compared	16	6	2	8
	Final exam	6	0	2	4
7.	<b>Total</b>	<b>108</b>	<b>36</b>	<b>16</b>	<b>56</b>

### **Main reading**

#### **The main texts:**

1. **D.C. Mueller.** Public choice III, Cambridge University Press 2003.
2. Reading in Public Sector Economics. Ed. by S. H. Baker, C. S. Elliott. Toronto, 1990.
3. Public Goods and Market Failures/ Ed. by T. Cowen. L. 1992.

4. Predicting Politics. Essays in Empirical Public Choice. Ed. by M.Crain and R.Tollison. Ann Arbor, 1990.
5. **J. Buchanan.** Economics: between predictive science and moral philosophy. 1987.
6. **M. Olson.** The Rise and Decline of Nation: Economic Growth, Stagflation and Social Rigidities. Ann Arbor, 1982.
7. **Nozick R.** Anarchy, State and Utopia. Basic Books, 1974.
8. Recent articles in "Public Choice", "Constitutional Political Economy", "Cato Journal" and some Russian journals.
9. **Нуреев Р.М.** Теория общественного выбора. Курс лекций. - М.: ГУ-ВШЭ, 2005.

### **The main Literature:**

**Бьюкенен Дж. М.** Границы свободы. Между анархией и Левиафаном // (перевод с англ. под ред. Р.М. Нуреева). Бьюкенен Дж.М. Сочинения. М.: Таурис Альфа, 1997.

**Бьюкенен Дж. М.** Конституция экономической политики // (перевод с англ. под ред. Р.М. Нуреева). Бьюкенен Дж. М. Сочинения. М.: Таурис Альфа, 1997.

**Бьюкенен Дж. М., Таллок Г.** Расчет согласия. Логические основания конституционной экономики // (перевод с англ. под ред. Р.М. Нуреева). Бьюкенен Дж. М. Сочинения. М.: Таурис Альфа, 1997.

**Ванберг В.** "Теория порядка" и конституционная экономика. - Вопросы экономики, 1995, № 12, с. 86-95.

**Олсон М.** Логика коллективных действий. Общественные блага и теория групп. – (перевод с англ. под ред. Р.М. Нуреева). М.: Фонд Экономической Инициативы, 1995. [1971].

**Таллок Г.** Новый федералист. М.: Фонд за экономическую грамотность, 1993.

**Эрроу К.** Коллективный выбор и индивидуальные ценности. М.: ГУ-ВШЭ, 2004.

### **Additional reading**

Влияние и структурная устойчивость в российском парламенте (1905-1917 и 1993-2005 г.), М.: ФИЗМАТЛИТ, 2007.

**Даль Р.** О демократии. М., Аспект Пресс, 2000.

**Олсон М.** Возвышение и упадок народов. Экономический рост, стагфляция и социальный склероз. – Новосибирск: ЭКОР, 1998.

**Остром В.** Смысл американского федерализма. Что такое самоуправляющееся общество. М.: Арена, 1993.

**Cooter R.** The Strategic Constitution. Princeton. Princeton University Press, 2000.

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

**Gunning P.** Understanding Democracy: An Introduction to Public Choice. 2003.

**Holcombe R.** The Economics Foundations of Government. N.Y. University Press. 1994.

**McNutt P.A.** The Economics of Public Choice, Edward Elgar, Second Edition, 2002.

**Mueller Dennis C.** Constitutional Democracy, Oxford University Press, 1996.

**Mueller Dennis C.** Public Choice III. Cambridge, Cambridge University Press, 2003.

**Niskanen W.** Policy Analysis and Public Economics, Chaltanham, Edward Elgar. 1998.

**Ostrom E.** Governing the Commons. N.Y., Cambridge University Press, 1990.

Perspectives on Public Choice: A Handbook, Ed. by Dennis C. Mueller, Cambridge University Press, 1997.

**Persson T., Tabellini G.** Political Economics. Explaining Economic Policy, MIT Press, 2000.

The Elgar Companion to Public Choice. Ed. by W. Shughrat II and L. Rarrolini. Cheltenham. Edward Elgar. 2001.

## **WEB – resources to the Course**

### **Journals for study the Theory of Public Choice**

<http://www.cato.org/pubs/pubs.html> – “CATO Journal” – см. на сервере “Cato Institute Library”

<http://www.wkap.nl/kapis/CGI-BIN/WORLD/Journalhome.htm/1043-4062> – “Constitutional Political Economy”

<http://www.jpfpc.org/index.html> - “Journal of Public Finance and Public Choice”

<http://www.wkap.nl/kapis/CGI-BIN/WOPLD/Journalhome.htm?0048-5829> – “Public Choice”

<http://link.springer.de/link/service/journals/00355/index.htm> – “Social Choice and Welfare”.

### **Research centres for study the Theory of Public Choice**

<http://www.gmu.edu/departments/economics/pubchoic.htm> – “Centre for Study of Public Choice”

<http://www.pubchoicesoc.org/> – “Public Choice Society”

<http://silver.hgus.gu.se/1998conference/> – “European Public Choice Society”

[http://prof.mt.tama.hosei.ac.jp/~kazukuro/index/jpc\\_en.html](http://prof.mt.tama.hosei.ac.jp/~kazukuro/index/jpc_en.html) – “Japan Public Choice Society”

<http://www.gmu.edu/jbc/index.html> - “James M. Buchanan Center for Political Economy at George Mason University.”

### **Others organizations**

<http://www.fci.ru> - Центральная Избирательная Комиссия Российской Федерации

<http://www.iet.ru> - Институт экономики переходного периода

<http://www.thelockeinstitute.org/public.htm> - Институт Локка

<http://www.cato.org> - Институт Катона (США)

<http://www.agora.stm.it/elections/> - Электоральная статистика и коллекция ссылок на правительственные и политические сайты по всему миру

<http://www.oecd.org> – Организация экономического и социального развития

<http://www.worldbank.org> - Мировой Банк

<http://www.ebrd.org> - Европейский Банк Реконструкции и Развития  
<http://www.un.org/Depts/unsd/> - Социально-экономический департамент ООН,  
подразделение статистики  
<http://www.cpc.unc.edu/projects/rims/data/stats.html> - Университет Северной Каролины, центр долговременного мониторинга России  
<http://www.freedomhouse.org/ECON/Toc.htm> - Всемирный обзор экономической свободы.

### **III. SUMMARY OF THE COURSE**

#### **1. Introduction. Basic Concepts**

Theory of public choice: subject and approach. Predecessors of present theory of public choice (M. de Condorcet, C.L. Dodgson). Role of political philosophy (T. Hobbes, etc.) and of political researches (J. Madison, A. de Tocqueville) in becoming of the theory. Main stages of its development. Polemic between K. Arrow and G. Buchanan.

Theories of rational choice – general and particular. Correspondence of theories of collective, social and public choice. Activities of groups and allocative efficiency.

Public goods and prisoners' dilemmas. Voluntary provision of public goods with constant return to scale. Voluntary provision of public goods with varying supply technologies. Externalities. The Coase's theorem. Externalities with large number of individuals. Allocative efficiency of redistribution.

#### **2. Public Choice in a Direct Democracy**

Choice of voting rule. Unanimity rule. Vernon Smith's auction mechanism. Criticism of unanimity rule. The optimal majority. A simple majority as optimal majority.

Majority rule – positive properties. Majority rule and redistribution. Rise of cycling. Median voter theorem (one-dimensional case). Majority rule and multidimensional issues. Proof of median voter theorem multidimensional case. Majority rule: equilibria when preferences are not defined in spatial terms. Proof of external restriction (majority rule theorem).

Preferences homogeneity and majority rule equilibrium. Logrolling. Logrolling and cycling. Agenda manipulations. Reasons for stability: voting one dimension at a time. Logrolling: equilibrium problem.

Majority rule – normative properties. May's theorem of majority rule. Proof of May's theorem. Theorem of Rae-Taylor. Assumptions underlying the unanimity rule. Assumptions underlying the two rules contrasted the consequences. The consequences of applying the rules to the 'wrong' issues: deciding improvements in allocative efficiency via majority rule, deciding redistribution by unanimity.

Simple alternatives to majority rules. Alternative voting procedures. Comparison of procedures (Condorcet efficiency). Comparison of procedures (utilitarian efficiency). The Borda count. Approval voting. Implications for electoral reforms.

Complicated alternatives to majority rule. Demand-revealing process. Point voting. An explication of the Holland-Zeckhauser point-voting procedure. Voting by veto. Comparison of the procedures.

The theory of clubs. Voting-with-the-feet. Global optimality via voting-with-the-feet. Voting-with-the-feet: empirical evidence. Voluntary associations, allocation efficiency and distribution equality. The theory of revolution.

### **3. Public Choice in a Representative Democracy**

Two-party competition: deterministic voting. Outcomes under two-party democracy. Two-party competition in a constrained policy space. Testing of the median voter hypothesis. Two-party competition: probabilistic voting. Instability with deterministic voting. Equilibria of probabilistic voting. Normative characteristics of equilibria. Equilibria with interest groups. Quality of a vote. Empirical models of candidate competition. Multiparty systems. Two views of representation. Selecting a representative body of representatives. Proportional representation. Electoral rules and the number of parties. Coalitions formation in multiparty systems. Political performance and the number of parties.

Political rent-seeking activities. The theory of rent-seeking. Rent-seeking through regulation. Rent-seeking through tariffs and quotes. Rent-seeking in governmental contracting. Rent-seeking and the political process. Reforms.

Supply of government output. Uncertainty, information and power. Budget-maximizing bureaucrat. Extensions of the model. Empirical tests. Government as monopolist. Government as Leviathan. Autarchic government.

### **4. Applications of Public Choice Theory**

Political competition and macroeconomic performance. The political business cycle. Ideology and electoral competition. Party ideology and macroeconomic policies. Other policy variables and ideological goals. Unresolved issues: variables that affect voter decisions and weight placed by voters on past performance. Cycles and trends.

The logic of collective action. The logic of collective action and macroeconomic performance. The rise and decline of nations. Empirical evidence. Interest groups and stagflation.

The size of government. Explanation for the size and growth of government. Problems of the federalism.

The paradox of voting. The rational voter hypothesis. The ethical voter hypothesis. Ethical preferences as selfish behavior. The selfish voter. Normative implications.

### **5. Normative Public Choice**

Real-valued social welfare functions. Axiomatic social welfare functions. Logic of the proof. Relaxing the postulates. The impossibility of a Paretian liberal. Axiomatic social welfare functions and collective choice.

The social contract. The two principles of justice. Critique of the Rawlsian social contract. Utilitarian contracts. Welfare social function. Political constitution. Alternative axiomatic characterization of social welfare functions. From social welfare function to constitution.

### **6. Normative and Positive Theories of Public Choice Compared**

Redistribution. Normative theories of redistribution. Positive theories of redistribution. Differences and similarity of normative and of positive theories of redistribution. The evidence: social insurance and social welfare. Allocation, redistribution and public choice.

Author:

**Rustem M. Nureev**

© R. M. Nureev