Rational Choice Politics
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Editors’ Introduction: Rational Choice Classics in Political Science

Torun Dewan, Keith Dowding and Kenneth A. Shepsle

Rational choice theory produced a revolution in political science. If the opening shots were fired in the streets of eighteenth-century Edinburgh by Adam Smith and David Hume and at the French Academy in pre-revolutionary Paris by the Marquis de Condorcet and Jean-Charles de Borda, then the truly cumulative work did not proceed until the second half of the twentieth century. Beginning with Kenneth Arrow’s *Social Choice and Individual Values* (1951), Anthony Downs’s *An Economic Theory of Democracy* (1957), Duncan Black’s *The Theory of Committees and Elections* (1958), James Buchanan and Gordon Tullock’s *The Calculus of Consent* (1962), William Riker’s *The Theory of Political Coalitions* (1962), and Mancur Olson’s *The Logic of Collective Action* (1965), a firm foundation of fundamental views about politics has been built on rational choice principles.

These classic texts have spawned tens of thousands of articles over the last half century in political science, economics, law, philosophy, and other applied fields. The editors of these volumes were assigned the daunting task of selecting a very small sample of “classics” in rational choice politics from this enormous reservoir of intellectual output. We have organized the material into four volumes, in full knowledge that we could easily include enough papers to fill another four volumes. We reluctantly eliminated two large categories: international relations and normative political theory. Rational choice has proved vital to both these enterprises, but our space constraint is binding. We are left with the following topics (number of articles in parentheses):

- Volume 1: Social Choice, Equilibrium and Electoral Systems (16)
- Volume 2: Voting, Elections and Pressure Politics (20)
- Volume 3: Legislatures (14)
- Volume 4: Bureaucracy, Constitutional Arrangements and the State (17)
We have tilted toward the present, thus under-representing some very early contributions, as seen in the following display:

<table>
<thead>
<tr>
<th>Decade</th>
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<tr>
<td>Before 1950</td>
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<td>1950–1959</td>
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<td>1990–1999</td>
<td>17</td>
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<td>2000 and later</td>
<td>8</td>
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</tbody>
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This reflects that, with the possible exception of social choice theory, it was not until the 1970s that cumulative political science based on rational choice gathered a serious head of steam. We have also taken considerable liberty with the term “classic.” We have sought to produce a collection that both represents the approach but also that have had or we predict will have, significant influence on the discipline. Any errors of judgment in this regard are surely those of omission rather than commission.

**Volume 1: Social Choice, Equilibrium and Electoral Systems**

1.1. Social Choice

Most of social choice theory is normative. How should a collection of individuals (a club, a committee, a legislature, a whole society), each member of which has well-defined preferences over a set of alternatives, determine the group’s preferences over or choices from these alternatives? The building blocks of this enterprise are:

- A collection of individuals, \( N = \{1, 2, \ldots, n\} \), where \( n \) is normally finite but sometimes is represented as a continuum.
- A collection of alternatives, \( A = \{x, y, z, w, \ldots\} \), often a finite set but sometimes a continuum or multidimensional space.
- A profile of individual preferences over \( A \) such that for each individual \( i \in N \) there is a preference relation \( P_i \) satisfying the following two
conditions: (i) for any pair of alternatives $x, y \in A$, either $x \succ y$ or $y \succ x$ (completeness), and (ii) for any triple of alternatives $x, y, z \in A$, if $x \succ y$ and $y \succ z$ then $x \succ z$ (transitivity). The first requires an individual can compare all pairs of alternatives in terms of her preferences (as given by $P_i$). The second requires a modicum of consistency in preferences – if I like $x$ better than $y$ and $y$ better than $z$ then I like $x$ better than $z$. Together they define individual rationality.

- A decision rule, $f$, that maps a profile of individual preferences, $(P_1, P_2, \ldots, P_n)$, into a group preference ordering, $P_G$, satisfying (i) and (ii) above.

The question becomes: What rule $f$ should be used to aggregate rational individual preferences into a rational group preference?

Kenneth Arrow (1951) formulated the problem in this way in his classic monograph. It came to be known as the Arrow Problem and is so famous that discussions of it are no longer obliged to reference Arrow’s monograph. Arrow proceeds towards an answer by proposing a small set of minimally demanding normative criteria in order to determine which rules, if any, satisfy them. At the very least one wants a rule from among those that satisfy minimal normative desiderata. The surprising conclusion Arrow draws is that no decision rule satisfies even minimal normative criteria. Arrow’s Impossibility Theorem establishes that there exists no decision rule producing a rational collective ordering from rational individual orderings which simultaneously allows for any rational individual preferences over $A$ (universal domain), respects unanimity among the individuals (Pareto principle), is not dictatorial (non-dictatorship), and bases collective preferences over any specific pair of alternatives exclusively on the individual preferences over that pair (independence of irrelevant alternatives).

This formulation launched social choice theory. The four papers we select for this section of Volume One are classics drawing on various facets of the Arrow problem. Duncan Black’s contribution deserves recognition as an historically prior discovery of the Arrow Problem. During and after World War II Black had been fascinated with problems of group decision-making. He discovered two essential features of the Arrow problem. First, decision rules need not yield a group decision that is consistent with a rational group preference ordering. Second, certain restrictions on the collection of individual preferences (relaxations of “universal domain”) will yield rational group preferences. In particular, Black discovers, mainly through examples, that if individual preferences are single-peaked (for a definition, consult Black’s paper), then majority-rule voting yields transitive and complete group preferences and, moreover, they reflect the preferences of the median voter. This result has come to be known as Black’s Median Voter Theorem.
While Black made these discoveries on the basis of clever paper-and-pencil exercises and examples, a general statement about all possible group decision rules awaited Arrow’s Impossibility Theorem. Our second paper by Julian Blau is a powerful, elegant proof of Arrow’s Theorem more compact than Arrow laborious proof, and which makes crystal clear how all the parts work.

Amartya Sen took Black’s observations in a more general direction. He interprets Black’s single-peakedness condition as a form of group consensus, not about which alternative is the favorite but rather about what seems to be at stake in group choice. Single-peakedness essentially requires that alternatives can be distributed along a single dimension such that each individual’s preferences may be represented as a utility function with a peak at her most favored alternative and utility declining monotonically as one moves away from the peak. Thus, what is at stake in a decision for any individual can be assessed by looking at the “distance” between the individual’s peak alternative and the one along the dimension that the group chooses. Sen demonstrates that single-peakedness is only one of several forms of consensus, all of which allow majority rule to operate smoothly. Sen’s 1966 paper is an important statement characterizing the domain of preference profiles over which the method of majority rule produces “well-behaved” group preferences.

In the problem characterized by Arrow, much of early social choice presumed that any individual would, when asked to reveal a preference between $x$, $y \in A$, would reveal the information contained in $P$ honestly. In Farqharson’s (1969) terms she would cast a sincere vote. In our fourth paper Gibbard provides a general conclusion about incentives to cast sincere votes. He shows it is impossible to design a decision system satisfying Arrow-like conditions without providing at least one agent with incentives to misrepresent his preferences – to vote “strategically” or to “manipulate” the voting system.

1.2. Equilibrium

The segue from social choice to political equilibrium involves a small shift in focus. Instead of general rules of preference aggregation in abstract decision-settings, the focus here is typically on a specific rule (simple or special majority rule) in a spatial context (n-dimensional Euclidean space) that possesses attributes of political choice.

The spatial perspective is an ancient one, dating at least as far back as the seating arrangements in the French national assembly just prior to the French Revolution. Some economists thought about economic activity in spatial terms. A famous paper by Harold Hotelling (1929) examines two firms competing for customers along the main street of a town. Customers shop at the firm located closest to them. Firms seek to maximize the number
of customers, so location decisions take into account the distribution of prospective customer addresses along the main street. Downs took this as a metaphor for political competition. In political terms, the main street is an ideological or policy continuum; customer addresses on this continuum are ideal policies of prospective voters; firms are parties interested in maximizing their electoral appeal; their locations describe their political platforms (taken as credible promises for the future).

Downs's model of two-party unidimensional competition draws on the same logic informing Black’s Median Voter Theorem. On this view parties converge as each move towards the ideal point of the median voter. The approach had a huge impact on political science, providing a structure in which politicians and their parties have explicit motivations (namely to win office) and voters sought representatives who would further their own interests. There was much to admire in this approach, as it emphasized instrumentally rational purposes for political actors rather than psychological motivations or sociological constraints.

But there are limitations, perhaps the most important of which is the assumption of unidimensional political competition. Two Carnegie-Mellon scholars Otto Davis and Melvin Hinich (1966), were the first to generalize Downsian unidimensional competition to \( n \)-dimensions. At a more abstract level, at about the same time, a closely related analysis was produced by Charles Plott, the first of our papers in this section. For a distribution of voter ideal points, and the assumption that voter preferences are based on the Euclidean distance from their ideal, Plott sought the necessary and sufficient conditions for a point in an \( n \)-dimensional space not beaten by any other point in a majority-rule contest. The Plott Theorem demonstrates that a requirement of strong symmetry in the distribution of ideal points is sufficient for an unbeatable point to exist (and, if there is enough heterogeneity in voter preferences, the requirement is necessary as well). This requirement is so severe, with the smallest perturbation in a symmetric distribution of preferences enough to destroy equilibrium, as to have stimulated research on what happens when majority rule “breaks down”, i.e., there is no unbeaten point.

The next two papers in this section, by Richard McKelvey and Norman Schofield, provide an answer at a very general level of abstraction. McKelvey’s result shows that, from any initial point in \( n \)-dimensional space, if the Plott Theorem conditions fail then there is a sequence of votes that will lead the process to any other point, underscoring the extraordinary powers of an agenda-setter. Schofield showed essentially the same characteristic of majority rule, even if each majority-rule contest entails only “local” changes, i.e., the agenda-setter is constrained to pit only close neighbors against one another. In short, if the distribution of preferences fails a knife-edge condition, then majority rule “breaks down” completely. Riker’s contribution to this section is a more reflective piece, examining the
consequences of Arrowian social choice results and McKelvey-Schofield
majority rule theorems for the philosophical foundations of democracy.

Our fifth paper takes the fragility of simple majority rule on board,
asking the extent to which special majority rules suffer the same fate.
Caplin and Nalebuff determine the conditions under which a voting rule is
assured of not suffering from collective intransitivity. Whereas Black pro-
vides the condition of single-peakedness Caplin and Nalebuff relax the
assumption of unidimensionality and determine whether, in a more general
spatial setting, sufficiently restrictive voting rules avoid cycling (intransi-
tivity) among alternatives. They assume each voter has preferences denoted
by a most-preferred point with utility declining as a function of Euclidean
distance from this point. A voting rule sets a proportion \( q \) of voters as
decisive in a choice between any two alternatives; thus, \( q \) just above 0.5
characterizes simple majority rule. They show, subject to some non-trivial
assumptions described in the paper, any voting rule in which \( q \) exceeds
0.64, always yields transitive group preferences. Thus, two-thirds rules often
found in real decision-making settings guarantee transitive group preferences.

The sixth and seventh papers, by McKelvey and Cox respectively,
represent efforts to salvage majority rule from the indeterminacy (some
have called it chaos) of the earlier results by Plott, McKelvey and Schofield.
These papers examine a new solution concept, the \textit{uncovered set}. Define
first the \textit{winset} of \( y \): \( W(y) = \{ x \in A / x \text{ P_G} y \} \); this is the set of points that
beat \( y \). We say that \( x \) covers \( y \) if (i) \( x \in W(y) \) – that is, \( x \) beats \( y \) in a
majority-rule contest, and (ii) \( W(x) \subset W(y) \) – that is, the set of points
that beat \( x \) also beat \( y \) but there are some points that beat \( y \) that do not
beat \( x \). McKelvey and Cox examine the uncovered set – namely, the set
of points that are covered by no point – showing how it relates to other
potential solution concepts for majority rule. For example, as demonstrated
earlier by Shepsle and Weingast (1984), when an agenda setter faces voters
who can behave strategically, then the McKelvey-Schofield result must be
modified – if the Plott Theorem conditions fail, then from any initial point
there is a sequence of votes that will lead the process \textit{not} to any point (as in
McKelvey-Schofield) but rather to any point \textit{not covered by the initial point}.
In effect, endowing voters (committee members) with strategic capacity
(something missing from the McKelvey and Schofield models) limits the
degree to which an agenda setter can manipulate the final result.

Most of the papers in this section focus on \textit{voting} equilibrium in groups
and committees. In contrast the final two papers by Baron and Ferejohn,
and Banks and Duggan are devoted to bargaining, either as a complement
to or a substitute for voting as a mechanism by which a group arrives at
equilibrium decisions. They are both stimulated by Thomas Schelling’s
(1956) seminal contribution anticipating a number of issues in the famous
non-cooperative game theory bargaining approach of Rubinstein (1982) by
thirty years.
Schelling raises a number of issues about strategic interaction not taken on board by game theory in the 1950s. The non-cooperative game theory revolution in economics in the late 1970s surfaced many of these issues. Rubinstein’s innovative theory of bargaining is such an attempt, proving to be a major source of theoretical stimulation. The paper by Baron and Ferejohn is a variation on Rubinstein-style bargaining and especially apt for this collection as it emphasizes the political dimensions of bargaining. In their basic model an agenda setter is randomly selected to make a take-it-or-leave-it proposal to his or her \( n - 1 \) legislative colleagues on how to divide a dollar – a metaphor for distributive politics, pork barreling, and targeted policies. If the offer fails to receive the support of \( (n - 1)/2 \) others (who, with the agenda setter, would constitute a simple majority) then another agenda setter is chosen to make a proposal, but now on how to divide \( \delta \) dollars (\( \delta < 1 \)). That is, if agreement is not reached in any period, the amount shrinks by a factor of \( \delta \). In formulating his offer in period one, the agenda setter seeks to attract the support of \( (n - 1)/2 \) others, taking into account their expectations if the offer is rejected. He needs to offer them at least as much as their \textit{continuation value}: their expected pay-off should play continue to the next stage of the game. Naturally, he will attempt the cheapest such coalition, keeping as large a residual as possible subject to achieving majority support. Baron and Ferejohn develop the details of this model and examine contexts in which proposals are not “take-it-or-leave-it,” but subject to amendments from others.

This paper proved to be seminal, generating a large literature on bargaining under the shadow of majority rule thus combining bargaining and voting. We have selected the paper by Banks and Duggan as representative of this vast literature. They examine bargaining over points in an arbitrary \( n \)-dimensional space, a context containing Baron-Ferejohn divide-the-dollar bargaining as a special case. In one sense their generalization is “merely” technical, extending the Baron-Ferejohn model in terms of weaker assumptions about the alternatives on offer, the preferences of agents, agent attitudes toward risk, discounting by agents, and the role of veto power. However, they also show how their generalization subsumes a host of approaches that followed in the wake of Baron and Ferejohn, thus surveying and pulling together much of the bargaining literature in this tradition.

1.3. Electoral Systems

An electoral system is a mechanism for aggregating votes to produce an outcome. The outcome may be decisive, yielding a single winning candidate or party, or may produce several winners. No electoral system satisfies Arrow’s minimalist criteria. But the study of electoral systems does not stop there. A key contribution of rational choice has been in developing theoretical understanding of how electoral systems influence the behavior of
voters as well as parties and candidates. This broad literature forms one cornerstone of positive political theory (distinguishing it from its predominantly normative precedents).

Put simply, different electoral systems provide incentives for different types of voting behavior. An agent considers how the institutional framework in which she operates influences the decisions of her fellow voters and responds optimally given that others do likewise. The papers we have selected deploy models that are explicitly game-theoretic; they help us understand strategic interactions between (a) voters, (b) parties and candidates and (c) voters and parties or candidates. By far the most analyzed electoral system is the single-member plurality rule, a system whereby the candidate with most votes is elected. Duverger notes that “the simple-majority single-ballot system favours the two party system” suggesting this relationship approaches the status of a sociological law. “Duverger’s Law” provides the central focus of the formal literature on electoral systems, and links the papers in this volume.

Feddersen ties Duverger’s Law to a theory of positive voter turnout. He explores plurality rule elections with a single winning candidate. The set of candidate alternatives is infinite, candidates adopt fixed positions, and voters who have distance-based preferences over policy outcomes choose which alternative to vote for (where voting is costly) or whether to abstain. The paper develops a series of theoretical results characterizing equilibrium voting behaviour. Any equilibrium involves positive turnout, no voter votes for a losing candidate, and the outcome always involves a lottery over tied alternatives. The main result shows that no Nash equilibrium can involve three or more candidates receiving votes – an essentially Duvergerian outcome.

Feddersen’s analysis of voter choice between lotteries is only weakly related to the mechanism Duverger identifies. Duverger suggests his law is partly due to a “mechanical effect” fixing voter’s behaviour. Plurality rule elections always give greater advantage than other systems to the candidates with most votes. But Duverger also emphasizes what he calls a “psychological effect”. Voters anticipate how other voters react to the electoral situation. In turn, voters are unwilling to waste their votes on candidates sure to lose the election. Duverger suggests such voters will transfer allegiance to one of the two most likely winners.

Despite this strategic incentive, constituency results in UK elections consistently show voters failing to coordinate on the top two candidates. Voters do “waste their votes”. Cox suggests how close is the electoral race between the second and third placed candidates explains this. Consider an example where a plurality of voters ranks candidate A first, but a qualified majority rank her last. When voters share common expectations of candidate rankings, and clearly rank B over C (or C over B), Duverger’s hypothesis holds; but when candidates are running neck and neck,
non-Duvergerian outcomes where all three candidates obtain votes, and where the two trailing candidates receive equal shares, will be observed. These predictions are based on the assumption that voters have a common understanding of the distribution of voter types; thus in a large electorate, they share common knowledge of the candidates’ ranking. Cox’s work stimulated later game-theoretic some where voters are involved involved in an uncertain fashion (Myatt 2007). In this environment some of Cox’s earlier results are overturned.

As well as affecting voter behaviour, electoral systems also impact on decisions made by candidates and parties. Cox’s paper was the first to explore this issue. Fixing voting behaviour as sincere Cox analyzes multi-candidate positioning in the spatial model under the class of electoral procedures that elect a single winner on a single ballot. Amongst these systems Cox differentiates between different scoring rules under which voters allocate votes to a set of candidates (always allocating more votes to higher ranked candidates). Single member plurality is an example of a scoring rule where a (non-strategic) voter allocates a single vote to her preferred candidate and gives no votes to anyone else (class 1 voting rules). Alternatively under approval voting, voters may give positive votes to all candidates except their least preferred candidate (class 3 voting rules). Borda voting is an intermediate voting rule (class 2) where points allocated to a candidate increase as she moves up the voter’s ranking.

These systems provide different incentives for candidates. For example, under class 1 voting rules, candidates gain an advantage when more voters rank her first, whereas under class 3 voting rules there is no such advantage. Cox’s work shows that candidate strategies vary in response to exogenous changes in the electoral rule: multi-candidate elections under class 1 voting rules encourage candidates to diversify, whereas under class 3 voting rules candidates will converge.

Cox’s model is based on the assumption that voters vote sincerely whilst maintaining the standard restrictions of the spatial model, namely a fixed number of candidates with ability to commit to policy. The issue of endogenous candidate entry with no commitment is addressed by Besley and Coate (included in volume 2 of this collection). They develop a citizen-candidate framework in which candidates motivated by policy concerns (unable to commit to policies other than their ideal) choose whether to stand for election, voters cast their votes, and policy outcomes are realized. Our next paper by Massimo Morelli explores this model by looking at candidate entry under strategic and sincere voting and under different electoral systems. Moreover, he analyzes the endogenous formation of political parties that are clearly distinguished from candidates. At the first stage of the game, party leaders form parties consisting of heterogeneous sets of prospective candidates who compromise over policy. By assumption, the existence of a party with a policy position determined in this manner
allows politicians to credibly commit to this policy. Parties thus serve as commitment devices, but strategic candidacy is important also. Once the party system is in place, prospective candidates decide whether to enter the race. After votes are cast, either sincerely or strategically, the electoral system translates these votes into seats in a parliament that then makes policy decisions under majority rule.

Morelli’s model is remarkable in its scope. Using simple techniques of backward induction he provides a characterization of “strategic parties, strategic voters, and strategic candidates within and across electoral districts”. He shows how strategic candidacy helps voters coordinate. In the example used above, where some voters prefer B to C and others prefer C to B but many prefer both to A, the strategic coordination problem these voters face would be resolved if only one candidate, either B or C, were to stand for election. Consequently, strategic candidacy is a substitute for strategic voting. Morelli shows that under plurality rule, the equilibrium number of parties is unaffected by the type of voting strategies, strategic or sincere, which are employed. The only case where sincere voting would not be part of a (subgame perfect) Nash Equilibrium is the case where all three candidates run, but this case lies off the equilibrium path in that, under plurality rule, strategic candidacy always implies fewer than three candidates.

Morelli thus shows that Duverger’s Law relies upon strategic coordination amongst candidates rather than strategic coordination amongst voters. Going further, Morelli provides the conditions under which Duverger’s law is reversed in that the number of candidates is higher under plurality than under PR. A necessary condition for this to occur is that voters’ preferences are heterogeneous across regions.

Volume 2: Voting, Elections and Pressure Politics

The first volume focused on equilibrium – in social choice, spatial models, and electoral systems generally. The second volume shifts attention to the details of decision making at the individual level – voting for and putting pressure on politicians.

2.1. Voting and Elections

The decision to vote or not constitutes a persistent puzzle. Downs (1957) notes that rational calculation in voting entails comparing the expected benefits of casting against the costs of a vote. In the two-candidate case let f be the favoured candidate and d the disfavoured one. So the raw benefit of f winning is U(f) – U(d), where U is a generic voter’s utility function. An individual vote is pivotal for a favored outcome if (i) casting it for f causes f to
win while abstention causes a tie; or (ii) casting it for $f$ causes a tie while not casting it causes $f$ to lose. A pivotal vote thus makes or breaks a tie; a vote that does neither is superfluous in the sense that it does not affect the outcome. The raw benefit of voting is thus discounted by the probability of making a difference. Downs concludes that in large electorates this probability is so small that the expected benefit of voting is less than the cost of voting.

In the first paper in this section of Volume Two, Riker and Ordeshook analyze the Downsian calculus of voting. They note that benefits are contingent not only on our generic voter’s decision to participate, but also on the decisions of other voters. Costs on the other hand – including but not restricted to the cost of collecting and analyzing information, coming to a vote determination, going to the polls and foregoing other uses of this time – are borne independent of the ultimate outcome. They extend Downs’s analysis by taking into account the fact that individuals not only bear costs in voting rather than abstaining but also may enjoy benefits from voting independent of the final outcome. That is, in affirming their membership in the broader community, they derive pleasure quite apart from whether $f$ wins or loses.

The Riker-Ordeshook formulation, like that of Downs, is decision-theoretic. In focusing on a generic citizen, it takes the decisions of all other citizens as fixed and exogenous. But the decision to vote or not is inherently strategic; citizen participation decisions are interdependent. Palfrey and Rosenthal analyze the participation decision in a game-theoretic framework. They look for equilibrium behavior under various assumptions about varying costs of voting across citizens and the completeness of information about voting costs.

Feddersen and Pessendorfer’s study of the “swing voter’s curse” is also in the tradition of Downs but is fully strategic. They represent a major focus emerging in this literature in the 1990s on informational aspects of group decision making. The details of their argument are sufficiently subtle that we will give only the briefest of treatments. Suppose there are informed and uninformed voters who must decide between two options – say, maintain the status quo or move to an alternative. If all voters are informed they would agree on what to do (as in a jury where, with full information, all jurors would conclude that “guilt” or “innocence” is the correct decision). Uninformed voters may have a belief about the correct alternative, based perhaps on a signal all voters receive during the campaign. If the uninformed voters observe positive voting for both alternatives, and realize that all the informed voters will be voting the same way, then they may not be prepared to trust their own beliefs. As Feddersen and Pessendorfer suggest, many will fear being pivotal – the swing voter – and making the wrong choice. Their model predicts positive abstention rates as uninformed voters effectively delegate decision-making to the informed.
Thomas Pickety takes an altogether different approach. Not only do citizens care about the current election and predicate their decisions to participate on this basis; they also care about influencing the future behavior of politicians and parties. They can do this by participating but not supporting \( f \)– in effect voting for some third alternative – in order to signal to their favorite party that the voter is not at all keen about the policies the party has on offer. Pickety explores the tradeoff between affecting current results and future electoral races.\(^4\)

Following these papers on voting are two on electoral accountability. They are exemplars of the models of principals and agents. A principal hires an agent to pursue some objective harbored by the principal. But agents might have different objectives; they might shirk in pursuing the principal’s interests. Thus the principal must provide agents with incentives to give priority to the principal’s interests. Barro and Ferejohn separately examine democratic mechanisms by which voters control their political agents. In their view, politician-agents (as in any principal-agent relationship) have objectives of their own and, once in office, may be inclined to pursue them even if they clash with those of the voter-principals that elected them. They need to be disciplined. The Barro and Ferejohn papers included here focus on the subsequent election, coupled with the capacity of voters to vote “retrospectively”, as a disciplining device. By assessing the performance of a politician in her just prior term of office, holding her to a performance standard and not returning her to office if she fails to achieve it, voters are able to induce politicians to pursue what voters want, at least partially.

The next five papers generalize the multidimensional spatial model of elections in various ways. Calvert supposes that the conditions of the Plott Theorem are satisfied, so there is an equilibrium on which two office-seeking candidates will converge. He then examines the robustness of this convergence result when two features of the environment are relaxed. The first involves candidate preferences – suppose they care not only about winning office but also about the policy implemented by the winner. The second involves uncertainty – suppose candidates only imperfectly know the location of the multidimensional median.

Alesina notes that when candidates are not purely office-seeking, the Downsian assumption that they can commit to their policies appears strong. Forward looking voters understand that unless the median policy coincides with her ideal point, a candidate has an incentive to renge from implementing a winning programme; correspondingly, parties can credibly commit to implementing only their preferred policies. Alesina notes that this may lead to excessive policy volatility. He models party competition as an infinitely repeated game and analyzes conditions under which parties are able to collude to enforce median policy outcomes. Alesina’s paper is one of
the earliest to assess candidate competition in the absence of commitment mechanisms.

Kramer also derives the consequences of repeated elections, examining the dynamic path of winning locations. He assumes that the position of the winning candidate in period $t$ binds that candidate in period $t + 1$. The incumbent’s opponent selects a policy that can defeat this position, but chooses the one that will do as well as it can against any opposing alternative in period $t + 2$. This produces a path of winning positions over time, and Kramer shows that this path converges to a “central” location within the distribution of voter ideal points known as the minmax set.

Two further papers deal with the assumption that the number of candidates is fixed. Palfrey analyzes a world where two party competition might be disrupted by an entrant. More specifically, “two established parties are engaged in a Cournot-Nash game with each other, but both are Stackleberg leaders with respect to the entrant”. Palfrey shows that, under these conditions, “entry by a third party leads to spatial separation of two candidates.”

Besley and Coate go further in completely endogenizing the decision to become a candidate, thereby eliminating the false dichotomy distinguishing the politician from the voter. “Citizen-candidates” throw their hats in the ring. They consider the likelihood of victory, the costs of entry and the effect of their entry on policy when they do so. Besley and Coate analyze equilibria with different number of candidates These policy-motivated politicians contest in a multidimensional spatial election. Their two-candidate equilibrium is distinct from the Downsian equivalent in that the candidates do not converge on the same set of policies. Equilibria with three or more candidates can contain “spoiler candidates” who enter in order to influence the policy outcome though they having little chance of winning.

The last two papers in this section shift the focus from first-past-the-post two-party electoral competition to parliamentary elections with multiple parties and proportional representation, looking not only at the election but also to what comes after. In parliamentary settings it is often the case that no party commands a majority so there is a subsequent phase of coalition government formation. Austen-Smith and Banks initially, and then Baron and Diermeier propose models incorporating the spatial voting model and bargaining over government formation. Both papers build on the insight of Baron and Ferejohn that the formateur party will always build a coalition with the cheapest party. Differences in the results reported in these papers (partly) reflect different assumptions about the government formation process. In Banks and Duggan the procedure is sequential with parties selected as formateur in order of their vote share. In Baron and Diermeier the formateur is chosen with probability proportional to vote share. Banks and Duggan find minimal winning coalitions between the largest and the smallest parties in the legislature (hence there is no monotonic relationship
between a party’s vote-share and its influence over policy). In Baron and Diermeier the formateur always includes in her coalition the party that most disadvantaged by the policy status quo (as long as that party’s preferred policy is not too extreme); they provide testable insights into coalitions of various sizes, from minority to oversized cabinets. Both papers analyze voting behavior in light of the equilibrium cabinets that form when votes are cast and aggregated under proportional representation. Both show that in equilibrium voters vote strategically and so legislative outcomes need not reflect the preferences of the electorate.

Two lessons emerge from the papers in this section. First, we still do not fully understand the act of voting and political participation more generally. Inasmuch as voting constitutes an input to the production of a public good – an electoral winner and his or her policies – all of the issues surrounding the logic of participation in public goods are engaged. The papers here explore this “paradox of voting” from a number of different perspectives. Second, the spatial model is alive and well. Despite the knife-edge conditions for equilibrium in the multidimensional spatial model described in the Plott Theorem, a variety of new perspectives on equilibrium-like tendencies and processes have been developed.

2.2. Pressure Politics

The role of pressure groups has assumed enormous importance in political science. Arthur Bentley in 1908 saw the emergence of policies as the equilibrium of forces of special interest groups that promote their own causes. This form of pluralism was the dominant vision of democratic politics in the 1960s and 1970s especially under the influence of David Truman (1951) and Robert Dahl (1956). The rosy pluralist picture saw pressure upon government from organized interests as revealing some relationship between size of group and depth of preference. The first major influence of rational choice on this topic was to destroy that picture. Samuelson (1954) shows individuals have an interest in under-specifying their interest in public goods. A public good is one that is “jointly supplied” (or “non-rival”) such that one person’s consumption does not reduce the amount available to others; and “non-excludable” if one person’s consumption makes the good available to others. Once supplied a good it is supplied to all, so each has an incentive to say they value it less than they actually do. Mancur Olson (1965/1971) applied this reasoning to the formation of pressure groups. He argues that the degree to which a group will organize depends upon its size, the asymmetry of interests among its members, and the ability of leaders to sanction members. A consequence of his model is that larger more diffuse interests are harder to organize so that public goods for them will be under-supplied. Indeed, supply will be more
responsive to smaller more concentrated interests. The pluralist picture looks decidedly biased.

At around the same time, and in a similar vein Stigler (1962, 1971) and others in the Chicago School were examining regulation asking if it served the public interest. They suggested regulation was demanded by industry in order to create barriers to entry and provide the monitoring and supervision of cheaters on industry collective interests. Government in effect became a cartel organizer. Stigler’s original models ignored consumers as they were thought to face too great a collective action problem. Peltzman (1976), however, examined the role voters could play and argued that the rise in price consequent upon Stigler’s capture-by-regulation could only be equal to the point where votes gained per dollar of price increase just equal the votes lost from consumers. What is important in these early Chicago studies of regulation is that, contrary to Olson’s argument, regulation is efficient. That is, any transfer from consumers to producers would be carried out in the most efficient manner.

Our first two essays are directly contrary to the Chicago efficiency account. Gordon Tullock’s classic focuses on rent-seeking, a term introduced to the discipline in our second essay by Anne Krueger. Rent-seeking is political activity in pursuit of monopoly rights or regulation to the advantage of a special interest. This political activity is always thought to be a waste of resources as those resources could be used more productively elsewhere. Inefficiencies result both from the expenditure of resources in gaining the transfer, and in the resulting privileges the transfer involves. The latter are monopoly production and price inefficiencies known prior to Tullock’s work. Tullock argues, however, that further inefficiencies will result from the use of resources to police protection. He draws an analogy with the resources wasted on protecting private property from theft (locks, police forces) which could bring greater welfare if spent elsewhere. Krueger estimates these losses in terms of the difference in expenditure on rent-seeking and price of goods compared to the same output under a free market economy.

The Virginia School associated with rent-seeking arguments stresses the importance of imperfect information in explaining the inefficient nature of transfers. Unorganized voters tend to be poorly informed about policies allowing politicians to reward rent-seekers inefficiently. In direct contrast the later Chicago School suggests that political competition will ensure that the most efficient method of redistribution will be chosen. As Wittman (1989) makes clear, to establish inefficiency one must show everyone could be made better off given the instruments of redistribution that are available. Merely showing transfers take place is not enough. Our third essay by Gary Becker is the most direct and classic representation of the Chicago tradition. In Becker’s model pressure groups support candidates with votes and campaign contributions. Each group’s pressure is a type of “production
function” depending upon its size and political expenditure. The fight over rents can be seen as a Cournot-Nash model where each group takes the others’ efforts as given and calculates its own optimal input into the process. More efficient groups will prevail and so will gain in the redistributive policies. Whilst such policies might increase deadweight loss in an economy, Becker argues that policies decreasing inefficiency in rents will be politically popular. He argues, contrary to Olson (1982), that the more pressure groups there are the more equal the competition, and the more efficient the political outcomes will be.

Coate and Morris compare Chicago versus Virginia approaches to transfers. The Virginia approach requires that voters lack information which enables politicians to make inefficient transfers. In itself that is not controversial, but Becker and the Chicago school query why this informational lack should lead voters to be consistently biased towards special interests and how they could persistently be fooled. In the Chicago model information is learned as groups mobilize through a competitive process leading to efficient transfers.

Politicians make transfers to special interests to gain rewards, but can either make these efficiently or disguise them by making them appear to enhance public welfare too. These public projects have stochastic benefits so citizens only ever get a noisy signal over whether the projects are simple transfers to special interests or serve the community as well. They show that if all politicians are identical and known to be so, then transfers are efficient. However, the existence of good and bad politicians can lead both to disguise transfers.

Coate and Morris use a two-period game mirroring restrictions on many US state governors and the President. With no re-election worries, “bad” politicians will take bribes and transfer to special interests, “good” politicians will not. So citizens will want to re-elect good politicians but bad ones will mimic goods one in the first period. When bad politicians introduce transfers they will disguise them so it is not clear whether citizens might benefit. However, even good politicians might disguise transfers in order not to appear as though they are bad. Disguised transfers are inefficient. Hence Coate and Morris show that not all transfers need to be inefficient and explain inefficient ones. These occur through informational asymmetry over the precise welfare consequences of transfers and over the type of politicians.

Denzau and Munger also produce a supply model where policy outcomes depend on the comparative advantages of the participants – voters, interest groups and legislators. Their focus is much more on legislative members rather than the executive. Unlike earlier models legislators also have policy preferences determined by the interests of their geographic constituents. Legislators maximize votes subject to their total effort (which varies across legislators); voters maximize utility embodied in their votes;
and interest groups allocate scarce resources to best further their goals. Interest groups fund legislators in return for efforts on their behalf; and derive a supply price for policy which depends upon the effectiveness of the legislator and preferences of voters in his district. Interest groups might pay a legislator not because he serves their interests in return, but because of his views and they would like to see him re-elected. Interest groups will thus pay legislators whose geographic constituency has strong informed preferences which coincide with those of the group, or legislators who do not have strong preferences due to heterogeneity within their geographic constituency. Where constituencies are either ignorant or have weak preferences, then interest groups can buy marginal legislators more cheaply.

A somewhat different tradition is represented in Grossman and Helpman. They do not consider the re-election aspects of the process but rather utilize a common agency framework, that is, where several principals try to use a single agent to take costly actions. The government is the agent which will try to satisfy the conflicting interests of several principals seeking trade protection at a cost of implementing policies contrary to the broader interests of its electorate. They do not consider the competition for government in their model. An industry’s most-preferred level of trade protection is given by the state of its organization, the ratio of domestic output to net trade in the industry, and the elasticity of import demand or export supply. The government’s protection response rises with the relative weight it attaches to campaign contributions and falls with the fraction of voters in the special interest group.

Our final essay is included in part to introduce another area of rational choice politics – the economic analysis of the judiciary. This area of study has grown enormously over the years and covers both positive explanations of judicial behaviour and also more normative accounts of judicial politics. Richard Posner, the coauthor with William Landes, is one of the leading writers in this field. This essay links the role of judges to the politics of special interests. It argues that whilst judges can be viewed as politically neutral in the sense they are constrained by legislation and precedent, the decisions of the judiciary reflect the past successes of pressure groups. When judges act to sustain the intentions of the original enacting coalition for some legislation they maintain the influence of the special interests that played a role in producing the legislation in the first place and increase the value of that legislation to the interest groups involved. Perhaps surprisingly, an independent judiciary that provides permanency to a piece of legislation, allows politicians who sell legislation to capture larger rents.

There are now many articles examining the mutual ways in which legislatures and courts constrain each other – legislatures through the threat of new legislation to overturn judicial decisions of which they disapprove, and courts through precedential decisions and judicial review. This essay gives just a first taste of a very large and growing literature.
Volume 3: Legislatures

As we noted when introducing volume 1 the analysis of majority rule represents the starting point of the rational choice enterprise. The lesson from the inherent intransitivity of collective decision-making is that there is no clear mapping between the voters’ preferences and political outcomes. So Riker argued it is politics that truly deserves the mantle of the “dismal science”. Riker’s pessimism was neither widespread nor long-lasting. Drawing a key inference from Arrow’s Theorem, namely that institutions matter, rational choice scholars soon turned their attention to using the theory of voting, developed by Black, Downs and others, to analyze the properties and origins of different institutional arrangements and procedures, and their subsequent impact on political behavior and outcomes.

A detailed formal analysis of legislative procedures was first on the agenda. Kadane gives expression to this shift in focus in his opening line “I believe that the mathematical theory of voting may be used to shed light on traditional rules of parliamentary procedure”. Kadane’s insight was simple, intuitive and far-reaching, providing the foundations for subsequent work on structure-induced-equilibrium in legislatures. Kadane focuses attention upon a particular class of legislative procedures satisfying the following criterion: “If an amendment to the platform on the floor makes changes in several issues, division of the question on that amendment would require changes to be considered and voted on separately”. Kadane defined a multi-dimensional policy $P^*$ encompassing the median position on each issue in the multi-dimensional voting space; so $P^*$ is the issue-by-issue median. Such issue-bundling means that, unless severe restrictions are placed on preferences, $P^*$ can be defeated under majority rule. Kadane noted, however, that if votes were cast on each separate issue, then on each vote the median would prevail resulting in the adoption of $P^*$. Moreover he shows that if division is imposed automatically (perhaps by the chairman of a committee) then $P^*$ defeats all (unidimensional) amendments and, moreover, a sequence of amendments from any arbitrary point leads to $P^*$. In other words, under a specific set of legislative procedures $P^*$ is stable.

Romer and Rosenthal’s paper, whilst not on legislatures as such, belongs in this section due to its impact on subsequent studies of legislative rules and procedures. They note that most formal analyses suggest that where a Condorcet winner exists it emerges as the outcome of an open political procedures involving majority voting over binary outcomes. For example in the Downsian single-dimension model, (with some additional restrictive assumptions), competition between two vote-maximizing candidates ensures the preferences of the median voter prevail. Romer and Rosenthal point out that such open competition rarely exists in political settings. Their focus is on the role of agenda-setters: individuals or groups with constitutionally defined roles allowing them to bring certain policies to a vote. Moreover
they point out that in votes over binary outcomes one contender is always a policy already in place: a new policy must first defeat the status quo. In any vote between the status quo and an alternative, the views of the median voter are decisive in determining the outcome. But the policy preferred by the median voter might never be placed in pairwise comparison against anything.

Romer and Rosenthal develop these insights in a simple spatial model, where agents have preferences over expenditure on a collective good and where an agenda-setter, with a preference for as large a budget as possible, proposes the budget. If the proposal carries the budget is granted, otherwise the reversion point – the budget allocated in the previous year – is implemented. Fixing the position of the median allows comparative statics analysis of the effect of changes in the reversion point on the equilibrium budget proposal. A surprising result is that a decrease in the reversion point (meaning that in the event of the proposal failing a smaller budget is granted) increases the proposed budget that passes. Shepsle also shows that outcomes preferred by the median need not be the outcome of a legislative procedure. He analyzes collective decision making rules in a multi-dimensional policy space; the legislature consists of committees with jurisdiction in the sense that alternatives to the status quo can only be proposed by a committee; each legislator is assigned to only one committee, and an amendment rule (closed or open) is in play. He defines necessary conditions for “structure-induced equilibria”: the proposal must be feasible under the legislative rules (germane to the issue); it must be preferred by the committee with jurisdiction in that policy area; it must defeat all admissible alternatives allowed under the amendment rule; and must be preferred by a decisive coalition of legislators on the floor of the House. Shepsle demonstrates the existence of such equilibria. Policy outcomes need not be unique, and, moreover, need not fall in the Pareto-set bounded by the ideal point of all legislators; importantly though, the existence of structure-induced equilibria does not depend on any particular configuration of preferences.

Shepsle only considers sincere voting profiles. Under the assumption of sincere voting the gate-keeping power of a committee (its power not to bring a proposal to the floor) is limited to those instances where the ideal point of the committee coincides with the status quo. Otherwise, when the committee proposes its ideal, amendments to the proposal might leave all members of the committee worse off. Denzau and Mackay analyze voting profiles, in which committee members anticipate the reaction to their proposals and adjust their proposal (or make no proposal) accordingly. Whereas Shepsle shows that some policies preferred by the median would not be reached in a legislature where proposal and gate-keeping rights were allocated to committees, Denzau and Mackay showed the influence of committees on final outcomes is even greater.
The relation between sincere and sophisticated voting strategies is also addressed by Austen-Smith. He examines an important empirical puzzle about interpreting roll call results. He asks what can we infer about legislators’ preferences from their voting record when sincere and strategic voting do not coincide. He analyzes a model in which a set of legislators agree an agenda (a series of votes over binary outcomes) by majority rule. At each stage of the game a legislator is chosen at random from the subset of legislators whose amendments have not previously been considered, so that in the final stage the winner of the penultimate contest is pitted against the proposal of the last legislator. A pure strategy for each legislator is then an ordered pair consisting of a proposal and a vote over all proposals. This allows for two types of strategic behavior: that pertaining to the structure of the agenda; and the actual votes cast in the implementation of a given agenda. A legislator is defined as voting sincerely if she always votes for her preferred alternative for any vote on the agenda. Austen-Smith finds that “sophisticated voting over an agenda induces legislators to confine their proposals to alternatives that can beat – under sincere voting – the proposals offered earlier on in the agenda-setting process.”

Ferejohn, Fiorina and McKelvey address a classic log-rolling example: a legislature of \( n \) members consider a series of bills; each bill benefits one member only; the identity of the member who benefits is different for each bill; and the overall cost of each bill is shared evenly amongst all members. Considered in isolation, no bill will pass. Legislators can, however, form coalitions in which they trade votes: in an \( n \)-person legislature a majority might agree to support each others’ bills, so that \( (n + 1)/2 \) bills pass and the costs are borne by all \( n \) legislators. They show that, under sophisticated voting, there are non-Condorcet outcomes of such log-rolling procedures that are agenda-independent. That is, the same outcomes will prevail no matter what the agenda under which they are considered.

The only limitation on legislative procedures they propose is that in the final instance the bill as amended is voted on against the status quo. The agenda-independent equilibria are not unique since by definition there are many different agendas that can implement agenda-independent outcomes. But there is an important lesson: manipulation of an agenda to yield desired outcomes may not always bear fruit, since some outcomes prevail whatever the amendment procedure.

In contrast to Ferejohn et al. – who analyze a game between legislators with preferences over the pork-barrel in which a number of different proposals may be bundled together in the initial proposal and any amendment to it – Weingast and Marshall are concerned with problems that arise when either: (i) voting on bills is sequential and legislators have an incentive to defect from their part of the deal once a project that benefits his constituents is passed; or (ii) majorities seek to overturn previous legislation benefiting a particular interest. In these scenarios, even Pareto-improving vote-
trades may not be made, (or will be short-lived). Weingast and Marshall provide a different perspective in tune with the new Economics of Organization developed by Holmstrom and Williamson amongst others. Weingast and Marshall suggest that Congress is structured in ways that circumvent problems of ex-post reneging. Specifically they consider a system where legislators are selected onto committees, operating under a seniority rule, with well defined policy jurisdictions and enjoying proposal and gate-keeping rights. These provide organizational means for ensuring gains from exchange are realized. With politicians gravitating to committees best serving their interests, the Weingast-Marshall view is associated with the empirical prediction that committees are staffed by policy outliers.

Riker, in his classic on coalitions, suggests that only minimal coalitions (containing no more than a strict majority of legislators) will form. Groseclose and Snyder develop a non-cooperative model giving a starkly different result, thereby providing a rationale for oversized coalitions, even universal coalitions that include all legislators. Their model is in the spirit of the pieces by Landes and Posner, and Grossman and Helpman in Volume 2. As in those papers, legislation is sold to interest groups with each legislator voting in line with an interest group with the largest bribe. They analyse a scenario where one lobby favours the status quo and another a policy alternative. What is the largest coalition of legislators a lobby will bribe? Their surprising answer, contrasting sharply with Riker’s, is that the lobby that moves first can build its cheapest coalition by bribing all legislators. If the lobby cannot afford this amount then no bribes are offered at all.

Developing these ideas further, the paper by Diermeier and Myerson explores how factional cohesion and legislative arrangements affect the amount legislators receive in bribes. There are two elements to consider; the cost of bribing a sufficiently large coalition to ensure the bill passes (that is, the price of legislation) and whether at that price any bribes will be offered at all. Diermeier and Myerson explore a variant of Groseclose and Snyder’s model where the lobbies willingness to pay is uncertain, and consider the effect of different aspects of the internal organization of legislatures on price and the price elasticity of demand for legislation.

Diermeier and Myerson’s model represents an important advance because earlier legislative models used the US Congress as their focus. Their model provides insights into legislative behavior under different institutional arrangements. In a similar vein, Laver and Shepsle extended the idea of structure-induced equilibrium to parliamentary democracies, where jurisdictional power is given to government departments. In their model a government is formed by allocating portfolios amongst parties with different ideal points in multi-dimensional policy space and which generally act cohesively. As in the committee models a party with a particular portfolio owns the property rights over policy proposals. Laver and Shepsle show the existence of equilibria under their government formation process.
and derive characteristics of parties that increase the probability of their being members of governing coalitions.

Whilst earlier papers analyze the role of legislative committees, Gilligan and Krehbiel analyze the development of restrictive amendment procedures lying at the heart of committee influence. Their starting point is that committees provide expertise allowing policy makers to reach more informed policies. As committee members bear an opportunity cost of gathering information, incentives must be provided for them to do so. Increasing the influence of committee members on the final policy outcomes by introducing restrictions on the right of the house floor to amend policy provides this incentive. But such restrictions are only valuable to the committee when the preferences of the committee median and the floor median diverge. And therein lies the rub – for it is in precisely under these circumstances that the floor will discount information from the committee. Gilligan and Krehbiel’s paper was the first to analyze these “cheap talk” scenarios in a political setting.

Persico also analyzes decision-making in committees, but his analytical framework is very different. His is a world where information is incomplete but where all committee members would agree on the desired course of action were all information available. His model falls into the class of information aggregation models developed by Feddersen and Pesendorfer. In contrast to those models, Persico analyzes a world where agents may choose to pay a cost to acquire a private signal about the true state of the world. Persico analyzes this choice in terms of the institutional context in which a committee member finds herself. He relates the features of decision making (size of group, number required for a positive decision) to the quality of the signal (probability that the signal indicates the true state of the world). An important implication of this analysis is that unanimity rules cannot be optimal unless jurors have extreme confidence in their information.

Some papers deserve their place in history, perhaps not due to the depth of the analysis, but for posing a perplexing question that forced a response from the academic community. Krehbiel’s ‘Where’s the Party?’ is one such article. He questions inferences drawn from roll-call votes about the influence of political parties. Partisan divisions in which all Democrats vote one way and all Republicans another seem, at face value, to suggest that parties have a strong influence. But Krehbiel asks, “Do individual legislators vote with fellow party members in spite of their disagreement about the policy in question, or do they vote with fellow party members because of their agreement on the policy in question?” Using simple spatial analysis, Krehbiel illustrates scenarios consistent with a party having no influence on its legislators’ behaviour and others entirely consistent with a partisan effect. The key difference between these scenarios lies with the heterogeneity of legislators’ preferences.
Krehbiel’s work has stimulated theoretical work on parties, as well as empirical work aiming to identify a “partisan” effect in legislative roll-call data. But the insights travel further. For example, traces of Krehbiel’s question can be found in the paper by Diermeier and Feddersen. They analyze a particular institutional feature of many parliamentary democracies, namely the vote of confidence procedure. As they point out, many parliamentary systems not only have more cohesive parties, but cohesive voting between parties that form the government is also higher than found elsewhere. But is this due to homogenous preferences or induced by institutional procedures. Theory can help us here. Diermeier and Feddersen’s approach is particularly innovative. They divide the work of a legislature into two periods: (i) an organizational period in which a government is formed (a legislator is randomly chosen from the entire legislature to form a government) and (ii) periods during which the legislature works on passing bills. They compare two parliamentary systems. In one, if a bill fails to pass, the legislative agenda of the government moves on unimpeded and the next bill on the agenda is brought to the floor and voted on. In the other, the failure of a bill to pass triggers a vote of confidence procedure and the game moves to an organizational phase; a legislator is chosen at random to form a new government.

Since almost all parliamentary regimes have something akin to a confidence vote, Diermeier and Feddersen’s model provides a nice way of analyzing the effects of such procedures in a circumstance in which cross-sectional variation that would allow us to identify this effect empirically is absent. Moreover, since in their model preferences are randomly assigned to legislators in each division, any variance in the cohesion can only be due to differences in the institutions. Indeed Diermeier and Feddersen find that cohesive voting is more prominent with a confidence vote procedure.

**Volume 4: Bureaucracy, Constitutional Arrangements and the State**

This volume concentrates upon important aspects of the state: the profession that runs the state; constitutional issues that formulate the state; and models that try to explain why the state takes the form it has. The state is an old topic in political science but has generally been more in the preserve of Marxist and sociological approaches. Rational choice scholars have only recently turned their full attention to it, which explains why the essays in our final section tend to be more recent than in all earlier sections.
4.1. Bureaucracy

Rational choice literature on the bureaucracy was inspired by the work of Niskanen (1971). His model is predicated on the informational asymmetry that advantages bureaucrats in their strategic interactions with politicians. As a consequence, bureaucrats ask for more money than is justified, informationally impoverished politicians agree, and governments end up spending more on policy than is socially optimal with bureaucrats extracting maximal discretionary budgets. In Niskanen’s bilateral monopoly bargaining model, bureaucrats exercise full agenda control by confronting the political authority with take-it-or-leave-it proposals.

Generally speaking, models in this tradition rely upon the implicit assumption that politicians have difficulty in observing bureaucratic output. Our first essay by Bendor, Taylor and Van Gaalen attempts to model the observational problem. Their starting point is that politicians have difficulty in estimating output, as opposed to the intermediate services bureaus provide; that is, politicians know how many teachers there are, but it is less clear how well children are being educated. Thus they do not know the bureaucratic production function. So politicians ask for the true unit of cost and the true output, and politicians can sanction if they discover that the bureau misleads. If the bureaucrats know the true price cannot be discovered they would simply state a price maximizing the budget politicians will provide. But there is some probability that the true price will be discovered. In the Bendor et al. model the bureaucrat’s best proposal depends on the elasticity of demand by politicians for the bureaucratic product. If this demand is elastic, then budget maximization implies that the bureaucrat will overestimate the per-unit cost of delivering the product; when it is inelastic bureaucrats will overestimate costs. The implication of this argument is that bureaus that overestimate cost are promising to do something feasible while those that underestimate cost are promising to do something infeasible.

Politicians will attempt to fight back and their greater authority will allow them to do so. Later principal-agent models described in the essays we include give agenda control back to the politicians though still concentrate upon the informational asymmetry between politicians and bureaucrats. The essays we include concentrate upon the processes by which politicians try to overcome their informational disadvantages.

Much early conventional wisdom suggested that Congress neglects its oversight over the bureaucracy. One reason, following Niskanen, is that it lacks the expertise or information to do so. However, as Fiorina (1982) shows, Congress can take on complex issues if it chooses and it can hire staff with the expertise equivalent to that of the bureaucrats. In our next essay McCubbins and Schwartz argue that Congress chooses the more efficient “fire alarm” over the “police patrol” form of oversight. Police
patrolling involves Congress monitoring bureaucrats directly through hearings and direct observation of agency performance. Fire alarm oversight, on the other hand, relies upon the public and pressure groups to bring to the attention of Congress (and courts etc) policy implementation failures. Legislation can help groups enabling them to gain access to information and to Congress itself. Not only does this shift costs away from Congress, it also allows congressmen to gain greater credit for righting faults and to change policies as well enforce old ones.

The third article by the team collectively known as McNollGast continues the tradition of examining the nature of administrative procedures as a way of controlling policy outcomes. They examine a number or issues within this rubric, specifically the strategies that politicians can adopt that allow them to overcome informational disadvantages. In doing so politicians enfranchise and empower groups they wish to satisfy. In addition, by creating agencies constrained within broad legislative guidelines, politicians seek a legacy by ensuring the continued implementation of their policy preferences even after they have left power (as we saw in Landes and Posner’s article in Volume 2).

Fiorina (1982) argues that legislators prefer to delegate to bureaucrats where the policy has dispersed benefits and concentrated costs, and legislate in detail when the benefits are concentrated and the costs dispersed. So they shift blame and take credit. But if bureaucratic implementation is problematic, an agency might bias implementation to its own ends. Direct legislation may also be interpreted by the court. So legislators face bureaucratic and judicial uncertainty. Delegation might also avoid inefficient logrolls. Epstein and O’Halloran examine the trade-off between the distributional and informational effects of different organizational designs to examine congressional delegation. They argue that variations in the preferences of the committee, the median congressional voter, and the executive cause Congress to choose different forms of delegation. They conclude that Congress delegates (a) when conflict between Congress and President is low, (b) when committees are preference outliers, (c) when policy issues have uncertain outcomes. So divided government will have more direct legislation with procedural gridlock and less discretion for agencies; unified government gives executive more discretion. Delegation varies in proportion to the distance between the median voter in the committee and the median of the legislative assembly, with greater delegation when they are further apart or when the issue is more complex.

Banks’ paper follows a line of reasoning similar to Gilligan and Krehbiel (in volume 3). However, whereas Gilligan and Krehbiel analyze the committee-chamber relationship, here the relationship is between the chamber and a bureaucratic agency. The agency requests a budget and the legislature can accept the budget or reject it by offering alternatives. Under a “closed procedure” the legislature can either accept the budget request, reject it and
some status quo outcome occurs, or choose to audit the agency. Auditing reveals the true agency costs and the legislature can accept/reject the request based on the true cost. He defines an “open procedure” where the legislature can, in addition, make a counter-proposal which the agency either accepts or rejects. Auditing is not costless and the legislature must compare the cost with the budget requested under the closed procedure or counter-proposal under the open. In line with the Gilligan and Krehbiel analysis of closed and open rules, Banks shows that for low audit costs the closed procedure is superior as the agency has incentives to reveal information, namely to request low when costs are low. Under the open procedure the agency reveals nothing about its true costs and so the legislature always proceeds with either a counter-proposal or an audit.

Ferejohn and Shipan add the effects of presidential veto and judicial review to the relationship between agencies and the legislature. They show that these can have significant effects on agency policy-making. In their spatial model where players make their moves sequentially they examine a number permutations of the preferences of four significant actors – the median member of Congress, a legislative committee, the agency and then either the court through judicial review or the President and his power of veto. They derive results showing how the impact of judicial review or the presidential veto varies with the spatial distribution of preferences of these relevant actors.

### 4.2. Constitutional Arrangements

It is a commonplace in political science that institutions matter. Different ways of aggregating identical group preferences lead to different types of outcomes. All the articles in this section examine the effects of different constitutional arrangements on policy outcomes, and all have been (or we predict will be) influential in discussions of constitutional arrangements. We open this section with a classic article much cited in both urban and federal studies. Charles Tiebout’s article begins by noting the public goods problem that also motivates much of the collective action literature. According to Musgrave and Samuelson markets cannot determine efficient levels of expenditure on public goods. The state often intervenes to provide public goods because of market failure but electoral and pressure group signals to governments are a poor substitute for market signals. Tiebout shows that in systems of competing governments – approximated by large metropolitan areas with many jurisdictions – what he calls citizen-voters – can signal to local governments their desire for different sets of tax-service packages by moving home. Thus “Tiebout entering and exiting” is a proxy for market signals with regard to local public goods.

The next article, by James Buchanan, likewise examines the public goods problem. Buchanan takes a different line and tries to examine how
we might identify the optimal supply of any good between the purely private and the purely public. He incorporates in the utility function for any good the degree of its divisibility which requires that the utility any individual receives from a good also depends upon the number of others with whom she shares the good. The number of other people thus enters in the utility function of the good for each person. From the utility and cost functions for a good it becomes possible to state the marginal conditions for Pareto optimality with respect to the consumption of each good; for the $i$th individual the marginal rate of substitution for two goods in consumption is equal to the marginal rate of substitution between these two goods in production or exchange. Optimal club size occurs when having an additional member is just equal to the marginal costs incurred from adding a member. Goods can then be classified in terms of their ‘publicness’ by the optimal club size. As Buchanan acknowledges, the theory of clubs is as much a theory of optimal exclusion – when a club should stop new members, and if the good is strictly non-excludable, then the theory does not apply. So Buchanan’s results suggest how optimality can, in theory, be calculated for all goods, and has been extensively used in welfare contexts and urban political economy; it also has had application to such clubs as the European Union.

Our next article is by Barry Weingast and, in Tiebout fashion, demonstrates a federalist solution to an old problem in political economy. A government that is strong enough to protect property rights and preserve market relations is also strong enough to prey upon its citizens. Weingast examines what he terms market-preserving federalism. This is a system which limits central government’s ability to intervene in markets by the constitutional role of lower-level governments. If lower level governments have full economic policy-making powers, but are constrained from protective trade practice against each other by central government, and are also fiscally constrained by limits on borrowing, inability to print money, and the determination of central government not to bail them out when in deficit, then the states will behave responsibly and be constrained in response to rent-seeking and prolificacy by the competition they face with other local governments. Each level of government thus constitutionally restrains the others. Weingast points out that market-preserving federal structures do not correspond to legal federal structures, and argues that the economic of growth of countries such as England in the 18th, USA in 19th and China in late 20th century can all be shown to be underpinned by market-preserving federal structures.

Our next article has a different focus. In all democracies there are various types of state official, some elected (“politicians”) and some not elected such as civil servants and judges (“judges” in their article). Eric Maskin and Jean Tirole ask how the constitution should demarcate their roles. They compare politicians, judges and direct democracy. In their model officials are both policy-oriented – they have policy preferences which might be
congruent or non-congruent with the public— and office-seeking— they want to hold office. They also assume officials are better informed about the welfare qualities of different policies than citizens. Politicians are accountable through election which reduces moral hazard by making non-congruent officials more likely to enact policies the public want and reduces adverse-selection by tending to select out non-congruent officials. However, accountability might also lead officials to pander to the electorate by responding with popular policies even though the politicians know them to be inefficient. The authors show that non-accountability in an official becomes more desirable the poorer the information the electorate has and where information is costly and benefits stochastic. The also argue that judges are better where there are large negative externalities for minority groups. However, the more important the decision the better it is taken by either by direct democracy or by politicians. Non-accountable officials should also be given less discretion than accountable ones.

Our final paper in this section is by George Tsebelis is very influential in comparative political institutions and an example of how a relatively simple idea can elucidate issues that have proved intractable to more descriptive and less formal analysis. Comparativists have long compared presidential to parliamentary systems; bicameral to unicameral legislatures; two-party to multi-party systems with regard to the effects these different institutional features have on policy outcomes. Because the empirics do not always corroborate theories about these comparisons, exceptions are made; or new categories have been formed such as “semi-presidential” systems. Furthermore, comparisons are all too-often pair-wise across the categories but the categories might interact requiring more complex multivariate analysis. Tsebelis’s approach looks behind the legal-constitutional descriptions to the mechanisms that affect policy production. Using spatial analysis he argues policy change is affected by the number, congruence and cohesion of veto players a system has. A veto player is an individual or collective actor whose agreement is required for policy change. He concentrates upon two types of veto player— institutional and partisan. The veto player framework allows us to see that quite different systems as specified by legal institutional frameworks might resemble each other in terms of the veto-player causal mechanisms; or other systems that legally resemble each other might, perhaps for partisan congruence and cohesion reasons be quite different.

4.3. The State

Rational choice writers have only comparatively recently turned their attention to the analysis of broad questions about state formation. To be sure, there is a long tradition in political philosophy from Hobbes onward informed by economic analysis that sees the state as a contractual entity. Here rational contractors make deals in their mutual self-interest to form a
government to ensure that future contracts are enforced. However, these contractual accounts have largely been informal and abstract and not specifically tied to actual state formation. In this section we include a set of relatively recent essays that move away from the more general rational justification of the state to more specific contractual accounts of state formation and the ways in which different institutional arrangements affect the welfare and prosperity of people.

The first essay by Mancur Olson begins with a traditional justification of the state in terms of his logic of collective action. Whereas small groups of hunter-gathers can work together in mutual cooperation, large groups require government to ensure cooperative enterprise. However, rather than seeing this in terms of the fantasy of rational individuals coming together to form a state, Olson tells a fantasy history (though not entirely fanciful but based up elements of warlord China) where states form when roving bandits see greater rewards in becoming stationary. Roving bandits will take the entire holdings of peasants as they move from area to area. Once stationary, a bandit has an incentive to extract only a part of the peasants’ holding and to protect his peasants from other bandits. Whilst he still steals from the public he also provides benefits. Olson argues that it pays a ruler (whether a bandit or the majority in a democracy) to redistribute to themselves when the national income fall by the reciprocal share of the national income it receives. In that way the ruler maximizes revenue whilst ensuring future gains from further economic development. Olson further suggests that the time horizons of rulers are lengthened through dynastic succession and ensures power is not dissipated, which would be the case if other elements in society decided upon successors (they might decide to replace the current ruler before he dies). His essay also makes suggestive remarks about the transition to democracy.

Clearly as Olson shows autocrats have incentives to strike bargains with other actors, and to provide some public goods if only security and management of contracts between other parties. However, an autocrat faces a commitment problem. If it is to the sovereign’s interest to renege on a particular deal, he will do so, even if he does not renege on all deals. This problem is explored by the next paper by North and Weingast.

In the early seventeenth century England, fiscal problems led to increased levels of arbitrary rule where the sovereign reneged on promises to repay loans and arbitrarily redistributed property. Fiscal problems led the Crown to sell land – thereby ending future sources of income – and then selling peerages and then simply taking property. The Crown put itself above the law by ignoring acts of parliament enabled by it not needing parliament to raise funds, and removing judges whose rulings went against it. Ultimately this led to civil war which, after a brief interlude, a monarch returned in 1660. However, the reinstallation of monarchy did not solve the commitment problem and repeated the crisis of the earlier period. The
resolution occurred when the monarchy was handed to William and Mary, subject to a settlement that included both a more independent judiciary to preside over property rights disputes and the institution of the Bank of England. This latter institution enabled the Crown to raise money for war and more generally enable the rise of capitalism in the UK faster than in most other European states. The ending of arbitrary rule required not simply institutions controlling the monarch but also ones that ended the state’s fiscal crisis. Parliament developed greater powers at this time as part of this settlement. North and Weingast provide a compelling analytical and historical development of the sovereign’s commitment problem, and their essay remains a classic discussion.

We also include an essay by Grief, Milgrom and Weingast that also examines commitment, this time in a repeated game framework to show how the development of guilds in medieval times allowed rulers of trade to commit to the security of foreign merchants allowing the massive growth of European trade in this period. Grief et al. formally demonstrate that at efficient levels of trade a bilateral reputation mechanism cannot solve commitment problems – future rents collected by a ruler from the marginal merchant are very low, indeed smaller than the value of goods that could be seized. Moreover, rulers can selectively cheat on traders which, together with asymmetries of information, make multilateral solutions problematic as well. One solution is to have an organization that can coordinate embargoes on trade and enforce them through sanctions on their members. This, according to Greif et al. was the function of the merchant guilds – an administrative body supervising the overseas operation of merchants in specific areas and holding regulatory powers within that territory.

Meltzer and Richard return to the state, but particularly the growth of the modern state. They define the size of government in terms of the size of redistribution. The size of government is then determined by the utility maximization of the pivotal voter with median income. Voters with income above the decisive voter favour lower taxes and less redistribution, those below favour higher taxation and more redistribution. Meltzer and Richard argue that with the spread of the franchise in the nineteenth and twentieth century the decisive voter’s median income fell, thus favouring redistribution. In recent years the number of pensioners has grown increasing the desire for higher income taxes (and possibly lower capital taxes), and the growth of non-productive welfare recipients has decreased the median income and the desire for more redistribution.

Following this theme, Persson, Roland and Tabellini examine the effects of different types of political regime on taxation, redistribution and rents for politicians. They suggest that a political constitution is like an incomplete contract specifying authority over policy-making – who can amend and veto policy; and who can appoint officials; etc. There is conflict over the spoils. In presidential-congressional systems the separation of powers
(veto power) produces smaller government with less rent and less redistribution but also inefficiently low spending on public goods. The separation of powers enables voters to discipline politicians reducing waste and the tax burden. However, conflicts of interest lead to inefficiency in public goods provision. In parliamentary regimes there is greater cohesion as coalitions must form to enact policy through a process of buying the support of different groups allowing politicians to take more rent for themselves, but also provide more public goods and redistribution. Government grows with more taxation and more waste.

Our final article by Acemoglu and Robinson attempts to explain the transition from autocracy to democracy. It is one of several articles and a book in which they try to explain the origins of modern dictatorship and democracy. They are particularly interested in explaining why democracy developed in Northern Europe and North America, but failed in Latin America. They argue that the rich elite controls the state in non-democratic societies and the poor can only contest this power through revolution, especially when the opportunity cost is low – that is, during very hard times. The elite can buy off the poor through redistribution, but they need to credibly commit to doing so in the future. The democratic process is such a commitment. As in Meltzer and Richard there will be redistribution based on the position of the median voter. Where society is relatively equal redistribution will be limited, where it is highly skewed toward the rich redistributive policies will make them much worse off, encouraging them to counter-revolt through elite coup. Essentially the difference between Latin America and Northern Europe is one of inequality at the crucial democratization stage. We can only give their story of briefest outline and more detail is provided in their article and book. But in many ways the Acemoglu and Robinson story is a summation of the issues in this volume – a story of principals controlling agents, commitment and bargains.

These four volumes bring together some of the most important articles in the rational choice approach to political science. We see several general themes running through their analyses. Central to rational choice analyses is the potential disequilibrium that exists in the absence of any institutional restraints upon behaviour. Different types of institutions constrain in different manners, but even in the variety of constitutional descriptions we can see similar mechanisms and forces operating in seemingly different contexts. Structure-induced equilibrium can arise, for example, as a result of committees in a legislature, or through coalition formation within a government. No matter what the circumstances actors face collective action and commitment problems and similar solutions in very different contexts can be identified. Pivotal actors are key both in forcing solutions and in constraining the actions of others. This collection of articles shows how a relatively small number of ideas can be used in different contexts to produce
cumulative knowledge and illumination in a wide variety of fields of political endeavour.

Notes

1. Strictly speaking the analysis begins in terms of a weak preference relation, R, which permits the possibility that an individual may be indifferent between a pair of alternatives.
2. This same result, discovered independently, is found in Satterthwaite (1975).
3. The most recent work in this research program is summarized in Hinich and Munger (1994). See also Roemer (2001).
4. In a direct extension of Pickety’s novel approach, Razin (2003) suggests that if the winning politician is responsive, in the sense that he or she can adjust policy ex post on the basis of the election returns and what the politician infers from them, then voters need not trade off effect on the current election against affecting a future contest. The voter can affect both simultaneously.
5. For a simultaneous development see Osborne and Slivinski (1996).

Reference


