

## **Public Choice Intro: (Draft Notes – Needs Revision (add graph))**

The evolution of Economics and Political Science (Political Economy)

Aristotle “Man is a social animal”

Smith “Man is a trading and producing animal”

Historically, people were part of, and incredibly dependent upon, a wider community.

Individuals were not the basic unit of society.

Politics thus has been a source of study for thousands of years.

But it was usually studied in the context of normative criteria

Likewise most economic studies before 1500 were also normative in nature

“Just price”

The emphasis began to shift toward positive after 1500

Machiavelli – “the Prince” (1578)

Smith – “the Wealth of Nations” (1776)

### **Economics:**

The classical economists – Smith, Ricardo, Marx, others....

The Marginal Revolution – 1870s and 80s

Marshallian Economics

The Great Depression

And Keynesian Economics

Before Keynes, economics was all about *liaises-faire* economics

### **Post WW II economics**

The growth of Government

Economists had a model (several actually) for managing the economy

Aggregate Supply and Demand

“market failure”, and the government’s role in fixing things.

And the prevailing ideologies of the time – socialism

### **“Theoretical Welfare Economics – Part I”**

The problem of market failures

Market failures, and government solutions

The “problem of Government information” (Hayek)

### **Example: Pigouvian Tax**

A Polluting Factory, and the surrounding community....

The benefits of Pollution – the cost to the community....

The “socially optimum level of output”

### **The problem with the Pigouvian Tax....**

The problem with Politicians

The 1950s and 1960s -- educating politicians

One eyed Keynesianism, Pigouvian taxes, anti-trust regulation....

## **“Theoretical Welfare Economics – Part II”**

The problem of market failures

Market failures as compared to idealized governments  
“the benevolent despot”

The problem of government failure

## **The rediscovery of other research strands**

Wiscksell; the nature of rules, constitutions, “unanimity”

The Italian tradition – Pareto and others

Both traditions assumed different government actions

## **Public Choice and the “Virginia School of Economics”**

Duncan Black (1948,1958) – committee voting and cycling, Median voter theory

Kenneth Arrow (1951) – democratic irrationality and the “impossibility theorem”

Buchanan (1954) – the desirability of rationality in collective decision making

Downs (1957) – An economic theory of democracy

Coase (1960) – Property Rights and Internalized Externalities

Buchanan and Tullock (1962) – “the Calculus of Consent”

Constitutional Economics

Olsen (1965) – “The Logic of Collective Choice”

The role of government in the 1970s

Inflation and stagflation, one-eyed Keynesianism, the welfare state

The War on Poverty, Command and Control environmentalism

“politics without romance”

## **Core assumptions of economics**

Individuals make individual decisions

They do so rationally

They do so to maximize their individual gain (utility)

## **Core assumptions of Public Choice economics**

Individuals make collective decisions individually

They do so rationally (but rational ignorance is endemic)

They do so to maximize their individual utility (gain)

And, the above apply equally to politicians and bureaucrats