

Decision making modeling and Analysis: Public Choice Approach

Empirical studies of political decision making process – for PhD students

1. Introductory notes and definitions

Recommended approaches for the political decision making analysis:

1. To rely on common sense test

Economics is not Physics and can't be thereof at least in observable future. We haven't possibility to run reproducible experiments and that we call "experiment" is often heavily dependent on the sample of people chosen for "experiment".

So we must rely on common sense.

If one arrived as a result of his analysis to "counterintuitive" conclusion he must test both possibilities:

- (a) Significant mistakes were made in the research and analysis process;
 - (b) The "intuition" not fit well to the principles of common sense as one's intuition could be shaped by widespread models and theories from study courses, political stereotypes etc; so let check your "common sense" thoroughly, reexamine it.
2. **Never agree to take upon yourself restrictions** based on (**unchecked**) **moral claims** (claims of necessity to impose "moral constraint" on decision making, so as "to fight discrimination", to promote tolerance, to redistribute wealth for the sake of social solidarity or "social justice" etc) without in-depth study and (formal) check.

Moral constraints on economic choice / decision making

As one can't observe Western market Democracies' historical economic development, ignoring huge progress in living standard of the poorest, we could drop general claims that this progress was immoral, "excluding minorities" etc

So, there are good reasons to decline any proposals to equate morality and equality of outcomes.

Then we propose to apply following criterions for evaluation of applicability of the new moral constraints proposed:

- Is the proposal based on moral system (rules) successfully tested (in meaning of Hayek, "Fatal Conscience") or it is sort of "Kantian" (self invented) moral norms?
- Is the proposal promotes perception of economic agents' interactions as "infinitely repeated game" or not?
- Could Discount rate measure morality of the person in some cases?

Defining Government principal goals and principal ideological cleavages

"Either to promote happiness, or simply to prevent evil" (Humboldt, see below)

Prioritize pure public goods provision ("ideal right-wing" politician); "evil preventing policy choice" under Humboldt's wording;

Prioritize mixed public goods provision (ideal "left-wing" politician). "happiness promoting policy choice".

2. The course principal objectives:

To develop student's skill to formalize real, observable problems description, to formulate hypotheses, explaining the situation, to search for relevant cases and data to test the hypotheses, to reject some of them.

3. The course description

#	The themes of lectures / seminars	Main sources
1	<p>Basic assumptions and principal concepts of Public Choice:</p> <p>Rationality, self-interest, Cooperation. Implications of irrationality assumption. Voting as rational and moral act. Anthony Downs' rational ignorance as a key to understand why the voters are generally "under-informed", poorly informed and why they are go to the polling stations if their (one) vote can't</p>	<p>Buchanan J., Tullock G. 1962¹</p> <p>Public Choice theory (see, for example Public Choice III²)</p> <p>Downs Anthony³</p> <p>Mises, 1949 – see the chapter "Action within the Framework of Society" pp. 143-163 (1998 edition⁴)</p>

¹"Calculus of Consent. Logical Foundations of Constitutional Democracy" Liberty Fund, 1999 <https://www.libertyfund.org/books/the-calculus-of-consent-logical-foundations-of-constitutional-democracy> http://files.libertyfund.org/files/1063/Buchanan_0102-03_EBk_v6.0.pdf

² Edited by Mueller Dennis C. Public Choice III 2003 Cambridge University Press, 2003

³ Downs A. An Economic Theory of Democracy. N.Y.: Harper, 1957.

⁴ Mises Ludwig von "Human Action. Treatise of Economics" (1999) Auburn, Alabama: Mises Institute, 1999 [1940, 1949] first published in German 1940, in English 1949 <https://mises.org/library/human-action-0>

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	make a difference in an elections' outcome?	
2	<p>Cooperation between the people: incentives and costs</p> <p>The models of cooperative and non cooperative behavior. Why moral people are so scarce resource in some societies and not so scarce in another? Market impersonal exchange and interactions, impersonal cooperation. Social morality vs. "Face-to-face" morality⁵. Infinitely repeated games and possibility of cooperation if discount rate is close to 1 for both players⁶.</p>	<p>Theory: Hayek, 1988⁷; Olson, 1965 Olson, 1982⁸,</p> <p>Practice: Green, 1993⁹ Heyne, 2008¹⁰ Robert Aumann¹¹</p>
3	<p>The government and the state principal functions. The choice to defend (to protect) or to lead to the paradise ("either to promote happiness, or simply to prevent evil"). Basic cleavages between political parties ("right vs. left", conservatives, liberals vs. socialists and "liberals")</p>	<p>Humboldt W. von, <i>The Sphere and Duties of Government (The Limits of State Action)</i>' Chapter III (1854 ed.) (1792)¹² Public Economy (Public Finance) see for example Hillman, 2009¹³</p>
4	<p>Political Institutions for cooperation. Institutions saving costs for politicians and for voters. Family, civil society, Political parties.</p>	<p>Adams, 1856¹⁴; Calhoun, 1810¹⁵; Olson, 2000¹⁶; Congleton, 2011¹⁷</p>

⁵ Sometimes it hard to differ between the two – Avner Grieff mistake on Mghrib coalition he defined as based on personal relation mainly.

⁶ See for example <http://www.ma.huji.ac.il/hart/papers/aumann-n.pdf>

⁷ Hayek F.A. The collected works of, volume I The fatal Conceit The Errors of Socialism edited by W.W.Bartley III Routledge, 1988 <http://www.libertarianismo.org/livros/fahtfc.pdf>

⁸ The Logic of Collective Action: Public Goods and the Theory of Groups (Revised ed.). Harvard University Press 1971 (first publication 1965); The Rise and Decline of nations. Yale University Press, 1982

⁹ Green David *Reinventing Civil Society Rediscovery of Welfare without Politics* Civitas Institute for the Study of Civil Society, 1993

¹⁰ Heyne Paul "Are Economists Basically Immoral?" ed. By Brennan J. and Waterman M.C. Liberty Fund Indianapolis, 2008

¹¹ <http://danadler.com/blog/2014/12/31/talmud-and-modern-economics/>

¹² <http://oll.libertyfund.org/titles/humboldt-the-sphere-and-duties-of-government-1792-1854>

¹³ Hillman Arye L. Public Finance and Public Policy. Responsibility and Limitations of Government Cambridge University Press, 2009

¹⁴ Adams, John, 1856, *The Works of John Adams, Second President of the United States: with a Life of the Author, Notes and Illustrations, by his Grandson Charles Francis Adams* (Boston: Little, Brown and Co., 1856). 10 volumes. Vol. 6. Chapter 1 Liberty Fund, 2013 (online Liberty Library) http://files.libertyfund.org/files/2104/Adams_1431-06_Bk.pdf

#	The themes of lectures / seminars	Main sources
	Census, taxpayers Democracy. Civil Service autonomy. Universal Suffrage and further development in parties' basic cleavages. Special interests.	
5	Bureaucracy concepts Special interests, Rent seeking, power (discretionary power) seeking, institutionalized bribery. Conflict of interests of civil bureaucrats and budget dependent voter. Antitrust and Anti-Discrimination	Theory: Niskanen, 1971 ¹⁸ Jasay, 1985 ¹⁹ Tullock, 1965 ²⁰ Practice: Stigler, 1975 Armentano, 1986 ²¹ De Soto, 1989 ²² Yanovskiy et al, 2015 ²³ Yanovskiy et al 2016 ²⁴
6	Public Goods: mixed vs. pure or happiness promotion vs. evil prevention Historic shift of structure of budget spending and scope of government functions since Universal Suffrage introduction	Theory Samuelson, 1954 ²⁵ Hillman, 2009 pp. 139, 169-173 Smith Vernon (on voluntary supply of pure public goods possibility) ²⁶ Practice Yanovskiy, Zatskovetsky 2017

¹⁵ Calhoun John C., 1810, 1992, *A Disquisition on Government*. In *Union and Liberty: The Political Philosophy of John C. Calhoun*, edited by Ross M. Lence. (Indianapolis, Ind. : Liberty Fund. Available at: <http://oll.libertyfund.org/title/683/107113>)

¹⁶ Olson M. Power and Prosperity. Basic Books. N.Y., 2000.

¹⁷ Congleton Roger D, 2011, *Perfecting Parliament* Cambridge University Press.

¹⁸ Niskanen, William A., 1971, *Bureaucracy and representative government* Transaction Books

¹⁹ Jasay Anthony, 1985, *The State* Indianapolis: Liberty Fund, 1998 <http://oll.libertyfund.org/titles/jasay-the-state>

²⁰ Tullock Gordon, 2005, *The Politics of Bureaucracy* (Public Affairs Press, 1965; selected works, vol. 6 "Bureaucracy", Liberty Fund,)

²¹ Antitrust The Case for Repeal Revised 2nd Edition Dominick T. Armentano Ludwig von Mises Institute 1986 <https://mises.org/library/antitrust-case-repeal>

²² De Soto Hernando "The other path" Harpercollins, 1989

²³ Yanovskiy Moshe, Zhavoronkov Sergei, Zatskovetsky, Ilia The Puzzle of Selectivity in Fighting Discrimination: A Public Choice Approach (March 25, 2015 <http://dx.doi.org/10.2139/ssrn.2585281>)

²⁴ Yanovskiy Moshe, Zhavoronkov Sergei, Shestakov Daniel, Socol, Yehoshua, Universal Suffrage: Undeclared Conflict of Interest (March 9, 2016) <https://ssrn.com/abstract=2745294>

²⁵ Samuelson Paul A., "The Pure Theory of Public Expenditure," *Review of Economics and Statistics* 36 (November 1954): 387-89;

²⁶ Smith Vernon L. Experiments with a Decentralized Mechanism for Public Good Decisions *The American Economic Review*, Vol. 70, No. 4 (Sep., 1980), pp. 584-599

#	The themes of lectures / seminars	Main sources
		review ²⁷ (first and foremost, see Barro, 1987 ²⁸)
7	<p>Capitalism and Democracy. Property and Freedom</p> <p>Principal features of Democratic system.</p> <p>Political competition. Media competition.</p> <p>Restrictions on the Media competition (Public channels, licensed entry, Hate speech, Political correctness). Political competitions' restrictions.</p> <p>"Anti-discrimination". The groups seeking for the restrictions and the interests behind the abridging of Democracy.</p>	<p>Theory:</p> <p>Mises, (1922; 1951)²⁹; Friedman, 1962³⁰; Hayek, 1960³¹; Hayek, 1982³²; Pipes, 1999³³</p> <p>Practice:</p> <p>Rubin, 1994³⁴</p> <p>FIRE Data Base³⁵</p> <p>Cases description³⁶</p> <p>Zingales, 2012³⁷ vs. above mentioned Armentano, 1986 and Green, 1993</p>

4. Principal Sources

Public Choice III, 2003; Heyne, 2008,

5. Essays themes and issues for discussions (examples)

- "Irrationality", "bounded rationality" of market agents and voters concepts' implications and the benefactors of these implications.

- Why so many capitalists invest so heavily in the anti-capitalist leaders and parties?

²⁷ Yanovskiy Moshe, Zatskovetsky Iliia "How Butter beats the Guns" *Defence & Strategy*, 2017 Volume 17, Number 1 (June 2017) pp.141-154 doi:10.3849/1802-7199.17.2017.01.141-154; <http://www.obranastrategie.cz/en/archive/volume-2017/1-2017/articles/how-butter-beats-the-guns.html>

²⁸ Barro Robert J. "Government Spending, Interest rates, prices and budget Deficit in the United Kingdom, 1701-1918" *Journal of Monetary Economics* 20 (1987) 221-247.

²⁹ Socialism. Economic and social Analysis German original 1922. English, 1951, Yale university Press. Indianapolis: LibertyPress/LibertyClassics, 1981.. <https://mises.org/library/socialism-economic-and-sociological-analysis>

³⁰ Capitalism and Freedom, 1962 University of Chicago Press

³¹ Hayek The Constitution of Liberty University of Chicago Press, 1960; Institute of Economic Affairs <http://iea.org.uk/sites/default/files/publications/files/Hayek's%20Constitution%20of%20Liberty.pdf>

³² Hayek F.A. Law, *Legislation and Liberty* Routledge, 1982 <http://www.libertarianismo.org/livros/lllfh.pdf>

³³ Pipes R. "Property and Freedom" NY Vintage Books 1999

³⁴ Rubin P.H.R. The Assault on the First Amendment: Public Choice and Political Correctness // The Cato Journal. Spring/Summer 1994. Vol. 14. N 1.

³⁵ Foundation for Individual Rights in Education: <https://www.thefire.org/spotlight/using-the-spotlight-database/>

³⁶ See reports at Campusreform.org and TheCollegefix.com

³⁷ Zingales L., A Capitalism for the People: Recapturing the Lost Genius of American Prosperity Basic Books, 2012

- To adopt the law "to address the problem practices. Does it mean we all drop responsibility on the government?"
 - Aumann's interpretation of war, peace, negotiations and ransom payment
 - Rational explanation of "irrational" behavior of democratically elected leaders, paying ransoms
 - Generals for Peace and Feminism: rational explanation (see also case Netanyahu – why US intelligence had changed its mind about Iran?)
 - Traditional ways of regulations and rent-seeking (defense of consumer and /or producer);
 - "Moral" claims (coercion to "solidarity") for taxation for the sake of redistribution
 - Antitrust. To compare proven cases of the "state capture" by business and business captured by the state; politician and bureaucrats bribed by business vs. business bribed by politicians and bureaucrats
 - Economists' moral responsibility: concepts of market structure and antitrust regulations; surrender to "moral" claims or voluntary support of thereof
 - Discrimination => anti-discrimination => Discrimination
 - Special (secret) knowledge, information from "secret sources". Should society trust in such references?
 - PM Netanyahu's Speech in Congress Transcription³⁸
 - Ms. Pelosi³⁹ was prepared for Netanyahu's arguments founded on secret information mainly. Why?
 - Usually one could easier to defend his position without referencing to secret sources, especially, if he actually has such information (easier to find one more decision of the task if one already has an answer).
 - Voters qualification and elected politicians quality

³⁸ And some of what the president has done for Israel might never be known, because it touches on some of the most sensitive and strategic issues that arise between an American president and an Israeli prime minister. But I know it, and I will always be grateful to President Obama for that support. <http://www.pmo.gov.il/English/MediaCenter/Speeches/Pages/speechCongress030315.aspx>

³⁹NYT reports: "Ms. Pelosi appeared agitated on the floor during the speech, shaking her head, gesturing and commenting to those around her. She later issued a statement saying she "was near tears" because she was "saddened by the insult to the intelligence of the United States" and "the condescension toward our knowledge of the threat posed by Iran." " <https://www.nytimes.com/2015/03/04/world/middleeast/netanyahu-congress-iran-israel-speech.html>

6. The learning outcomes:

Student will be familiar with the most widespread methods of empirical researches relevant for Public Choice problems

Student will experience to search for rational (both self interest and altruistic) explanations of the socially significant phenomenon (decision making patterns and cases);

Student will improve his / her skill to provide appropriate anecdotal evidences and relevant statistics supporting his / her explanation;

Student will detect self interest motivations behind moral claims;

Student will identify formally type of the moral claim's foundation;

Student will be familiar with institutional framework of cooperative behavior.