ECONSTOR
Make Your Publications Visible.

A Service of
ZBW
Leibniz-Informationszentrum Wirtschaft
Leibniz Information Centre for Economics

Myerson, Roger B.

Working Paper

Economic Analysis of Constitutions

Discussion Paper, No. 1291

Provided in Cooperation with:
Kellogg School of Management - Center for Mathematical Studies in Economics and Management Science, Northwestern University

Suggested Citation: Myerson, Roger B. (2000) : Economic Analysis of Constitutions, Discussion Paper, No. 1291, Northwestern University, Kellogg School of Management, Center for Mathematical Studies in Economics and Management Science, Evanston, IL

This Version is available at:
https://hdl.handle.net/10419/221647

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

WWW.ECONSTOR.EU

Mitglied der Leibniz-Gemeinschaft

Center for Mathematical Studies in Economics and Management Science
Northwestern University, Evanston, Illinois 60208
Internet: http://www.kellogg.nwu.edu/research/math/

Discussion Paper No. 1291

ECONOMIC ANALYSIS OF CONSTITUTIONS

by
Roger B. Myerson*

March 2000

Abstract. This paper is a preliminary draft of an article to appear in Chicago Law Review (2000), as part of a symposium reviewing two new books on economic analysis of constitutions: Dennis Mueller's Constitutional Democracy and Robert Cooter's Strategic Constitution. Some of the basic questions of constitutional analysis are introduced, and the importance of work in this area is shown as one of the major new developments in social theory. The methods of economic theory are then shown to be particularly appropriate and useful for such constitutional analysis. The author then tries to follow Cooter and Mueller in sketching some of the most important results of economic analysis of constitutional structures, but finds a perspective quite different from theirs.

*Department of Managerial Economics and Decision Sciences, Kellogg Graduate School of Management, Northwestern University, Evanston, IL 60208-2009.
E-mail: myerson@nwu.edu

ECONOMIC ANALYSIS OF CONSTITUTIONS

by Roger B. Myerson

Kellogg Graduate School of Management, Northwestern University, Evanston, IL 60208-2009

Dennis Mueller's Constitutional Democracy and Robert Cooter's Strategic Constitution have been written to fill a great need for basic general textbooks on economic analysis of constitutional structures. These books aim to provide a general framework for analyzing how new constitutional structures might affect the conduct of politicians and the performance of government. Research in this area is new and growing rapidly. So it is exciting to find in these two books the first bold efforts to synthesize and present this new analytical methodology at a level suitable for an advanced undergraduate course.

But these efforts must be called bold because, in this rapidly growing research area, there is not yet much consensus about the basic organizing paradigms and principles of political economics. So it is perhaps inevitable that these books will inspire controversy and criticism, as other scholars like myself find that our favorite topics have been neglected. Yet the only way that we can arrive at a consensus about these organizing principles is through the writing of books such as these, where the authors to the work of trying to organize our new field, each building on the strengths and critiques of earlier efforts. Thus, although I find shortcomings in these books, I want to advocate the importance of their political questions and the appropriateness of their economic methodology.

In Section 1 of this essay, I introduce some of the basic questions of constitutional analysis and show the importance of work in this area as one of the major new developments in social

theory. In Section 2, I explain why the methods of economic theory are particularly appropriate and useful for such constitutional analysis. In Section 3, I try to follow Cooter and Mueller in sketching some of the most important results of economic analysis of constitutional structures, but I find that my perspective is quite different from theirs. Section 4 concludes with anticipation of more work in this area.

1. The need for constitutional analysis

The importance of a democratic political system for promoting social welfare has been a fundamental axiom of American politics throughout the history of our republic, and it is probably the most widely accepted tenet of political philosophy in the world today. We believe that popular participation in political processes, making government of the people and by the people, is necessary as a precondition to make government for the people. There is, however, an enormous variety of possible constitutional structures for democratic systems: including different presidential and parliamentary forms with a wide range of different electoral systems. Understanding the establishment of a democracy to be so fundamentally important for any society, we should also understand that the choice among different forms of democracy is a matter of great potential importance, deserving serious concern and study. There should be great efforts to learn more about how democratic constitutional structures may affect the conduct of politicians and the performance of government. And yet the analytical study of comparative constitutional structures has been often neglected in the teaching and research of political science departments around the world.

Real practical need for such understanding arises whenever the structure of a constitution

is in question. In constitutional law, arguments that extend and modify our interpretation of constitutional provisions should not be evaluated without a concern to understand how different constitutional structures may affect social welfare. But it is in the processes of creating new constitutions and amending existing constitutions that we find the most urgent need for a better understanding of the potential impact of different constitutional structures.

This need is illustrated in Mueller's Chapter 21, where he surveys the results of various conventions and commissions that have drafted new constitutions in recent years. In country after country, he finds that the constitutional structure of government have been designed, not for the long-term welfare of the society that is to be governed by this constitution, but for the short-term interests of the politicians who controlled the constitutional commission or convention. Thus, we typically find parliamentary systems with proportional representation in countries where the constitutional commission was dominated by leaders of many small parties, and we typically find strong presidential systems in countries where the constitutional commission was controlled by supporters of the strongest candidate for a first presidential election. It is not be not surprising that, given the lack of objective academic expertise, the principal voices in constitutional debates are those of professional politicians, whose constitutional preferences depend mostly on their perceptions of how the political game might be best restructured to their own short-term advantage.

To see the role that academic expertise should play in constitutional debates, it may be useful to compare the impact of economic theory on the great tariff debates of international trade. In these debates about tariff protection versus free trade, economic analysis has served, not to definitively prove the superiority of free trade, but to assure that the welfare consequences of

tariff policies for broad groups of unfocused citizens should be considered along with the concerns of active special interest groups. So also economic analysis of constitutional structures should serve, not to prove that any one constitutional structure is optimal, but to expand the scope of public constitutional debates, by offering more perspectives on how a change in the rules of the political game may affect rational political behavior and the resulting performance of democratic government for the welfare of its citizens.

A democratic constitution specifies the political offices of the government, the powers that are associated with these offices, and the procedures by which the holders of these offices are to be selected. As such, the constitution should be viewed as the rules of the game by which politicians gain and use power. (Many countries may list the rules of their electoral system in documents of organic law rather than in a formal constitutional document, but for analytical purposes it is better to consider the electoral system as integral part of a democratic constitution.) These rules can affect the rational behavior of politicians subtly but pervasively, with great potential impact on the quality of government.

To get a start in constitutional analysis, we may begin by trying to define some broad categories of constitutional structures. At least two broad categorical distinctions are widely recognized and are emphasized by Mueller. First, there is the distinction between presidential democracies in which the chief executive or head of state is popularly elected, and parliamentary democracies in which the chief executive is chosen by the elected by the legislature. Second, there is the distinction between proportional representation systems in which legislative seats are allocated in multi-member districts where minorities can get representation, and majoritarian systems like plurality voting in which each legislative seat is allocated in an election where a

majority candidate wins all. Grouping nations in a simple two-by-two grid according to these categories, we may look for systematic differences in political behavior across categories (Persson and Tabellini, 1999). In general, proportional representation tends to yield more political parties than plurality voting (Taagepera and Shugart, 1989), and parliamentary systems tends to have more disciplined parties than presidential systems (Cox, 1987; Shugart and Carey, 1992; Diermeier and Feddersen, 1998). Advantages and disadvantages have been found in each of these categories: unpredictable and unstable coalition formation in multiparty parliamentary systems with proportional representation, an inflexible limitation of alternatives in two-parties parliamentary systems with plurality voting, a potential for divided government and gridlock in presidential systems (Lijphart, 1992, Linz and Valenzuela, 1994).

Such a broad two-by-two categorization is much too simple, however. There are many forms of proportional representation, and there are many other majoritarian voting rules besides simple plurality voting (see Cox, 1997; Taagepera and Shugart, 1989; Myerson 1999a). Shugart and Carey (1992) have shown that the powers of the president (executive control, legislative veto powers, constitutional powers to call new elections) can be very different in different presidential democracies, and these differences may be associated with systematically different patterns of political behavior. Parliamentary systems may also differ in their legislative procedures, and in their rules for forming and dissolving governments and calling new elections (Laver and Shepsle, 1996).

Furthermore, we can imagine a wide range of hybrid schemes that mix elements across these categories. Germany and Russia today have electoral systems that use both plurality voting and proportional representation in the same legislative chamber. The Weimar constitution of

Germany and the constitution of France's Fifth Republic are well-known examples of attempts to define semi-presidential systems, with the hope of combining the best aspects of both presidential and parliamentary systems. But without any theory of how constitutional structures affect political behavior, how can we be sure that such a new hybrid system is not actually combining the worst aspects of presidential and parliamentary systems?

There are many other dimensions on which constitutional structures may also differ. Politics in a centralized unitary republic can be different from a federal republic where regional governments are guaranteed some degree of autonomy from central control. Constitutions can also differ in rules for plebiscites, and in the relative timing of elections to various levels of government. Provisions for selecting judges may be different in different countries. Declarations of individual rights that are protected by courts of law may reduce the powers of elected officials and increase the powers of courts. Finally, the rules for amending the constitution and for adjudicating constitutional disputes must also be counted as critical aspects of any constitutional system.

Together these constitutional structures define the rules of the political game. A political economists applies game-theoretic analysis to see how changes in any part of this political game may affect rational behavior in all of its parts.

2. Applying economic analysis to political institutions

I should be careful to avoid some possible confusion about the meaning of the word "economic" as I use it here. When I speak of economic analysis of political institutions, I do not mean to suggest an exclusive focus on how political institutions affect the marketplace where

goods are allocated. For me, "economic analysis of political institutions" means studying political institutions by the methods for analysis of competitive behavior that economists have developed. In this sense, I am applying a definition of economics which could be viewed as relatively new or as quite ancient.

The term "economics" was first used by philosophers of ancient Greece who were interested in studying all the institutions of civilized society and did not develop an academic specialization in the study of markets alone. But in the time Adam Smith, economic theory first achieved a higher level of formal analytical rigor by using the linear algebra of prices and quantities that characterize the production and consumption of material goods, and this mathematical methodology in turn encouraged economists to define their field in terms of a focus on markets for material goods. Then in the nineteenth and early twentieth centuries, there was a long movement to identify the determinants of market transactions in rational individual decision-making. Following the success of this movement, the question of how to extend such rational-choice analysis to more general social situations was taken up by the early game theorists (see Myerson, 1999b). Now, with the success of game theory as a complement to price theory in economic analysis, economists can define their field more broadly as being about the analysis of incentives in all social institutions. Thus, economic theorists have returned to the breadth of vision that characterized the ancient Greek social philosophers who gave economics its name.

This expansion in the scope of economic analysis has naturally caused some concern among political scientists who are uncomfortable with rational-choice analysis. Rigorous rational-choice analysis can be difficult, because the impact of one person's decisions on another person's incentives can be quite subtle. Some critics like Cohn (1999) have depicted political economics as

a perverse academic plot to replace political scientists who care about real political phenomena by political economists who merely excel in a complex analytical methodology. But intrinsic complexity actually tends to inhibit the academic penetration of any new analytical methodology, because students are less willing to devote the time required to master a more difficult subject (in this case by reading a rather technical book like Gibbons, 1992, or Osborne and Rubinstein, 1994) unless its value can be proven. Furthermore, mastery of a difficult analytical methodology does not preclude a scholar from caring about real political phenomena as much as others who would offer their political opinions without support from any rigorous analytical methodology.

Other critics of political economics (like Herzog, 2000) are concerned because the validity of the rational-choice assumption often seems questionable. Certainly people in real life are often foolish or inconsistent in ways that violate the economic assumptions of rationality. So why should we persist in assuming such perfect rationality of individuals in our economic models? The answer follows from our mission of understanding the institutions of civilized society.

Economic analysis has been developed to provide a methodology for evaluating proposals to reform social institutions. Institutional reforms are generally advocated with the goal of improving the people's welfare in a society, and so any methodology for evaluating proposed reforms must involve some concept of welfare, that is, of what people want in their lives. The economist then assumes that reforming an institution will not change the fundamentals of what people want, and that each person in society will act individually to increase his own welfare as much as possible for him within the bounds of his social situation. The assumption that changing institutional rules does not change people's fundamental preferences is needed to give us a common scale on which different institutions can be compared (and it serves to banish from our

discourse any questions about redesigning social institutions simply to make the poor more content with their plight). The assumption that each individual acts to maximize his or her own welfare is needed to keep our focus on the question of reforming institutions, as opposed to re-educating people.

If we assumed instead that some individual in society would make personal choices that directly and systematically reduced his own welfare in some institutional environment, then this individual's loss of welfare could be blamed on his own dysfunctional behavior, rather than on the structure of the social institution. That is, when we find that irrational individuals would come to grief in some institutional structure, we cannot say whether our finding is an argument for reform of the institution or an argument for better education of individuals. Thus economists have found it useful to assume perfect rationality of individuals' behavior, in order to see more clearly when social institutions have flaws that should be solved by institutional reform. The new role for economic analysis in political science has arisen because of the failure of other theoretical approaches to provide such a framework for evaluating proposals to reform political institutions.

Our economic methodology for studying political institutions is then to represent them as simplified games where the preferences of all political actors (politicians and voters) are precisely specified. Then we look for rational equilibria in which each individual is choosing the alternative among his or her feasible strategies that is best for his or her own welfare, given the predicted behavior of all other individuals. A proposed reform of a political institution would then correspond to a change in the rules of this political game, which could in turn change rational equilibrium behavior in the game. If the equilibrium outcomes are better under the new game than the old game, then our model has provided support for the proposed reform. Of course, no single

simplified model can definitively prove the desirability of any proposed reform, which may have both good and bad consequences. But if I favor some reform and you oppose it, we should each be able to clarify the logic of our opinions by formulating some game model in which the welfare consequences of the proposed reform would go in the direction that we claim.

More generally, the role of theoretical researchers in political economics is to develop new game models that can be used to evaluate constitutional structures, where these game models may differ greatly in the assumptions that they make about the government's policy options, the voter's preferences over these policies, and politicians' preferences over political outcomes. The best game models are those that, with reasonable assumptions, can account for significant differences of observed political behavior that have been found with different democratic structures in the political histories of various countries. In this way, the development of political economics must be guided by empirical study of institutional comparative politics.

The main point of this section has been to argue that the analytical methods of modern economics ought to be in the toolkit of any social or political theorist who wants to think seriously about about practical questions of institutional structure. In his companion article, Professor Herzog (2000) has indicated basic agreement with this proposition. I in turn can also agree with Professor Herzog's insistence that a good political theorist needs much more than just a technical command of these analytical methods. To evaluate the quality and value of analytical models of politics, a theorist also needs broad empirical knowledge of political history and detailed familiarity with political institutions.

3. Some fundamental insights from political economics

Cooter's introduction to political economics begins (in Chapters 2 and 3) by emphasizing three simple models: one model where the set of possible government policies is one-dimensional, a second model where the set of possible government policies is multidimensional, and a third where voters can negotiate side payments to consolidate a political consensus. With these models, he nicely introduces the student to three of the fundamental insights of political economics: the median voter theorem in one dimension, the potential instability of majority rule in multiple dimensions, and the Coase theorem. The median voter theorem tells us that, if the set of all policy alternatives has a simple one-dimensional structure, then the results of majority rule should be to select a government policy that is most preferred by a centrist voter. The multidimensional instability theorem tells us that, if the set of policy alternatives does not have a simple one-dimensional structure, then the results of majority rule may be very unpredictable, because any alternative can be beaten by a majority that would favor some other alternative. The Coase theorem predicts that, if bargaining is costless and unanimous consent is required to make a change, then the stable equilibrium outcomes should be efficient government policies (which means, when monetary side payments are possible, policies which maximize the sum of everybody's payoffs).

The happy conclusion of the Coase theorem leads Cooter and Mueller to emphasize the benefits of using unanimous consent as a criterion for political decision-making whenever practical. The authors do not neglect the practical difficulty of unanimous consent in large groups, where it encourages individuals to exaggerate their costs of consenting, so as to extract a bigger side payment for joining the coalition. But this free-rider problem has been extensively studied by information economists, who have recognized that the bargaining costs which are

assumed away in the Coase theorem can include unavoidable communication-incentive costs that are caused by people's uncertainty about others' payoffs from various policy alternatives (Rob 1989). It would be good to see such incentive-constraint analysis introduced in these books, at least at some elementary level.

Cooter and Mueller both emphasize the problem of excess demand for local public goods when legislators are elected to represent different regions or different subgroups of society. If a new road would in Illinois yield benefits worth $2 to everyone in Illinois and could be built by a tax that costs everyone in America $1, then we in Illinois would like our representatives in the national government to advocate this road for us. When the legislature is controlled by a coalition which includes representatives of only 51% of the nation's voters, the legislators in this coalition may rationally vote for public goods that benefit their constituents without taking account of the tax burden that these local public goods will impose on the other 49% of the nation. The authors advocate mitigating this problem by devolving decisions about local public goods to local and regional governments whenever possible.

The difficulty, however, is that there is no higher power to prevent the national government from buying local public goods with national tax revenues. Similarly, when Mueller (in Chapter 18) advocates constitutional limitations that prohibit national government leaders from responding to citizens' demands for expenditure increases and tax reductions, we should ask who would enforce such a paper prohibition against popular actions by high government officials. A basic Madisonian axiom is that constitutional limits on the powers of high government leaders can ultimately be enforced only by other leaders or by the voters at large. (Thinking along these lines, if we really want some way of enforcing limits on excessive deficit spending by the congress,

then we might want to consider a constitutional right for any congress to repudiate excessive debts that were incurred by a previous congress.)

The distortions caused by strategic representation can be much deeper even than Cooter and Mueller recognize. Once we understand that a majority coalition in the legislature will tend to ignore the interests of groups whose representatives are not in the coalition, we find a strong incentive for groups to elect representative who is more likely to be invited into the governing coalition. Sometimes this incentive may lead a bloc of voters to elect a representative who will express preferences over government policies that are a systematic distortion of the actual preferences of the voters in the bloc (Chari, Jones, and Marimon, 1997). For an example in Israeli politics, if the large leftist and rightist parties that are most likely to lead a governing coalition differ mainly on a big question of land-for-peace, then voters in a small religious bloc might want to elect representatives who are neutral on this big question, even when the voters in the bloc actually prefer the rightist position in the big question, because such neutrality may give the religious bloc's representatives a higher probability of being included in a coalition headed by either large party.

Austen-Smith and Banks (1988) used a rather different model, but again taking account of voter's concerns about which party is most likely to form a governing coalition in a multiparty democracy, to explain how a small centrist party could persistently hover at the threshold of extinction in a proportional-representation parliament (as happened to the Free Democrats in Germany for many years) even when a majority of voters would actually prefer its policy positions. The problem highlighted in this model is that voters care most of all about which party gets the largest number of seats in the parliament, because the largest party is assumed to get the

first chance of forming a government, and so a voter may rationally vote for a large leftist or rightist party even when the voter would actually prefer to have the small centrist party lead the government. In this scenario, the expectation that this centrist party will get only a small number of seats becomes a self-fulfilling prophecy. This model of Austen-Smith and Banks also explains why the two large parties in Israel lost seats in 1994 when a constitutional reform there cut the link between being the largest single party and getting the first chance to form a government. Unfortunately, neither Mueller nor Cooter makes any reference to this work of Austen-Smith and Banks.

Once we admit the possibility that elected representatives may have systematically different preferences from the voters who elected them, we are ready for the questions of corruption and abuse of power by political leaders. The liberal tradition of political philosophy (Riker, 1982) has always understood that a fundamental goal of democracy is to counteract the natural tendency for political leaders to use the great powers of government for their own benefit. To study this problem from the perspective of political economics, we should consider models where politicians have choices about how much to take for personal use from the public treasury if elected to a high government office. It is rather surprising that such models of selfish behavior by political leaders have been almost completely neglected in political economics texts like Cooter's and Mueller's. To assume that political leaders cannot try to profit at the expense of the voters who elected them is like assuming that producers in the marketplace cannot try to take profits from selling to their customers.

Economists since Adam Smith have argued that, even when each producer wants to maximize his profits, competition in a free market may deter producers from charging high prices

and taking large profits in equilibrium. Economists now understand that competition can have this profit-reducing effect, but only with certain kinds of market structures. Similarly, one of the virtues of democracy is supposed to be that competition among political leaders might deter them from oppressive abuse of power, but there is no reason to believe that this effect will occur with equal effectiveness under any democratic structure (see Myerson, 1993, 1999a). In this regard, the logic of the Coase theorem comes back to haunt us when it is applied in the circle of political leaders, with voters left out in the cold. That is, when the political leaders of all parties meet and negotiate in the halls of government, they may find that their total personal payoffs would be maximized by a collusive agreement to tolerate each other's corrupt exploitation of the tax-paying public. How such an collusive understanding among political leaders could be prevented is a fundamental question that should get serous consideration in any theory of democracy.

Collusive understandings among producers to raise prices in a market can be undermined when new producers enter the market, hoping to take a share of the profits, with the result that production expands and prices drop. So economists understand that the key structural feature that determines whether high collusive profits can be maintained in a market may be the existence of barriers to entry that prevent new producers from entering the market. Political economists should similarly recognize the potential importance of barriers to entry in democratic competition. That is, the liberal success of democracy in deterring politicians from profit-taking and abuse of power may depend on lowering the barriers against new entrants into the political game. From this perspective, the tendency of plurality voting to inhibit the creation of more than two serious parties looks like an electoral barrier to entry, which could be lowered by changing to proportional representation (Myerson, 1999a). Autonomy of local and regional governments can

also serve as a way of lowering barriers to entry into national politics, because politicians who develop a reputation for good government at local levels can grow into new challengers for national leadership. At a more fundamental level, the vital importance of free speech in a democracy can be understood as a way of preventing barriers to entry against new political organizations, because government regulation of public speech could be used to make the creation of new political organizations very difficult. In contrast, Cooter's derivation of free speech as a device to compensate for externalities that cause inefficient underproduction of ideas (in Chapter 13) seems to me rather off the mark.

An important area of research in economic theory has been to understand how the structure of markets may determine the number and optimal internal structure of firms that compete in these markets. Similarly, an important problem for political economics should be to understand how the structure of a democracy may determine the number of parties and the internal structure of parties. It has been observed that the number of parties may depend critically on the electoral system, being larger with proportional representation and smaller with plurality voting. On the other hand, the internal coherence of a party is often greater in parliamentary systems than presidential systems.

Such differences in party discipline across presidential and parliamentary systems can be understood as an application of agency theory in political economics. Unfortunately, agency theory is treated only lightly by Cooter and generally ignored by Mueller. But we may think of a political party as a collection of politicians, each of whom has a natural incentive to independently free ride on the combined efforts of all the other politicians in the party. To encourage politicians to work together for the good of their party, loyal service has to be rewarded in some way. In

such dynamic moral hazard problems, an optimal incentive system often involves holding back substantial rewards until late in an agent's career, to reduce the threat of agents quitting to join another competitor in mid-career. On the other hand, because political parties are trying to convince voters that their organizational function is to deliver policy services and not to steal from the treasury, a political party cannot openly reward its leading agents with large monetary payments in the way that a commercial firm would do. Instead a political party naturally uses the valuable assets that it earns when it is successful, namely positions of power, as its currency for internal rewards. Thus, we can readily understand the practice of assigning of cabinet positions as rewards for long-term party service which is regularly observed in parliamentary systems (see Laver and Shepsle, 1994, and Laver and Schofield, 1990).

Such a system for party discipline would be undermined, however, if junior party loyalists could not trust senior leaders to pay out the expected patronage rewards in due course. When a party gets control of the government under a parliamentary system, the junior members of the party in power can turn out their leaders at any time if their expectations are violated, and so the patronage system can be enforced. But when a party gets control of the government under a presidential system, the secure elected position of the president makes him relatively invulnerable to such threats from his junior colleagues. To the extent that a sitting president needs support from legislators to pass his legislation, he may be tempted to look for this support from all legislators, and not merely from the members of his own party. So the system of rewards for party discipline may not be as effectively implemented in a presidential system, and the result may be incoherent parties that make the choices for voters much less clear in a presidential system.

At a critical point in his development of an ideal proportional representation system,

Mueller considers the danger of coalitional instability and unpredictability in a multiparty parliamentary system and suggests that "the solution... could be accomplished by simply separating the legislative and executive functions" (page 110 in Chapter 8). But this suggestion ignores the tendency of the separation of powers in a presidential system to decrease internal coherence of parties. As Mueller himself later acknowledges (page 336, footnote 15), other political scientists have argued that presidentialism with proportional representation may be a particularly dysfunctional combination (Shugart and Carey, 1992; Jones, 1998).

A major theme in Cooter's book is the optimal division of powers to different levels of government. He introduces a simple agency model in this regard, but it seems rather superficial. For a contrast in the literature, consider the more interesting agency example of Gilligan and Krehbiel (1990), whose model is designed to show why centrist leaders of a legislative chamber might rationally delegate proposal power to a committee of relative extremists (because the extremists' different preferences would make them more willing to exert costly efforts to gather information). More interesting examples of agency problems could be also be designed to shed light on the questions of optimal separation of powers in government.

For example, to illustrate the fundamental importance of separating powers along lines of separate accountability, suppose that an important observable outcome of government (like the inflation rate) depends on the efforts and the skill of two different elected officials, but the voters cannot directly monitor these officials' separate activities that influence this outcome. Suppose also that the politicians A and B who currently hold these two offices are political rivals, expected run against each other in the near future, but A's office is more powerful and so has more effect on the observable outcome. Then voters should assume that the observed outcome is more an

indication of the skills and efforts of politician A. In this situation, politician B may have an incentive to use his power counterproductively, in hope of generating a bad outcome that would make A look inept to the voters. If the voters anticipate such secret sabotage by B then B's incentive to sabotage becomes even stronger, because the voters could rationally infer from a bad outcome that B is a particularly capable manipulator of government who would be a more effective leader in a higher office.

4. Textbooks for a new field

My discussion above may make clear that many of my favorite questions and models in political economics are not well represented in Mueller's and Cooter's books. I would prefer to see more of emphasis on problems of abuse of power by politicians, strategic misrepresentation by voters, and fully integrated models of competitive elections and post-election bargaining like the model of Austen-Smith and Banks (1988). On the empirical side, I would have hoped that the findings of great recent works of institutional comparative politics like Taagepera and Shugart (1989) and Shugart and Carey (1992) would have been cited and discussed at length in such textbooks.

But my critical reaction is probably a sign of how rapidly the field of political economics is developing, which leaves us far from any common agreement about what should be the main topics in a basic textbook. I am sure that, if I could write my own ideal textbook tomorrow, Mueller and Cooter would each find serious gaps that I would have overlooked. We should applaud Mueller and Cooter as pioneers who have bravely made the first efforts to organize this territory into chapters of a textbook.

In the ambitious broad scope and organizational structure of their books, Mueller and Cooter are indeed taking a great step forward. In the recent past, general textbooks on comparative politics have typically been organized into regionally-focused chapters with titles like "Politics in Japan" and "Politics in Mexico" (e.g. Almond and Powell, 1992). You have to go back to old classics like Friedrich (1968) if you want to find a general comparative-politics textbook that has chapter titles like "Federalism," "Electoral Systems," and "Deliberative Assemblies," where each chapter focuses on one structural component of the constitutional system, and each chapter uses the comparative experiences of various countries under different constitutional systems to sharpen our questions and intuitions about this structural component. It is good to see Mueller and Cooter leading the return to textbooks organized along such structural lines. We should look forward to further efforts to merge the broad institutional perspective of Friedrich with the newer game-theoretic tools of economic analysis, and with the new empirical analysis of scholars like Shugart and Carey.

Mueller and Cooter should also succeed in stimulating discussion with their specific proposals about good political structures. We may not agree with all the conclusions that they advocate about the desirability of specific structural reforms. But asking students to study these arguments and then to formulate opposing arguments about the possible disadvantages of these proposed reforms may also be a very good way to teach students how to analyze political institutions.

The rapid theoretical evolution of political economics will continue with other books following after Mueller (1996) and Cooter (2000). Other recent and forthcoming textbooks in this area include Shepsle and Bonchek (1997), Austen-Smith and Banks (1999, 2001), and

Persson and Tabellini (2000). Each of these books emphasizes quite different aspects of the analysis of political institutions. Synthesizing the best from these differing perspectives should be a task of the greatest importance for economists and political scientists in the coming years. The result will be a new and broader understanding of political institutions that can offer better guidance in the great debates of democratic reforms and may thus improve the prospects for the successful spread of democracy throughout the world.

REFERENCES

G. A. Almond and G. B. Powell, Comparative Politics Today, 5th ed (New York: Harper Collins, 1992).

D. Austen-Smith and J. Banks, "Elections, coalitions, and legislative outcomes," American Political Science Review 82 (1988), 405-422.

D. Austen-Smith and J. Banks, Politive Political Theory I (Ann Arbor: U. of Michigan Press, 1999), vol.II forthcoming (2001).

V. V. Chari, L. E. Jones, and R. Marimon, "The economics of split voting in representative democracies," American Economic Review 87 (1997), 957-976.

J. Cohn. "Irrational exuberance: when did political science forget about politics?" New Republic Issue 4423 (Oct. 25, 1999), 25-31.

R. D. Cooter, The Strategic Constitution (Princeton U. Press, 2000).

G. W. Cox, The Efficient Secret (Cambridge U. Press, 1987).

G. W. Cox, Making Votes Count (Cambridge U. Press, 1997).

D. Diermeier and T. Feddersen. "Cohesion in legislatures and the vote of confidence procedure,"

American Political Science Review 92 (1998), 611-622.

C. Friedrich, Constitutional Government and Democracy (Harper, 1937; 4th ed Ginn, 1968).

R. Gibbons, Game Theory for Applied Economists (Princeton U. Press, 1992).

D. Herzog, "Externalities and Other Parasites" Chicago Law Review forthcoming (2000).

T. W. Gilligan and K. Krehbiel, "Organization of Informative Committees by a Rational Legislature," American Journal of Political Science 34 (1990), 531-564.

M. P. Jones, Electoral Laws and the Survival of Presidential Democracies (U. of Notre Dame Press, 1998).

M. Laver and N. Schofield, Multiparty Government (Oxford U. Press, 1990).

M. Laver and K. A. Shepsle, eds., Cabinet Ministers and Parliamentary Government (Cambridge U. Press, 1994)

M. Laver and K. A. Shepsle, Making and Breaking Governments (Cambridge U. Press, 1996).

A. Lijphart, ed., Parliamentary versus Presidential Government (Oxford U. Press, 1992).

J. J. Linz and A. Valenzuela, Failure of Presidential Democracy, vols 1, 2 (Johns Hopkins, 1994).

D. C. Mueller, Constitutional Democracy (Oxford U. Press, 1996).

R. B. Myerson, "Effectiveness of electoral systems for reducing government corruption," Games and Economic Behavior 5 (1993), 118-132. 1993

R. B. Myerson, "Theoretical comparisons of electoral systems," European Economic Review 43 (1999a), 671-697.

R. B. Myerson, "Nash equilibrium and the history of economic theory," Journal of Economic Literature 37 (1999b), 1067-1082.

M. J. Osborne and A. Rubinstein, A Course in Game Theory (MIT Press, 1994).

W. Riker, Liberalism against Populism (San Francisco: Freeman, 1982).

R. Rob, "Pollution claim settlements under private information," Journal of Economic Theory 47 (1989), 307-333

K. A. Shepsle and M. S. Bonchek, Analyzing Politics (New York: Norton, 1997).

M. S. Shugart and J. M. Carey, Presidents and Assemblies (Cambridge U. Press, 1992).

R. Taagepera and M. S. Shugart, Seats and Votes (Yale University Press, 1989).

T. Persson and G. Tabellini, "Size and scope of government: comparative politics with rational politicians," European Economic Review 43 (1999), 699-735.

T. Persson and G. Tabellini, Political Economics, forthcoming (MIT Press, 2000).