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# MODERN POLITICAL ECONOMY: A BRIEF HISTORY AND SOME APPLICATIONS

KEITH JAKEE

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CENTER FOR THE  
HISTORY OF POLITICAL ECONOMY  
AT DUKE UNIVERSITY

# **Modern Political Economy: A Brief History and Some Applications**

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## **Modern Political Economy: A Brief History and Some Applications**

Modern political economy attempts to understand the political sphere using tools and approaches initially developed in economics. Over time, this subdiscipline has developed many of its own hybrid tools in analyzing politics. Non-economists often refer to the approach as “rational choice,” a label that describes its fundamental precepts: rationality and choice among individual decision makers. It is also widely known as “public choice,” owing to an early group of mid-century scholars searching for a moniker for their new journal, which did indeed become *Public Choice*, now in its 56<sup>th</sup> year of publication. The rationale for this latter title aims at differentiating this new disciplinary field from *private* choice, the latter being the domain of most economic analysis.

It is not unreasonable to think of this subdiscipline as the “economic theory of politics,” as it is also sometimes called. Indeed, modern political economy has attracted adherents in both economics and political science, and has appealed to some sociologists (Coleman, 1990; Elster, 1989; or Vanberg, 1994), legal scholars (Ellickson, 1991, or McAdams, 1997), and even philosophers (Schmidtz, 1995, or Ullmann-Margalit, 2015). I will use modern political economy (or MPE), public choice, and rational choice interchangeably throughout this article.<sup>1</sup>

Largely borrowed from mainstream economic theory, the MPE approach typically assumes that individuals—including those in the political sphere—seek to “maximize” their

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<sup>1</sup> It should be noted that “political economy” is also used in several other, somewhat overlapping, scholarly communities. For example, “international political economy,” also referred to as “global political economy,” tends to focus on the international aspects of politics (both as a cause and effect); it is a field largely dominated by political scientists. Another recent tradition that uses the term refers to a group of (mostly) economists centered largely at Harvard and MIT, including Daron Acemoglu, Alberto Alesina, Roberto Perotti, Torsten Persson, James Robinson, Jeffrey Sachs, Guido Tabellini, among others. Much of the work among this group is highly consistent with the ideas presented in this article. However, this “new” political economy tradition appears to have “bypassed” much of the scholarship that preceded it, the very scholarship that I focus on in this paper (see, i.e., Blankart and Koester, 2007; or Tollison, 2007).

wellbeing (*viz.* utility, happiness, or interests), and are “rational” in the sense that their actions are consistent with their interests, whatever those may be. In other words, MPE postulates a clear-thinking, clear-acting individual who responds to incentives: the greater the incentives, the greater the expected response. It therefore rules out both altruism and a dualistic human nature.<sup>2</sup> The latter, often assumed by scholars and casual observers of politics (Buchanan, 1984[1979]), suggests individuals act self-interestedly in private or economic spheres but in “the public interest,” when moving into the political sphere. The public choice approach broke with this assumption, and in doing so, has effectively revolutionized the study of politics. Even for those who disagree with its assumptions or conclusions, there is general recognition that its postulates cannot be ignored (Udehn, 1996).

Modern political economy can trace its roots largely to developments in the 1950s and 1960s, although those roots run much deeper into history, which is where we begin. The remainder of the article is divided into three main sections, “historical origins,” the “modern founders of MPE,” and a brief description of some “current issues” studied by public choice scholars.

## **Historical Origins**

The history of MPE begins with *classical* political economy, which we can trace to Adam Smith’s *Wealth of Nations* (2007 [1776]). This book is the dividing line between the scattered insights on economic processes throughout recorded history, including other important precursors to Smith, such as David Hume, and virtually all modern, enlightenment approaches. Indeed, Smith is considered part of a group of intellectuals who constitute what is called the

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<sup>2</sup> A number of social scientists, including economists—see, *i.e.*, Mansbridge (ed.), 1990, or Frank, 2011—have grappled with the definition and implications of “altruism,” or acts of seeming selflessness, but such motivations are generally ruled out in the rational choice framework because of the risk that they become *ad hoc* explanations for otherwise unexplainable behavior.

Scottish Enlightenment.<sup>3</sup> Smith's *Wealth* is a magisterial treatise on the process of economic development, the importance of incentives, governmental policy analysis (of the day), and even human nature.

Perhaps its greatest legacy was to articulate a concept that is *still* underappreciated outside of economics (and sometimes *in* it!): the role of social outcomes that deviate from individual intentions. This is the idea that an action by any individual can set off a chain reaction in social settings, and this chain reaction can lead to results that were *unintended* by the original actor. This insight necessarily leads to a greater appreciation of the marvel of social order—when it occurs—and greater skepticism over the ability to easily manipulate society in one direction or another. It has also led to skepticism about, for example, the ability of governments to easily and productively control economic processes. In fact, the scope of state activity is clearly one of Smith's deliberate targets as he fought against the mainstream intellectual view of his day, *mercantilism*. Mercantilists strongly endorsed the growing centralized (and monarchical) states' heavy regulation of economic affairs and protection of *status quo* merchants at the beginning of what would become the Industrial Revolution.<sup>4</sup> These policies amounted to protecting the then-dominant guilds over upstart businesses and the emerging factory owners.

Smith clearly articulates that individuals have incentives in any exchange setting to concentrate their efforts on their own interests. Note, moreover, that this “self-interest” should not be confused with “venal” or “knaveish” behavior, as we know from Smith's careful consideration of ethical conduct in his *Theory of Moral Sentiments* (1759). From Smith's

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<sup>3</sup> The other intellectuals of the social and philosophical side of the Scottish Enlightenment include Adam Ferguson, David Hume, Francis Hutcheson, and Thomas Reid. There are also a number of physical scientists who made key scientific discoveries, and even literary figures (e.g., Robert Burns) included as part of the movement.

<sup>4</sup> It should be emphasized that Smith was too early to have had the historical perspective to understand how thoroughly the new factory system, later called the Industrial Revolution, would transform western Europe and North America. Hence, he did not make reference to the “Industrial Revolution.”

perspective, individuals therefore have incentives (i) *to specialize* on the production or employment side, which makes them more productive, or able to produce more output with the same or even fewer inputs (think factory production), while (ii) *economizing* on the consumption side.<sup>5</sup>

It is important to recognize that Smith was not considered an “economist” in the modern sense of the term, but held the professorial position in *moral philosophy*. This was a time before the social sciences had specialized into distinct disciplines, such as economics, political science, and sociology, and indeed before there was anything called “social sciences.” Moral philosophy encompassed these three areas, as well as jurisprudence (law), ethics (philosophy), and even theology.<sup>6</sup> Thus, Smith’s intellectual breadth was considerable and his treatment of “economic” matters was intricately tied to related issues in, say, political science and even ethics. For example, his treatment of established industries’ proclivity to plead for special favors and protections from the state is fully contemporary in its insights (2007 [1776]: Book 1, Chapter 11: 200).<sup>7</sup>

The various areas that comprised moral philosophy began to professionalize throughout the 19<sup>th</sup> century, becoming distinct disciplines in their own right: economics increasingly focused on “economic” issues, meaning production, prices, trade (including comparative advantage) and the like; political science focused on the state and “politics,” and so on. In economics, the “Marginalist Revolution” of the 1870s led to more sophisticated models, particularly in the matter of price formation. As a result, the discipline began to adopt a considerably greater “technical” (*viz.*, “mathematical”) approach to most topics, a trajectory that has continued

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<sup>5</sup>Economizing suggests consumers will tend to search for the lowest prices for consumption goods, *ceteris paribus*.

<sup>6</sup> See, for example, Montes (n.d.) for a brief but informative biography of Smith or the other pages on this site (AdamSmithWorks.org) dedicated to understanding Smith’s many insights.

<sup>7</sup> His view on ethics is most obviously seen in his *Theory of Moral Sentiments* (Smith, 1853[1759]).

through much the present.<sup>8</sup> Two notable exceptions to the split from classical political economy are (i) Karl Marx, in the middle and second half of the 19<sup>th</sup> century, and (ii) the modern political economy movement, beginning about mid-20<sup>th</sup>-century. We'll digress briefly to situate Marx before returning to cover the MPE movement in greater detail.

Karl Marx, despite his intellectual influence in matters considered to be “economic,” was trained as a philosopher, not an economist. He was self-taught in economics and certainly studied Adam Smith as well as the other influential economists after Smith. What is important for this brief foray is that Marx's theory hints at a reconnection of the *economic* and the *political*. Marx does not provide great details of the state's operation—as we later get with MPE—but he postulates the state as a subordinate tool of the capitalist class. This claim will find some sympathy among MPE adherents a century later (see the discussion of George Stigler's regulation, below), but the logic—and the definitional details—will differ substantially between Marx's political economy and the modern public choice variant. While Marx's influence on what has become the Anglo-American mainstream of economics is a muted one, he did substantially influence a subset of scholars in history, sociology, political science, and some economics departments in continental European countries like France and Germany. His greatest influence was, arguably, on the social and political revolutionaries of the late 19<sup>th</sup> and 20<sup>th</sup> centuries, most notably, Vladimir Lenin, and later Mao Zedong.

As mainstream economics became increasingly professionalized and mathematized, it reached a milestone of sorts in the decades around the turn of the 20<sup>th</sup> century: Adam Smith's intuitive support of what he calls “natural liberty” (see, i.e., Book II, chapter 2: 94)—or what has frequently been called *laissez-faire* (French for “leave alone,” or free-market, non-interventionist

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<sup>8</sup> See Weintraub (2002) for a detailed account of the mathematization of economics.



policies) by others—seemed to have found technical “proof” with the mathematics of general equilibrium (see Arrow and Debreu, 1954), and even earlier with the “perfectly competitive” model.<sup>9</sup> The latter model, which is a fairly simple mathematical (and diagrammatic) model—known to millions of economics students through the 20<sup>th</sup> century as “Supply and Demand”—purports to show that, “left alone,” a privately organized “market” will lead to optimal social results, as measured by the aggregation of consumer and producer surpluses. Reminiscent of Adam Smith, this result is remarkable because these socially efficient outcomes obtain even though every agent in the model is self-interested, intending only the satisfaction of her own wellbeing.

Almost as soon as the perfectly competitive model was developed, economic scholars began to poke intellectual holes in it. What if, for example, there existed “externalities” (imagine pollution) in some markets that the supply and demand curves did not account for: would the market still produce optimal results? “No,” was the answer by Pigou (1920), whose externality analysis still guides most thinking on issues like pollution one hundred years later. What if the firms in some markets were not competitive, but “monopolistic?” Would the perfectly competitive model yield the optimal outcome? “No,” was the answer of Robinson (1933) and others in the 1930s. And, what if some goods had “public” qualities, that is, were not neatly divisible like we typically assume of products, such as Apple watches or even apples themselves? For example—unlike an apple—parks and national defense can be “consumed” by one individual without reducing the amount available for others to consume; they are, what we call, *jointly* consumable. Samuelson (1954) and others showed that, when public goods are at

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<sup>9</sup> While highly contentious among Smith scholars and historians of thought, an example of this thinking is Kornai (1971: 349), who suggests, “modern equilibrium theory is nothing else than a mathematically exact formulation of Smith’s ‘invisible hand’ which harmonizes the interest of egoistic individuals in an optimal manner.”

stake, the perfectly competitive model will “fail” as it would in the cases of externalities and monopoly.

The important point of *all* of these so-called market failures for our discussion of MPE is that each was assumed to be rectified (or rectifiable) by government intervention. The idea that the state could solve these market failures was largely unquestioned, as the dominant methodology was to *merely identify* failures and then *merely assume* that government could—and would—implement policies to bring about the desired optimal results. In other words, economists tended to assume that policymakers would beneficially manipulate the market exactly as the economic modelers suggested it should. This “government-as-nirvana” approach largely describes the state of the economics discipline when the first generation of MPE scholars began their work.

### **The Founders of Modern Political Economy/Public Choice**

At its most fundamental, MPE scholars challenged the prevailing assumption that the state was merely a passive conduit for good economic advice. In other words, they asked questions such as, “does the state *actually* fix market failures?” and “can voters be expected to vote for the policies that economists are recommending?” or “if the voters want a particular policy will the state—which includes bureaucrats—deliver it?” And what, moreover, “does a voting result even mean in the first place?” These questions were followed by another obvious and critical question: “if the state does fix market failures, *how* does it accomplish this, and to what degree?” Thus, the MPE approach was said to open the “black box” that represented government in earlier models of market failure.<sup>10</sup>

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<sup>10</sup> As Buchanan has pointed out, this view—dominant in the field of public finance throughout much of his career—commits the “normative-as-positive” fallacy. In other words, the theory *purports* to model real political phenomena (i.e., governments solve failures), but *actually* models normative, ideal-type policies (i.e., the government *should* solve failures by following this or that policy recommendation by economists). The same problem has existed on the

The person who may have done more than any other to push this line of intellectual inquiry was James M. Buchanan, who, in 1986, won the Nobel Prize in economics for his efforts. Already in his very first publications, in the late 1940s and early 1950s, Buchanan (1949) suggested that the prevailing *economic* theory of public finance needed to be grounded in an explanation of how the state would actually accomplish the purported ideal policies, namely in some kind of *theory* of political activity. Moreover, such a political theory needed to be accomplished through an individualistic methodology, meaning the theorist could not resort to arguments based on groups “thinking,” “deciding,” or “acting.” In other words, the analyst could not merely assume that group decisions reflected the “will of the group”—even if that group was assumed to be “democratic”—but rather needed to show *how* individual desires might be aggregated to form group decisions. Were some individuals left out, or ignored? Were some individuals more powerful than others? Thus, so-called “democratic” decisions needed to be explained rather than assumed. These issues and many related ones became the subject of research in the burgeoning MPE.

Buchanan would later go on to develop models of externalities (with Stubblebine, 1962), “club goods” (1965), taxation (Buchanan, 1967; Brennan and Buchanan, 1980), and analyses of governments running perpetual deficits (Buchanan, 1958; Buchanan and Wagner, 1977), among many other topics. He would also develop an entirely different line of inquiry—constitutional economics—with one of the other pioneers of MPE, Gordon Tullock. It would become a career-long preoccupation.

In their pathbreaking work, *The Calculus of Consent*, Buchanan and Tullock (1962) developed the first modern theory of constitutions, which is still highly cited in both economics

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*revenue* (or tax) side of public finance as well: much of, for example, the “optimal tax” literature models ideal tax rates from an efficiency standpoint, not from a political-feasibility standpoint.

and political science. Its principal insight is to distinguish, conceptually and analytically, between the decision-making that occurs in collective settings *after* the “rules of the game” are set from the process of establishing these rules in the first place. The former represents typical “day-to-day” politics, while the latter represents decisions concerning the constitution.

*Calculus* analyzes voting in the context of its individualist perspective and concludes there is nothing particularly special about majority voting rules, considering that very nearly half of the electorate can be harmed by an electoral outcome. Buchanan and Tullock therefore suggest a different standard by which to gauge voting outcomes: microeconomics’ familiar Pareto condition, an ethical standard that rules out policy changes that harm even a single individual. Under the Pareto assumption, all those affected by an electoral result must either be in favor of the policy or at least indifferent to it in order for the policy to not harm any single individual. In vote settings, Buchanan and Tullock argue this principle is analogous to the rule of unanimity. Thus, any voting outcome that falls short of unanimity means that at least one voter would be potentially harmed by the policy. While a highly innovative approach to voting rules, the authors also realized it would be costly to use unanimity for many decisions. They therefore suggest that a voting rule approaching unanimity—i.e., some version of a supermajority rule—should be used for votes with significant consequences, such as those over rules-of-the-game constitutional issues. Votes over less significant issues could use lower winning thresholds, like majority voting. *Calculus* also provides a number of other insights, including an early application of game theory to political settings, approaching politics from an exchange point of view, and an analysis of logrolling (vote trading).<sup>11</sup>

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<sup>11</sup> See Tollison’s (1998) brief summary of *Calculus of Consent* for the book’s republication in Buchanan’s *Collected Works* (1998). This website also includes the original “Preface” from *Calculus*.

Other pioneers of the public choice movement include Duncan Black, Kenneth Arrow, Anthony Downs, William Riker, Mancur Olson, Gordon Tullock (independently of his work with Buchanan), William Niskanen, and George Stigler. In the late 1940s, Duncan Black developed what came to be known as the median voter theorem, which—while requiring a number of highly technical, limiting assumptions—states that election results will tend to settle on the preferences of the median voter. The median voter is the voter who falls precisely in the center of all voters when all voters are lined up along a single dimension of an issue with all other voters. Imagine, for example, lining up each voter from “left” to “right” on some specific policy issue, or imagine deciding how much to spend on some project from a small amount to a large amount.

*If* the theorem is correct, and the median voter essentially determines elections, considerable political activity is expected to focus on *that* voter, to the exclusion of others: political parties, for example, merely need to determine who the median voter is and woo her, a theme developed by Downs, as we shall see shortly. An important implication of this analysis is that voting outcomes can “cycle,” or become “unstable” under certain reasonable conditions. This means elections held multiple times over identical policy proposals, say *A*, *B*, and *C*—with identical underlying preferences of voters for each of these proposals—can yield different results when the order of voting is altered (i.e., when elimination voting begins with casting *A* versus *C*, instead of, say, *A* versus *B*). Effectively, voting results become random in such cases (Black, 1948: 33-34).<sup>12</sup> The implications for democracy, writ large, should be obvious: if voting results are random, the very foundation of democracy is weakened, potentially seriously.

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<sup>12</sup> The technical condition for cycling to occur is that the preference of at least one voter is not “single peaked.” See Black (1948: 32-34).

Building on Black and others, Kenneth Arrow published what came to be known as “Arrow’s Impossibility Theorem” (1951). The upshot of the theorem was to generalize Black’s cycling result for *any* preference aggregation system, which included voting mechanisms and what are called “social welfare functions.”<sup>13</sup> Arrow concluded that any preference aggregation system must either be (i) “democratic” and “inconsistent,” or (ii) “consistent” and “undemocratic.” Democratic, here, is defined such that the preferences (*viz.* votes) of everyone in the community are taken into consideration, while consistent means obtaining identical electoral results when taking a series of votes over exactly the same issue and same set of underlying voter preferences; it is, effectively, a transitivity condition like that described in the *A, B, C* example, above.

Arrow thus concludes that, for any aggregation system to be consistent (i.e., yield the same electoral result over sequential votes), it must be undemocratic (*viz.*, “autocratic”) in the sense that it must ignore at least some of the individual preferences in the community. Conversely, democratic mechanisms that take full account of the underlying preferences of the community will be inconsistent in the sense that differently-ordered votes (over exactly the same issue) will yield different results. In other words, democratic votes will be unstable when voting matchups change. Democratic voting results cannot therefore be trusted to reflect the underlying preferences and desires of the individuals voting. This “instability” result has given rise to considerable controversy over the decades and has spawned a (sub) sub-discipline in its own

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<sup>13</sup> A social welfare function is a theoretical tool used by economists to conceptually aggregate the preferences of individuals. It continues to be used throughout economics to draw conclusions about the desirability of policy changes. It has also been the subject of deep and ongoing criticism, with Buchanan (1954) being one of the earliest.

right, the highly technical area known as “social choice theory.”<sup>14</sup> For this and other prodigious work, Arrow was awarded a Nobel Prize in economics in 1972.

Anthony Downs, a student of Arrow’s, enters the pantheon of MPE founders for his highly influential book, *An Economic Theory of Democracy* (1957). This book also builds on Black’s median voter theory and, again, reverses decades of conventional thinking on, for example, the behavior of political parties. If the median voter determines elections, Downs postulates that parties will adjust their policies to attract that voter. This is a highly controversial—and enlightening—reversal of the assumption that political parties start with an ideological position on some policy and then work to convince, or educate, the public to support (vote for!) them. Downs suggests the opposite: the electorate has pre-existing views (whether informed or not) on the world, including on public policies, and parties are content to adjust their policy positioning in whatever manner is needed to win elections. Among other things, this view suggests that political parties will “bunch up” around the median voter, suggesting little difference in positions between parties in the middle of the political spectrum.

There are other profound—and controversial—insights in Downs. For example, he rekindled interest in what has come to be known as the “paradox of voting” (or Downs’ paradox).<sup>15</sup> This paradox articulates a rather obvious point concerning democratic politics: as the number of voters increases, the potential effect on the election outcome of any single vote falls. In other words, any single vote’s “marginal” effect—or the likelihood that any single vote “matters” by being the tie-breaking vote and affecting the *result* of the election—becomes

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<sup>14</sup> See Tullock (1981) or Shepsle and Weingast (1981) for early contributions to the “stability” problem, or Shepsle and Weingast (2012) for a more recent update on the matter. For a useful and concise summary of the social choice literature, see (List, 2013).

<sup>15</sup> Previous scholars had noted this effect (i.e., Condorcet, 2014[1785]; Hegel, 1896 [1821]: 311; and Dodgson, 1958[1876]: 227), but the insight had largely been lost to political science when Downs revived interest in it.

vanishingly small in large electorates. A strong implication is that rational voters can be expected to refrain from voting altogether because, by this analysis, the instrumental value (or benefit) of one's vote in a large electorate approaches zero, while the process of voting (e.g., driving, waiting in line, missing work, and so on), has a positive cost. In simple economic terms, the *marginal* cost of the actual voting act exceed its *marginal* benefit!

Another formidable insight from Downs is his “rational ignorance” hypothesis, an implication of his paradox of voting: if the benefits of the act of voting by a single individual are virtually zero and it is costly to inform oneself about political matters—as it surely is—then most voters are expected to be *rationally ignorant*. To be clear, this is not a normative slur on voters but a positive hypothesis based on the fundamental principles discussed above: if individuals *economize*—or perform some version of cost-benefit analysis—when making decisions in political life as well as economic life, then Downs' claim is a reasonable one to conjecture, although one that has also generated considerable controversy (see, i.e., Caplan, 2011; or Solmin, 2015; or Martinelli, 2007, for a recent application using game theory). An important implication of this claim surfaces throughout MPE work: if voters are not very well informed about politics and policies, it follows that relying on voters to insure that the desired public policies are implemented may be more wishful thinking than reality; indeed, if voters are not very well informed—about, say, the long-term complexities of massive deficit spending in the face of a flu pandemic—then the entire modern “democratic” project is put into question.

William Riker is the only person on this short-list of the “first generation” of MPE scholars who was trained as a political scientist. He had an illustrious career at the University of Rochester, which became the center for “positive political theory” or “rational choice”—the



typical political science nomenclature for MPE.<sup>16</sup> Many of his students became luminaries in the cross-disciplinary subject, such as John Aldrich, Peter Ordeshook, and Kenneth Shepsle. Riker is known for being among the first to apply the tools of game theory to the problems of politics and for bringing considerably more complex mathematics to the study of politics.<sup>17</sup> More specifically, he is remembered for the notion of “minimum winning coalitions” (Riker, 1962). The latter concept is derived from the insight that any subset of groups (or individuals in a group) will have to share any political “spoils” with everyone in that group. There are thus strong incentives to form the smallest coalition of voters necessary to pass any piece of legislation. This insight has profound implications for the grand view of what politics can accomplish: Riker’s minimum coalition weakens faith in any “general will” of the people emerging from the political process; instead, it raises the idea that politically successful policies will tend to garner the *smallest* group of voters (or legislators) that allow them to pass.

Mancur Olson was one of the most influential social scientists in the second half of the 20<sup>th</sup> century for his *Logic of Collective Action* (1965). This book took a staple economic concept, that of the public good (see above), and applied it to virtually *all* group or social settings. Olson’s insight was to recognize and analyze the fact that public good problems abound—not just in stylized settings like parks and national defense—but in pedestrian ones, like the situation where multiple students work together on a group project. If the group’s finished product cannot be easily attributable to specific individuals, the project will be a public good for each of the

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<sup>16</sup> See Amadae and Bueno de Mesquita (1999) for a history of Riker’s contribution and the “Rochester School” of political economy that he founded, or Maske and Durden (2003) for a general review of Riker’s intellectual contributions.

<sup>17</sup> Game theory is a set of tools—typically highly mathematical—applied to problems involving interdependent agents. In other words, it is used in situations where the decisions of one agent affect the decisions of another, and vice versa. A convenient history and explanation can be found in Ross (2021).

students: everyone gets the same grade, which—any student can tell you—provides an opportunity to “free ride” on the work of others.

The most important implication of Olson’s work is to reverse two commonly-held notions. The first is that individuals pursuing their interests always leads to improved outcomes. Olson showed that “unless the number of individuals in a group is quite small, or unless there is coercion or some other special device to make individuals act in their common interest, rational, self-interested individuals will not act to achieve their common or group interests” (1965: 2). The second important intellectual upset concerns the idea that large groups tend to take advantage of small ones: Olson’s “logic” suggests that, because of public goods and free-riding, “there is ... a surprising tendency for the ‘exploitation’ of the great by the small” (p. 3, emphasis added). This problem is ubiquitous in social dynamics, and Olson raised various possibilities for solutions, such as small group size, closed shops in the case of groups like labor unions, and “by-products” that are, essentially, private goods offered by groups with otherwise public-good characteristics. Also, it must be stated that Olson’s *Logic* was one of the single-most devastating intellectual critiques of Marxian views of class action, including revolution.<sup>18</sup>

While Gordon Tullock was included as one of the public choice founders for his work with Buchanan in *Calculus of Consent*, like Buchanan, he deserves an equal place for much of his other prodigious work in political economy. He was a near precursor to Niskanen (see below) for his own work on bureaucracy (Tullock, 1965) and he was highly influential in the

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<sup>18</sup> Marx’s political economy depends, among other things, on the notion of “classes” (e.g., the bourgeoisie and the proletariats) vying for control of the social system. Olson suggests why this approach is unrealistic, and why we rarely witness “class-based” social movements: any outcome from class action—such as Marx’s predicted revolutionary social change—is a collective action problem, and subject to public-good issues, and hence free-riding. In other words, while virtually all proletariats will have an interest in seizing control of the economic system, each individual has powerful economic incentives to wait for someone else to storm the ramparts and risk life and limb. If everyone has the same incentives, few—if any—are likely to revolt (see also Tullock, 1971; or for a more recent analysis, Kuran and Romero, 2019).

development of law and economics (Parisi et al. 2017, or Shughart and Tollison, 2016).<sup>19</sup>

However, the single idea that has permeated not only MPE, but economics and other social sciences is rent seeking (Tullock, 1967).

Tullock posits that, when the state creates benefits—and certainly it is capable of creating many—actors will be willing to pay for them. Such payments can be in the form of what we would call “bribes” (direct monetary payments to political actors creating, say, barriers to new entrants in some industry), or—where such bribes are outlawed—in the form of *indirect* payments (such as campaign contributions, extravagant restaurant meals or “study” trips to exotic destinations).<sup>20</sup> In other words, rent seeking provides a theoretical basis for studying all forms of political lobbying, the social costs involved in such lobbying, and the distributional effects thereof.<sup>21</sup> In sum, Tullock showed how expenditures to secure government largesse are themselves wasteful, and that these expenditures should therefore be added to the standard (triangular) measure of deadweight loss.<sup>22</sup>

William Niskanen is known for being the first to develop a descriptive, mathematical model of bureaucratic behavior in *Bureaucracy and Representative Government* (1971), even though both Downs (1967) and Tullock (1965) had also had influential works on bureaucracy in

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<sup>19</sup> See Haeffele and Hobson (2019) for a summary of the reprint of the 1965 book along with another of Tullock’s works on bureaucracy and organizational theory, *Economic Hierarchies, Organization and the Structure of Production* (1992). See Torgler (2021) for an overview of the role public choice has played in the development of the law and economics movement.

<sup>20</sup> See also Krueger (1974) for the origination of the term “rent-seeking,” even though Tullock is recognized as the first to articulate the concept. Krueger also includes an early formal model of rent-seeking as well as an early application in a developing economy context.

<sup>21</sup> Technically, direct bribes do not constitute rent seeking, but are pure income transfers. Curiously, then, for the analysis of modern democratic institutions, it only when such bribes are made illegal—and beneficiaries continue to try to influence political actors indirectly—that the inefficiency arises.

<sup>22</sup> Thus, in partial equilibrium analysis, the transfer “rectangles,” which are typically excluded from the inefficiency (deadweight loss) calculation, were—after Tullock—to be included as part of the inefficiency in cases where lobbyists funneled resources to political decisionmakers. Tollison (2012), which is a very good summary of Tullock’s rent seeking insight, notes this step of including the rectangles changed much across all economic thinking. See Forte and Brady (2021), or Shughart and Tollison (2016) for a summary of Tullock’s “unconventional” approach to economics and his many other contributions.

the few years that preceded Niskanen's.<sup>23</sup> Niskanen approached the analysis of bureaucrats—also known as civil servants or administrators—from the same rationality and self-interest assumptions that have driven the other analyses in MPE. Specifically, if bureaucrats are motivated by the kinds of incentives that impel most others, then we should expect them to be interested in things like salary, greater influence, and prestige. These translated to Niskanen's "four P's" motivating civil servants: power, prestige, pay, and (other) perks, which he claimed would all be satisfied by gaining larger and larger budgets. In other words, the bureaucrat satisfies the four P's by increasing the size of her department, which necessarily results in ever-larger budgets.

Another innovation of Niskanen was to clearly postulate a principal-agent (asymmetric information) problem between bureaucrats and the budget-providing legislators, meaning that the bureaucrat knew considerably more about the bureau's production and cost functions than the legislator-principal did. This state of affairs allowed the bureaucrat to demand—and get—a larger budget than would be warranted on efficiency grounds. A key implication of larger-than-efficient budgets is that the government would tend to be larger than is optimal: the state, in other words, would be guided by principles that have nothing to do with the desires of citizens.

George Stigler is our last founding figure and another eventual Nobel Prize winner. His path-breaking "Theory of Economic Regulation" (1971) turned the conventional market-failures-based theory of regulation on its head. The conventional view had been part-and-parcel of the

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<sup>23</sup> Another insightful analysis that preceded all these works by two decades was Mises' *Bureaucracy* (1944). It was written in the context of the rise of the bureaucratic Nazi and Soviet states, and before WWII had been won. His inclination can be gleaned from the question he asks early in the Preface: "Should authoritarian totalitarianism be substituted for individualism and democracy?" (p. iii). In the United States in the early 1940s, he suggests one fundamental reason for increasing bureaucratic power is "the voluntary abandonment of congressional rights. Congress has in many instances surrendered the function of legislation to government agencies and commissions, and it has relaxed its budgetary control through the allocation of large appropriations for expenditures, which the Administration has to determine in detail" (1944: 5).

dominant theoretical and policy-oriented thinking on regulation for much of the 20<sup>th</sup> century. Known as the “public interest” theory of regulation, this *state-as-nirvana* approach assumed that regulation was always and everywhere enacted by government to remedy market failures. Logically, then, we should only see regulation in cases where markets failed and, for example, consumers were exploited by powerful businesses.

Stigler, one of the most renowned industrial organization scholars at the time, had studied regulation, directly and indirectly, for nearly 30 years when he wrote his famous regulation paper. In it, he suggests “The idealistic view of public regulation is deeply imbedded in professional economic thought” (p. 17), meaning that economists and other scholars (and policymakers) took for granted that regulation was in the interest of consumers and thereby directed at increasing efficiency. He lists a number of industries (e.g., trucking, occupational licensing, and airlines, among others) whose regulations were difficult to reconcile with the “public interest,” or “idealistic view.” In fact, Stigler reckoned that each of the regulations he discussed appeared to be *highly favorable to the businesses themselves*. For example, regulation of the airlines had meant preventing any new competition (in the form of any new trunk lines) since 1938 (p. 5), while regulation on the weights and dimensions of trucks reduced competition for the incumbent railroads from the 1930s; and, it should be noted, representatives of the railroads often sat on the trucking regulatory boards! (p. 8). Moreover, in comparing occupations with licenses and those without, Stigler found that licensed occupations had higher incomes (p. 16). Stigler’s innovation in regulatory thinking came to be known as “capture theory” because of the implication that regulators appeared to be captured by the very industries they were presumed to be controlling.<sup>24</sup>

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<sup>24</sup> It is worth noting that there began a significant deregulation movement within 10 years of Stigler’s paper. See Peltzman (1989) for a critical assessment of the role of Stigler and others in these policy changes and for an easily

## A Short List of Contemporary Issues in MPE

Much of the subsequent work in MPE has continued to refine, and empirically test, the themes and propositions developed by the first generation of public choice scholars. As has been the case throughout the current summary, the possible list of topics is too extensive to even remotely cover here, but there are several very good compendia. *Toward a Theory of the Rent-Seeking Society* (Buchanan et al., 1980), while several decades old, is somewhat of a classic that brings together a number of formidable insights in the congealing subdiscipline. *The Encyclopedia of Public Choice* (Rowley and Schneider, 2004) also includes summaries that remain highly relevant today. Mueller (2003) is a near-encyclopedic treatment of public choice up to that date and it includes considerable technical analysis. This work still remains a reference for many MPE scholars. *Choosing in Groups* (Munger and Munger, 2015) is a more recent attempt to consolidate much of the MPE literature with an emphasis on “spatial analysis”—or the tools developed in the modern context by Black and Downs. Another work that aims to provide a broad, introductory overview of public choice is Tullock et al.’s *Government Failure: A Primer in Public Choice* (2002). Finally, the three volumes of the Oxford University Press *Handbook* series—in “Political Economy” (Wittman and Weingast, 2008) and “Public Choice” (Congleton et al., 2019)—are likely as comprehensive as one can find in a few volumes.

For organizational—and brevity’s—sake, we can think of many of the current topics covered by MPE scholars under the following rubrics: collective action, voting, constitutions, bureaucracy, game theory, representative government (including political parties and interest groups), regulation, and non-coercive solutions to collective choice problems. It must be

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readable piece that brings together many of the MPE insights discussed in this paper. Dudley (2021) nicely summarizes the insights of Stigler and ties them to a number of other authors discussed here.

emphasized, again, that this list barely scratches the surface of the many topics covered by public choice scholars since the early years beginning in the mid-20<sup>th</sup> century.

### *Collective Action*

Olson's thesis concerning the problems of collective action provoked considerable controversy, particularly in political science. Among other things, it upended the theory of pluralism, which had remained popular throughout the 20<sup>th</sup> century. Pluralism suggests that interest groups (or political lobbyists) are unproblematic for democratic functioning because these groups will mirror the underlying preferences of the citizenry: strong (and widespread) feelings about some issue, say corporate tax policy, will naturally give rise to a lobbying group to represent that interest. Stronger community feelings are likely to beget stronger interest groups and a societal "balance" of community interests will result (see Bentley, 1908).

Olson challenged this intellectual complacency by arguing that the micro underpinnings of group behavior involved public goods and that there would be systematic bias towards those groups that could most easily control for free riding. These would be small, narrowly focused groups, like producer associations, *not* broad interests, like the mythical "public interest," or even widespread consumer interests.

Dixit (1999) provides a concise summary of Olson's thesis and some of Olson's later works, for example, the highly cited *Rise and Decline of Nations* (1982), and his last book, *Power and Prosperity* (2000). In a recent analysis—from sociologists—Sabin and Reed-Tsochas (2020) analyze a number of the same issues raised by Olson's problem of collective action, specifically problems of enforcement and punishment of violations, in the context of group lending, or microfinance, in a developing economy.

On the critical side, McLean (2000) reviews Olson's major contributions but is more reserved in his overall evaluation of Olson. Tuck (2008) is a book-length work that argues that Olson's definition of free riding was a direct result of modern neoclassical economists' view that assumes that, at the margin, no single actor can make any significant difference to outcomes. In contrast, an older version of the Prisoner's Dilemma acknowledged that each actor *can* influence outcomes. Tuck argues this definition led Olson, essentially, to mischaracterize the inability of many social settings to reach cooperative solutions.<sup>25</sup> For extensive, and varied, analyses of Olson's insights, see the journal *Public Choice*, which devoted an entire issue to the 50-year anniversary of the *Logic*'s publication (see Heckelman, 2015, and the several other articles in that same issue).

### *Voting*

The careful analysis of the many features and permutations of voting systems was one result of the development of MPE, as the mechanics of voting are particularly amenable to mathematical analysis. Like collective action, this literature would be impossible to fully survey here.

However, the following topics provide some flavor for the nature of this work: (i) can voting be reconciled with rational choice methods and assumptions? (Aldrich, 1993); (ii) whether, and to what extent, do citizens vote as a function of their "pocketbooks"? (Hibbs Jr., 2008, or Lewis-Beck and Stegmaier, 2019);<sup>26</sup> (iii) if, according to Downs and many others, voters have little

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<sup>25</sup> Green and Shapiro (1994) are similarly critical of Olson, along with rational choice more generally. Lohmann (1995) is one, among many, rebuttals to Green and Shapiro (see also Friedman, ed. 1996). Lohmann argues that Green and Shapiro "misunderstand the theory of rational choice" (p. 130) and therefore mischaracterize many classes of collective action. The point in raising this "back-and-forth" controversy is to provide some flavor of the care that has been taken to examine the specific parameters of collective action, in the decades since Olson first proposed his theory.

<sup>26</sup> Note that, at the time of writing, Lewis-Beck and Stegmaier (2019: 1) claim there were over 600 books and papers just in *this* sub-area of public choice, which might give some idea of the proliferation of studies in MPE more widely.



incentive to vote, why does anyone vote at all? (Kaniovski, 2019); (iv) if “economic” or “instrumental” voting does not explain actual voting turnout, perhaps something else is motivating voters: one such possibility is “expressive voting,” or the notion that voters merely want to “express” their sentiments and enjoy the benefits of merely participating in one of the essential functions of democracy (that is, voting itself) without regard to outcomes or the instrumental value of their single vote (Hamlin and Jennings, 2019); (v) Buchanan and Tullock (1962), having done the early modern analysis of “logrolling,” or vote trading, set off decades of additional research on its mechanics and results (see, i.e., McGann, 2019); (vi) what can be said about the effects of fraud on elections? (Shikano and Mack, 2019); (vii) are (laboratory) experiments of voting consistent with public choice predictions? (Kamm and Schram, 2019); (viii) would forcing all citizens to vote—known as compulsory voting—improve voting results? (Jakee and Sun, 2006, and Holbein et al., 2021), among many other topics.

### *Constitutional Political Economy*

While *Calculus of Consent* (1962) set off the modern technical analysis of constitutions, Buchanan frequently argued the bulk of public choice scholarship focused on post-constitutional decision making, leaving the theory of constitutions understudied. As a result, Buchanan and others started a new journal, *Constitutional Political Economy*, shortly after his 1986 Nobel Prize, to explore the rational choice analysis of constitutions. Since then, constitutional analysis has become a sub-field of MPE.<sup>27</sup> Hamlin (2019) presents a convenient update of many of the issues covered in constitutional economics since its founding.

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<sup>27</sup> Curiously, Buchanan’s coauthor of *Calculus*, Gordon Tullock, seems to have had less interest in this area as his career developed. An interesting side note is that Tullock was not a trained economist, but a lawyer, with but a single economics class as a student. Buchanan, by contrast, was a Ph.D. economist who, after about 1970, moved considerably more in the direction of political theory.

Among the other important intellectual developments related to constitutional economics is considerably greater attention given to issues of “governance,” or how well the state actually governs. While this governance literature seems to have developed independently from the constitutional literature, many issues are closely tied. For example, La Porta et al.’s “The Quality of Government” (1999) is a seminal article that empirically analyses government quality across 152 countries. Chong et al. (2014), which uses a test of the postal system in 159 countries, is one of many more recent papers in this vein.<sup>28</sup>

### *Bureaucracy*

The study of bureaucracy has become yet another sub-field of public choice. Niskanen’s conclusion that bureaucrats maximized budgets received both support (see, for example, the volume edited by Borcherting, 1977) and resistance (see, i.e., Migué and Bélange, 1974; or Miller and Moe, 1983). Despite any disagreements over modeling and assumptions, Niskanen’s analysis set off many decades of research around the question of “who’s in control?” when it comes to bureaus and their outputs: the bureau—the Niskanen position—or the legislature, including its subcommittees?<sup>29</sup> As a result of this intellectual sparring, the interaction between legislatures and bureaus is considerably better understood than before Niskanen’s provocative *Bureaucracy*.

A key implication of Niskanen’s “budget-maximizing” bureaucrat is an ever-growing state, driven not by efficiency criteria, as postulated by the market failures paradigm, but by parochial ones. As such, Niskanen’s *Bureaucracy* was seminal in a growing interest in both the

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<sup>28</sup> Bates (1988) is an important early compilation of papers by economic development scholars who employed MPE, or rational choice, methods to analyze problems of economic development. Many of the same issues of the quality of state governance arise throughout the book’s chapters. See Aidt (2019) for a recent review of how political economists analyze corruption, more generally, or the journal *Economics of Governance* for many issues that overlap those presented in this article.

<sup>29</sup> See Moe (1996) for a discussion of this point of “who’s in control?” in the context of a useful and succinct summary of the history of modern bureaucratic analysis.

potential inefficiency of bureaucracies and the reasons for the substantial growth in the size of governments across the developed world in the 20<sup>th</sup> century (see, i.e., Borcharding, 1977; or for more recent work, Borcharding and Lee, 2004; or Borcharding, et al., 2005).

To wrap up the discussion on bureaucracy, I recommend Benson et al. (1995) as a clever example of empirical work that focuses on bureaucratic incentives. The authors test the claim that the “War on Drugs”—specifically, the Comprehensive Crime Act of 1984—increased the incentives for law enforcement agencies to make arrests for drug offenses (relative to those for property and violent crime) because the new law allowed local police agencies to confiscate (then auction) property that resulted from drug arrests.<sup>30</sup>

### *Game Theory as a Tool*

From its early beginnings in Riker (1962) and Buchanan and Tullock (1962), game theory has thoroughly permeated the analytical study of political processes because it is particularly suited to studying strategic interaction. Strategic interaction refers to those actions taken by any one actor that affect the actions taken by others; under such circumstances, each actor has an incentive to consider the actions of others in deciding upon her strategy. Gary Becker (1983), yet another Nobel Laureate, wrote a highly influential article on the theory of interest group behavior using a game-theoretic approach. He concludes that interest group activity will be largely *efficient* economically, since—according to his assumptions—the public will be sensitive to inefficient policies (deadweight losses) promoted by any interest groups.

This game-theoretic trend has only intensified over the years, as is evidenced by perusing not only specialty MPE journals, such as *Public Choice* (see Bolle and Otto, 2021), *Rationality*

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<sup>30</sup>DeAngelo et al. (2015) builds on Benson et al. (1995) and finds, among other things, that drug crimes “spillover” from one district to another, depending on degree of enforcement.

*and Society* (see Bertolai and Scorzafave, 2020), *Journal of Theoretical Politics* (see Pond, 2021), or *Economics and Politics* (see Terai, and Glazer, 2021). Political economy themes using game theory is also suffused in the mainstream, flagship journals across the social sciences. See, for example, Prendergast (2007) in the *American Economic Review*, Parameswaran et al. (2021) in the *American Political Science Review*, Horz (2021) in the *American Journal of Political Science*, or Swedberg (2001) for a summary of the use of game theory in sociology up until that time.

### *Representative Government, Political Parties, and Interest Groups*

MPE has provided considerable insight into representative government, political parties, and interest group activity. This is yet another area—or set of areas—that are vast and deep, and thus I repeat my advice to consult one of the three volumes of Oxford’s *Handbook* series—in “Political Economy” (2008) or “Public Choice” (2019)—for near-comprehensive summaries. For example, see the following: (i) Ansolabehere (2008) reviews Downs’ influence on the analysis of voters, parties, and interest groups, and provides a more nuanced approach to the underlying assumptions driving voters, including voter beliefs and ideology;<sup>31</sup> (ii) Prat (2008) analyzes political advertising; (iii) Grofman (2008) studies the impact of electoral laws on political parties; (iv) Laver (2008) draws out important distinctions between a “legislature”—rooted in the separation of powers—and a “parliament;” (v) Cox (2008) evaluates the “organization” of legislatures, including the control afforded committee chairs; (vi) Diermeier (2008) reviews the issues surrounding coalition government; (vii) Cutrone and McCarty (2008) assess bicameralism;

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<sup>31</sup> See Aldrich (1995) for an influential analysis of political party development in the United States. True to the themes laid out in this paper, Aldrich notes, “My basic argument is that the major political party is the creature of the politicians, the ambitious office seeker and officeholder. They have created and maintained, used or abused, reformed or ignored the political party when doing so has furthered their goals and ambitions. The political party is thus an ‘endogenous’ institution...” (1995: 4).

(viii) Stratmann (2008) examines campaign finance; and (ix) Dunleavy (2008) considers the problems of the bureaucracy behaving as an interest group.

Another large area that falls under representative government and interest groups (not to mention several others) is the issue of redistribution, that is, the transfer of resources from some groups to others through the political process. Redistributive activities—which are tightly interwoven with the notion of the “welfare state”—account for a larger and larger share of what governments in advanced nations do and hence have become a focal point for many scholars across disciplines (see, i.e., Bellani and Ursprung, 2019).

### *Theories of Regulation*

Considerable scholarship on the rational choice theory of regulation was produced after Stigler’s (1971) seminal article. Fellow University of Chicago economists contributed to, and advanced, the theoretical underpinnings of regulatory decisions. Note this literature differs from the previously dominant “public interest” theory of regulation, as the latter focuses on devising ideal-type policies that will enhance efficiency. The *economic* (or *political economy*) theory of regulation attempts to model *actual* political decisions concerning regulation, not the ideal regulatory policies for a given set of market failures.

Further articulating the theory of regulation, Peltzman (1976) weakened Stigler’s strong conclusion of “capture theory”—that producers virtually always dominate regulatory decisions to the detriment of consumers. Peltzman’s considerably more nuanced (and mathematical) model instead concluded that sometimes consumers win and sometimes producers do; it depends on, for example, organizing costs of the two sides, incomes, the degree of competitiveness of the industry, and so on (see pp. 227-231). Peltzman revises Stigler’s position by assuming the public (who “support” regulators or political decisionmakers) is—at least somewhat—sensitive to the

deadweight losses caused by the kinds of inefficient regulatory decisions that Stigler's theory presumed, even though producers will tend to have the advantage of smaller group size (*à la* Olson's *Logic!*). Other "Chicago"-inspired papers that follow in this line of inquiry include Posner's "Taxation by Regulation" (1971), Becker's previously-mentioned "Theory of Competition Among Pressure Groups for Political Influence" (1983), and Wittman's "Why Democracies Produce Efficient Results" (1989), among others.

It should be noted that another set of MPE scholars was uncomfortable with the "Chicago School's" increasingly sanguine view of regulation. Mitchell (1989) articulates some of the fundamental differences between "Chicago Political Economy" and the "Public Choice"—or "Virginia School" public choice—perspectives (see also, Brady and Forte, 2020).<sup>32</sup> Littlechild (2018), a scholar long involved with both the theory and practice of regulation, emphasizes yet another aspect of regulation as he draws on first principles: if the public interest approach to regulation is purportedly aimed at solving the failure of adequate competition, how is it we define "competition" in the first place? This is not a trivial issue as Littlechild argues much of the approach to regulation is oriented around rather contrived static models of competition. A more nuanced understanding of competition, on the other hand, would appreciate its *dynamic* nature, as firms enter and leave the market, and new ideas and technologies influence the very nature of competition between firms.

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<sup>32</sup> The "Chicago School" of economics is so-named for its focal point at the University of Chicago, while the "Virginia School" is so-named for its development at three Virginian universities (e.g., University of Virginia, Virginia Tech, and George Mason). Chicago political economy tended to focus on a stricter market interpretation of political phenomena, including market "clearing" and full information. This led to later variants of the Chicago School often concluding that political "markets" were efficient conductors of underlying citizen sentiment. The Virginia School, the home of Buchanan and Tullock, and many other contributors to the first—and subsequent generations—of MPE scholars, has tended to focus on the many potential failures of the political system and state activity, leading to a rather pessimistic view of the state-fixes-market-failure paradigm; it has often been referred to as a theory of "government failure" (see, i.e., Tullock et al. 2002).

### *Non-Coercive Solutions to Collective Choice*

To fully appreciate the MPE project, it is necessary to accept that one of the primary differences between the state and civil society (including markets) is that only the state can *legitimately* use force or coercion to accomplish its mandates.<sup>33</sup> As such, an important strand of thinking that was both concurrent with, and provoked by MPE asked whether all so-called market failures will require *coerced* government intervention. For example, Buchanan (1965) developed the initial analysis of what are called “club goods”—later referred to as “toll” goods—that have the particular characteristics of non-rivalrousness but are excludable. Consider, for example, large swimming pools: they can be jointly enjoyed by more than one consumer at a time (at least up to some point of congestion) *and* they can be fenced off at low cost so that each consumer can be made to pay for this quasi-public good. Buchanan concluded these impure public goods could—and often are—provided by private companies and non-profit organizations.<sup>34</sup>

In an analysis closely related to Buchanan’s club goods, Charles Tiebout (1956), analyzed how some kinds of public goods might be better supplied *locally* rather than federally or centrally. If some public goods have a geographic limit to their “publicness,” then different locales could provide different public good mixes to suit differences in tastes for them: citizens with a high demand for public goods can get them in high-supply local governments, and would accordingly pay higher taxes for them; those with lower demands can then get lower levels of public goods in different—low tax—jurisdictions. If it is costless to relocate between local jurisdictions—a substantial assumption to be sure—then typical public good provision may not be as inefficient as typically assumed by Samuelson (1954) and others. Tiebout thus provided

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<sup>33</sup> See, for example, Downs (1957: 15-16, 23).

<sup>34</sup> See Sandler and Tschirhart (1997) for much more technical and updated treatment of the theory of clubs. Demsetz (1970) treats a related issue, the private production of public goods.

subsequent public choice scholars with a strong intellectual argument for federalist systems of government over centrally-administered ones.<sup>35</sup>

Coase (1960) played a primary role in setting off one of the most important movements in modern economics with his suggestion that externalities—under certain conditions—might be ameliorated privately, counter to the then-dominant analysis by Pigou (1920). In those cases where the affected parties could negotiate, or transact, costlessly, there would be no need for third parties (the state) to intervene: the parties would be able to “internalize” the externality efficiently all by themselves. This so-called “Coase Theorem” has, like many other ideas in MPE, not been without considerable controversy, but it has been highly influential in instigating yet another sub-field in economics—law and economics—which overlaps considerably with MPE.<sup>36</sup> Coase’s ideas have also played a key role in environmental economics and in modern policies for governments to auction, for example, radio spectrum (Coase, 1959; or see Hazlett et al., 2009, for a recent evaluation of Coase’s influence on spectrum auctions).

Elinor Ostrom, the last author explored in some detail, stands out in MPE for a number of accomplishments. First, she was the first woman to receive a Nobel Prize in economics for her work in political economy, and second, she did so not as an economist but as a political scientist—proving the point made earlier that public choice has been a cross-disciplinary endeavor. Third, like the other scholars detailed here, she turned conventional intellectual thinking—across the social sciences—on its head.

To appreciate Ostrom’s insights, let us reconsider the influence of Garrett Hardin, who was among a trifecta of authors who, in the 1960s, fomented considerable fear among both scholars and the public over human population growth and environmental degradation with his

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<sup>35</sup> See Rodden (2008) for an analysis and update on political economy issues surrounding federalism.

<sup>36</sup> See Medema (2020) for a comprehensive overview of the Coase Theorem.



“Tragedy of the Commons” paper (1968).<sup>37</sup> In what was essentially a rehashing, and minor theoretical updating, of Thomas Malthus’ argument 170 years earlier (1798), Hardin argued that human population dynamics were governed by the tragedy of the commons, one of a sub-class of market failures.<sup>38</sup> In the matter of human population growth, Hardin argued each person’s private incentives are to have as many children as she can. However, the planet has finite resources with which to support an ever-growing human population. According to Hardin’s approach, there were no “natural” solutions to this dysfunctional equilibrium and, as a result, the survivability of the species was in serious doubt. This view has fueled decades of thinking on issues as far-ranging as population control to environmental protection.

Ostrom took this issue, and related others, and studied *actual* commons problems (more technically “common pool resources” or CPRs) both in field studies and in many newly-devised economic experiments. She found that many CPRs did not succumb to the pessimistic “no-solutions” view propagated by Hardin. In emphasizing the often-*voluntary* nature of the communal solutions, she termed her approach the “Institutional Analysis and Development” program (Ostrom et al., 1992). Readers should see Ostrom (2010), her Nobel lecture, for an account of her fascinating intellectual journey.<sup>39</sup>

## 5. Conclusion

As noted throughout this article, there are so many topics and publications in the area of modern political economy it is impossible to cover them comprehensively in such a brief account. I have, however, attempted to provide a glimpse into the issues and approach taken by public choice

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<sup>37</sup> Other highly influential authors in the burgeoning new environmental movement were Rachel Carson (1962) and Paul Ehrlich (1968).

<sup>38</sup> Some scholars might find it curious that Hardin never actually cites Malthus.

<sup>39</sup> See Bertolai and Scorzafave (2020) for a recent formalization of the emergence of property rights (*viz.* “order”) without state enforcement or Benson (1990) for an extended analysis of the same.

scholars. By providing a substantial list of references, interested readers should have plenty of material to dig more deeply into any of the topics included here.

I have also hoped to accomplish two other goals related to encouraging early scholars and both goals relate to the historical approach taken in the first two substantive sections of the paper. Situating modern political economy in the context of the renowned classical writers, such as Adam Smith and Karl Marx, and then also proceeding through the early years of MPE by focusing on *actual scholars* (e.g., Arrow, Buchanan, and others), should, first, remind readers that it is *real* people who do research and develop innovative approaches to the problems that surround us. Too often the textbooks from primary, secondary, and even the university-levels simply posit the various topics in some field of study, as if these topics fell from the skies. This is a terribly misleading way to present the advance of any scholarly field, since the problems that today's scholars are fighting with always have strong connections to the problems their predecessors dealt with and how those were "solved," or perhaps not solved. It is difficult, for example, to appreciate Albert Einstein's brilliance without any understanding of the intellectual state of theoretical physics before he published his famous papers. It is similarly difficult to understand Buchanan's real contributions without understanding the state of economic thinking when he arrived as a fresh academic face in 1949.

The second goal related to the historical approach taken here is to give readers a sense that our job is never finished: as brilliant and influential as Adam Smith—or Mancur Olson—were, there is always room for new, innovative work that looks at an old problem anew or finds completely new problems to solve. Having even the vaguest appreciation for the *history* of any scientific or scholarly endeavor reinforces this point: rarely when scholars think an issue is settled is it truly "settled." New approaches, new questions, new theoretical and empirical

techniques throw old solutions into question. As such, I certainly hope to have conveyed some appreciation for the evolution of these ideas, or how one set of research questions gives rise to another. And I similarly hope this approach will inspire the next Elinor Ostrom to generate new ideas and to follow up on their own questions.

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