



SCHOOL OF ECONOMIC & BUSINESS SCIENCES
UNIVERSITY OF THE WITWATERSRAND
Public Economics – ECON 7035

Syllabus First Semester 2010 – **Version 1.0**

Meeting Time: Tuesday 13h00 – 16h00

CLASSROOM: NCB Lachmann Room

Instructor: Prof. Giampaolo Garzarelli

Office Hours: By appointment only

Office: School of Economic & Business Sciences, NCB Room 135

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“If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls on government would be necessary. In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself. A dependence on the people is, no doubt, the primary control on the government; but experience has taught mankind the necessity of auxiliary precautions.

This policy of supplying, by opposite and rival interests, the defect of better motives, might be traced through the whole system of human affairs, private as well as public. We see it particularly displayed in all the subordinate distributions of power, where the constant aim is to divide and arrange the several offices in such a manner as that each may be a check on the other – that the private interest of every individual may be a sentinel over the public rights. These inventions of prudence cannot be less requisite in the distribution of the supreme powers of the State.”

- James Madison [1751-1836], *Federalist Paper 51* (1788), from *The Federalist* (1787-1788), http://oll.libertyfund.org/index.php?option=com_staticxt&staticfile=show.php%3Ftitle=788&Itemid=28

“The science of public finance should always keep ... political conditions clearly in mind. Instead of expecting guidance from a doctrine of taxation that is based on the political philosophy of by-gone ages, it should instead endeavor to unlock the mysteries of the spirit of progress and development.”

- Knut Wicksell [1851-1926], “A New Principle of Just Taxation,” in R. A. Musgrave and A. T. Peacock (eds.), *Classics in the Theory of Public Finance*, New York, St. Martin's Press, pp. 72-118, at p. 87. First published 1896.
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Course Description.

This is a graduate course in Public Economics, with particular focus on its Public Choice incarnation. During the last forty years or so the field of Public Economics has broadened to include not just issues of taxation but also of externalities, fiscal federalism, interest groups, political collusion, political competition, political support, property rights, public goods, regulation, and voting, among others. The purpose of the course is to expose you to both the foundational or classic literature in the field and to some new developments in selected subfields. Thus, my approach to the material will have some of the flavor of a topics course the fundamental uniting thread of which will regard how the institutional matrix shapes, influences, guides and binds the public sphere.

Readings.

I've asked the bookstore to order the following book:

- Mueller, D C., 2003, *Public Choice III*. Cambridge, UK: Cambridge University Press.

This book will serve as something like a textbook for the course. The reading list in the “Sequence of Topics” below presents additional readings, mostly available online. (If you are on campus, you can access them directly through the campus computers; if you are off-campus, you will need to login to the library before you can access them.) Most articles are in Adobe Acrobat (PDF) format. To read them, you will need the Adobe Acrobat reader. If you don't have it, you can [download it for free](#). Other readings will be made available through Mrs Dell in NCB 106.

During our lectures we will cover (depending on time and preferences) only some of the readings listed below, but there will be a number of required readings: at the end of each lecture I will point out the readings that are mandatory for the next lecture. Take note that it is crucial for you to be prepared to discuss the assigned readings during class.

Keep in mind that this syllabus is a work in progress. Refer to the online version of the syllabus not only for links to readings but also for changes and additions.

Assessment.

You will be assessed as follows.

- [*Book review*](#), due Tuesday, March 9: 15%.
- [*Term paper*](#), due the last day of class, proposal for it due March 2: 35%.
- *Final exam*, last day of class: 50%.

The book to review is:

- Besley, T., 2007, [*Principled agents?: The political economy of good government*](#) Oxford and New York : Oxford University Press. (The Lindahl Lectures.)

I will deduct five marks for each day the book review is late, and I will not accept it at all one week after the deadline; this implies a mark of zero that will be part of your final mark average. The book review can be anywhere from two to six pages, double-spaced, Times New Roman 12, with 2.5cm margins.

I will not accept a late term paper; this implies a mark of zero that will be part of your final mark average. The term paper can be anywhere from ten to twenty-five pages (usually shorter is more difficult), double-spaced, Times New Roman 12, with 2.5cm margins. It is your responsibility to select a topic for it. However, the topic is subject to my approval. To this end, you are required to submit a two page, double-spaced, Times New Roman 12, with 2.5cm margins proposal about it. Before the proposal is due, I will be glad to discuss with you possible ideas and topics. Among other objectives, my hope is that, for those of you who are still undecided, the term paper will in some cases eventually turn into your Final Research Report.

You will not be graded on style, except to the extent that it is impossible to separate form from content and that lousy writing often implies lack of content. The below book by McCloskey may be useful to you in improving your writing:

- Deirdre McCloskey, [*Economical Writing*](#), Prospect Heights, Illinois: Waveland Press, 2nd edition, 1999 (paperback).

NB: I take plagiarism seriously. On the matter, please consult:

http://uamp.wits.ac.za/sebs/downloads/2007/student_writing_research_guide_copy1.doc

If in doubt, please consult with me.

Sequence of Topics.

I. Introduction

- a. Bernheim, B. D. and J. Skinner 2005. "[Behavioral Public Economics: Welfare and Policy Analysis with Non-standard Decision-makers](#)," NBER Working Paper 11518 (July).
- b. Besley, T. and S. Coate 2003. "[On the Public Choice Critique of Welfare Economics](#)," *Public Choice*, 114(3/4): 253-73(March).
- c. Buchanan, J. M. 1987. "[The Constitution of Economic Policy](#)," *American Economic Review* 77(3): 243-50(June). (Buchanan's [Nobel](#) Lecture.)
- d. Coase, R. H. 1974. "[The Lighthouse in Economics](#)," *Journal of Law and Economics* 17(2): 357-76(October).
- e. Kornai, J. 1986. "[The Soft Budget Constraint](#)," *Kyklos* 39(1): 1-30.
- f. Mueller, D. C., 2003, Introduction.
- g. Musgrave, R. A. 1959. "A Multiple Theory of Public Household," Chapter 1 of his *The Theory of Public Finance: A Study in Public Economy*. New York: McGraw-Hill Book Company, Inc. (International Student Edition): 3-27.
- h. Olson, M. C., 1965, *The Logic of Collective Action: Public Goods and the Theory of Groups*. Cambridge, Mass: Harvard University Press.
- i. Samuelson, P. A. 1954. "[The Pure Theory of Public Expenditure](#)," *Review of Economics and Statistics* 36(4): 387-9(November).
- j. South African Constitution, 1996, Chapters 6 and 7. [Online PDF](#); [Online HTML](#).

II. Perspectives on Government, Public Economics, the Public Sphere, Policy & Politics

- a. Boudreaux, D. J. 1996. "[Was your High School Civics Teacher Right after All?](#)" *Independent Review* 1(1): 111-28(Spring).
- b. Breton, A. 1998. "Models of Government," Section 1.2 of his *Competitive Governments: An Economic Theory of Politics and Public Finance*. Cambridge, UK: Cambridge University Press: 9-17.
- c. Buchanan, J. M. 1975. "[Public Finance and Public Choice](#)," *National Tax Journal* 28(4): 383-94(December).
- d. Buchanan, J. M. 2001 "*La Scienza delle finanze*. The Italian Tradition in Fiscal Theory," as reprinted in Vol. 15 of *The Collected Works of James M. Buchanan*, Indianapolis, Liberty Fund, pp. 59-105. First published 1960.
- e. McChesney, F. S. and W. F. Shughart II, 1995, eds., *The Causes and Consequences of Antitrust: The Public Choice Perspective*. Chicago: University of Chicago Press. Selections as specified in class.
- f. Mueller, D. C., 2003, Chapter 3.
- g. Musgrave, R. A. 1939. "[The Voluntary Exchange Theory of Public Economy](#)," *Quarterly Journal of Economics* 53(2): 213-37(February).
- h. Peltzman, S. 1976. "[Toward a More General Theory of Regulation](#)," *Journal of Law and Economics* 19(2): 211-40(August).

- i. Stigler, G. J. 1972. "[Economic Competition and Political Competition](#)," *Public Choice* 13: 91-106(September).
- j. Tullock, G., 1993, *Rent Seeking*. Aldershot: Edward Elgar. (The Shaftesbury Papers Series, No. 2.)
- k. Wagner, R. E., 2004 "Parchment versus Guns" entry in *The Encyclopedia of Public Choice, Vol. 2*, Ch. K. Rowley and F. Schneider (eds.). New York: Kluwer (now Springer), pp. 731-4.
- l. Wicksell, K. 1958. "A New Principle of Just Taxation," in R. A. Musgrave and A. T. Peacock (eds.), *Classics in the Theory of Public Finance*. New York: St. Martin's Press: 72-118. First published 1896.
- m. Wittman, Donald 1989. "[Why Democracies Produce Efficient Results](#)," *Journal of Political Economy* 97(6): 1395-1424(December).

III. Externalities and "Market Failure"

- a. Bator, F. M. 1958. "[The Anatomy of Market Failure](#)," *Quarterly Journal of Economics* 72(3): 351-79(August).
- b. Blume, L. 2008. "[Duality](#)" entry for the *New Palgrave Dictionary of Economics* (second edition).
- c. Buchanan, J. M. and Wm. C. Stubblebine 1962. "[Externality](#)," *Economica* 29(116): 371-84(November).
- d. Coase, R. H. 1960. "[The Problem of Social Cost](#)," *Journal of Law and Economics* 3(1): 1-44(October).
- e. Dahlman, C. J. 1979. "[The Problem of Externality](#)," *Journal of Law and Economics* 22(1): 141-62(April).
- f. Demsetz, H. 1969. "[Information and Efficiency: Another Viewpoint](#)," *Journal of Law and Economics* 12(1): 1-22(April).
- g. Demsetz, H. 1996. "[The Core Disagreement between Pigou, the Profession and Coase in the Analyses of the Externality Question](#)," *European Journal of Political Economy* 12(4): 565-99(December).
- h. Mueller, D. C., 2003, Chapter 2.
- i. Pelikan, P., 1988. "Can the Imperfect Innovation System of Capitalism be Outperformed?," in G. Dosi, Ch. Freeman, R. Nelson, G. Silverberg, and L. Soete (eds.), *Technical Change and Economic Theory*. London: Pinter Publishers Limited: 370-98.
- j. Pigou, A. C., 1932, *The Economics of Welfare*, (4th ed.). London: Macmillan (1st edition 1920). Online Liberty Fund PDF reprint. Selections as specified in class.

IV. Voting

- a. Black, D., 1958, *The Theory of Committees and Elections*. Cambridge, UK: Cambridge University Press. Selections as specified in class.
- b. Buchanan, J.M., and G. Tullock, 1962, *The Calculus of Consent: Logical Foundations of Constitutional Democracy*. Online Liberty Fund PDF reprint. Selections as specified in class.
- c. Casella, A., nd, "[The Simple Logic of Storable Votes](#)," in *Storable Votes* (book manuscript), Ch. 1.
- d. Mueller, D. C., 2003, Selections from Chapters 4, 5, 6, 7, 8, 11, 12, 13, 14, 15 as specified in class.

V. Normative Considerations

- a. Buchanan, J. M. 2001, "An Ambiguity in Sen's Alleged Proof of the Impossibility of a Pareto Libertarian," as reprinted in Vol. 17 of *The Collected Works of James M. Buchanan*, Indianapolis, Liberty Fund, pp. 71-9. First published 1996.
- b. Mueller, D. C., 2003, Selections from Chapters 23, 24, 25, 26, 27 as specified in class.
- c. Sen, A. 1970. "[The Impossibility of a Paretian Liberal](#)," *Journal of Political Economy* 78(1): 152-7(January-February).

VI. Fiscal Federalism I

- a. Bradford, D. F. and W. Oates 1971. "[Towards a Predictive Theory of Intergovernmental Grants](#)," *American Economic Review, Papers and Proceedings* 61(2): 440-8(May).
- b. Buchanan, J. M. 1965. "[An Economic Theory of Clubs](#)," *Economica*, N.S., 32(125):1-14(February).
- c. Hamilton, A., J. Jay, and J. Madison 2001. *The Federalist* (edited with an "Introduction" by G. W. Carey and J. McClellan). Online Liberty Fund PDF reprint. Originally published 1787-1788. Selections as specified in class.
- d. Inman, R. P. and D. L. Rubinfeld 1997. "[Rethinking Federalism](#)," *Journal of Economic Perspectives* 11(4): 43-64(Fall).
- e. Landa, J. T., 1986. "[The Political Economy of Swarming in Honeybees: Voting-with-the-Wings, Decision-Making Costs, and the Unanimity Rule](#)," *Public Choice* 51(1): 25-38.
- f. Mueller, D. C., 2003, Chapters 9, 10.
- g. Oates, W. E. 1999. "[An Essay on Fiscal Federalism](#)," *Journal of Economic Literature* 37(3):1120-49(September).
- h. Olson, M., Jr. 1969. "[The Principle of 'Fiscal Equivalence': The Division of Responsibilities among Different Levels of Government](#)," *American Economic Review, Papers and Proceedings* 59(2): 479-87(May).
- i. Tiebout, Ch. M. 1956. "[A Pure Theory of Local Expenditures](#)," *Journal of Political Economy* 64(5): 416-24(October).
- j. Tocqueville, A. de 1835. *Democracy in America, Volume 1: Chapter on "The Federal Constitution"*. Online edition.

VII. Fiscal Federalism II

- a. Besley, T. and S. Coate 2003. "[Central versus Local Provision of Public Goods: A Political Economy Analysis](#)," *Journal of Public Economics* 87(12):2611-37(December).
- b. Boschken, H. L. 1982. "[Organization Theory and Federalism: Interorganizational Networks and the Political Economy of the Federalist](#)," *Organization Studies* 3(4):355-73.
- c. Brennan, G. and J. Pincus 1990. "[An Implicit Contract Theory of Intergovernmental Grants](#)," *Publius: The Journal of Federalism* 29(4): 129-44(Fall).
- d. Breton A. and A. Scott, 1978. *The Economic Constitution of Federal States*. Toronto: University of Toronto Press, Ch. 3.
- e. Cooter, R. D. 2000. *The Strategic Constitution*. Princeton: Princeton University Press. Selections from Part II as specified in class.
- f. Garzarelli, G., 2004. "[Old and New Theories of Fiscal Federalism, Organizational Design Problems, and Tiebout](#)," *Journal of Public Finance and Public Choice* 22(1-2): 91-104.

- g. Garzarelli, G., 2006. "[Cognition, Incentives, and Public Governance: Laboratory Federalism from the Organizational Viewpoint](#)," *Public Finance Review*, 34(3): 235–57(May).
- h. Garzarelli, G and M. Holian, 2010. "Decentralization in Firm and State," Working Paper.
- i. Oates, W. E., 2005. "[Toward a Second-generation Theory of Fiscal Federalism](#)," *International Tax and Public Finance* 12(4): 349-373(August).
- j. Qian, Y. and B. R. Weingast, 1997. "[Federalism as a Commitment to Preserving Market Incentives](#)," *Journal of Economic Perspectives* 11(4): 83-92(Autumn).
- k. Salmom, P. 1987. "Decentralization as an Incentive Scheme," *Oxford Review of Economic Policy* 3(2): 24-43(Summer).
- l. Seabright, P. 1996. "[Accountability and Decentralization in Government: An Incomplete Contract Model](#)," *European Economic Review* 40(1): 61-89(January).
- m. Weingast, B. R., 2009. "[Second Generation Fiscal Federalism: The Implications of Fiscal Incentives](#)," *Journal of Urban Economics* 65(3): 279-93(May).

VIII. Democracy, State-formation & Creation, Violence and All That...: A Sampling

- a. Acemoglu, D., D. Cantoni, S. Johnson, J. A. Robinson, 2008. "[From Ancien Régime to Capitalism: The Spread of the French Revolution as a Natural Experiment](#)," Working Paper.
 - b. Bates, R., A. Greif, S. Singh 2002. "[Organizing Violence](#)," *Journal of Conflict Resolution* 46(5): 599-628(October).
 - c. Bush, W. C. and L. S. Mayer 1974. "[Some Implications of Anarchy for the Distribution of Property](#)," *Journal of Economic Theory* 8(4): 401-412(August).
 - d. Coyne, Ch. and P. Boettke 2009. "[The Problem of Credible Commitment in Reconstruction](#)," *Journal of Institutional Economics* 5(1): 1-23(April).
 - e. Leeson, P. T. 2007. "[An-arrgh-chy: The Law and Economics of Pirate Organization](#)," *Journal of Political Economy* 115(6): 1049-94(December).
 - f. Mueller, D. C., 2003, Chapters 16, 17, 18.
 - g. Olson, M. 1993. "[Dictatorship, Democracy, and Development](#)," *American Political Science Review* 87(3): 567-76(September).
 - h. Robinson, J. A. 2006. "[Economic Development and Democracy](#)," *Annual Review of Political Science* 9: 503-27.
 - i. Tullock, G. 1971. "[The Paradox of Revolution](#)," *Public Choice* 11: 89-99(Fall)
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