

# Constitutional Political Economy – Fall 2005

## George Mason University

### **Answer eight of the eleven questions.**

1 A number of people have advocated something called anarcho-capitalism, as if this type of arrangement were different than what presently exists. But is it really? Or might there be an observational equivalence between anarcho-capitalism and our prevailing form of social organization? In addressing this issue, do not engage in such evasions as asserting that under anarcho-capitalism people obey the rules of property and contract while under prevailing democratic arrangements other options are available to people, for such a distinction is nonsensical in that it seeks to solve a problem by ignoring it.

2 Many scholars have indicted democracy based on claims about voter ignorance. In that indictment, political outcomes are assimilated to a model of choice, only the chooser is modeled as stupid. What if, instead, democratic processes were recognized as being complex or catallactical phenomena where outcomes are interactive and emergent, but are not direct objects of choice. The intelligence that matters would not so much be that which is embedded in people's heads as it would be that which is diffused throughout the institutional nexus through which the congeries of democratic outcomes emerge, just as market outcomes emerge and are not chosen. How would you sketch the central features of such an alternative approach to democratic governance?

3 Are there any issues of microfoundations for constitutional governance that warrant exploration? If so, what are they and how would you propose to explore them? For instance, most formulations take a kind of big-bang or top-down approach. This is illustrated by the use made of the Hobbesian dilemma and Rawls' veil of ignorance construction, where the analytical argument is of the same structure as real business cycle theorizing, i.e., aggregate outcomes are modeled as a simple addition across individuals. How might you go about trying to formulate some type of interactive or bottom-up formulation?

4 Is governance among a society of free people something that belongs in the realm of the natural, as with such activities as breathing, chewing, and bodily elimination? Or is it a talent or capacity, which can be learned or forgotten and performed better or worse, as with such activities as writing poetry, roller-skating, or golfing?

5 Imagine that John Stuart Mill, Knut Wicksell, James Buchanan and Joseph Stiglitz go out to dinner at the AEA meetings. A heated discussion ensues on the nature and significance of public goods and their provision. Reconstruct this conversation based on what you know of the different positions these scholars carved out on the subject. Hint: Mill's position can be found in *Principles* in the

section on the Laissez Faire proposition; Wicksell in his essay on Just Taxation, Buchanan in *The Demand and Supply of Public Goods*, and Stiglitz in his textbook on the public sector.

6 In your mind what are the respective contributions of F. A. Hayek and James Buchanan to our understanding of the liberal order and the constitutional project of controlling the state?

7 Imagine you have grown up in a communist country and you studied economics to become an economic researcher. A revolution takes place in your society and as one of the brightest students among the new PhD's you are called upon to lead the economic team for the transition. What advice would you give for achieving successful and sustainable reforms?

8 Modern political economy has seen the development of arguments in favor of federalism as a governmental structure in the work of Buchanan and Tullock, Vincent Ostrom, William Riker and Barry Weingast. Drawing on these scholars, what are the economic benefits, if any, of federalism? In answering that question first define what you (and they) mean by federalism. What are the biggest failings of federalism as a governmental structure?

9 In much of economics and constitutional thinking, the Paretian criterion has become the gold standard of evaluation. Paretian utilitarianism as a norm is widely believed weaker than any other plausible norm such as the cardinal utilitarianism which it largely supplanted. Consider two states A and B. Suppose that A is Pareto Preferred to B. Is it the case that the cardinal utility of A exceeds that of B? Give a proof it is or a counter-example if it isn't.

10 The norm embodied in consumer surplus is a type of monetized utilitarianism. Textbooks teach how to do the computation by adding up consumers' and producers' surplus. If the population is fixed this is evidently equivalent to the mean surplus as norm. This is an odd norm for a democracy. Consider three states of an industry: perfect competition, single priced monopoly and a perfectly discriminating monopoly. Explain what happens to the textbook ranking of the three states if the *median* consumer surplus were employed as norm instead of the mean.

11 "Every man is to be presumed a knave" is an example of proverbial wisdom which is embedded in some approaches to constitutional theory. Discuss the relationship (if any) between proverbial wisdom and statistical robustness.