

Question 1. Argue that a policy you consider heinous is KH efficient. Be careful not to confuse transfers with deadweight costs.

I'll talk about abortion for lack of a policy I actually find heinous (this is how tolerant I have become).

First, a note on efficiency and moral evil: If I was 100 percent sure that something is KH efficient then would not that be enough for me to change my mind about its being heinous? What other criterion for abomination could I have than KH efficiency? Under certain provisos, KH efficiency is my favorite moral criterion. If I knew that the dollar value is maximized, that all transaction costs are zero, all information costs are paid, all collective organization costs are negligible so that people can raise money easily for whatever cause without worrying about group size, and, importantly, that everyone has the ability to pay for what they want, then, in my view, that would be the best criterion of judgment of good and evil. Unless of course, I consider God's preference and I had some independent access to it.

Let's say I am 100 percent sure God has a preference against abortion and let's say my first preference is always to follow God's preference. Then I would have indeed a criterion for judging abomination independent of KH efficiency. God does not participate in transactions, so his preference is not translated in bids.

? free riding?

All people who oppose abortion can bid today against the policy by paying those who are in favor. Those who are in favor are, other things equal, doctors who profit from it more than they would profit from tending to children, parents who profit from it more than they would profit from raising children, uncles who profit from the absence of nephews more than they would profit from having nephews and so on. Philosopher R. Hare applied the golden rule – which says give the treatment you want yourself to receive – to solve the problem of abortion and realized that some of the fetuses might be against their being aborted, but some might be in favor, depending on the conditions of their birth and raising among other things. The fetuses' ability to pay would probably reflect the kind of loans they could make against their foreseen abilities to make money. Under no transaction costs for 'all' involved, all these bids would have to be counted.

Now that we know which parties participate in the bid we can think about how each camp raises money for their cause. There is always a problem of free riding that the opposition camp has to solve. It's hard to judge for instance whether the status quo now reflects KH efficiency. Perhaps the dollar value of resources would be maximized if the status quo changed, but due to free riding in a collective effort to raise money, the bids don't actually get to be made. We need to keep in mind this transaction cost asymmetry between pro-choice and pro-life. Pro-choice people don't care about free riding in raising money simply because the status quo already reflects their preference. This means that even if under zero organization costs of opposition the dollar value of resources were maximized by a pro-life policy, the actual positive cost of organizing the pro-life interest group might outweigh the benefit that the pro-life group would enjoy if they had it their way.

This makes a good example to talk about deadweight costs - one side's losses that are not the other side's gains such as resources spent in the political fight itself and in consequence of the fight. If abortion was outlawed, unlicensed abortion would increase women's risk of death, which counts as a deadweight costs. Additional systematic coercion to punish women or doctors who commit abortion also counts as a moral deadweight costs. The fact that the pro-lifer camp believes 'their' share of the deadweight loss would outweigh 'their' benefit also guards the status quo. Even if God was against abortion all other things equal, the added systematic coercion and mothers' risk of death before they had a chance of repentance (or the chance of deciding to make and raise another child) are deadweight costs that count to him.

Question 2. What is your maximum defensible estimate of the probability of voter decisiveness in American presidential elections. Use the formula from the notes to organize your answer.

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We need to use the binomial theorem here but we need to employ it twice due to the electoral college process. To make a difference in the presidential elections, a voter must first make a difference in the selection of electors in the Electoral College, and then hope that a randomly drawn Elector there will make a difference in the proper presidential election. Since these are two independent events, I should perhaps multiply the two probabilities. (This is one way to think about it, a classmate suggested this so I am going along for lack of a better strategy). Let's see. Let the number of registered voters in a state be v , of the form $2n+1$. Let the probability that a random voter in the home state in question votes a

certain way be “p” and the probability that she votes the other way be (1-p). My chance of making the difference is highest (maximum defensible”) when the probability is .5. The further from 0.5 the lower the chance that my vote makes a difference.

Then, the probability that a voter makes a difference in the popular vote for the Electoral College is:
 $p(\text{tie}) = [1 / \sqrt{\pi n}] (4p-4p^2)^n$.

Voter power is highest in the state with the least number of registered voters. That is Wyoming, the least populous state and the state with the least number of registered voters, 228401 according to the Guardian 2012 census data. If $n = (228401-1) / 2 = 114200$, then, assuming $p = 0.5$, we get a probability of making the decisive difference of 0.00167.

The problem with using Wyoming as an example is that actually Wyoming is highly Conservative so the probability that the next random Wyoming voter votes a certain way is quite removed from 0.5. This fact decreases the chance that my vote would be decisive. Perhaps I should look for a state where the probability is the closest to 0.5. at the cost of there being a higher number of voters.

Continuing with Wyoming, we can calculate the probability that a member of the Electoral college is tie-breaking. The number of electors is 538 so n here is $(538-1)/2=264$. We get a probability of 0.034723.

Multiplying the two probabilities yields $0.00167 * 0.034723 = 0.000058$.

This means that even in a state where population is low and political preference is not skewed at all, the probability that my vote is decisive in the presidential elections is still very low, $1/17250$.

high expected value

Question 3. It frequently happens that two senators who represent the same state disagree. Is there any way for the median voter theorem to explain this?

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The first observation is that the median voter theorem explains convergence, not divergence. Then I need to think of situations that make the median voter theorem “consistent” with senators' disagreement. I shall name three explanations why they are consistent. But! If I think these situations through I shall also see how the median voter theorem actually “explains” the disagreement. Let's see.

Every two years, one-third of the Senate's members must be reelected or vacate their seats at the end of

their terms. The median theorem predicts convergence between candidates in one election but senatorial elections are staggered. One explanation for consistency is that the preference of the median voter frequently changes over the span of two years. The “old” senator happens to represent the old median voter, the new senator, the new median voter. So the first possible explanation behind the change of the median voter's preference is that voters' individual preferences changed over time.

A second possible explanation behind the change in the new median voter's preference is that, even though no particular person's preference changed at all, the pool of voters changed. This makes sense because within the span of two years, some non-voters turn 18, while some voters pass away.

A third possible explanation for consistency is that disagreement is not on issues that can be assimilated in the one dimension that matters for elections: conservative-liberal. The median voter-theorem predicts convergence in elections where candidates compete on one dimension. It does not say anything about other issues not assimilated.

But here is a fourth possible situation where the median voter theorem is not merely consistent with disagreement but actually “explains” it. Voters have a certain policy preference, but they believe that if they elect two senators who agree on everything then they would stop acting as checks for one another, collude and together grab power at the expense of the electorate. Since voters know elections are staggered, voters actually prefer a second senator that disagrees with the first on at least some issues. The median voter prefers a low level of government “L” but she knows that voting for candidates who promise “L” will actually result in a level higher than “L”; promises about the level of government itself are particularly hollow. The median voter knows that the best way to secure a level L or smaller is to vote two senators who disagree on something important, whatever that issue was, but nonetheless sufficiently important for each of the two senators to keep close watch on the other senator.

Question 5. How would restricting the franchise to college graduates affect US domestic policy? In particular how would the old and new median voter differ?



I see two ways in which this franchise restriction may not affect the preference of the median voter very much. The first is the miracle of aggregation: According to econometric analysis by Delli Carpini and Keeter indeed college education is correlated with higher political knowledge. However, so long as

uninformed voters vote without bias (do not make systematic political errors), then the uninformed votes are distributed equally on each side. Under this assumption the outcome is always decided by the majority of those who are informed. This is the miracle of aggregation.

The second is that indeed college graduates tend to be more liberal but they are also less politically active so they might not actually express their preference in a vote. If either all errors are random, or if no college graduate shows up on the election day, the actual median “voter” does not change.

However, the assumption that present uninformed voters do make systematic errors of judgment is more realistic. If so, then restricting the franchise might lead to better policies, because if the median voter judgment on which policy better serves her preference becomes more accurate, then both parties change platforms towards that more informed judgment as what's good for the median voter. Let's think of the issue of free trade and assume an educated person is also more likely to be more educated about the benefits of free trade. Conservatives and liberals alike become more favorable to free trade. More generally, informed voters are also more likely to understand long term unintended consequences and track these consequences back to the responsible policy maker rather than simply punishing incumbents for present states of affairs. Again, the restriction might lead to more responsible politicians and thus better policies. Non-college graduates may also vote systematically conservative on several issues such as drug policy, gay marriage, abortion. Their disenfranchisement would shift the median voter to the liberal camp.

One last note is that such a restriction would be indefensible and quickly overturned. As I mentioned before, the median voter might be more informed about what is good for the median voter but the old median voter would become less represented. Such restriction would go against democratic and anti-elitist principles as well as against the liberal principle that each person is the best judge in their own case. Both principles are strong in the US. If the restriction was implemented, the disenfranchised would seek alternative representation. Their representatives would form alliances with established representatives. This segregation policy would not take long to be overturned. The median voter would return to its old position.

Question 6. If the entire US population was given a test of general political knowledge what percentile do you think you would get? Qualitatively speaking, what factors analyzed in the

empirical literature suggest you would do better than average? Worse than average?

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I think I would be lucky to score in the 60th percentile if tonight I received a call from a poll agency. I'm an F1 immigrant. I did not study American civics – except that I worked for a think tank in Romania that had connections with several important American think tanks and that I spent a day to peruse a document required for naturalization test a about two years ago, but did not refresh my memory since then. I do not read the news or conduct political discussion. In terms of naming elected representatives I would score very low. My strength is that given time to study, perhaps a week or so, I could improve my score significantly on all categories because I would know what information to target and where to look for it.

I have now Delli Carpini and Keeter's "What Americans know about politics" open on my desk. Looking at table 4.1. (the one photocopied in the lecture notes) the only factors positively correlated with knowledge that would suggest I would do better than average, are education, gender, party ID strength (due to my experience with the conservative think tank network in the US, I have always felt closer to Republicans) and the fact that I am white. Interestingly, watching TV news is negatively correlated with political knowledge. This factor would suggest I am better than the average, since I never watch TV.

I can use table 2.2 (on page 71 in the Yale University Press edition, 1989) to check my knowledge on "institutions and processes". Looking at the end of the table, where fewest people answer correctly, I see I could do well on defining the civics concepts that feature there: 'politically correct', 'sampling error', 'monetary policy', 'supply side economics', 'prime rate', 'bipartisan foreign policy' etc. I see I can do tolerably well on constitutional questions and international relations questions but am relatively insecure on questions about the mechanics of the political system. I also see I remember the substance of Roe vs Wade, but do not remember the substance of Webster decision (or whether I ever came across it), so I would not do very well on court cases questions.

Question 7. The Tiebout model shows that local governments are efficient. Offer a counter example, and explain how that is possible.

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In the Tiebout model local governments are competitive suppliers of public goods. Since citizens can

move away from localities with relatively unattractive packages of public goods and taxes to localities with relatively more attractive packages, the model predicts that citizens get the package they consider best. The strong version of the model has implications which are absurd, or blatantly false: no redistribution and no waste (B. Caplan). Just how much competition and contestability is there at work in the quasi-market for public goods?

Think of the city of Detroit which since 1990 is clearly facing relatively high income taxes, high debt, poor public services, seriously declining property values but still, in 25 years maintains 0.69 percent of its population. Elasticities must be extremely low, because the situation is too well-known to lay all blame on factors such as imperfect information of substitutes / alternative localities.

Surely part of the problem is information. Teske et al. in "Establishing the micro foundations of a macro theory", find that only 20% of Long Island citizens surveyed could identify whether their school district's expenditures were above average. But the problem may not merely be lack of incentives for suppliers but also disincentives. Federalism might fuel a disinformation war between public good suppliers and thus increase the level disinformation. This is an example of perverse incentives faced by suppliers who take advantage of citizens' ignorance. The fact that citizens may wrongly punish one jurisdiction through migration or wrongly reward another. Also, if citizens are ignorant about unintended consequences of past local policies, they may wrongly punish the incumbent in their jurisdiction through migration to another (or wrongly reward another jurisdiction through entry). There may not be enough incentives for any public good supplier to defend against disinformation since suppliers' income does not directly depend on the raise in the value of citizenship in their jurisdiction. More citizens may simply increase the administration costs without increasing the benefits of governing. Suppliers may also fear that supplying higher quality public services may change the composition of the population and perhaps affect the dominant coalition that keeps them in power. In that case, they may choose to play conservative.

The issue of long term consequences I mentioned above brings me to a second problem: intertemporal fiscal policy. If citizens are locked in a jurisdiction, and suppliers of public goods have a choice between financing additional public services by increases taxes and financing them by selling bonds and increasing debt, then Ricardian equivalence has a good chance to hold. Both financing options basically mean taxation, whether it occurs today or tomorrow. But in the Tiebout model citizens are not locked in, and here bond financing looks more appealing. In the Tiebout model citizens may demand a

higher level of public services to enjoy them in the present hoping that they and their progeny would have moved to a different jurisdiction when bonds have to be paid off. Usually the public debt induced decrease in the value of citizenship in a locality is reflected in the price of real estate. However, not everyone holds real property. This is an example of race to the bottom since the overall level of public services is inefficiently high.

These problems are due to the absence of a residual claimant behind public services provision. As Leeson, Coyne and Boettke in "Quasi-market failure" recognize, the reasons for quasi-market failure might be that quasi-market is merely a 'quasi'-market. R. Wagner and others propose that public services suppliers acquire a for profit status.