1. **"New political economy" vs. Public Choice**
   Blankart, Ch.B., Koester, G., "Political Economics" versus Public Choice: Two views of political economy in competition" in: KYKLOS 59 (2006), 171–200

Aim of the paper is a comparison of both approaches. Referring to three research fields that are common to both their performance will be evaluated.

- Public Choice allows analysing public policy and markets in one framework.
  Political scientists criticise that the approach does not enhance the understanding of politics, but pushes the economic approach too far. Others criticise that the economic approach is not pushed hard enough into politics.
  Public choice and political economics are approaches to study politics from an economic perspective.

- The public choice paradigm
  Arrow showed that a state cannot be seen as an analogy to a person because of the aggregation of preferences.
  Buchanan stressed the importance of the exchange paradigm for politics. Consensus as a benchmark for public-decision making.

  Definition of p.c. referring to T. Kuhn (1962): public choice school as a scientific paradigm within economic, as it contains all four attributes of scientific paradigms: [1. it shares basic generalisation with economics, assuming that actors are self-interested and rational, 2. it is based on a common heuristic model resulting from the application of the assumption of self-interested and rational players to the realm of politics, 3. its preferred method is the positive analysis of political institutions, 4. the common goal is the derive normative suggestions for improvement of political and economic institutions.]

- Challenges to the public choice paradigm

  Two lines of critic come from the political science and the Chicago school of economics.

  Policial scientists criticise that "public choice does not little more than restate existing knowledge in rational choice terminology and contributes little to the understanding of real politics."

  Chicago scholars argue that "individuals reach Pareto-efficient outcomes even in the political sphere and that existing institutions are the most efficient possible, for the only reason not to adopt a superior alternative would be that the costs of change would outweigh the benefits." (compared to the first critic from political scientists this critic is hard to counter.)

- Political economics as a new challenge to public choice

  Some claim that political economics are not just the challenger of public choice, but its successor. Public choice is only seen as a building block of political economics. See how Person, Roland, Tabellini view public choice. (Quotation p. 175)

From the viewpoint of political economy – public choice is restricted to the study of the "Leviathan" and neglects voters and conflicts between them, and also political institution. Political economists claim that they introduced models with rational voters, politicians and parties.

Several aspects (p. 175-176) counter this thesis.

- Comparison of their research in three distinguished fields

  The political business cycle

  p.c. criticised the benevolent dictator approach and promote the assumption of self-interested agents.

  Political parties are mainly interested in obtaining a majority of votes. Therefore politicians try to realise "desirable economic conditions" before elections. This might refer to loose monetary policy and deficit spending which can lead to economic cycles.

  Other approaches focus on the relationship between unemployment and inflation before elections. (Phillips curve).

  - Integrating rational expectations – the political-economics approach

    Contributions of political economists showed that political business cycles can occur even if all actors have rational expectations.

  - Preventing political business cycles

Economists that searched for ways to prevent political business cycles suggest institutional improvements that should affect the triggers of political business cycles such as the extent and timing of government spending and monetary policy.

Integration and Secession – Explaining the size of nations

- Political economics aims to develop a general theory of *The Size of Nations* (see Alesina, Spolaore). Approach is normative and positive. The contribution lacks from several aspects. The main problem is that it cannot explain what it wanted to explain. Further it neglects fiscal aspects and the mobility of citizens. The usage of empirical data did not enhance the consistency of the theory. Public choice did not offer a theory of comparable generality yet.
- Alesina et al. see the problem that their theory is unable to derive institutional improvements that could enhance economic welfare and individual liberty.

Summary:

- Political economics deserve praise for the integration of the concept of rational expectations into business-cycle models.
- Political economics literature on the size of the nations turned out to be less persuasive. On normative grounds the

idea of an optimal size of nations is misplaced. The argument for a collective optimization is undemocratic. On positive ground, the assumption of exogeneity of trade regimes of the trade regime leads to inconsistent predictions. Suggestions for institutional improvements can hardly be derived.

- [Within constitutional political economy the focus is on trade-offs within existing representative democracies and miss the central question of constitutional analysis: how to secure the alignment of public policy with individual preferences?]