

# Economic Analysis of Politics: Contributions and Limits of Public Choice Theory

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## ABSTRACT

Public Choice Theory (PCT) has profoundly reshaped the positive analysis of politics by applying microeconomic reasoning to political institutions, incentives, and collective decision-making. This article offers a comprehensive and integrative review of the theoretical foundations, empirical applications, and conceptual limitations of PCT, with particular emphasis on the transition from the notion of a benevolent state to a view of politics as a system of exchange constrained by institutional rules (Buchanan & Tullock, 1962; Mueller, 2003).

Using a narrative review with systematic elements, the study synthesizes classical contributions -such as the median voter theorem, political budget cycles, regulatory capture, and the logic of collective action- with contemporary extensions addressing constitutional design, populism, global public goods, and behavioural critiques (Sen, 1999; Kahneman, 2011). The literature is organised into four analytical axes: foundational models, institutional mechanisms, theoretical extensions, and empirical applications.

The review demonstrates that PCT provides a robust framework for explaining recurrent government failures arising from self-interested behaviour under imperfect institutional constraints. However, it also reveals important limitations stemming from assumptions of full rationality and narrow self-interest, which overlook normative, social, and cognitive dimensions of political behaviour. The article therefore argues for an integrative framework that complements PCT with insights from behavioural economics, political philosophy, and institutional sociology.

In practical terms, the findings highlight the relevance of institutional design, transparency, accountability, and polycentric governance for addressing contemporary challenges such as fiscal instability, corruption, populism, and the provision of global public goods.

**Keywords:** political economy; public choice; institutions; governance; populism; public policy.

## INTRODUCTION

The analytical relationship between economics and politics has been present since the origins of classical political economy. However, it was only with the emergence of Public Choice Theory (PCT) that a systematic and empirically oriented framework was developed to explain political behaviour using the methodological tools of microeconomics. By extending assumptions of rational choice, incentives, and constrained optimisation to political actors -voters, legislators, bureaucrats, regulators, and interest groups- PCT replaced the traditional normative vision of the state as a benevolent maximiser of social welfare with a positive model of politics as an exchange process governed by institutional rules (Buchanan & Tullock, 1962; Mueller, 2003).

This conceptual shift reframed a fundamental question in political theory. Rather than asking how societies should decide collectively, Public Choice Theory focuses on how collective decisions are actually produced, and which systematic biases arise from political interaction under imperfect information, asymmetric power, and weak institutional constraints. As a result, the theory offers a coherent explanation for recurrent government failures such as rent seeking, regulatory capture, fiscal irresponsibility, electoral manipulation, and clientelism-

phenomena that cannot be adequately understood through models that assume disinterested public officials or frictionless collective choice.

Over more than six decades, the Public Choice research programme has expanded both theoretically and empirically. Early formal models -including the median voter theorem (Black, 1958; Downs, 1957), the logic of collective action (Olson, 1965), and the foundations of constitutional political economy (Brennan & Buchanan, 1985)- have been complemented by dynamic analyses of political budget cycles (Nordhaus, 1975; Rogoff & Sibert, 1988), regulatory capture (Stigler, 1971; Peltzman, 1976), and institutional constraints on executive power (Weingast, 1995; Persson & Tabellini, 2000). More recent contributions have applied the PCT framework to contemporary phenomena such as populism, institutional erosion, democratic backsliding, and the governance of global public goods (Acemoglu & Robinson, 2012; Levitsky & Ziblatt, 2018; Galiani & Torrens, 2022).

At the same time, Public Choice Theory has been the object of sustained critique. Scholars from behavioural economics, political psychology, sociology, and normative political philosophy have questioned the assumptions of full rationality, stable preferences, and narrow self-interest that underlie classical models (Sen, 1999; Kahneman, 2011; Offe, 2006). Empirical evidence demonstrates that political behaviour is frequently shaped by cognitive biases, social identities, emotions, and normative commitments that cannot be reduced to instrumental utility maximisation (Akerlof & Kranton, 2010; Achen & Bartels, 2016). These critiques have generated an interdisciplinary dialogue that seeks to refine, rather than replace, the core analytical insights of Public Choice Theory.

Despite the breadth of existing scholarship, the literature remains fragmented across theoretical traditions, empirical domains, and normative perspectives. Many reviews remain either purely descriptive or narrowly focused on specific subfields, failing to offer an integrative synthesis that connects foundational models, institutional mechanisms, contemporary extensions, and empirical applications within a single analytical framework. This fragmentation obscures the conceptual unity of the Public Choice research programme and limits its practical relevance for institutional design and public policy reform.

The objective of this article is to provide a comprehensive and analytically integrated review of Public Choice Theory, highlighting both its enduring explanatory power and its conceptual limitations. Specifically, the study seeks to: (i) systematise the core assumptions and foundational models of PCT; (ii) examine how these models explain political and institutional behaviour; (iii) assess major contemporary extensions and critiques; and (iv) identify robust empirical applications with implications for governance and institutional reform.

To achieve this objective, the article organises the literature into four analytical dimensions: theoretical foundations, institutional mechanisms, extensions and critiques, and empirical applications. Building on this synthesis, the paper proposes an integrative perspective that combines the incentive-based logic of Public Choice Theory with insights from behavioural economics, political philosophy, and institutional sociology. This approach aims to provide a more comprehensive diagnosis of contemporary political dynamics and to inform the design of institutional arrangements capable of balancing efficiency, accountability, legitimacy, and democratic resilience.

## REVIEW METHODOLOGY

This study adopts a narrative review with systematic elements, combining the conceptual depth of qualitative synthesis with transparent and replicable procedures commonly associated with systematic reviews. This hybrid approach is appropriate for addressing complex and interdisciplinary bodies of literature, such as Public Choice Theory, where theoretical, empirical, and normative contributions coexist across multiple academic traditions.

### Guiding Research Questions.

The review was structured around four guiding questions:

1. What are the core theoretical assumptions and foundational models of Public Choice Theory?

2. How do Public Choice frameworks explain the behaviour of political actors and institutions?
3. What major extensions and critiques have emerged in recent decades?
4. Which empirical applications provide robust insights for contemporary institutional design and public policy?

These questions served as the analytical backbone for the selection, classification, and synthesis of the literature.

### **Search Strategy and Data Sources.**

Between January and August 2025, a comprehensive search was conducted across major academic databases and bibliographic repositories, including Scopus, Web of Science, JSTOR, Google Scholar, and the catalogues of leading academic publishers. Searches were performed in both English and Spanish using combinations of the following keywords:

*public choice, median voter, rent seeking, regulatory capture, political business cycles, constitutional political economy, populism political economy, collective action, global public goods.*

Seminal works, highly cited articles, canonical monographs, and influential review studies were prioritised. Special attention was given to texts that have shaped theoretical debates, introduced methodological innovations, or generated significant empirical evidence, including foundational contributions by Downs (1957), Buchanan and Tullock (1962), Olson (1965), Black (1958), Mueller (2003), Persson and Tabellini (2000), Drazen (2000), and Besley (2006).

### **Inclusion and Exclusion Criteria.**

To ensure analytical relevance and academic quality, the following inclusion criteria were applied:

- a) Foundational theoretical contributions to Public Choice Theory;
- b) Peer-reviewed journal articles and academic monographs with sustained scholarly impact;
- c) Studies with direct implications for institutional design and public policy;
- d) Interdisciplinary contributions from behavioural economics, political sociology, and political philosophy.

Conversely, the exclusion criteria comprised:

- a) Duplicated or redundant publications;
- b) Studies with non-replicated findings or manifest methodological weaknesses;
- c) Purely divulgative or non-academic sources.

### **Analytical Framework and Synthesis.**

The selected literature was coded thematically according to four analytical categories: foundations, institutions, extensions, and applications. For each contribution, the review identified core assumptions, causal mechanisms, conditions of validity, empirical robustness, and conceptual limitations.

Quality was assessed through theoretical triangulation, combining internal consistency, methodological transparency, citability, and replicability. This procedure enabled the construction of a conceptual map that organises the main findings of Public Choice Theory and its contemporary developments, serving as the empirical and analytical basis for the results and discussion sections.

## RESULTS OF THE REVIEW

### Public Choice Theory as an Interdisciplinary Framework: Economics, Politics, and Law

Public Choice Theory (PCT) occupies a central position at the intersection of economics, political science, and legal analysis. Its analytical relevance stems from two fundamental propositions. First, public policies do not arise from a benevolent social planner but from a process of political exchange characterised by information asymmetries, agency problems, and rent-seeking behaviour. Second, institutions are not neutral constraints; they define the rules of the game -property rights, accountability mechanisms, and enforcement structures- that systematically shape political incentives and outcomes (North, 1990; Buchanan, 1987; Acemoglu & Robinson, 2012).

From this perspective, the primary objective of PCT is to explain and predict political outcomes based on the incentive structures faced by voters, legislators, bureaucrats, and organised interests. Law becomes analytically indispensable at two levels. At the constitutional level, legal rules establish the meta-framework within which political and economic interactions occur (Brennan & Buchanan, 1985). At the regulatory level, legal instruments define the scope of discretion and the risk of capture in policy implementation (Stigler, 1971; Peltzman, 1976). Economics provides formal modelling and counterfactual reasoning; law supplies the normative and institutional architecture; and politics reflects the dynamics of power, bargaining, and coalition formation (Persson & Tabellini, 2000; Drazen, 2000).

This interdisciplinary triangle clarifies the persistent gap between theoretically efficient outcomes and empirically observed policies. It offers a coherent framework for diagnosing recurrent public failures and for designing institutional reforms that align private incentives with collective welfare. Empirical research demonstrates that inclusive and accountable institutions are systematically associated with higher levels of economic performance and political stability (Besley, 2006; Boettke & Coyne, 2020).

Recent scholarship further underscores the importance of integrating behavioural and sociological perspectives into institutional analysis. Cognitive biases, social identities, and normative expectations play a decisive role in shaping political behaviour and policy compliance, complementing the incentive-based logic of PCT (Kahneman, 2011; Munger, 2018; Galiani & Torrens, 2022). Consequently, institutional effectiveness depends not only on formal rules but also on social trust, legitimacy, and deliberative quality.

Within this broader framework, Public Choice Theory not only explains the structural limitations of government action but also provides normative guidance for rethinking democratic governance in complex environments. Its insights are increasingly relevant for addressing challenges such as the regulation of global public goods, climate governance, and the containment of populist leaderships, where traditional hierarchical solutions prove insufficient (Ostrom, 2010; Levitsky & Ziblatt, 2018). PCT thus contributes to bridging theory and practice by offering analytically grounded criteria for institutional design, transparency reforms, and multilevel governance arrangements.

### Theoretical Foundations of Public Choice.

The consolidation of Public Choice Theory (PCT) is inseparable from a series of formal results that challenged the feasibility of coherent collective decision-making. Arrow's impossibility theorem demonstrated that no social choice rule can consistently aggregate individual preferences while simultaneously satisfying basic normative conditions such as transitivity, non-dictatorship, independence of irrelevant alternatives, and universal domain (Arrow, 1951/1963). Related findings reinforced this scepticism. The Gibbard-Satterthwaite theorem proved that any general voting mechanism is vulnerable to strategic manipulation (Gibbard, 1973; Satterthwaite, 1975), while Sen's "liberal paradox" revealed intrinsic tensions between individual liberty and Pareto efficiency (Sen, 1970). Together, these results displaced the notion of a unified "general will" and redirected analytical attention toward institutional rules, incentive structures, and strategic interaction (Mueller, 2003; Persson & Tabellini, 2000).

Downs (1957) reframed electoral competition as a market in which political parties maximise their probability of victory. Under unidimensional preferences, symmetric information, and simple majority rule, competition generates convergence toward the median voter, creating incentives for programmatic moderation. Subsequent research has relaxed these assumptions by incorporating information costs, media influence, and voter biases, showing that convergence weakens in contexts of polarisation, identity salience, and asymmetric information (DellaVigna & Gentzkow, 2010; Achen & Bartels, 2016; Prat, 2018).

Buchanan and Tullock's (1962) conception of politics as exchange further transformed political analysis by distinguishing between a constitutional stage, in which rules are chosen, and a post-constitutional stage, in which actors operate within those rules. This distinction gave rise to constitutional political economy, which emphasises that institutional design systematically conditions incentives, behaviour, and outcomes (Brennan & Buchanan, 1985; Weingast, 1995). Subsequent contributions in legislative organisation and institutional rational choice demonstrated how procedural rules, committee systems, and agenda control structure conflict and cooperation (Shepsle, 1979; Weingast & Marshall, 1988; Krehbiel, 1998).

The economic analysis of bureaucracy and regulation represents another foundational pillar of PCT. Niskanen's (1971) budget-maximising model depicted bureaucrats as self-interested agents seeking to expand organisational resources. In parallel, Stigler's (1971) capture theory and Peltzman's (1976) political equilibrium model showed how regulation may be shaped by organised interests rather than by social welfare. Contemporary research reframes these insights within principal-agent models featuring asymmetric information, incomplete contracts, and strategic interaction (Laffont & Tirole, 1993; Laffont & Martimort, 2002). Mechanisms such as judicial review, transparency requirements, and oversight procedures have been shown to discipline regulatory agencies and reduce opportunism (McCubbins, Noll & Weingast, 1987, 1989).

Collective action theory, developed by Olson (1965), explains why small, organised groups are able to overcome coordination problems more effectively than large, diffuse majorities. This asymmetry accounts for persistent rent-seeking behaviour and the political influence of concentrated interests. Ostrom's (1990, 2005) work on polycentric governance complements this perspective by demonstrating how communities can generate endogenous rules and monitoring systems to manage common-pool resources without relying exclusively on markets or hierarchical state control.

Three major analytical shifts have further strengthened the foundations of Public Choice Theory. First, causal empirical methods -including natural experiments, random audits, panel data, and regression discontinuities- have enabled rigorous testing of theoretical predictions regarding accountability, corruption, and political selection (Olken, 2007; Ferraz & Finan, 2011; Besley, 2005).

Second, behavioural public choice has incorporated cognitive biases, bounded rationality, and heuristics, refining the assumption of fully rational agents and explaining the persistence of inefficient policies (Kahneman, 2011; Schnellenbach & Schubert, 2015; Caplan, 2007). Third, the literature on state capacity and quality of government highlights how impartial institutions, low corruption, and administrative effectiveness condition growth and welfare outcomes (Besley & Persson, 2009; Rothstein, 2011; Fisman & Golden, 2017).

Together, these theoretical foundations position Public Choice Theory as an interdisciplinary research programme that integrates microfoundations of political behaviour, institutional constraints, and empirical validation. While critiques regarding reductionism and normative blind spots remain salient (Sen, 1999; Levitsky & Ziblatt, 2018), contemporary developments demonstrate that PCT has evolved into a flexible framework capable of engaging with behavioural, normative, and sociological perspectives without abandoning its core emphasis on incentives, information, and institutional design.

### **Economic Analysis of Political Institutions.**

The economic analysis of political institutions begins with the recognition that collective decision-making mechanisms are subject to inherent structural limitations. The Condorcet paradox demonstrates that collective preferences may be intransitive even when individual preferences are themselves consistent, generating cyclical majorities and decision instability (Condorcet, 1785/2014; Riker, 1982). Arrow's impossibility theorem further

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establishes that no voting rule can simultaneously satisfy a minimal set of normative criteria -universality, independence of irrelevant alternatives, non-dictatorship, and unanimity- under general conditions (Arrow, 1951/1963). These foundational results reveal that democratic procedures cannot be expected to yield perfectly coherent or socially optimal outcomes.

From a Public Choice perspective, democracy is therefore understood not as the expression of a unified “general will” but as a set of institutional rules that structure incentives, constrain behaviour, and shape the distribution of political power. Voting systems, quorum requirements, agenda-setting rules, and federal arrangements influence both the stability of outcomes and the representation of minorities (Mueller, 2003; Persson & Tabellini, 2000; Austen-Smith & Banks, 2005). Comparative research shows that variations in electoral architecture generate systematically different distributive equilibria and policy trajectories (Lijphart, 2012).

Institutional design defines the boundary between what is feasible and what is normatively desirable. Mechanisms such as fiscal decentralisation may enhance accountability and policy experimentation, yet they also increase coordination costs and the risk of opportunistic behaviour (Oates, 1999; Treisman, 2007). Horizontal checks -independent courts, audit agencies, and separation of powers- mitigate the excesses of simple majorities, albeit at the cost of greater procedural complexity and slower decision-making (Weingast, 1995; Ginsburg & Huq, 2018). Democratic efficiency thus depends less on the benevolence of political actors than on the quality of institutional constraints, transparency, and enforcement capacity (North, Wallis & Weingast, 2009).

Electoral competition models, inspired by Downs (1957), predict that political parties maximise votes by offering targeted benefits, short-term transfers, and fiscally myopic policies. These strategies respond to the limited time horizon imposed by electoral cycles and the need to mobilise specific constituencies (Persson & Tabellini, 2000; Keefer, 2007). Empirical evidence confirms the existence of political budget cycles, in which governments expand spending or reduce taxes prior to elections to increase re-election prospects (Nordhaus, 1975; Rogoff & Sibert, 1988). Such cycles are more pronounced in environments characterised by weak institutions and low information transparency (Brender & Drazen, 2005; Shi & Svensson, 2006).

Clientelism represents a further distortion arising from asymmetric information and weak accountability. Politicians distribute selective resources in exchange for electoral support, relying on local brokers and monitoring networks to enforce reciprocal arrangements (Stokes, 2005; Nicther, 2008). This practice is more prevalent where public goods provision is inefficient and voters lack credible performance signals (Keefer & Khemani, 2005; Larreguy, Marshall & Querubín, 2016).

Democratic systems also perform a selection and disciplining function, filtering political elites and sanctioning underperformance. However, these effects depend critically on the availability of information, media freedom, and institutional checks (Besley, 2006; Ferraz & Finan, 2011). In the absence of such mechanisms, electoral competition may fail to deter corruption or incompetence, allowing low-quality politicians to persist in office (Caselli & Morelli, 2004).

Campaign finance regimes and electoral rules further condition political incentives. Opaque financing structures amplify the influence of organised interests and reinforce regulatory capture (Claessens, Feijen & Laeven, 2008; Scarrow, 2007). Likewise, institutional features such as district magnitude, re-election rules, and ballot structures shape the balance between personal and programmatic accountability (Carey & Shugart, 1995; Cox, 1997). Together, these variables influence both fiscal stability and the quality of democratic representation.

The analysis of bureaucracy and regulation is framed within the principal-agent paradigm, in which citizens delegate authority to political and administrative agents under conditions of asymmetric information and divergent incentives (Miller, 2005; Gailmard & Patty, 2012). Niskanen’s (1971) budget-maximisation model remains a foundational reference, though subsequent research emphasises the role of institutional design, meritocratic recruitment, and organisational culture in shaping bureaucratic behaviour (Evans & Rauch, 1999; Dahlström & Lapuente, 2017).

In the regulatory sphere, capture theory highlights the vulnerability of agencies to influence by concentrated interests (Stigler, 1971; Peltzman, 1976). Contemporary models identify lobbying, revolving doors, and strategic information provision as key mechanisms through which regulatory outcomes are distorted (Dal Bó, 2006; Carpenter & Moss, 2014). Capture is more likely in environments characterised by low transparency, weak oversight, and high market concentration (De Figueiredo & Richter, 2014).

Finally, the logic of collective action explains why small, organised groups systematically outperform diffuse majorities in political competition (Olson, 1965). This asymmetry sustains rent-seeking behaviour and policy persistence despite net social losses (Krueger, 1974; Tullock, 1967). Political contract theory further models these exchanges as implicit bargains between interest groups and policymakers, mediated by campaign finance, information, and electoral support (Grossman & Helpman, 2001; Coate & Morris, 1999).

In sum, the economic analysis of political institutions reveals that democratic processes, while indispensable, generate systematic distortions driven by incentives, information asymmetries, and organisational constraints. Institutional quality -measured through transparency, accountability, meritocratic governance, and rule enforcement- emerges as a critical determinant of whether political systems approximate socially desirable outcomes.

### **Extensions and Contemporary Critiques.**

#### **Constitutional Public Choice and Institutional Precommitment.**

Constitutional Public Choice emerged as a response to the limitations of post-constitutional politics. Rather than focusing on specific policy outcomes, this strand of the literature redirects attention to the rules of the game that structure political behaviour. Brennan and Buchanan (1985) and Buchanan (1987) argue that, under conditions of self-interested behaviour by political and bureaucratic actors, citizens have incentives to adopt constitutional constraints that credibly limit discretionary power and contain the expansion of the “fiscal Leviathan.”

The literature identifies a range of institutional precommitment mechanisms designed to stabilise expectations and reduce opportunism. These include fiscal rules -such as deficit, spending, or debt ceilings- aimed at mitigating recurrent deficit biases (Alesina & Perotti, 1999; Debrun & Jonung, 2018); central bank independence, which restricts monetary manipulation for electoral purposes (Cukierman, 1992; Bodea & Hicks, 2015); bicameralism and veto players, which increase the transaction costs of discretionary policies (Tsebelis, 2002); federalism and decentralisation, which fragment authority and generate institutional competition (Weingast, 1995; Rodden, 2006); and judicial review, which constrains legislative and executive overreach (Ginsburg, 2003).

Recent research conceptualises constitutions as intertemporal contracts that anchor expectations and enhance the credibility of political commitments (North, Wallis & Weingast, 2009; Acemoglu & Robinson, 2019). However, institutional durability ultimately depends on perceived legitimacy and the capacity for gradual adaptation to social and technological change (Negretto, 2020). Constitutional Public Choice thus highlights a central normative tension: designing rules that effectively restrain power without unduly constraining democratic adaptability.

### **The Political Economy of Populism.**

Populism is commonly defined as a political strategy in which personalist leaders mobilise support through a moralised narrative that contrasts a “pure people” with a “corrupt elite” (Mudde & Rovira Kaltwasser, 2017). From a political economy perspective, populism exploits cognitive biases, identity-based grievances, and distributive discontent to consolidate political power while weakening institutional constraints (Dornbusch & Edwards, 1991; Acemoglu & Robinson, 2012).

Economically, populist regimes are characterised by short-term expansionary policies -such as widespread subsidies, price controls, and fiscal transfers- that generate immediate political support at the cost of long-term sustainability (Sachs, 1989; Edwards, 2019). These policies are frequently accompanied by attacks on

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autonomous institutions, including central banks, courts, and regulatory agencies, as well as by restrictions on media pluralism and transparency (Levitsky & Ziblatt, 2018; Norris & Inglehart, 2019).

The resulting dynamic is one of institutional erosion: concentration of executive power, weakening of accountability norms, and declining democratic quality (Bermeo, 2016; Przeworski, 2019). Populism thus produces regimes that preserve electoral procedures while undermining civil liberties, pluralism, and the rule of law -so- called illiberal or defective democracies (Zakaria, 1997; Diamond, 2021).

Within the Public Choice framework, populism can be interpreted as the outcome of incentive structures biased toward short-term gains and the exploitation of information asymmetries and coordination failures among voters. Antielite signalling, targeted transfers, and simplified narratives enable leaders to secure majority support even when adopted policies are socially inefficient in the long run (Keefer, 2007; Caplan, 2011). Public Choice Theory therefore provides a parsimonious explanation for both the appeal and persistence of populist governance.

### **Motivational, Behavioural, and Sociological Critiques.**

A central critique of Public Choice Theory concerns its motivational reductionism. By modelling political actors as utility maximisers, classical formulations neglect normative commitments such as justice, solidarity, and civic duty (Sen, 1999; Sandel, 2012). This omission risks marginalising values essential for democratic legitimacy, including equality of opportunity, human rights, and procedural fairness (Habermas, 1996; Rawls, 2001).

From a behavioural perspective, the assumption of substantive rationality has been systematically challenged. Cognitive biases, heuristics, and framing effects shape political judgements, producing predictable deviations from rational-choice models (Kahneman, 2011; Thaler, 2015; Lodge & Taber, 2013). These patterns are not marginal anomalies but structural features of political behaviour.

Political sociology further questions the neglect of social norms, collective identities, and political culture. Institutional arrangements operate within specific normative contexts, and their effectiveness depends on trust, reciprocity, and shared meanings (Offe, 2006; Putnam, 1993; Ostrom, 2005). Identity-based polarisation and cultural backlash have become central drivers of contemporary politics (Mason, 2018; Norris & Inglehart, 2019).

Contemporary Public Choice research has responded by incorporating social preferences, conditional altruism, and endogenous norms (Fehr & Schmidt, 1999; Ostrom, 2010), as well as by adopting methodological pluralism that integrates formal models, experiments, qualitative analysis, and historical-institutional approaches (Congleton, 2018). This evolution preserves the analytical core of PCT -its focus on incentives and institutional constraints- while expanding its capacity to account for the cognitive, normative, and cultural dimensions of political life.

### **Empirical Applications and Case Studies.**

Public Choice Theory (PCT) interprets fiscal and regulatory outcomes not as the result of a benevolent social planner but as the product of electoral incentives, institutional constraints, and interest-group pressures (Buchanan & Wagner, 1977; Drazen, 2000). Within this framework, public budgets, deficits, and debt are inherently political phenomena that reflect the strategic behaviour of actors seeking electoral survival and distributive advantage.

### **Fiscal Policy, Budget Cycles, and Deficit Bias.**

A central empirical regularity identified by the literature is the existence of political budget cycles. Governments systematically expand spending or grant tax relief prior to elections, postponing adjustment costs until after the electoral contest (Nordhaus, 1975; Rogoff, 1990). These opportunistic strategies are amplified under conditions of asymmetric information, where voters have limited capacity to assess long-term fiscal sustainability (Shi & Svensson, 2006).

Deficit bias has been linked to fragmented coalitions, weak fiscal institutions, and proportional representation systems. Alesina and Perotti (1995) show that in coalition governments each actor internalises only the benefits

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of additional spending for its constituency, generating aggregate deficits. Persson and Tabellini (2000) further demonstrate that institutional arrangements with strong executives and binding fiscal rules are more effective in constraining these incentives.

In response, countries have increasingly adopted fiscal rules, independent fiscal councils, and real-time budget transparency as credibility-enhancing mechanisms (Debrun & Jonung, 2018; Wyplosz, 2012). Evidence suggests that these instruments are most effective when embedded in broader accountability frameworks, including parliamentary oversight and citizen participation (von Hagen, 2005; Kopits, 2013).

The composition of public expenditure is also shaped by political incentives. Politicians with short electoral horizons prioritise visible current transfers over long-term investments in infrastructure and innovation (Keefer & Khemani, 2005). Strengthening bureaucratic capacity and institutionalising ex post evaluation reduce discretionary manipulation and improve spending quality (Cangiano, Currin & Lazare, 2013).

### **Corruption, Accountability, and Institutional Quality.**

Corruption emerges as a consequence of incentive failures, discretionary authority, and weak monitoring (Rose-Ackerman, 1999; Bardhan, 1997). The economic model of corruption integrates rents, monitoring costs, and expected sanctions to explain why illicit behaviour persists (Becker & Stigler, 1974). Comparative evidence indicates that anti-corruption strategies are most effective when they combine preventive, punitive, and institutional-strengthening measures (Mungiu-Pippidi, 2015).

Key mechanisms include meritocratic civil services, which reduce clientelism and enhance administrative capacity (Evans & Rauch, 1999; Dahlström & Lapuente, 2017); transparent public procurement systems with digital traceability (Fazekas & Tóth, 2016); random audits and external controls that increase the probability of detection (Olken, 2007); whistleblower protections (OECD, 2016); and open data platforms that reduce information asymmetries (Cucciniello, Porumbescu & Grimmelikhuijsen, 2017).

Independent media and organised civil society play a complementary role by increasing reputational costs and strengthening accountability (Besley & Prat, 2006; Norris, 2014). Social capital and civic participation further reinforce institutional oversight and reduce tolerance for corruption (Putnam, 1993; Bauhr & Charron, 2020).

### **Global Public Goods and Polycentric Governance.**

Global public goods—such as climate stability, public health, and international security—exhibit non-rivalry and non-excludability, creating free-rider incentives that undermine cooperation among states (Kaul, Grunberg & Stern, 1999; Sandler, 2004). Preference heterogeneity, power asymmetries, and fiscal constraints exacerbate these collective action dilemmas.

Given the limits of centralised solutions, recent research emphasises polycentric governance. Networks of cities, voluntary coalitions of states, and sectoral agreements have generated partial yet meaningful progress in climate and environmental governance (Hale, 2020). Transparency mechanisms—such as comparable emission metrics and peer review—reinforce accountability through reputational pressure (Keohane & Victor, 2016). Market-based instruments, including carbon trading systems with robust verification, enhance cost-effectiveness (Flachsland et al., 2020).

From a Public Choice perspective, effective governance of global public goods requires institutional arrangements that combine credible commitments, transparency, monitoring, and multilevel coordination. These mechanisms reduce free-rider incentives and facilitate cooperative equilibria in a decentralised international system.

## **DISCUSSION**

The review confirms three central insights that have shaped the evolution of Public Choice Theory and its dialogue with contemporary approaches. First, politics must be analysed as a system of incentives in which

market failures coexist with government failures (Tullock, Seldon & Brady, 2002). Public Choice Theory provides a coherent framework for identifying recurrent distortions -regulatory capture, clientelism, electoral budget cycles, fiscal myopia, and rent seeking- not as the result of individual malice but as predictable outcomes of institutional structures that misalign private and collective interests (Krueger, 1974; Drazen, 2000; Stokes, 2005). This perspective justifies the need for institutional correctives such as fiscal rules, independent oversight, and transparency mechanisms (Besley, 2006; Alt, Bueno de Mesquita & Rose, 2011).

Second, the evidence reinforces the proposition that rules matter. Constitutional, budgetary, and regulatory architectures define the feasible set of collective choices and shape long-term equilibria (North, Wallis & Weingast, 2009). Countries with inclusive and credible institutional arrangements exhibit greater fiscal sustainability, lower corruption, and more stable democracies (Acemoglu & Robinson, 2012; Weingast, 1995). Constitutional Public Choice highlights the role of precommitment rules in constraining the fiscal Leviathan and reducing discretionary abuse (Brennan & Buchanan, 1985).

Third, classical assumptions require systematic revision. Political behaviour is conditioned by bounded rationality, cognitive biases, and social identities, challenging the premise of fully informed and purely self-interested agents (Kahneman, 2011; Akerlof & Kranton, 2010). Moreover, democratic legitimacy cannot be reduced to economic efficiency alone; values such as equity, rights, and human dignity must be incorporated into institutional evaluation (Sen, 1999; Sandel, 2012).

Integrating behavioural economics allows the explanation of deviations from the median voter model through mechanisms such as status quo bias, present bias, and framing effects (Thaler & Sunstein, 2008; Lodge & Taber, 2013). This insight opens the possibility of democratic nudges -simplified ballots, voting reminders, and transparent information design- that enhance citizen decision-making without restricting autonomy.

The traditional efficiency criterion, particularly the Kaldor–Hicks standard, is insufficient as a sole normative benchmark. A pluralistic framework must integrate distributive justice, procedural fairness, and legitimacy (Rawls, 2001; Sen, 1999). Constitutional economics offers a bridge between positive analysis and normative theory by proposing rule-based constraints that protect fundamental freedoms while limiting opportunism (Elster, 2000).

Finally, global challenges -climate change, pandemics, and digital governance-demonstrate the limits of centralised solutions. Polycentric governance disperses authority, fosters institutional learning, and reduces systemic risk in the provision of global public goods (Ostrom, 2010; Hale, 2020). From a Public Choice perspective, incentives explain strategic behaviour; from a polycentric perspective, attention expands to multilevel experimentation and institutional resilience.

Taken together, these findings suggest that a contemporary Public Choice framework must be analytically rigorous, behaviourally informed, and normatively grounded. Only through such integration can institutional design balance efficiency, accountability, legitimacy, and democratic resilience in an increasingly complex political environment.

## **Limitations Of The Review And Policy Implications.**

### **Limitations of the Review.**

This review prioritised canonical works and highly influential syntheses within Public Choice Theory and its contemporary extensions. While this strategy strengthens conceptual coherence and analytical clarity, it may underrepresent emerging strands of research, particularly highly specialised empirical studies based on microdata, laboratory and field experiments, and recent developments in digital political economy, algorithmic governance, and platform regulation (Zuiderveen Borgesius et al., 2018; Zerilli et al., 2019).

Moreover, although the study adopts a narrative review with systematic elements, it does not employ the tools of quantitative meta-analysis or bibliometric mapping. Consequently, it cannot precisely estimate effect sizes, identify causal magnitudes, or trace the evolution of research networks across subfields (Booth, Sutton &

Papaioannou, 2016). These limitations restrict the generalisability of specific empirical claims and highlight the need for future research combining systematic reviews with meta-analytic techniques.

Nevertheless, the triangulation among classical theoretical contributions (Arrow, Downs, Buchanan), behavioural and normative critiques, and institutional and empirical studies supports the robustness of the analytical framework developed in this article (Gerring, 2012; Pierson, 2016). The synthesis offers a theoretically grounded platform for orienting debates on institutional design and public policy.

### **Policy Implications.**

The findings of this review suggest several priority lines of institutional reform aimed at aligning political incentives with long-term social welfare:

1. Institutionalising countercyclical fiscal rules supported by independent fiscal councils to mitigate deficit bias and enhance macroeconomic credibility (Debrun & Jonung, 2018; Wyplosz, 2012).
2. Strengthening *ex ante* and *ex post* evaluation frameworks in budget allocation, consolidating performance-based budgeting and evidence-based accountability systems to improve spending quality (Cangiano, Curristine & Lazare, 2013).
3. Professionalising the bureaucracy through merit-based recruitment and career systems, while regulating revolving doors between the public and private sectors to reduce regulatory capture (Dahlström & Lapuente, 2017; Carpenter & Moss, 2014).
4. Deepening open data ecosystems that are citizen-readable, transforming raw information into accessible formats that enable effective scrutiny by civil society and independent media (Cucciniello, Porumbescu & Grimmelikhuijsen, 2017).
5. Promoting polycentric governance arrangements for addressing global challenges -such as climate change, pandemics, and digital regulation- while fostering responsible decentralisation domestically through coordinated fiscal and regulatory frameworks (Ostrom, 2010; Hale, 2020).
6. Strengthening civic and political economy education, enhancing citizens' capacity to understand incentives, constraints, and policy trade-offs, thereby supporting more resilient and participatory democracies (Norris, 2014; Acemoglu & Robinson, 2019).

Together, these policy directions underscore that effective governance requires not only sound economic design but also institutional credibility, transparency, and civic engagement.

## **CONCLUSIONS**

Public Choice Theory (PCT) represented a decisive paradigm shift in the analysis of politics. By replacing the normative vision of a benevolent state with a positive framework grounded in incentives, strategic behaviour, and institutional constraints, it inaugurated a research programme that has profoundly enriched the understanding of democratic governance and economic policy (Buchanan & Tullock, 1962; Mueller, 2003).

Among its most influential contributions are the median voter theorem, which explains tendencies toward programmatic moderation under two-party competition (Downs, 1957; Black, 1958); political budget cycles, which reveal the systematic relationship between electoral calendars and fiscal policy (Nordhaus, 1975; Rogoff, 1990); regulatory capture theory, which demonstrates how private interests shape state action (Stigler, 1971; Peltzman, 1976); and the logic of collective action, which clarifies why diffuse majorities struggle to mobilise against organised minorities (Olson, 1965). Together, these insights provide a coherent framework for explaining recurrent regularities and distortions in real-world politics.

At the same time, the very strengths of PCT -its analytical parsimony and predictive capacity under assumptions of self-interest and instrumental rationality- also reveal its limits. When non-utilitarian motivations, collective

identities, and normative values enter the political arena, classical models lose explanatory power (Sen, 1999; Offe, 2006). Contemporary challenges therefore require interdisciplinary integration.

Incorporating behavioural economics allows the modelling of cognitive biases and heuristics that influence both voters and political elites (Kahneman, 2011; Thaler, 2015). Political philosophy provides normative benchmarks of justice, legitimacy, and rights that go beyond efficiency (Rawls, 2001; Sandel, 2012). Institutional sociology highlights the role of social norms, civic culture, and identity in shaping governance structures (Putnam, 1993; Ostrom, 2010). Together, these perspectives extend the explanatory scope of Public Choice without abandoning its core emphasis on incentives and institutional design.

A contemporary Public Choice framework must therefore be both analytically rigorous and normatively grounded. It should combine economic efficiency with distributive equity and democratic legitimacy, guiding institutional reforms that balance fiscal discipline, transparency, citizen participation, and resilience in the face of global challenges such as climate change, digitalisation, and populism.

From its origins in Arrow, Downs, Buchanan, and Olson to its current dialogue with behavioural economics and institutional theory, Public Choice Theory remains an indispensable tool for understanding politics as a system of incentives, constraints, and imperfect equilibria. Its evolution points toward a pluralistic framework capable of informing institutional design in complex democracies, where sustainable governance emerges at the intersection of well-designed rules, credible accountability, and an active, informed citizenry.

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