

## Shepsle Festschrift Conference – 12<sup>th</sup> November 2016

### ***Formal Political Theory: The Last 50 Years, the Next 50***

Thanks Abhinay for getting all of us together to praise Ken's work. Many people in this panel know much more about what happened in the last 50 years than myself... With my eight minutes let me try instead to focus on what I believe might be happening in formal political theory in the coming years.

One of Ken's big contributions to the field of formal political theory is the study of institutions: the 'new institutionalism', as he coined it, explains political outcomes as a result of well-defined preferences and rational behaviour, but most importantly, as a result of the environment in which agents interacted. Within this approach we consider games where the institutional features are the players' choices: players need to agree on the rules of the game rather than playing the game itself. In fact, playing the game simply becomes the very last stage of a much more complex game. The objective is finding an equilibrium institution rather than the equilibrium of a particular institution.

The natural next step in this agenda is not only finding an equilibrium institutional choice but, most importantly, finding the optimal equilibrium choice. Yet, in my opinion, not much progress has happened in the last 50 years but this is where I see our discipline moving in the coming years.

We could (once more) establish a parallelism with what has happened in economics with "mechanism design" and "market design". In mechanism design the idea is to find the optimal outcome when the strategic behaviour of privately informed individuals is the constraint of our maximisation problem. This literature is not easy but it should inspire us in political science: formal political science should play an active role in the development of our discredited political institutions. We need to develop more robust and more representative institutions that would better represent and govern our societies. James Coleman had a paper in APSR in 1970 called "Political Money" that captures quite well what I'm trying to say:

*"The history of economic institutions shows a great deal of change, facilitating economic activities that would have earlier been impossible. No similar development and change has occurred in the political system; yet the need for such facilitation is undoubtedly equally great"*

This was written about 50 years ago yet (I would argue) the scope for improvement in our political institutions seems particularly urgent today.

The weakness of mechanism design is that it only guides us in the development of new institutions because it "only" characterises optimal outcomes: mechanism design gives us the optimal mapping between revealed preferences and outcomes (what we technically call the direct mechanism). The

creative and more “political science-y” aspect of what I hope will happen in the next few years in our field is developing the indirect mechanisms that implement the optimal allocation.

Institutions where players do not reveal their preferences but act in the usual way (whether it’s ranking alternatives, voting for preferred candidates, filling-in an application form...) and their responses are aggregated so that, in equilibrium, citizens that act independently achieve the best possible allocation.

One particular institution that has been extensively used, and indeed deserved a Nobel Prize a few years back, is the “deferred acceptance” algorithm by Shapley. This institution has unquestionably improved the entry labour market for American doctors; the assignment of kids to schools; or the matching of kidney donors with patients. As its name indicates, it simply requires matches between the two sides of the market not being final until all possibilities are looked at. And note that I keep on talking about “market design” but the situations where the deferred acceptance algorithm has been applied share many characteristics with most political situations we have in mind: there is no money involved and the objects we are assigning are indivisible.

Precisely, this indivisibility is what some of us often claim is the KEY difference between economics and politics. In politics we reelect or we do not reelect; we vote for candidate A or for candidate B; we have a bill passed or rejected; etc. This contrasts sharply with the world of economics where monetary transfers can be used to smooth transactions or compensate for truth-telling behaviour. The creative aspect I was mentioning earlier should once again be put into practice at designing institutions where we somehow smooth political transactions just as it’s usually done in economics... we need to break away from the terrible coarseness of political decisions.

In the past I contributed to this effort by proposing a voting system where the “decision preferred by most citizens” was replaced by the “decision most preferred by citizens”. In other words, I proposed a simple voting system where the intensity of voters’ preferences was taken into account. My proposal was far from being perfect yet I hope it contributed in the debate I’m now defending on designing new and better institutions.

Let me wrap up by saying that the agenda I just described is an area where formal political theory can play an UNQUESTIONABLE role. We often need to defend our approach to political science with colleagues (some of us more than others) and even more so with some of my public policy students... however, when thinking of innovative ways to redesign our institutions, there is no empirical / historical exercise one could do. Our models are the only way we can have an informative debate on the improvements that should occur in our currently discredited political institutions.