

Special topics (Econ 490): Political Economics

The state plays an enormous role in the economy, employing a substantial fraction of the labor force, producing and consuming a wide variety of goods and services, building infrastructure, taxing economic activity, enforcing contracts, redistributing wealth, regulating industries, and so on. Therefore, the allocation of a large fraction of society's resources - the subject matter of economics - depends crucially on how political decisions are made. This course is an introduction to rational-choice analysis of political decision-making processes, focusing primarily on democratic political institutions (voting, legislative bargaining, etc.), though we will also consider authoritarian regimes and the causes of transitions between regime types.

Prerequisite. Game Theory (Econ 420).

Required textbooks

- Shepsle, *Analyzing Politics*, 2nd ed. (2010).
- Mueller, *Public Choice III* (2003).
- Persson and Tabellini, *Political Economics: Explaining Economic Policy* (2000).

Part 1: Collective choice

1. Aggregating preferences.

Key issues: given that people have different preferences, how do we find the optimal “social” choice according to some normative criteria? Condorcet paradox; Arrow’s impossibility theorem. May’s theorem.

Readings:

- (i) Shepsle, *Analyzing Politics*, Chapters 1, 2, 3 and 4 to p.81.
- (ii) Mueller, *Public Choice*, chapter 24.
- (iii) Arrow’s theorem described by Arrow in 2008:
http://www.dictionaryofeconomics.com/article?id=pde2008_A000136
- (iv) Arrow’s theorem as part of an advanced game theory MOOC (large files; may take a while to load). Statement of the theorem:
http://www.cs.ubc.ca/~cs532l/gt2/GTO_7-4-ImpossibilityNonParadoxicalSocial-rev%2005-07-13.mp4
Proof : http://www.cs.ubc.ca/~cs532l/gt2/GTO_7-5-ArrowsTheorem-rev%2005-07-13.mp4

2. Voting as a way of making decisions: Simple institution-free voting in **single-dimensional** policy spaces. Downs 1957 (one-dimensional policy space). Black’s median voter theorem. Single-peakedness.

Readings:

- (i) Shepsle, Analyzing Politics, Ch. 4 p.81-89 and Chapter 5, p.90-99
- (ii) Mueller, Public Choice, chapter 4, 5, 6.
- (iii) Black, Duncan (1948). "On the Rationale of Group Decision-making". *Journal of Political Economy* 56: 23–34. <http://www.jstor.org/stable/1825026>
- (iv) May, Kenneth O. 1952. "A set of independent necessary and sufficient conditions for simple majority decisions", *Econometrica*.
<http://www.jstor.org/stable/1907651>
- (v) Maskin and Dasgupta (2008): "On the robustness of Majority Rule", *Journal of the European Economic Association*: <http://www.jstor.org/stable/40283089>
- (vi) Paul Rothstein (1991). "Representative voter theorems", Public Choice,
<http://www.jstor.org/stable/30025530>
- (vii) Persson and Tabellini, Political Economics, ch. 2, p.19-25.

3. Economic applications of Median Voter Theorem (single-dimensional policy space).
Key issues: efficiency implications when social welfare differs from the preferences of the median voter.

Readings:

- (i) Lovell (1975): "The Collective Allocation of Commodities in a Democratic Society", Public Choice. <http://www.jstor.org/stable/30022846>
- (ii) Meltzer and Richards (1981), "A Rational Theory of the Size of Government", *Journal of Political Economy*. <http://www.jstor.org/stable/1830813>
- (iii) Alesina and Spolaore (1997), "On the number and size of nations", *Quarterly Journal of Economics*. <http://www.jstor.org/stable/2951265>
- (iv) Alesina, Angeloni and Etro (2005), "International Unions", *American Economic Review* <http://www.jstor.org/stable/4132731>
- (v) Acemoglu et al, "Political model of social evolution", PNAS, 2011.
<http://economics.mit.edu/files/7719>
- (vi) Persson and Tabellini, Political Economics, chapter 6.

4. Institution-free models of majoritarian democracy in **multi-dimensional** policy spaces.

Key issues: McKelvey's Chaos theorem. The instability of majority rule reveals the importance of agenda power and institutions for understanding democratic outcomes.

Readings:

- (i) Shepsle, Analyzing Politics, Chapter 5, p.99-155 and chapter 6.
- (ii) Persson and Tabellini, Political Economics, ch. 2, p.25-31.
- (iii) Cox and Shepsle (2007). "Majority Cycling and Agenda Manipulation: Richard McKelvey's contributions and legacy",
http://scholar.harvard.edu/files/kshepsle/files/cox-shepsle_paper_on_mckelvey_revision_5.pdf

5. Voting methods and electoral systems.

Key issues: “majority rule” is not unambiguous; voting methods matter.

Readings

- (i) Shepsle, *Analyzing Politics*, ch. 7
- (ii) Mueller, *Public Choice*, chapter 7, 8
- (iii) Persson/Tabellini, *Political Economics*, ch. 8.
- (iv) MOOC: http://www.cs.ubc.ca/~cs532l/gt2/GTO_7-2-VotingSchemes-rev%2005-07-13.mp4
and http://www.cs.ubc.ca/~cs532l/gt2/GTO_7-3-ParadoxicalOutcomes-rev%2005-07-13.mp4

6. Partisan politics.

Key issues: *Representative* democracy. Models in which parties/politicians compete for votes but also have their own ideological preferences.

Readings:

- (i) Persson and Tabellini, *Political Economics*, chapter 5.1-5.3.
- (ii) Mueller, *Public Choice*, chapter 11.
- (ii) Roemer, “Candidate motivation: a synthesis of alternative theories”, *American Political Science Review*, 1983. <http://www.jstor.org/stable/1956016>
- (iii) Osborne and Slivinski, “A model of political competition with citizen-candidates” *Quarterly Journal of Economics*, 1996. <http://www.jstor.org/stable/2946658>
- (iv) Alesina, “Credibility and Policy Convergence in a Two-Party System with Rational Voters”, *Amer Econ Review* 1988 <http://www.jstor.org/stable/1811177>
- (v) Besley and Coate, “An economic model of representative democracy”, *QJE*, 1997. <http://www.jstor.org/stable/2951277>

7. Probabilistic voting.

Key issues: Adding uncertainty about *voter's* ideological preferences to the institution-free voting model aims to add realism and avoid knife-edge conclusions.

Readings:

- (i) Persson and Tabellini, *Political Economics*, ch. 2 p.31-35 and chapter 3.
- (ii) Mueller, *Public Choice*, chapter 12

8. Agency.

Key issue: The “contract” between politicians and voters is very incomplete; promises can be broken; there are conflicts of interest. How do voters discipline officials to act on their behalf?

Readings:

- (i) Besley, *Principled Agents? The Political Economy of Good Government*, 2006.
- (ii) Persson-Tabellini, *Political Economics*, ch. 4

- (iii) Acemoglu et al, “A Political Theory of Populism”, QJE 2013.
<http://economics.mit.edu/files/8797>
- (iv) Ferejohn, “Incumbent performance and electoral control”, 1986, Public Choice.
<http://www.jstor.org/stable/30024650>
- (v) Besley and Case, “Incumbent behavior: Vote-seeking, tax-setting, and yardstick competition”, American Economic Review, 1995.
<http://www.jstor.org/stable/2117994>
- (vi) T. Besley and M. Smart. “Fiscal restraints and voter welfare”, Journal of Public Economics, 2007. http://eprints.lse.ac.uk/3769/1/Fiscal_Restraints_and_Voter_Welfare.pdf

9. Elections.

Key issues: why have elections? Elections as a monitoring device; a screening device; a way of gathering information about preferences; etc.

Readings:

- (i) Riker, “Liberalism against Populism”, chapter 1 & Chapter (Link to [Riker, ch. 1](#))
- (i) Fearon, “Self-enforcing democracy”.
<http://www.stanford.edu/~jfearon/papers/sedapsa06.pdf>
- (ii) Przeworski, “Democracy as an equilibrium.”
http://politics.as.nyu.edu/docs/IO/2800/pc_2005.pdf
- (iii) Londregan and Vindigni, “Voting as a Credible threat”.
<http://www.princeton.edu/rppe/speaker-series/speaker-series-2006-07/londvind.pdf>
- (iv) Przeworski, “Self-enforcing democracy”,
<http://politics.as.nyu.edu/docs/IO/2800/wittman.pdf>

10. Why do people vote?

Readings:

- (i) Shepsle, Analyzing Politics, chapter 9.
- (ii) Mueller, Public Choice, chapter 14.
- (iii) Aldrich, “Rational choice and turnout”, American Journal of Political Science, 1993. <http://www.jstor.org/stable/2111531>
- (iv) Blais and Young, “Why do people vote? An experiment in rationality”, Public Choice, 1999. <http://link.springer.com/article/10.1023/A%3A1018341418956>
- (v) Edlin et al, “Rational voting and voter turnout”, 2003.
http://works.bepress.com/cgi/viewcontent.cgi?article=1034&context=aaron_edlin
- (vi) Fowler, “Altruism and Turnout”, 2006, Journal of Politics.
<http://www.jstor.org/stable/4639889>
- (vii) Fowler, Baker and Dawes, “Genetic Variation in Political Participation”, American Political Science Review, 2008. <http://www.jstor.org/stable/27644513>
- (viii) Gelman, Silver and Dawes “What is the probability your vote will make a difference?”
http://www.nber.org/papers/w15220.pdf?new_window=1

- (ix) Palfrey and Rosenthal, "Voter participation and strategic uncertainty", *American Political Science Review*, 1985.

11. Pause here to read the recent survey by Dewan and Shepsle:

- (i) Part 1: <http://personal.lse.ac.uk/DEWANta/downloads/BJPolS%20Part%20I.pdf>
- (ii) Part 2: <http://personal.lse.ac.uk/DEWANta/downloads/BJPolS%20Part%20II.pdf>

Part 2: Institutions.

1. Models of legislative bargaining and congressional institutions.

Key issues: role of agenda power in post-election bargaining among elected officials.

Readings:

- (i) Shepsle, *Analyzing Politics*, chapter 11, 12.
- (ii) Baron and Ferejohn 1989, "Bargaining in Legislatures" (application of Rubinstein bargaining). <http://www.jstor.org/stable/1961664>
- (iii) Baron and Diermeier 2001, "Elections, Governments and Parliaments in Proportional Representation systems". <http://www.jstor.org/stable/2696422>
- (iv) Persson and Tabellini, *Political Economics*, chapter 5.4

2. The Committee system in the U.S. Congress.

Key issues: how does the system work? What are the implications for this method of preference aggregation?

Readings:

- (i) Gilligan and Krehbiel, "Organization of Informative Committees by a rational legislature", *American Journal of Political Science*, 1990
<http://www.jstor.org/stable/2111460>
- (ii) Weingast and Marshall, "The Industrial Organization of Congress", 1988.
www.jstor.org/stable/1830714
- (iii) Crombez et al., "Gatekeeping", *Journal of Politics*, 2006.
<http://www.jstor.org/stable/4639843>
- (iv) Gilligan and Krehbiel, "Collective decisionmaking and standing committees: An informational rationale for restrictive amendment procedures", *Journal of Law Economics and Organization*, 1987. <http://www.jstor.org/stable/764831>
- (v) Rohde, Stiglitz & Weingast, "Dynamic Theory of Congressional Organization", 2013. http://politicalscience.stanford.edu/sites/default/files/workshop-materials/rsw_dynamics_130217.pdf

3. Political parties.

Key issues: What is the function of political parties? Are they a brand name, a coordination device, political intermediaries, a discipline device for legislators? What are the costs

and benefits of parties?

Readings:

- (i) Austen-Smith and Banks, "Elections, Coalitions and Legislative outcomes", *American Political Science Review*, 1988. <http://www.jstor.org/stable/1957393>
- (ii) Shepsle, *Analyzing Politics*, chapters 8, 9, 10 (skim all except p.280-92).
- (iii) Aldrich, "Why parties?", ch. 2: <http://www.olemiss.edu/courses/pol628/aldrich95.pdf>
note: there is a more recent revised edition (2011).
- (iv) Caillaud and Tirole, "Parties as political intermediaries", *Quarterly Journal of Economics*, 2002.
<http://www.princeton.edu/csdp/online-community/comparative-political-eco/Tirole-and-Caillaud.pdf>
- (v) Crutzen and others, "Party organization and electoral competition", *Journal of Law, Economics & Organization*, 2010. <http://jleo.oxfordjournals.org/content/26/2/212.abstract>
- (vi) Eguia, "The Origin of Parties: The United States Congress in 1789-1797 as a test case", *Economics and Politics*, 2013. <http://onlinelibrary.wiley.com/doi/10.1111/ecpo.12014/abstract>

4. Special-interest politics, lobbying.

Readings:

- (i) Persson-Tabellini, *Political Economics* (2000), chapter 7.
- (ii) Mueller, *Public Choice*, chapter 20.
- (iii) Grossman and Helpman, *Special Interest Politics* (2002).
- (iv) Hall and Deardoff, "Lobbying as Legislative Subsidy", *American Political Science Review*, 2006. <http://www.jstor.org/stable/27644332>
- (v) Mitchell and Munger, "Economic Theories of Interest Groups", *American Journal of Political Science*, 1991. <http://www.jstor.org/stable/2111373>
- (vi) Becker, Gary S. 1983. "A Theory of Competition Among Pressure Groups for Political Influence," *Quarterly Journal of Economics*
- (vii) Dixit, Avinash, and John Londregan. 1995. "Redistributive Politics and Economic Efficiency," *American Political Science Review*.
- (viii) U.S. Agricultural Subsidies: Why? http://mpa.ub.uni-muenchen.de/47629/1/MPRA_paper_47629.pdf

5. Gender and political representation.

- (i) ["Electoral Gender Quotas: A Conceptual Analysis"](#)
- (ii) ["Resolving the Democracy Paradox: Democratization and Women's Legislative Representation in Developing Nations, 1975 to 2009"](#)
- (iii) ["State Feminism and Political Representation"](#) (A book that covers different countries)
- (iv) And according to the [statistics](#) here, the U.S. ranks a surprising 80th in women's representation in legislature. China runs 55th.
- (v) "How Dramatically Did Women's Suffrage Change the Size and Scope of Government?" http://papers.ssrn.com/sol3/papers.cfm?abstract_id=160530

6. Non-democratic institutions

Readings:

- (i) Geddes, “Minimum-Winning Coalitions and Personalization in Authoritarian Regimes” (applies Baron-Ferejohn to authoritarianism).
www.international.ucla.edu/cms/files/geddes.pdf
- (ii) North, Wallis and Weingast: Violence and social orders.
<http://www.nber.org/papers/w12795>
- (iii) Acemoglu et al, “A theory of military dictatorships”, American Economic Journal: Macroeconomics 2010. www.jstor.org/stable/25760283
- (iv) Acemoglu et al, “Emergence and persistence of inefficient states”, JEEA, 2011
<http://www.nber.org/papers/w12748>
- (v) Mueller, Public Choice, chapter 18.

6. Democratic transitions.

Key issues: when do they occur? What are the conditions? Policy implications for understanding and promoting the spread of democracy.

Readings:

- (i) Acemoglu and Robinson, “A theory of political transitions”, 2001.
<http://economics.mit.edu/files/4121>
- (ii) Bhavne and Kingston, “Military coups and the consequences of durable de facto power: the case of Pakistan” Economics of Governance, 2010.
<https://www.amherst.edu/~cgkingston/strangelove.pdf>
- (iii) Lizzeri and Persico, “Why did elites extend the suffrage?”, QJE 2004.
<http://nicolapersico.com/files/franchise.pdf>
- (iv) North, Wallis, and Weingast “A Conceptual Framework for Interpreting Recorded Human History”, 2006. http://www.nber.org/papers/w12795.pdf?new_window=1
- (v) Pevehouse “Democracy from the Outside-In”, 2002 International Organization.
<http://journals.cambridge.org/action/displayFulltext?type=1&fid=164564&jid=INO&volumeId=56&issueId=03&aid=164563>
- (vi) Schofield and Gallego “Autocracy and Anocracy” 2011
<http://polisci.wustl.edu/files/polisci/imce/17.xxxanocracies-sept7-final-2011.pdf>
- (vii) Epstein, et. al. “Democratic Transitions” American Journal of Political Science 2006.
<http://onlinelibrary.wiley.com/doi/10.1111/j.1540-5907.2006.00201.x/pdf>

7. Constitutions as equilibria.

Readings:

- (i) Weingast, Political Foundations of Democracy and the Rule of Law, American Political Science Review, 1997.
- (ii) Bates, Greif and Singh, Organizing Violence, Journal of Conflict Resolution, 2002.
- (iii) Olson, “Dictatorship, Democracy and Development”, American Political Science Review, 1993.
- (iv) Mittal and Weingast, “Self-enforcing constitutions”, 2010

8. Accountability and Separation of Powers.

Readings:

- (i) Persson and Tabellini, Political Economics, chapter 9.

9. Leadership.

Readings:

- (i) Shepsle, Analyzing Politics, chapter 14.
- (ii) Dewan and Myatt, "Leading the party", American Political Science Review, 2007. <http://www.jstor.org/stable/27644487>
- (iii) Dewan and Myatt, "The Qualities of Leadership", American Political Science Review, 2008. <http://www.jstor.org/stable/27644525>

10. Dynamic political competition.

Readings:

- (i) Laver, Policy and the Dynamics of Political Competition, American Political Science Review, 2005. <http://www.jstor.org/stable/30038936>
- (ii) Dewan and Myatt, "Dynamic Government Performance", American Political Science Review, 2012. <http://dx.doi.org/10.1017/S000305541100058X>

11. Rent-seeking and corruption.

- (i) Mueller chapter 15.
- (ii) Shleifer and Vishny, "Politicians and Firms"
- (iii) Shleifer and Vishny, "Corruption"

12. Federalism

- (i) Barry Weingast. "The Economic Role of Political Institutions: Market-Preserving Federalism and Economic Development." JLEO, 1995.

13. Role of the Media

- (i) Gentzkow and Shapiro, "Media Bias and Reputation", Journal of Political Economy, 2006. <http://www.jstor.org/stable/10.1086/499414>
- (ii) Gentzkow and Shapiro, "Competition and Truth in the Market for News", Journal of Economic Perspectives, 2008. <http://faculty.chicagobooth.edu/matthew.gentzkow/research/jepmedia.pdf>
- (iii) Gehlbach and Sonin, "Government Control of the Media", <http://www.cefir.ru/papers/WP126.pdf>
- (iv) Gerber, Karlan and Bergan, "Does the Media Matter?", AEJ, 2009

- <http://www.aeaweb.org/articles.php?doi=10.1257/app.1.2.35>
- (v) Gentzkow and Shapiro, “Ideological Segregation Online and Offline”.
<http://qje.oxfordjournals.org/content/126/4/1799.short>
 - (vi) Warren, “Independent Auditors, Bias, and Political Agency”
<http://www.sciencedirect.com/science/article/pii/S0047272711001496>
 - (vii) Duggan, “A Spatial Theory of Media Slant and Voter Bias”
<http://restud.oxfordjournals.org/content/78/2/640.full>
 - (viii) Stromberg, “Mass Media Competition, Political Competitions, and Public Policy”
<http://restud.oxfordjournals.org/content/71/1/265.short>
 - (ix) Mullainathan and Schleifer, “Media Bias”
<http://www.nber.org/papers/w9295>
 - (x) DellaVigna and Kaplan, “The Fox News Effect: Media Bias and Voting”
<http://www.nber.org/papers/w12169>
 - (xi) Stromberg, “Radio’s effect on public spending”, <http://www.jstor.org/stable/25098681>
14. Administrative oversight of bureaucracy.
- (i) McCubbins and Schwartz, “Police patrols vs fire alarms”;
 - (ii) McCubbins, Noll, and Weingast: “Administrative procedures as instruments of political control”
15. Law as a coordinating device.
- (i) Hadfield and Weingast.
 - (ii) Basu, Prelude to Political Economy.