

# Political Economy

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École Polytechnique - CREST

Master in Economics

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Schedule: Every Wednesday 08:30 to 11:45

# Outline of the class

Introduction

Lecture 2-5: Tools of political economics with applications

**Lecture 6: Comparative Politics**

**Part II: Dynamic Political Economy**

# Lecture 6: Comparative Politics

- Study the prediction from different electoral systems often electoral rules (in Economics)
- Large field of study in Political Science

# Electoral systems / electoral rules

- Change the incentives of politicians
- How do they influence redistributive politics (targeted versus non-targeted redistribution)?
- Who decides / decided the rules? (Key for empirical strategy)

- Focus on the incentives of individual candidates in a two party system (*direct effects*). Many studies of comparative politics, however, observe that electoral rules also shape party structure and types of government (*indirect effects*).
- Three aspects:
  - 1 Electoral formulas: Majoritarian (plurality) versus proportional
  - 2 Number of districts
  - 3 Ballot structure

1- *Electoral formulas*: how votes translate into seats?

- Under plurality rule, only the winner(s) of the highest vote share(s) are elected in a given district.
- Proportional representation awards legislative seats in proportion to votes in each district.

2- *District magnitudes* reflect the number of legislators (given the size of the legislature) acquiring a seat in a typical voting district. Polar cases: all districts have a single seat (e.g. U.S. House of Representatives); all legislators are all elected in a single, all-encompassing district (e.g. Israeli Knesset).

3- *Ballot structures* determine how citizens cast their ballot. For instance: Choose among individual candidates; Choose from a set of closed lists of candidates drawn up by the parties participating in the election: if an electoral district has ten seats and Party A wins four of these seats, the first four candidates on the list of Party A get elected.

These three aspects are theoretically distinct, their use is correlated across countries.

- Anglo-Saxon countries often implement plurality rule with voting for individual candidates in single-member districts.
  - Others implement proportional representation through a system of closed party lists in large districts, sometimes a single national district.
- ⇒ Back to the two archetypical electoral systems, labelled “**majoritarian**” and “**proportional**” (or “consensual”).



**Caveat** These correlations are nonetheless not perfect, and several countries employ “mixed” electoral system.

## Example: Germany

German voters cast two ballots, electing half the Bundestag by plurality in single-member districts, and the other half by proportional representation at a national level, to achieve proportionality between national vote and seat shares.

# Majoritarian (plurality) versus proportional

- Compared to proportional representation, plurality rule in single member districts translates swings in voter sentiment into larger changes in legislative majorities.
  - The winner-takes-all property of plurality rule reduces the minimal coalition of voters needed to win the election.
- ⇒ Under plurality rule, a party can control the legislature with only 25 % of the national vote: half the vote in half the districts. Under full proportional representation, 50 % percent of the national vote is needed, which gives politicians a stronger incentive to provide benefits for many voters.

- Strengthens the incentives of politicians to please the voters (smaller political rents and less corruption) but also propensity to target benefits to narrow constituencies.
- ⇒ Targeting comes at the expense of broad spending programs

Myerson, R. 1993. Incentives to Cultivate Favored Minorities Under Alternative Electoral Systems. *American Political Science Review*, 87(4), 856–869.

or “Divide-the-dollar” game and redistributive politics: Theory

# What this paper does : The broad picture

- In an election campaign with many competing candidates, which strategy is better for winning an election?
- Broad idea: a candidate can try to appeal broadly to all voters equally or concentrate more narrowly on winning the support of minorities.
- The electoral system key ingredient of the choice of the strategy chosen

- Simple model to compare the incentives for candidates to create inequalities among otherwise homogeneous voters under different electoral systems
- Each candidate generates offers for voters independently out of a distribution that is chosen by the candidate, subject only to the constraints that offers must be nonnegative and satisfy a budget constraint

# Intuition for the game

- Two-candidate race
- One million voters
- Candidates have one million dollars of public resources to allocate among these voters: candidates cannot make promises that average more than \$1.00 per voter.

- Equitable solution: promise \$1.00 to every voter.
- But equitable candidate would lose if the second candidate promised \$1.25 to 80 % of the voters and nothing to the other 20 % of the voters, which is also credible, because the promises average to \$1.00 per voter.
- But beaten by switching to a strategy of promising \$1.50 to half of the voters and \$.50 to the other half, but this strategy could also be beaten by other feasible strategies...



# Intuition for the game: Role of the electoral system

- Under plurality voting if there are 10 candidates in the race, then a candidate could easily win with only 20% of the vote.
- A campaign promise to tax 80% of the voters for the benefit of a 20% minority could be a successful strategy.
- Other electoral systems (such as Borda voting and approval voting) may significantly reduce such incentives to favor minority.

# Main result

- Characterization of the unique symmetric equilibrium for general rank-scoring rules.
- Voting rules that can guarantee representation for minorities in multiseat elections generate the most severely unequal campaign promises.

# Implications

- Electoral systems that encourage more diversity of candidates' positions generally also incite candidates to create more inequality among voters.
- Electoral systems that encourage candidates to advocate the interests of existing minorities may also incite candidates to use narrow campaign strategies that create favored minorities even in situations where all voters are initially the same.
- These results offer insights for the constitutional design of democratic institutions

# Literature following Myerson

- First paper to introduce such a game in redistributive politics (before in battlefields: Colonel Blotto games - Émile Borel).
- *Applications* of this game to budget deficit (Lizzeri, 1999), public good provision (Lizzeri & Persico, 2001;2005), campaign spending (Sahuguet & Persico, 2006, Boyer, Konrad & Roberson, 2017). Also key to solve (multidimensional) political equilibrium of income tax schedule (Bierbrauer & Boyer, 2016).
- *Theory* papers following Myerson tried to remove the continuum of voters / *ex ante* budget balance assumptions (Laslier & Picard, 2002; Roberson, 2006;2008).

# Lizzeri and Persico (2001)

- Extend Myerson (1993) to choice between public good provision versus targeted transfers.
  - Trade-off of public spending between efficiency and targetability
- ⇒ Compare proportional (vote share) versus majoritarian (plurality/ winner-take-all): how alternative political systems affect how politicians deal with this trade-off

Main result: winner-takes-all system less efficient than proportional system if public good is valuable (and vice versa). Rmk: public good always efficient choice.

- Under a winner-take-all system, the value of the public good does not matter since the margin of victory is irrelevant and politicians are not interested in the size of the vote share (as long as you have more than one half).
- Under proportional opposite case

# Empirical results

Is the evidence consistent with the prediction that proportional electoral systems lead to more spending in broad redistributive programs, such as public pensions and welfare spending?

- Controlling for determinants of social security and welfare spending, such as demographics, per capita income, the age and quality of democracy, legislatures elected under proportional electoral systems spend, on average, 2-3 % of GDP more in social security and welfare compared to majoritarian systems.
- Additional results by Funk and Gathmann (2013) only the repartition changes not the size (Switzerland, elections of canton parliament, switch from majoritarian to proportional, from geographically target transfers to roads and agricultural subsidies to education and broad welfare benefits).

## Gagliarducci, Nannicini, and Naticchioni (2011)

- Micro data on the mixed-member Italian House of Representatives
- Two-tier elections held in 1994, 1996, and 2001: candidates could run for both the majoritarian and proportional tier, but if they won in both tiers they had to accept the majoritarian seat.
- Results show that majoritarian representatives put forward more bills targeted at their constituency and show lower absenteeism rates than their proportional colleagues.



## More references

- Persson, T. and G. Tabellini. 2006. Electoral systems and economic policy. *Handbook of Political Economy*. Oxford University Press.
- Merlo, A. 2006. Whither Political Economy? Theories, Facts and Issues, in Blundell, R., W. Newey and T. Persson (eds.) *Advances in Economics and Econometrics Theory and Applications*, Ninth World Congress, Vol I, Cambridge University Press, available at <http://www.eswc2005.com/>

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