

POLITICAL ECONOMY

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Applications.

Political competition and macroeconomic
performance, money and votes

Politicians in power can try to use economic
policy to try and win elections

"My dear friend: Give to the people, especially the workers, all that is possible. When it seems to you that already you are giving too much, give them more. You will see the results. Everyone will try to scare you with the specter of an economic collapse. But all of this is a lie. There is nothing more elastic than the economy which everyone fears so much because no one understands it."

(Juan Perón, as quoted in Hirschman, 1979, p. 65)

Does good macro performance correlate with electoral success?

- In general (cf. table 19.1 in Mueller): yes.
- Lower unemployment and inflation and higher real growth help reelection
- But a lot of questions remain:
- Whose reelection?
 - Deputies or the president?
 - What if PR and there is a coalition government?

Does party ideology count?

What about voters?

- (Sociotropic or egotropic)
- retrospective or forward looking?
- If retrospective, how myopic?
- Tests: sociotropic, retrospective with different levels of myopia fits best
- Some evidence for voters learning: Brender and Drazen (2007)

Different models

- Opportunistic Political Business Cycle:
 - Assumptions:
 - Short run Phillips curve
 - Myopic, retrospective voters
 - Recipe

- Bring down unemployment before elections,
 - even if it results in higher inflation afterward.
- Could even work with rational, forward-looking voters
 - By way of signalling
- Partisan politics:
 - Assumptions:
 - Left wing parties serve blue collar workers who care about unemployment.
 - Right wing parties serve educated people who care about inflation.
 - Usually retrospective voters
 - There is some empirical underpinning to that, too:

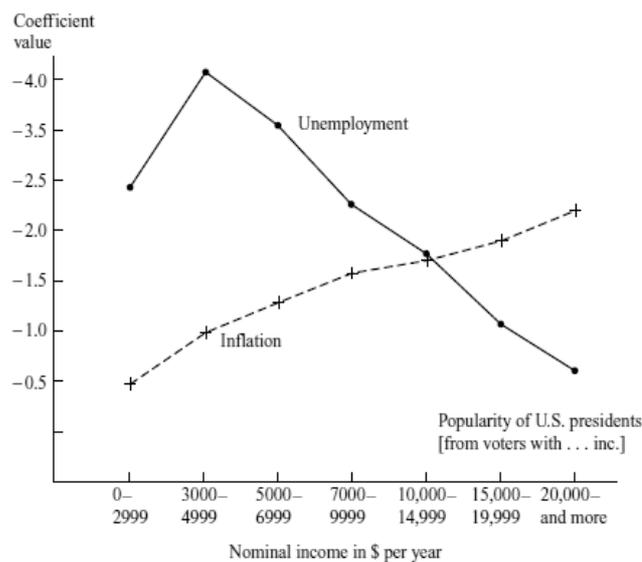


Figure 19.4. Coefficients for unemployment and inflation in U.S. presidential popularity equations (1969–76), seven income groups. *Source:* Schneider (1978); Schneider and Frey (1988).

- Alesina and Rosenthal:
 - Partisan politics with forward looking rational voters
 - Labor unions and employers make sticky decisions based on expected values

- Difference between presidential and mid-term elections
- Allows for split-ticket voting

Empirical insights

- Yes there is PBC (even for inflation!)
- Yes there are partisan differences (but mind the endogeneity problem!):

Changes in U and P by uninterrupted party control of presidency

	ΔU	ΔP
Republican administrations		
Eisenhower (1952–60)	+2.5	+0.6
Nixon-Ford (1968–76)	+4.1	+0.1
Reagan (1980–8)	-1.6	-8.0
Bush (1988–92)	+2.0	-1.5
Cumulative	+7.0	-8.8
Democratic administrations		
Kennedy-Johnson (1960–8)	-1.9	+3.2
Carter (1976)	-0.6	+7.6
Clinton (1992–2000)	-3.5	+0.3
Cumulative	-6.0	11.1

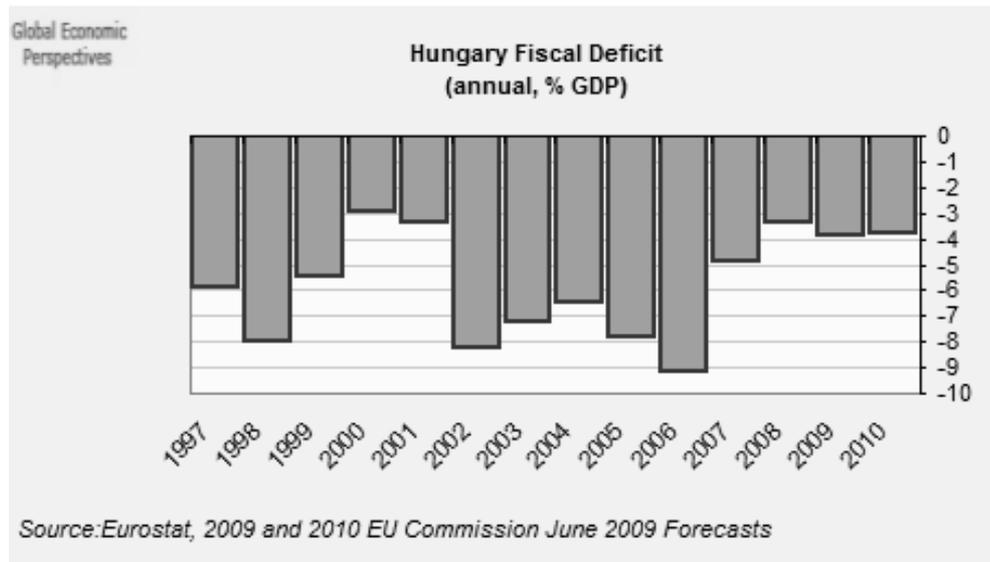
Source: Council of Economic Advisors, Economic Report of the President. Washington, D.C.: U.S. Government Printing Office, 1989, 2001. Figures for 2000 are preliminary.

Which model performs best

- Table 19.5 in Mueller
- Opportunistic PBC: most tested, mixed results
- AR: farfetched, but accounts for midterm cycle and split voting

Also: PBC for budget deficits

- Quite some general evidence
- Convincing Hungarian evidence:



Institutional limits

- If PBC is pernicious, we might want to erect safeguards
 - Inflation:
 - Central Bank independence
 - Fiscal policy:
 - Numerical rules: e.g. deficit ceiling
 - Procedural rules: rules about timing, pay-go, a separate institution (cf. the disbanded secretariat of the Fiscal Council in Hungary)
 - Transparency rules

Money and votes

Who gives?

- Interests affected by politicians' decisions
- Concentrated, big interests
 - (Olson, the problem of collective action – politics can be used to address that, too: e.g. closed shop rules)
 - Business
 - Unions
 - Other professional organizations
- Also: motivated individuals, small contributions

What are the rules?

- U.S.: is "political speech" subsumed by freedom of speech?
- Rules about transparency (e.g. disclosure rules)
- Rules about what money politicians receive can be spent on /about what money can be spent on campaign
 - Public campaign finance
 - Hard money/soft money
- Hard to regulate everywhere
 - Who does the implementation and adjudication of rules?

Models of money in politics

- Two traditional approaches:
 - Political man: interest groups help the politicians closest to their position.
 - Economic man: interest groups make politicians approach their preferred position with their money.
- What is going on will depend on why money is important and what it is spent on in politics.

What do politicians spend money for?

- The analogy with advertising and campaign spending:
 - informative
 - persuasive
 - affecting market structure (building stock of goodwill)
- Anyway, if campaign spending generates additional votes (it does, cf. below) both the "economic man" and the "political man" story will be in play: spending will affect the Downsian position.
- Esp. "economic" voting must also happen, otherwise no interest group would finance more than one party/candidate (many do).

U.S. Empirical results

Our hypotheses:

1. The positions candidates have taken on issues in the past, their ideologies, and perhaps their ability to help interest groups in the future should affect the amounts of money contributed to them;

2. **Campaign expenditures should increase the number of votes a candidate receives;**
3. The actual voting behavior of representatives should be influenced by the magnitudes and sources of the campaign funds that they have received.

Are these true? The short answer is: yes, they are.

Does more money buy votes?

Table 20.2a. *Summary of main results linking votes for candidates to their campaign expenditures, U.S. House, Senate, and President*

Election	Effect of expenditures by		Study
	Challenger	Incumbent	
<i>U.S. House</i>			
1972	sig.	insig.	Glantz et al. (1976)
1972, 1974,	sig.	sig. (1974, OLS)	Jacobson (1978)
1978	sig.	sig., wrong sign	Kau, Keenan, and Rubin ^b (1982)
1972–82	sig.	insig. (usually)	Jacobson (1985)
1972–90	sig.	insig.	Levitt ^c (1994)
1984	sig.	insig.	Coates (1998)
1980	sig.	insig.	Kau and Rubin ^b (1993)
	<i>Dem</i>	<i>Rep</i>	
1972	sig.	sig.	Welch (1974, 1981)
1980–86	sig.	sig. ^d	Snyder (1990)
<i>U.S. Senate</i>			
1972, 1974	sig.	sig. (1972)	Jacobson (1978)
1972–82	sig.	insig. (usually)	Jacobson (1985)
1974–86	sig.	sig.	Abramowitz (1988)
	<i>Dem</i>	<i>Rep</i>	
1972	sig.	sig.	Welch (1974, 1981)
<i>U.S. Presidential</i>			
1972	sig.	sig.	Nagler and Leighly (1992)

- Yes but it might also work through attrition.
- Yes but there could be diminishing returns.
- Yes but there could be a backlash.
- Yes but there could be an endogeneity problem: less money might be needed by the incumbent if the race is not tight.

Who is given money?

Our hypotheses:

1. A contributor gives to the candidate whose position is closest to his own;
2. A contributor gives to a candidate who is willing to shift her position toward that favored by the contributor;
3. Contributions to a candidate are higher, the higher her probability of winning.

Are these true? The short answer is: yes.

How do we know?

timing, committee membership, targeting congressmen with little electoral stake, votes on campaign reform

Does money affect politicians' votes?

- Yes, very much so,
- even controlling for constituency interests.
- Is there any room left for personal ideology beside electoral survival?
- Yes some,
- but that may have been preselected by interests, too...

Lobbying

- Interest groups might provide information to politicians.
- E.g. a recent presentation on BKV needs by BKV (separate slide show)
- This helps politicians gather useful information
- Will lobbying information be biased?
 - Yes, that is the point.

- Will it be untrue to the point of uselessness?
 - No, that would make it ineffectual.
- Politicians might want to balance different lobbying information against each other and "triangulate".

What about Hungary?

<http://kepmutatas.hu/kampanymonitor/>

Stylized fact:

Most campaign contributions in Hungary are illegal, and so is most spending.

Brainstorming: what effects might that have, given the results we have seen?

So what drives politics in a democracy?

- What drives politics?
 - Money or
 - the "will of the people"?
- Both!
- Two interpretations:
 - Business interests trump true democracy
 - The intensity of preferences also finds a way to affect political action