Bavarian Graduate Program in Economics

PUBLIC AND POLITICAL ECONOMICS

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30 hours, two morning sessions (1.5 hours each), two afternoon sessions (1.5 hours each).

Goals

This course provides an introduction to the main tools, and some of the most interesting results for public economics, emerging from the modern literature on political economics (or political economy, as is also known). In political economics the emphasis shifts from normative to positive analysis. Rather than asking how economic policy should be organized to meet some given efficiency or equity objectives, this literature asks how the different political institutions (the voting mechanism, the form of the state, the functioning of the legislature, the degree of electoral competition etc.) determine which policies will in fact be adopted. The normative perspective re-emerges, in case, in the choice of optimal political institutions. But a part of this literature, adopting an historical perspective, also asks why some countries adopted some institutions rather than others or why in some cases seemingly beneficial reforms are not adopted while inefficient institutions persist.

The literature is enormous, as political economics has been one of the faster growing fields in economics in the last 20 years. Given time constraints, the course will focus more on tools than results, presenting only a very selective list of applications, the ones that are perhaps more relevant for public economics (and shaped of course by my own research interests). The references offer suggestions for further reading.

Course outline:

The course will begin by discussing in detail what has been, and still is, the main workhorse for many political economy models, the median voter’s theorem and its consequences for many public finance features (e.g. the convergence hypothesis in a Downsian framework). Next, we will discuss extensions and limitations of the theorem (partisan policy, multi-issues, uncertainty, lobbying, limited turnout, single issue parties etc). These extensions cast serious doubts on the central tenet of the theorem, that is, that in a democracy policy typically responds to the preferences of citizens’ majority. The median voter also implicitly assumes plurality voting. With different electoral mechanisms, post-electoral policy is likely to be more important. Consequently, we will discuss party formation as related to the electoral system, and policy formation as the result of legislative bargaining. This will also allow us to discuss some issues in comparative politics (proportional versus plurality rules, presidential versus parliamentary regimes, single versus dual ballot mechanisms) and their effects on governments’ redistribution policy. The median voter also assumes that electoral promises are always kept, but the relationship between voters and citizens can be more often characterized as an agency relationship in an incomplete contract setting. Consequently, we will study models of retrospective voting and some of the most interesting consequences arising from these models (endogenous candidacy, the selection of politicians, yardstick competition). Many political economy models, including the median voter, are static, but some issues in policy are truly dynamic, as decisions taken today constrains choices available
tomorrow. We will then briefly discuss some examples of dynamic policy, that are perhaps more relevant for long term phenomena such as growth or the emergence of federations. Finally, all the above assumes the existence of a democratic system. However many countries are not democracies and even in no democratic systems, issues of policy formation and of selection and accountability of politicians emerge. We will then briefly look at some recent work focusing on autocracies.

The main textbook for this part of the course is:


Further useful general surveys of the literature are offered by:

Grossman and Helpman: *Special Interest Politics*, MIT Press, 2001 (GS)

Required readings are denoted with a *

**Lecture 1**
Arrow’s theorem. Median voter theorem, Condorcet winner in direct democracy. Sincere and strategic voting.

*PT* , chapter 1 and 2;

GS, chapter 2;
MU, part 2;

**Lecture 2**
Representative democracy and the Downsian framework: the convergence hypothesis. Robustness and applications. Meltzer and Richard’s model, pensions, secessions. Ends against the middle. The role of beliefs.

*PT, chapter 3. 3.1-3.3; chapter 5.1, 5.2 ; chapter 6, 6.1-6.3


Lecture 3
Extensions: multiple issues: uncertainty, single issue groups. Lobbying and special interest groups. The role of media. Turn-out and the paradox of voting;

*PT, chapter 3.4; chapter 3.5;

*Hettich, W., Winer, S., 1988, “Economic and Political Foundations of Tax Structure” AER, 78: 701-12;


GT, chapter 3.1, 4 and 7;


Lecture 4

PT, 5.4, 8; 10;


systems” AER, march.

Bordignon, M., Nannicini T. and Tabellini G., 2010, “Moderating political extremism; single versus 
dual ballot rule”, *mimeo*, Catholic University (WP Cesifo, 2009).

*Lecture 5*

Endogenous candidacy. Agency model of politics. Retrospective voting. Discipline and selection 
effect of elections. The selection of politicians. Accountability and Yardstick competition.

PT, 4, 5.5., 9,

Journal of Economics*, 112: 85-114;


Public Economy*, 80:73-98.

Coate S. and S. Morris, 1995, "On the form of transfer to special interests" *Journal of Political 
Economy* 103, 1210-1235

91, 755-773.

Besley T. and A. Case, 1995, "Incumbent behaviour: vote seeking, tax setting and yardstick 

University (also Cesifo WP).

*Besley T., 2005,. “Political Selection.” *Journal of Economic Perspectives*, Volume 19, Number 3, 

Association* 2, 193-215.


Lecture 6

PT, 11, 12, 13, 14;


