PERSSON AND TABELLINI 2000 POLITICAL ECONOMICS pdf

1: Torsten Persson | IDEAS/RePEc

The field of modern political economics needed this book. We now have an outstanding teaching tool, a splendid reference book, and a coherent treatment of the field. Persson and Tabellini have done a great service to the profession. What determines the size and form of redistributive programs, the.

October 29th, Abstract: The "New Political Economy": This literature is characterized by two features. First, it chiefly aims at explaining actual economic policies, rather than taking it as exogenous, as do "conventional econom- ics. It has tackled a wide variety of topics, such as the determination of redistributive taxation, inflation, budget deficits, school finance, labor market policies, capital taxation, trade liberalization, privatization and restructuring in transition economies, and so on. Princeton University Press, MIT Press, Pp, xiv Given the size of the literature, it has become crucial to organize it and evalu- ate what has been learned. Each is best considered as a textbook, and while they cover many common topics, their focus is different. Drazen mostly focuses on applications for macroeconomic policy, while Persson and Ta- bellini pay more attention to the institutional details of decision-making. Both books are very well written and concise, and I highly recommend them to any student interested in political economy, while they will greatly sim- plify the task of any professor teaching that topic. It is mostly theoretical in the sense that it presents a variety Of models in detail, but for each topic it systematically reviews the empirical literature. It starts by introducing some basic tools of economics overlapping generations, principal-agent theory, op- timization and politics median voter theorem, Downsian competition, lobby- ing, etc. The large literature on credibil- ity, commitment, and reputation is then reviewed-this is perhaps superfluous, as it is already well reviewed in most macroeconomic textbooks and in some excellent surveys, such as Alex Cukier- man , for example. The book then discusses various topics in political economy, all of them relevant to macro- economics. The book by Persson and Tabellini starts with a very useful presentation of the various tools that can be used to analyze the political process. These tools allow us to go beyond the standard median voter theorem. The authors dis- cuss single-crossed references, interme- diate preferences, probabilistic voting, and lobbying and campaign contributions. Then they present models that are meant to represent more accurately some real-world phenomena such as legislative bargaining, agenda setting, et cetera. These models are then used to analyze various issues, some of which are also discussed by Drazen. This in- cludes redistribution, pensions, regional transfers, unemployment benefits, and, as in Drazen, political business cycles, public debt determination, and growth. A whole part is also devoted to the lit- erature on credibility and reputation. Another discusses comparative politics, using the tools introduced at the begin- ning to make predictions about how different political constitutions affect actual fiscal outcomes. Why is political economy important? First of all, explaining economic policy is a legitimate research goal. It poten- tially has many real world applications. A bank analyst could use it to assess country risk or the likelihood that a given reform pack- age will succeed. Second, it may help economists to better advise government by fully taking into account political constraints in their analyses. Many pol- icy proposals based on "first-best" crite- ria are useless because they ignore such constraints. For example, a reduction in payroll taxes compensated by a rise in VAT may have a positive impact on em- ployment. Many economists would ad- vocate it. But a politician may see that it redistributes welfare from retirees to workers, and, if the former have a more elastic voting behavior, such an option will simply not be considered. In order to be successful, the economist must ex- plicitly recognize who gains and who loses from his proposal, and design it in a politically viable way. Political economy analysis may also help to better de- sign constitutions, by pointing out that different constitutions have different economic costs because some will induce more efficient policies than others. These high stakes explain the popu- larity of this topic in the last decade, as reflected by the large number of arti- cles covered in the two books. Enough research has been done to enable us to ask: What has been achieved? As either book makes clear, the approach has demonstrated its wide range of applicability. It has analyzed monetary fluctuations and long-run growth, redistributive policies and separatism, constitutional design and the dynamics of specific reforms, and so on. There is a huge theoretical potential, and there are also some empirical achievements- for example, one is able to explain why public debt is higher under divided gov- ernments. This theoretical potential, however, is not fully realized, in the sense that to date research has not led to the emergence of a central theory with a main block of robust, testable predictions, say, something comparable in scientific status to the life-cycle the- ory of savings or the Heckscher-Ohlin theory of international trade. This may be too ambitious a standard, but it is interesting to discuss the reasons why the new political economy has not reached it yet. In my view, there are three main problems. First, although some may think other- wise, political economy pushes the rationality assumption even further than economics. It follows the established practice of economics of assuming rational expectations, but that assumption is much more questionable in the case of political economy. In a macroeconomic model, for the rational expectations assumption to be valid, it is only necessary that agents understand the determinants of the variables of interest in the equilibrium in which the economy happens to be. For example, the functioning of the economy may be quite complicated, but if its dynamics, in a reduced form, are linear and first-order, to forecast prices it is only necessary to know the coeffi- cients describing how prices at t depend on the vector of state variables at t Admittedly, this is already asking for a lot, particularly if one introduces nonlinearities or assumes that the econ- omy is away from its stochastic steady state. However, when one uses rational ex- pectations in political economy models, one goes a step further. In order to be able to compute their gains from a pol- icy change, agents must fully understand how such a policy change affects the behavior of the economy. In par- ticular, they need to fully take into ac- count general equilibrium effects. If such policy changes were taking place randomly and regularly just like other shocks, one would just need to know, again, their reduced form effects on the variables of interest. This is plausible in some cases, for example when one is considering common policy shifts such as a tax cut or a rise in interest rates. But most often, this is clearly not the case. Policy changes do not occur fre- quently and are the outcome of a con- stantly evolving set of ideologies. These ideologies themselves reflect the evolu- tion of knowledge about how the econ- omy works. Proposals that were common recipes thirty years ago are no longer on the agenda, and vice-versa. Therefore, many reforms are unique and in many cases they are the response to a crisis which is itself unique. In such cases, to properly evaluate the effect of the reform one would need a complete, structural, general equilibrium model of the economy, with a confident knowl- edge that the model will work in an en- vironment that never prevailed in the past. While this is doable for the virtual agents and the simple economies of our models, in practice this is pushing rationality very far. In fact, many political conflicts are not only conflicts of inter- est but also conflicts about how the economy functions. For example, the proposal to cure un- employment via working time reduction, which is so popular in some European countries, reflects the belief of many politicians that total hours worked are fixed, or at least sluggish, and that there are no prospects of job creation in new sectors. Despite its theoretical shortcomings and all the evidence to the contrary, it is too easy to dismiss this argument as a cynical excuse for a mea- sure that redistributes in favor of insiders. It is actually connected to an intellectual tradition that regards aggregate quanti- ties as quite unresponsive to prices, and considers that wage moderation has lit- tle impact on employment. This tradi- tion is discredited in Anglo-Saxon coun- tries but still quite influential in many French circles. Another example of the same sort is pointed out by Thomas Piketty , who argues that people favor or oppose redistribution depending on their belief about its distortionary effects. Thus, a "right-winger" is not a rich person but somebody who experienced upward mobility as the re- sult of his effort, while a "left-winger" could be quite rich as the outcome of raw luck, and hence believe that income bears little relation to effort, so that redistribution is not very distortionary. In that paper, conflicts are en- tirely due to different beliefs about how the economy works. But the paper also illustrates how difficult it is to make these arguments plausible in the context of a simple mathematical model. In the model, it would be very easy for in- dividual agents to learn the true distor- tionary impact of taxation, at an arbitrarily small cost, by slightly varying their effort level and seeing what comes out. This problem is particularly salient when one is dealing with issues such as the political economy of transition. How can voters in a country that has not experienced market institutions for half a century or more figure out the effect of introducing these institutions on their welfare? This suggests one possible, simple route for thinking about how individuals with limited rationality evaluate their gains from reform, i. As argued by Philippe Aghion and Olivier Blanchard , high un- employment benefits increase the po- litical support for reform to the extent that people become more willing to give up their jobs in the public sector to find work in the new private sector. This re- sult obtains in a simple model where general equilibrium effects are shut down. However, as Andrew Atkeson and Patrick Kehoe argue, in gen- eral equilibrium unemployment bene- fits may increase aggregate consumption demand by reducing the need for precautionary savings. This in turn leads to an increase in interest rates which makes people less willing to en- gage in investment activities, including job search. With this example, we clearly see that taking into account such general equilibrium effects assumes that agents are far more sophisticated than in Aghion and Blanchard. Indeed, my intuition would have suggested that higher unemployment benefits reduce interest rates in the short run, since they reduce employment and thus the marginal product of capital. For example, in Saint-Paul , ch. If this is under- stood, no social demand for unemploy- ment benefits will arise. Such general equilibrium effects may well be quite relevant. For example, Daniel Cohen , inspired by a recent study of Christopher Flinn , finds that the present discounted value of earnings lost by a worker who becomes unemployed is higher in France than in the U. So, in equilibrium,American workers are actually better insured by the functioning of their labor market than their French counterparts by their generous social welfare system. The question, however, is whether they are willing to bet on that when voting on a reduction in unemployment benefits. Another example surveyed by Drazen, also in the context of the political econ- omy of transition, is a paper by Sweder van Wijnbergen , who argues that gradual price liberalization may create backlash and be abandoned by voters prior to completion. The argument is that, once prices have been partially lib- eralized, expectations of further increase in prices may induce speculators to store goods rather than supplying them to the market. Consumers then wrongly infer a low, or even negative, supply response to prices, which may induce them to vote in favor of aban- doning the reform. This argument certainly carries much empirical relevance, but it is based on consumers being im- perfectly rational. If they understood that the low supply response is only a short-run phenomenon due to specula- tive behavior, i. Indeed, a brutal fall in sup- ply would signal a very flat marginal cost schedule, and they should deduct from it that supply would rise a lot in response to a permanent increase in prices. This discussion suggests that perhaps voters base their decision much more on the direct impact of the proposed policy on their welfare than on its general equilibrium effects, which are much more difficult to evaluate. An im- portant step in that direction is a recent paper by Hans Gersbach and Achim Schniewind which considers a model of wage formation by centralized bargaining where unions take into account the direct impact of their deci- sions on their members but only gradu- ally learn their general equilibrium effects once policy has been implemented. The key difficulty is to estab- lish rigorous criteria in order to define which effects are taken into account by voters and which are not, rather than make arbitrary assumptions about them. A second problem of the "new politi- cal economy" is that theory is well ahead of measurement. One is already well aware of empirical problems in conventional economics, where one tries to relate outcomes to policies. There is very little time variation in these variables. The consti- tution of the United States, for example, has been amended but has never changed. The French constitution has been unchanged since , the Spanish one since

2: Torsten Persson - Wikipedia

Torsten Persson and Guido Tabellini () "Political Econo mi cs", MIT Press. Daron Acemoglu and James Robinson () "Economic Origins of Dictatorship and Democracy", Cambridge www.enganchecubano.com

3: Guido Tabellini | IDEAS/RePEc

Combining the best of three separate traditions--the theory of macroeconomic policy, public choice, and rational choice in political science--Torsten Persson and Guido Tabellini suggest a unified approach to the field.

4: Political economics: explaining economic policy - LSE Research Online

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T. Persson and G. Tabellini (Book - ; Chapters) presented by Salvatore Lo Bello (Macro Reading Group UC3M)Political Economics - Explaining Economic Policy November 14, 6 / 17 Notation and Preferences.

5: Probabilistic voting model - Wikipedia

stitutional reforms on economic policy and economic performance. 1 Is it 1 The contributions in Shugart and Wattenberg () discuss the motives behind, and the political consequences of, reform in these and other countries adopting mixed electoral.

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