

Norman Schofield · Gonzalo Caballero · Daniel Kselman *Editors*

## Advances in Political Economy

Institutions, Modelling and Empirical Analysis

This book presents latest research in the field of Political Economy, dealing with the integration of economics and politics and the way institutions affect social decisions. The focus is on innovative topics such as an institutional analysis based on case studies; the influence of activists on political decisions; new techniques for analyzing elections, involving game theory and empirical methods.

Schofield · Caballero  
Kselman *Eds.*



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Rational-Choice Institutionalism, Constitutional Political Economy and the New Institutional Economics.

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**Chapter title**                      **Political Transitions in Ancient Greece and Medieval Italy: An Analytic Narrative**

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Abstract                      Models of political transitions have mostly focused on the 19th and 20th centuries. Their setup tends to be specific to the contemporary period. This chapter reviews the events that led to democracy in ancient Athens and to rule by council in medieval Venice. We confront the available models of political transition with these events. We find evidence that war and economic conditions played a key role. The political economy models that incorporate these features do well in explaining the transitions in both ancient Athens and medieval Venice.

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Keywords                     Political transitions – Wars – Ancient Greece – Athens – Venice – Genoa – Democracy – Republic

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**Chapter title**                      **A Collective-Action Theory of Fiscal-Military State Building**

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Abstract                      Prior to the emergence of the fiscal-military state, many monarchs depended on economic and local elites for the collection of tax revenue and defense. Why did these powerful elites allow the ruler to increase fiscal centralization and build-up militarily? Building on historical accounts of colonial Mexico and 17th century England, this chapter develops a game-theoretic analysis that explains why increases in fiscal centralization are more likely when the probability of a threat of internal unrest or

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external invasion increases. Elites free ride on fiscal contributions under fragmented fiscal capacity. Centralized fiscal collection and enforcement serves as an institutional device for the elites to overcome free riding and ensure the provision of military protection. The analysis shows that an increase in the probability of a threat is more likely to result in centralization when the alignment between the elites' and the ruler's vulnerability to the threat is high, and in the presence of economic growth. The analysis also suggests that institutions that allow rulers to commit, such as representative assemblies, may not be necessary for fiscal centralization to transpire. Examples from European and colonial history provide support for the implications of the theoretical analysis.

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<b>Chapter title</b>	<b>Stable Constitutions in Political Transition</b>	
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Abstract	<p>This chapter develops a spatial model where an autocrat selects a status quo constitution which a succeeding elected constitutional assembly may or may not accept as a blue print for negotiations on constitutional reform. If the autocrat expects that the future constitutional assembly is dominated by parties which favor redistribution, he does not want to bind himself by the constitution. If the middle-class opposes redistribution or the middle class and the right dominate the constitutional assembly, stable constitutions exist which are in the interest of the autocrat. This framework is applied to transition processes in Chile and Egypt.</p>	

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<b>Chapter title</b>	<b>Quandaries of Gridlock and Leadership in US Electoral Politics</b>	
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Abstract	<p>In 1964 President Johnston was able to overcome Southern Democrat opposition to the Civil Rights legislation. Recent opposition by Republicans in Congress has induced a form of legislative gridlock, similar to the situation facing Johnston. This paper argues that the current gridlock is more pernicious than in 1964 for two reasons. The pivot line in the two dimensional policy space has shifted slightly so that voters are more clearly separated by different preferences on civil rights. Secondly the era of deregulation since the election of Reagan has brought money into the political equation, especially since Citizen ' s United decision of the Supreme Court. The argument is based on a formal model of the 2008 election and shows that excluding money, both candidates in 2008 would have adopted centrist positions. We argue that it was money that pulled the candidates into opposite quadrants of the policy space. We suggest that the same argument holds for members of Congress leading to the current gridlock. Before discussing the current gridlock between the executive and legislative arms of government we draw some parallels with earlier episodes in US political history, particularly the early years of the Roosevelt presidency and the lead-up to the passage of the Civil Rights legislation in 1964. We also suggest that in fragmented or multiparty systems, based on proportional representation, such as in the euro area, small parties will adopt radical policies far from the electoral center, thus inducing coalition instability. This phenomenon coupled with a fragile fiscal system based on the euro also has created difficulties in dealing effectively with the fall-out from the recession of 2008–2009.</p>	

<b>Chapter title</b>	<b>Sub-central Governments and Debt Crisis in Spain over the Period 2000–2011</b>	
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**Abstract** This chapter studies the quantitative evolution of sub-central sovereign debt in Spain over the period 2000–2011 and compares it with the evolution of central debt. As an intense process of political and fiscal decentralization has taken place since the mid eighties, the paper examines whether this drive to decentralization has been paralleled by any fiscally undisciplined behavior on the part of Spanish sub-central governments over the period considered. Some key formal legal rules and informal behavioral norms present at sub-central politics in Spain are examined, including legal controls on borrowing by sub-central governments. The empirical analysis will be based on the internationally comparable public finance figures provided by sources such as the OECD, the Eurostat and the Bank of Spain. The paper concludes that economic performance seem to be the key factor for explaining the evolution of sub-central, as well as central, public debt before and after the world financial crash. The analysis shows that in terms of the Spanish GDP the debt burden generated by sub-central governments in Spain decreased over the 2000–2007 period. However, this debt has soared from 8.5 per cent of Spanish GDP in 2007 to 16.4 per cent in 2011, adding 85 thousand millions euros (about 106 billions US dollars) to the stock of total public debt in Spain in just four years. Central government added 267 thousand millions euros (about 334 billions US dollars).

<b>Chapter title</b>	<b>Deciding How to Choose the Healthcare System</b>	
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Abstract

The continuing debate in the United States over the form of health care provision is illustrative as to how difficult that choice can be. The choice is further complicated by political activity—lobbyists with a vested interest in various formats—and a noticeable effect from path dependence—people are used to what they have and are afraid of change, and some groups actually stand to lose from change, at least in the short run. What might the decision have been in the absence of these effects? This chapter creates a model to explore this question. In particular, we appeal to insights from Buchanan and Tullock (1962), Rawls (1971) and Kornai and Eggleston (2001) to ask what type of health care provision would a polity choose from behind the veil of ignorance, and what type of mechanism—unanimity (constitutional) or majority (legislative) would they prefer to use to select it?

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**Chapter title**

**Challenges to the Standard Euclidean Spatial Model**

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Abstract

Spatial models of political competition over multiple issues typically assume that agents' preferences are represented by utility functions that are decreasing in the Euclidean distance to the agent's ideal point in a multidimensional policy space. I describe theoretical and empirical results that challenge the assumption that quasiconcave, differentiable or separable utility functions, and in particular linear, quadratic or exponential Euclidean functions, adequately represent multidimensional preferences, and I propose solutions to address each of these challenges.

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<b>Chapter title</b>	<b>A Non-existence Theorem for Clientelism in Spatial Models</b>	
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**Abstract** This chapter proposes a spatial model that combines both programmatic as well as clientelistic modes of vote-seeking. In the model political parties strategically choose: (1) their programmatic policy position, (2) the effort they devote to clientelism as opposed to the promotion of their programmatic position, and (3) the set of voters who are targeted to receive clientelistic benefits. I present a theorem which demonstrates that, in its most general form, a spatial model with clientelism yields either Downsian convergence without clientelist targeting, or an infinite cycle. Put otherwise, in its most general form the model never yields a Nash Equilibrium with positive levels of clientelism. I relate this result to past research on instability in coalition formation processes, and then identify additional restrictions, regarding voter turnout and the set of voters which parties can target, which serve to generate Nash equilibria with positive clientelist effort.

<b>Chapter title</b>	<b>Nonseparable Preferences and Issue Packaging in Elections</b>	
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**Abstract** In this chapter we develop a model in which candidates have fixed positions on a single issue dimension on which one candidate has an advantage by being closer to the median voter. The disadvantaged candidate can introduce a new issue to win the election. When all voters have separable preferences and the advantaged candidate moves last on the new issue, there is no way for the disadvantaged candidate to win. When some voters have nonseparable preferences over the issues, the disadvantaged can take a position that the advantaged candidate cannot beat. Candidates in an election can benefit from introducing new issues, but only when some voters have nonseparable preferences. Using data from a 2004 survey, we show that a substantial percentage of US voters have nonseparable preferences for many issues of public policy, creating incentives and opportunities for political candidates to package issues.

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**Chapter title** **When Will Incumbents Avoid a Primary Challenge? Aggregation of Partial Information About Candidates' Valence**

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**Abstract** When can a party insider feel safe from an outside challenge for a future nomination? In most countries, parties can choose whether to hold a primary election where the rank-and-file members take a vote, or to allow party leaders to directly appoint an insider candidate of their liking. The cost of primaries forces candidates to drift away from the party leader's policy preferences in order to cater to primary voters. This paper postulates a benefit: primary elections can reveal information about the electability of potential candidates. I refine the formal model in Serra (2011) by making the realistic assumption that such information is revealed partially rather than fully. A signaling mechanism is introduced whereby candidates send noisy information that is used by primary voters to update their beliefs. This leads to surprising insights about the behavior of primary voters: under some circumstances they will use the



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information provided by primary campaigns, but under other circumstances, they will choose to completely ignore such information. In addition, the results predict that popular incumbents will not be challenged in a primary election, which is consistent with empirical observation. Finally, a prescription for parties is to allow their primaries to be tough given that stiff competition will improve the expected ability of the nominee.

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<b>Chapter title</b>	<b>Measuring the Latent Quality of Precedent: Scoring Vertices in a Network</b>	
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Abstract	In this chapter, we consider the problem of estimating the latent influence of vertices of a network in which some edges are unobserved for known reasons. We present
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and employ a quantitative scoring method that incorporates differences in “potential influence” between vertices. As an example, we apply the method to rank Supreme Court majority opinions in terms of their “citability,” measured as the likelihood the opinion will be cited in future opinions. Our method incorporates the fact that future opinions cannot be cited in a present-day opinion. In addition, the method is consistent with the fact that a judicial opinion can cite multiple previous opinions.

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<b>Chapter title</b>	<b>The Politics of Austerity: Modeling British Attitudes Towards Public Spending Cuts</b>	
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**Abstract** The fallout from the 2008 financial crises has prompted acrimonious national debates in many Western democracies over the need for substantial budget cuts. Among economic and political elites there is broad agreement that substantial public sector budget cuts are necessary to address unsustainable sovereign debt and to establish long-term fiscal integrity. Many ordinary citizens see things differently, since austerity measures threaten programs that challenge longstanding public commitments to education, health and personal security that constitute the foundation of the modern welfare state. We investigate the nature of public attitudes towards the budget cuts using surveys from the British Election Study. The results suggest that cuts currently are widely perceived by the public as essential for Britain's long-term economic health. But an upward trending view that slashing public services will cause serious difficulties for families may lead many people eventually to say enough is enough. It is likely that support for the cuts will be undermined by a lack of visible results in the real economy.

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<b>Chapter title</b>	<b>Modeling Elections with Varying Party Bundles: Applications to the 2004 Canadian Election</b>	
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Abstract

Previous models of elections have emphasized the convergence of parties to the center of the electorate in order to maximize votes received. More recent models of elections demonstrate that this need not be the case if asymmetry of party valences is assumed and a stochastic model of voting within elections is also assumed. This model seems able to reconcile the widely accepted median voter theorem and the instability theorems that apply when considering multidimensional policy spaces. However, these models have relied on there being a singular party bundle offered to all voters in the electorate. In this paper, we seek to extend these ideas to more complex electorates, particularly those where there are regional parties which run for office in a fraction of the electorate. We derive a convergence coefficient and out forth necessary and sufficient conditions for a generalized vector of party positions to be a local Nash equilibrium; when the necessary condition fails, parties have incentive to move away from these positions. For practical applications, we pair this finding with a microeconomic method for estimating parameters from an electorate with multiple regions which does not rely on independence of irrelevant alternatives but allows estimation of parameters at both aggregate and regional levels. We demonstrate the