

Electoral Competition and Partisan Policy Feedbacks

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Starting point

- ▶ Policies have long term consequences:
affect electorate's composition, information, economic interests
(Examples: migration, exposure to markets, asset ownership)
- ▶ Effect on induced political preferences (policy feedback)
(Popkin, 1991): political information as a by-product)
- ▶ Strategic politicians can distort policies to exploit these effects
Partisan Policy Feedbacks

A Stark Example: The Curley Effect

Glaeser & Schleifer 05

J. M. Curley, Irish major of Boston (early 20th century)

Used policies to influence migration flows:

- ▶ more Irish into the city
- ▶ more Anglo-Saxon out of the city



Generated economic stagnation, but electorally very profitable:

- ▶ Four terms as mayor, two in Congress, one as governor

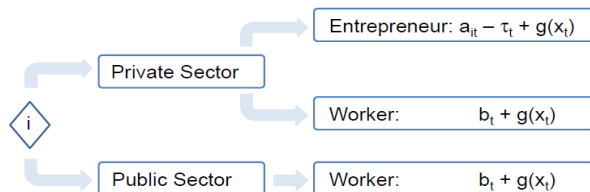
Questions

Does this logic apply to other policy domains?
(Migration *across information sets/economic interests*)

What drives politicians' incentives to distort policies?
(Time preference, constitution, ideology...)

The economy

Public finance environment, endogenous occupational choice:



- ▶ $a_{it} \sim F(a; \sigma_t)$: entrepreneurial productivity
- ▶ b_t : redistributive transfer, funded by τ_t
- ▶ x_t : Share of public workers (and how much public good)
- ▶ In equilibrium, $b(\sigma, \tau)$ implicitly defined by occupational choices

$$b\Pr(a \leq b - \tau) = \tau\Pr(a \geq b - \tau)$$

Political Process

- ▶ Two parties care about τ : R utilitarian ($\tau = 0$), L egalitarian ($\tau^L = \bar{\tau}$)
- ▶ Pre-electoral commitment to x , repeated elections
- ▶ *Key assumption*: if in private sector, see σ_t , otherwise noisy signal s_{it}
- ▶ When voting, initial sector affects induced political preferences
(Initial employment affects beliefs about redistribution)
- ▶ But initial employment allocation comes from past policies!

Results

Does this logic apply to other policy domains?

- ▶ Public servants (on average) *overestimate* b (Guillaud, 2011)
- ▶ Parties distort public sector to *improve future electoral strength*
- ▶ Socially undesirable (common value) public good dimension

What drives politicians' incentives to distort policies?

- ▶ Parties' and voters' patience increase distortions
- ▶ Power sharing ("Consensualism") mitigates distortions

Related literature

Distortions from policies's long term *economic* consequences

- ▶ Aidt & Dutta 2007, Acemoglu et al. 2009, Acemoglu & Robinson 2000, Azzimonti 2010, Battaglini & Coate 2008, Besley & Persson 2010, Besley & Coate 1998, Dixit & Londregan 1995

Static literature on constitutional determinants of govt policies

- ▶ Iversen & Soskice 2006, Lizzeri & Persico 2001, Milesi-Ferretti et al. 2002, Persson & Tabellini 2002 and 2004

Non formal literature on policy feedback effects

- ▶ Pierson 1996, Campbell 2011