Comments on Political Economics in 2005, for the Nemmers Conference by Roger Myerson

After the "Perestroikist" reaction, we have lost much standing with mainstream political science journals, in spite of the fact that political science has no other methodology for analyzing effects of institutional structures. But major economics journals have welcomed political economics, and the new Quarterly Journal of Political Science may become the Econometrica of political science.

What are fruitful directions for further progress?

Biggest question in Hamiltonian political economics:
Can differences in political institutions explain the huge differences of economic performance across nations?
If so, we should be able to formulate micro-incentive models of political/economic systems where politicians make choices leading to such disparities.

"Consider the 35-fold difference in output per worker between the United States and Niger. Different capital intensities in the two countries contributed a factor of 1.5 to the income differences, while different levels of educational attainment contributed a factor of 3.1. The remaining difference -- a factor of 7.7 -- remains as the productivity residual. ...Our hypothesis is that differences in capital accumulation, productivity, and therefore output per worker are fundamentally related to differences in *social infrastructure* across countries. By social infrastructure we mean the institutions and government policies that determine the economic environment within which individuals accumulate skills, and firms accumulate capital and produce output."
Hall Jones, QJE, 1999.

A big question in Madisonian political economics:
If America invaded Iraq to bring democracy to the Middle East, what institutional structures should have been recommended to maximize the probability of successful democracy?
[Myerson, "Federalism and incentives for success of democracy" QJPS (to appear).]

My old 1995 Survey: four game-theoretic models of political institutions

"Economic analysis of political institutions" in Kreps Wallis, Advances in Economic Theory 1 1997.

1. Diversity of candidates in symmetric equilibria of elections (Cox AJPS 1987, 1990, Myerson APSR 1993):
   Systems that encourage diverse representation may also stimulate candidates to create favored minorities and to substitute targeted private goods for public goods, $1/Q(k) = B(k)$ (where k = #candidates, $Q(k)$ = [smallest ignorable minority], $B(k)$ = [lowest benefit ratio of guaranteeable public good]).
2. Barriers to entry and nonsymmetric equilibria of elections (Myerson GEB 1993, JET 2001):
   In a simple bipolar model with corruption, plurality voting (with its bandwagon effects) or negative voting (with its underdog effects) can decrease the competitive incentives against corrupt political profit-taking, unlike approval voting and pure PR.
3. Party discipline and legislative organization (Diermeier Myerson AER 1999): Bicameral and presidential veto powers encourage a legislative chamber to create internal hurdles to legislation (weak party discipline, strong gatekeeping committees), UK's efficient secret (Bagehot, Cox 1987).
   With s = [House's hurdle factor], t = [others' hurdle factor], $D(\bullet)$ = [lobbyists' demand for bills] ($D'<0$),
   if $s+t = \text{argmax}_{s+t}\,[(s+t)D(s+t)]$ then $\partial[sD(s+t)]/\partial s = -tD'(s+t) > 0$.
4. An integrated model of elections and legislative bargaining (Austen-Smith Banks APSR 1988):
   Proportional representation may yield a legislature that is not a true "mirror of the people," because rational voting in an election may depend on subsequent rules for forming a government.
   (results of Israel's experiment with elected PM should have been predicted.)

My 1999 five-day survey of models of social choice and voting:

1. Social choice:
   - Impossibility of unique pure equilibrium (Muller Satterthwaite JET 1977).
   - Condorcet cycle, binary agendas (Myerson "Foundations of Social Choice Theory").
   - Two-party randomized equilibrium (Laffond Laslier LeBreton GEB 1993).
2. Voting among two alternatives:
   - Duverger's law in pure-strategy equilibria (Feddersen AJPS 1992).
   - Costly voting and turnout (Palfrey Rosenthal PC 1983, APSR 1985).
   - Poisson models of population uncertainty (Myerson IJGT 1998, JET 2000).
   - Ledyard's utilitarian theorem with small voting costs (Ledyard PC 1984).
3. Information in voting:
   - Mandate effects versus pivotal outcomes (Piketty, REStud 2000).
   - Swing voters' curse, jury thm, information aggregation (Feddersen Pesendorfer APSR 1996, Ec'trica '97).
4. Comparison of multi-candidate electoral systems:
   - Cox's threshold of diversity (Cox AJPS 1987, 1990). [symmetric eqms]
   - Incentives to cultivate favored minorities (Myerson APSR 1993). [symmetric eqms]
   - Strategic voting under single nontransferable vote, M+1 law (Cox APSR 1994). [nonsymmetric]
   - Majoritarianism and corruption-deterrence in bipolar model (Myerson JET 2001). [both]
5. Bargaining in legislatures
   - Proposal power (Baron Ferejohn APSR 1989).
   - Electoral politics followed by legislative bargaining (Austen-Smith Banks APSR 1988).
   - Bicameralism, vetoes, legislative hurdles (Groseclose Snyder APSR '96, Diermeier Myerson AER '99).
   - Parliamentary confidence votes and coalitions (Diermeier Feddersen APSR 1998).

Some other influential papers on political economics since 1995:

Grossman Helpman, "Electoral competition and special interest politics," REStud, 1996 [lobby contributions]. Two-party competition with probabilistic voting and special-interest contributions yield convergent equilibria maximizing a weighted sum of voters' and contributors' welfare.

Besley Coate, "An economic model of representative democracy," QJE, 1997 [multicandidate elections]. A model of candidate entry in policy space, with strategic voting (Osborne Slivinski did sincere).

Fearon Laitin, "Explaining interethnic cooperation," APSR, 1996 [foundations of justice]. Ethnic groups offer protection and justice with in-group policing or intergroup conflict; but group leaders are not modeled.

BdM Morrow Smith Siverson, "Institutional explanation of democratic peace," APSR 1999 [international relations, comparison of authoritarian and democratic systems]. With a smaller political base, dictators focus more on targetable private goods, affecting their decisions about peace and war.

Acemoglu Robinson, "Why did the West extend the franchise?" QJE, 2000 [foundations of democracy]. The poor, when temporarily strong enough to revolt, prefer to demand durable democratic institutions, rather than nondurable economic transfers. The rich elite is exogenously given.

Lizzeri Persico, "Why did the elites extend the suffrage?" QJE, 2004 [foundations of democracy]. Extending suffrage makes candidates promise less private more public goods; the resulting reduction of political risk can benefit even the already-enfranchised members of the selectorate.

Older articles that have been more influential than I recognized in mid 1990s:

Meltzer Richard, "Rational theory of the size of government," JPE, 1981: positive public finance, median voter.

Crawford Sobel, "Strategic information transmission," Ec'trica, 1982: informational lobbying.

Bernheim Whinston, "Common agency," Ec'trica, 1986: bribes offered by competing lobbyists.

Ferejohn, "Incumbent performance and electoral control," PC, 1986: retrospective voting, incumbent's effort (See also Riker Liberalism against Populism 1982, Barro PC 1973, Banks Sundaram 1993, 1998; Fearon in Przeworski et al, Democracy Accountability and Representation, 1999.)

Some major influential books on political economics since 1995 (with my favorite chapter noted):

Persson Tabellini, Political Economics, 2000 (ch 8: electoral rules and competition, electoral systems that encourage targeted private goods may intensify competitive pressure on corrupt political rents. In other chapters, many variations on the two-party probabilistic voting model are studied.)

Grossman Helpman, Special Interest Politics, 2001 (ch 2: basic election models; ch 4: basic informational lobbying models).

BuenoDeMesquita Smith Siverson Morrow, Logic of Political Survival, 2003 (ch 3: the selectorate model for authoritarian and democratic systems).

Boix, Democracy and Redistribution, 2003 (ch 4: growth and political institutions. Asset mobility, in many forms, is recognized as a moderating force on politics, improving chances for success of democracy.)

Dixit, Lawlessness and Economics, 2004 (ch 4: profit-motivated contract enforcement, going beyond Milgrom-North-Weingast to analyze costs of a corruptible judge. Other chapters consider relational versus formal contracts, following Baker-Gibbons-Murphy.)

Austen-Smith Banks, Positive Political Theory I & II, 1999 & 2005 (ch II.8: multicandidate elections. Throughout, develops a social-choice view of politics solving preference-aggregation problems.)

Persson Tabellini, Economic Effects of Constitutions, 2003 (ch 7: political rents & productivity; open-list proportional representation looks good; presidentialism looks good only in strong democracies).

Przeworski Alvarez et al, Democracy and Development, 2000 (ch 6: conclusions. Democracy has no effect on mean growth of output, but decreases its variance, increases labor's share of output, decreases population growth, and is more likely to survive in rich countries.)

Finer History of Government 1997 (ch II.4: the Roman republic).

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Can differences in political institutions explain the huge differences of economic performance across nations? If so, we should be able to formulate micro-incentive models of political/economic systems where politicians make choices leading to such disparities.

Acemoglu Johnson Robinson, "Reversal of fortune: geography and institutions," QJE, 2002.

Banerjee Iyer, "History, institutions and economic performance: the legacy of colonial land tenure systems in India," AER, to appear. Local feudal lordships are economically costly but politically stable.

Key ideas from Finer's History: the pervasive importance of nobility (aristocracy) as agents of the state, tensions between central palace bureaucracy (better monitored) and local governors (hard to monitor). Agency problems within political organizations are fundamental to their nature, but have been largely ignored in our political-economics models.

"The kingdoms known to history have been governed in two ways: either by a prince and his servants, who as ministers by his grace and permission assist in governing the realm; or by a prince and by barons, who hold their positions not by favor of the ruler but by antiquity of blood. Such barons have states and subjects of their own, who recognize them as their lords, and are naturally attached to them. ...

Examples of these two kinds of government in our own time are those of Turkey and of France. ...

It would be very difficult to invade Turkey; but having conquered it, it would be very easy to hold. ...

On the other hand, it would be easier to conquer France, but there would be great difficulty in holding it."

Machiavelli, The Prince 1532.

Classic testimony about the importance of institutions to manage tensions between palace and local governors.

Why is the Exchequer so called? ...Because the table of accounts resembles a checker-board....
Just as a battle between two sides takes place on a checker board, here too a struggle takes place, and battle is joined, mainly between two persons, to wit, the Treasurer and the Sheriff who sits at his account, while the other barons of the Exchequer sit by as judges to see and decide." FitzNagel, Dialogue of the Exchequer, c. 1180

Hattusili was King, and his sons, brothers, his in-laws, and his other family members and his troops were united. Everywhere on campaign, he kept the country subdued by his might. When he came back from campaign, each of his sons took control of a province. ...Later on, however, the princes' servants became corrupt, they took to devouring their properties, to conspiring against their lords, and they began to shed their blood...
Who will become king after me in the future, let his brothers, his in-laws, his other family members and his troops be united! ...He must not kill anybody of his family. ... When the King seeks evil for his brother or sister, his Council must tell him straight, "this is a matter of blood." Remember the long history of bloodshed...
If any of the king's family does evil and lays eyes on the king's head, the assembly must be summoned, and if his testimony is dismissed then he shall pay with his head. They shall not kill him secretly...
They shall not commit evil against his house and his children... Giving away even a prince's blade of straw or chip of wood is not right. Officials in the palace staff commit these evil deeds if they want to take a prince's house... If anyone in the palace staff commits evil again, the Council should seize him and devour him...
Proclamation of Telepinu, King of the Hittites. c. 1500 BCE.

"[Among the] good institutions on which the liberty and security of the king [of France] depend, ... the chief is the parliament and its authority, because he who established that kingdom, knowing the ambition and insolence of the great nobles, deemed it necessary to have a bit in their mouths to check them ...to relieve himself of the dissatisfaction that he might incur among the nobles by favoring the people, or among the people by favoring the nobles. He therefore established a third judge that, without direct charge of the king, kept in check the great and favored the lesser people." Niccolo Machiavelli, The Prince 1532.

(Parliament in England developed around 1270 as an alternative to general eyres, which were tours of senior royal ministers who heard complaints about sheriffs and tried to revive lost sources of royal revenue.)

Some kind of constitutional relationship between local governments and the national government seems to be essential for good protection of property rights, in ways which we need to better understand.
National mobility of people and goods in a federal system makes local tax-bases elastic, creating a competitive motivation for local leaders to provide protection and public goods for tax payers. (Tiebout JPE 1956.)
Weingast, "The economic role of political institutions: market-preserving federalism and economic growth," J Law Econ Org 1995.
Epple Zelenitz, "Implications of competition among jurisdictions: does Tiebout need politics?" JPE 1981.

Tiebout effects could induce many local leaders to advocate national laws against such mobility (serfdom), but cities with no natural resources would be natural advocates of labor mobility in national politics.
Stylized descriptions of early modern England, Poland, and Spain around 1600:

England: Governments of major cities were represented in national Parliament, and their jurisdiction was independent of the surrounding county. (Broad-based democracy was not common in the early modern period, according to the Webbs' English Local Government.)

Spain: Governments of major cities were represented in the national Cortes, but had jurisdiction over the surrounding countryside. (Urban oligarchs favored serfdom in Catalonia, kings opposed it.)

Poland: Governments of major cities had no control over their surrounding countryside, but they were not represented in the national Sejm, which was constituted from representatives of rural gentry and which imposed serfdom.

Federalism can work politically only if local leaders are willing to accept integration into the federal system.
Henry II developed the common-law mixture of local juries with royal judges in England, not in France.
In 1100s, English barons holding scattered lands saw some advantages in central supervision of local justice, but French barons tended to hold estates concentrated in one region (Warren Henry II).

Finally, two classic thoughts on the fundamental origins of political institutions:

"Deioces had always been a man of note, and now he set himself to practice justice ever more and more keenly... The Medes in his own village, seeing the manner of the man's life, chose him to be a judge among them. And he, since it was power he was courting, was always straight and just... so much so, indeed, that people in other villages learned that Deioces was the one man for judging according to the rule of right... and at last they would entrust their suits to none but him...
Deioces came to realize that now everything hung on himself. Whereupon he refused to sit as judge any more and said he would serve no longer... So robbery and lawlessness grew even more in the villages than before.
The Medes all came to a meeting place and... they persuaded one another to be ruled by a king.
Then at once the question was proposed as to whom to make king. Deioces was so much in everyone's mouth... that all ended by agreeing that he should be their king. For his part, he bade them to build him houses worthy of royalty and to strengthen him with a bodyguard... He compelled the Medes to make one great fortress...
[He established] that no one whatsoever should have admittance to the king...
When he had ordered these matters and had strengthened himself in royal power, he was very exact in his observance of justice." Herodotus, The History c. 430 BCE

"Almost all the governments which exist at present, or of which there remains any record in story, have been founded originally, either on usurpation or conquest, or both, without any presence of a fair consent or voluntary subjection of the people. When an artful and bold man is placed at the head of an army or faction, it is often easy for him, by employing, sometimes violence, sometimes false presences, to establish his dominion over a people a hundred times more numerous than his partisans. He allows no such open communication, that his enemies can know, with certainty, their number or force. He gives them no leisure to assemble together in a body to oppose him. Even all those who are the instruments of his usurpation may wish his fall; but their ignorance of each other's intention keeps them in awe, and is the sole cause of his security. By such arts as these many governments have been established; and this is all the original contract which they have to boast of."
Hume, Of the Original Contract 1752.

Topic headings in my 2004 Political Economics reading list:

Social choice: impossibility theorems, binary agendas
Models of two-party competition and candidate entry
Multicandidate competition under different electoral systems
Retrospective voting and agency
Legislative structure, agendas, and bargaining
Information and political action
Lobbying and special interests
Law and corruption
Local governments
Conflict and the emergence of democratic institutions