Gov 2006: Formal Political Theory II
Section 3

Sophie Hill

February 19, 2019

Agenda

- Probabilistic voting: mini-review
- Models of spending on public goods (Downs, Bergstrom & Goodman, Meltzer & Richard, and beyond!)
- Brainstorming final paper ideas!

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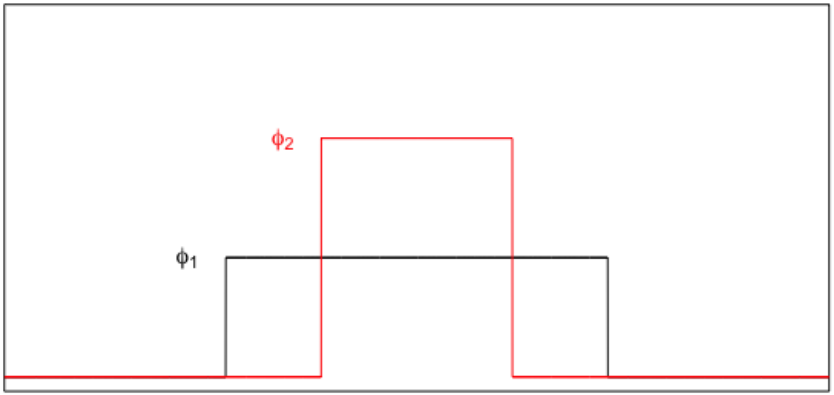
- What is the substantive interpretation of the following terms?
  - $\sigma_i =$ individual ideology parameter
  - $\delta =$ incumbent popularity shock
  - $\phi =$ voter sensitivity to policy
- A common extension to this model is to let the ideology parameter have a group-specific distribution, σ_{Ji}. We can then vary group-level ideology (i.e. $\mathbb{E}[\sigma_{Ji}] \neq \mathbb{E}[\sigma_{Ki}]$) and sensitivity to policy (i.e. $\phi_J \neq \phi_K$).

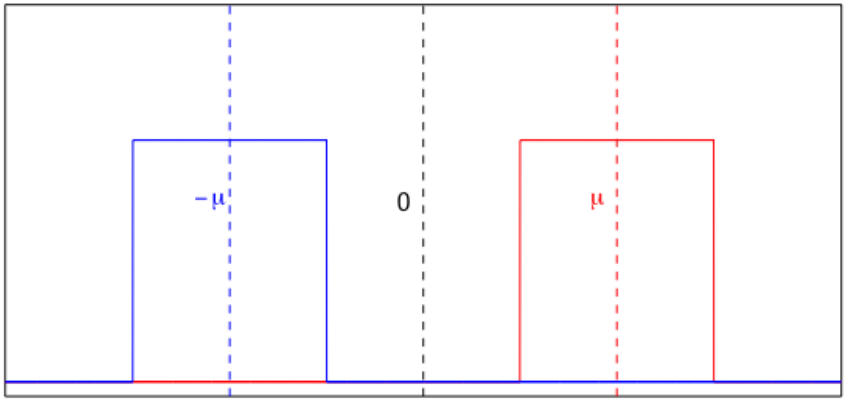
Probabilistic voting: mini-review

Higher density = more sensitive to policy = "swing voters"



Probabilistic voting: mini-review

Shift midpoint of σ = ideological bias = "partisans"

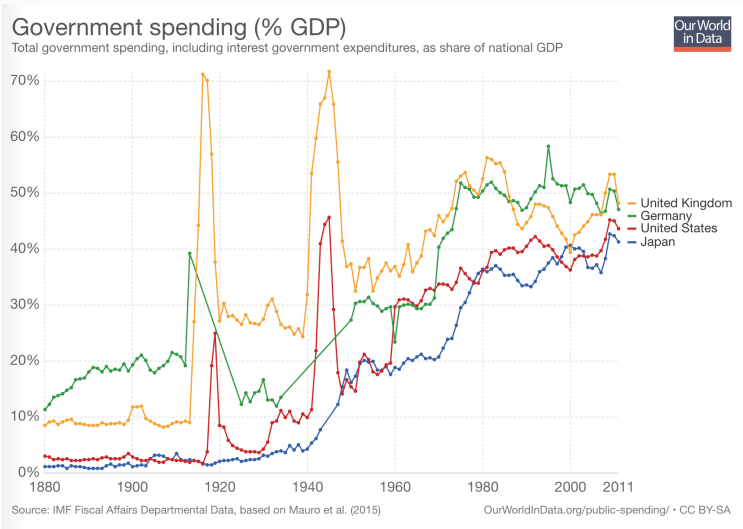


Models of spending on public goods

The papers last week were speaking to two central puzzles of democratic distributive politics:

- Why is the size of government growing over time?
- How does "rational ignorance" affect provision of public goods?

Models of spending on public goods



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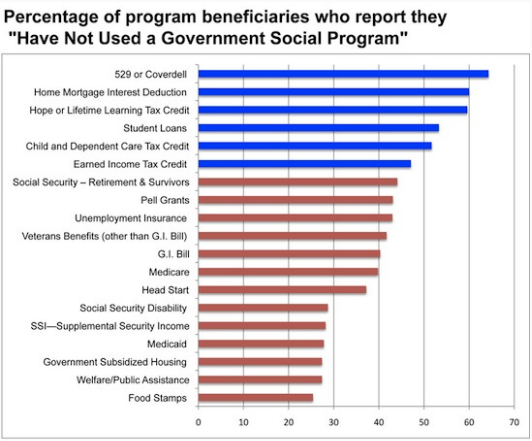

Models of spending on public goods

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Models of spending on public goods

These are big motivating puzzles... but let's start with a simpler question: how should we model citizen preferences over public goods?

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- $\gamma = 1 \rightarrow$ purely private good
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- Individual maximizes utility subject to her budget contraint $X_i + \tau_i q n^\gamma Z_i \leq Y_i$, where q is the unit cost of the public good and τ_i is i's tax share

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- where $E =$ expenditures, $n = \#$ of households, $\hat{\tau} =$ tax share of citizen with median income, $\hat{Y} =$ median income, and the X_i's are municipality socio-economic controls.

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- If $\epsilon + \delta\eta > 0$ for all Y, then individual demand for public goods is *increasing* in income (and *vice versa*)
- It is also possible that the sign of $\epsilon + \delta\xi$ varies across values of Y, in which case the relationship is non-monotonic

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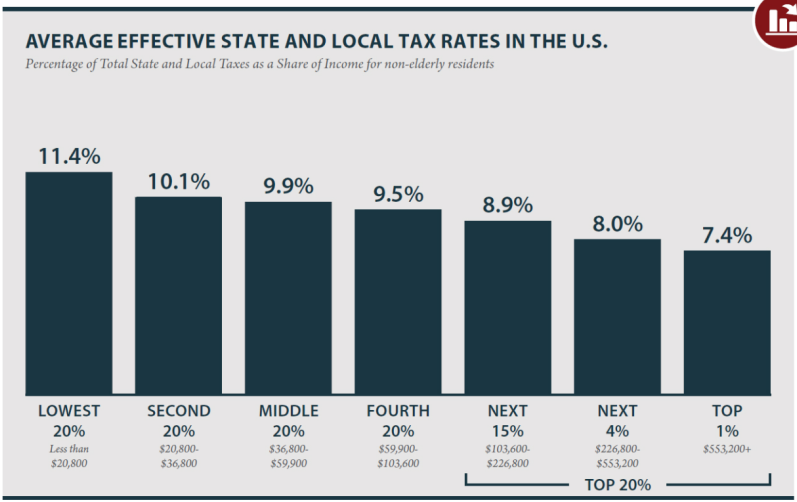
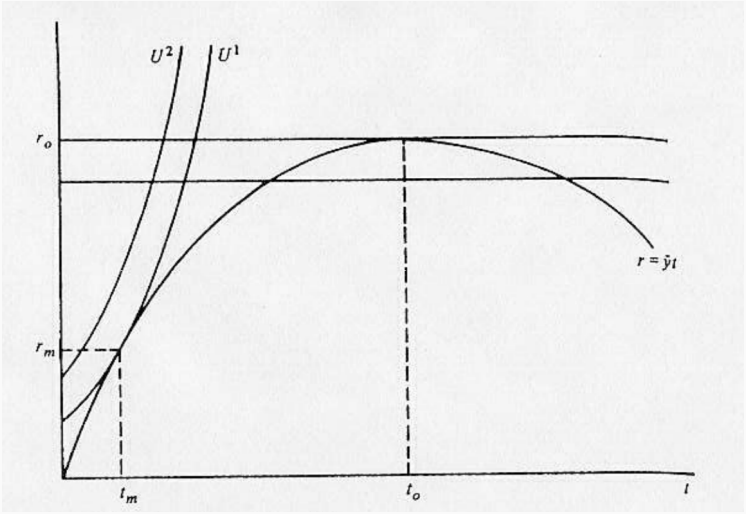
- Approximate it with commonly accepted estimates of income elasticity of demand for housing $\approx$ 1 - 1.3
- Almost all the estimates of ϵ are *greater* than $-(1.3)\delta$
- Hence we seem to be in a world where $\epsilon + \delta\xi > 0$, i.e. demand for public goods *rises* with income

Question: How can we reconcile this with Meltzer-Richard? Is there something about this empirical context that doesn't fit the M-R model?

U.S. state & local taxes



Meltzer-Richard, in one chart!



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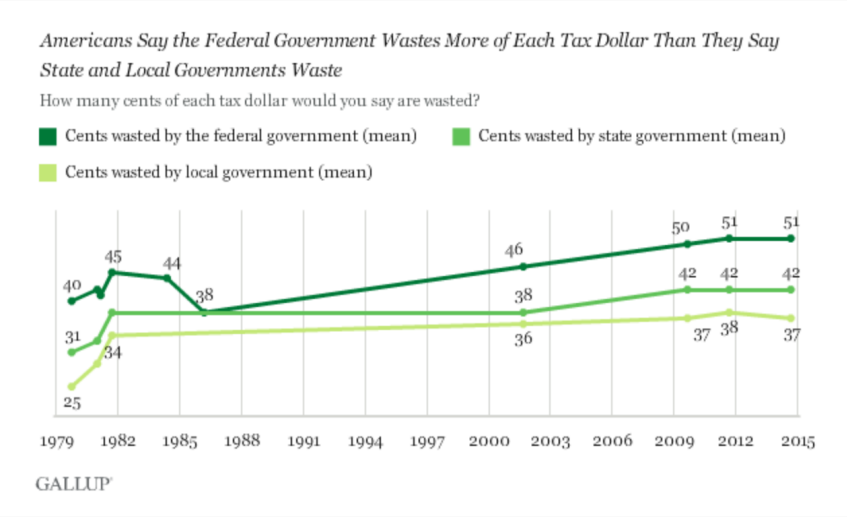
Questions: Are voters rationally ignorant, or genuinely misinformed? Is (3) plausible? Can we reconcile this argument with the empirical fact of growing government budgets?

Downs, 1960


Americans Say the Federal Government Wastes More of Each Tax Dollar Than They Say State and Local Governments Waste
How many cents of each tax dollar would you say are wasted?
Cents wasted by the federal government (mean)
Cents wasted by state government (mean)
Cents wasted by local government (mean)
40
45
44
38
46
50
51
51
31
34
38
42
42
42
25
36
37
38
37
1979
1982
1985
1988
1991
1994
1997
2000
2003
2006
2009
2012
2015
GALLUP

Extensions of M-R

1. Public spending is about insurance as well as redistribution
2. Voters may have non-economic preferences over redistribution (ethnicity, social affinity, deservingness)
3. Voters' behavior is reinforced by their beliefs about the returns the hard work – "American" vs "European" equilibria
4. Electoral competition in a multidimensional space results in issue bundling

1. The insurance model (Iversen et al.)

Figure 7.2 Support for Redistribution as a Function of Income and Risk

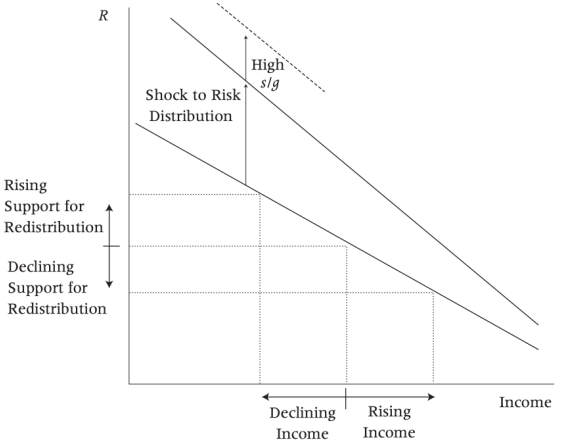


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Figure 7.6 Changes in Redistributive Preferences as a Function of an Increase in Occupational Unemployment Rates and Skill-Specificity

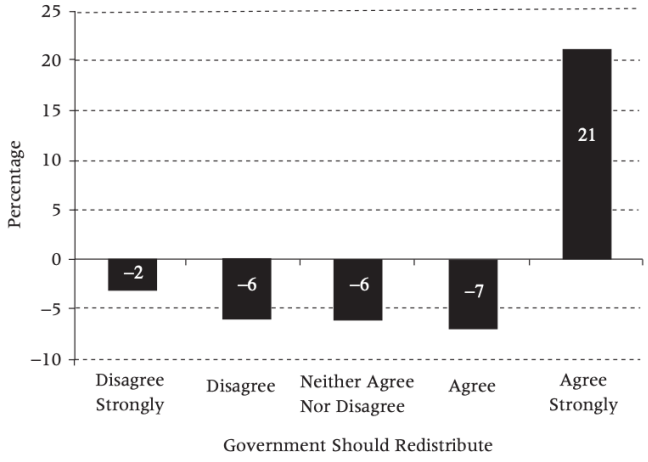

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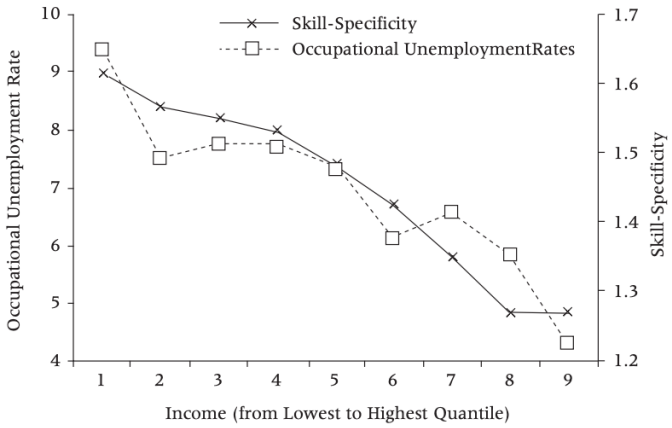
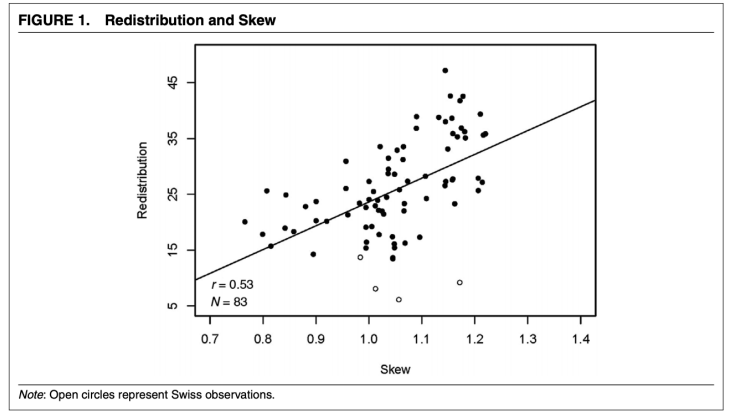
Figure 7.9 Relationship Between Income and Risk Exposure



Source: Authors' compilation. Simulations based on model 1 in table 7.1.

2. Non-economic preferences



Lupu & Pontusson, "The Structure of Inequality and the Politics of Redistribution", 2011, APSR

3. Beliefs

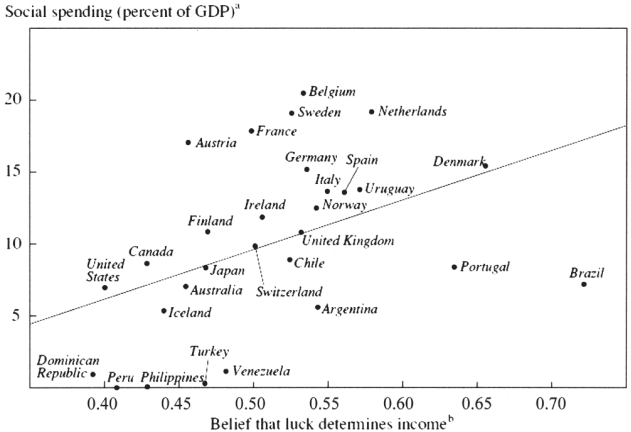


FIGURE I

Beliefs and Policies

(Source: Alesina, Glaeser, and Sacerdote [2001]). a) Average for 1960–1998. b) Mean value for country, measured as an index from 1 to 10, with 10 indicating strongest belief; data for 1981–1987).

4. Issue bundling

Why the poor do not expropriate the rich: an old argument in new garb

John E. Roemer*

Department of Economics, University of California, Davis, CA 95616, USA

Received 31 December 1995; received in revised form 30 June 1997; accepted 23 March 1998

Abstract

We consider a political economy with two partisan parties; each party represents a given constituency of voters. If one party (Labour) represents poor voters and the other (Christian Democrats) rich voters, if a redistributive tax policy is the only issue, and if there are no incentive considerations, then in equilibrium the party representing the poor will propose a tax rate of unity. If, however, there are *two* issues – tax policy and religion, for instance – then this is not generally the case. The analysis shows that, if a simple condition on the distribution of voter preferences holds, then, as the salience of the non-economic issue increases, the tax rate proposed by Labour in equilibrium will fall – possibly even to zero – even though a majority of the population may have an ideal tax rate of unity.