Public Goods (Chapters 7-9)  
Political Economy  

Part-2
Political Economy
Representative Democracy

• In reality, people in most developed countries don’t vote directly on public goods.

• Rather, they elect representatives who are supposed to aggregate the individuals’ preferences and take them into account when they vote on the appropriate level of spending on public goods.
Political Economy
Representative Democracy

- Vote-maximizing politicians represent the median voter
Political Economy
Representative Democracy

• **Example:**
  – There are two candidates: Barack and John.
  – Assume that they differ only on one dimension: the defense spending level they wish (S).
  – Let J denote the spending level John prefers and B denote the spending level Barack prefers.
  – John prefers a higher level of spending than Barack (J > B).
Political Economy
Representative Democracy

• **Example:**
  – Assume that the level of spending can take any value between 0 and 50% of the GDP.
  – Suppose that the voters are distributed evenly along this line.
  – Let $d_i$ represent the defense spending level voter $i$ prefers.
Political Economy
Representative Democracy

• **Example:**
  – Voter $i$ will vote for Barack if and only if
    \[ |d_i - B| < |d_i - J| \]
  – Voter $i$ will vote for John if and only if
    \[ |d_i - J| < |d_i - B| \]
Political Economy
Representative Democracy

- Example:
Political Economy
Representative Democracy

• Assumptions of the Median Voter Theory
  – Single-dimension voting: Voters are basing their votes on a single issue.
    • If individuals lie at different points of the voting spectrum on different issues, it might be vote-maximizing for politicians to position themselves at different points at different issues.
    • If voter preferences on different issues are highly correlated, voting may end up close to single dimensional.
Political Economy
Representative Democracy

• Assumptions of the Median Voter Theory
  – Only two candidates:
    • If there are more than two candidates, by shifting slightly to the left or the right of the spectrum, one candidate can get almost half of the votes!
    • There is no stable position if there are more than two candidates.
Political Economy
Representative Democracy

• **Assumptions of the Median Voter Theory**
  – No ideology or influence
    • Median voter theorem assumes that politicians only care about maximizing votes (general elections).
    • However, it might be necessary for a candidate to take a different position than the median voter in the primaries.
Political Economy
Representative Democracy

• **Assumptions of the Median Voter Theory**
  – No selective voting
    • It might be the case that the most ideologically oriented individuals vote.
    • In that case, it might be beneficial for the politician to take a position closer to those who vote, which might not be the same as the position preferred by the majority of the citizens.
Political Economy
Representative Democracy

• Assumptions of the Median Voter Theory
  – Full information on
    • Voter knowledge of the issues
    • Politician knowledge of the issues
    • Politician knowledge of the voter preferences
Political Economy
Representative Democracy

• Assumptions of the Median Voter Theory
  – No money
  • Rather than maximizing votes directly, the politician might be taking an extreme position on a given topic to maximize donations.
  • In that way, the politician might maximize votes by advertising more.
Political Economy
Representative Democracy

• Lobbying
  – Information and money issues mentioned earlier create incentives for some subgroups to attempt to influence the politician.
  – In principle, lobbying serve two useful roles:
    • Providing information to the politicians about voters preferences
    • Representing the intensity of preferences
  – Issue:
    • The subgroup might mislead the politician.
Political Economy
Public Choice Theory

• Government failure
  – The inability or unwillingness of the government to act primarily in the best interest of its citizens.
Political Economy
Public Choice Theory

• **Government failure**

  1. Size-maximizing bureaucracy:

     • If the bureaucrats’ salaries are correlated with the total measurable output (size) of the bureaucracy, then the bureaucrat will try to maximize the size, which might not coincide with the best interests of the citizens.
Political Economy
Public Choice Theory

• **Government failure**
  – If size-maximizing bureaucracies exist, then privatization might result in more efficient outcomes.
  – Issue: if the privatized sector is a natural monopoly, the outcome might not be as efficient as expected.

• **Natural monopoly**: A market in which, because of the uniformly decreasing marginal cost of production, there is cost advantage to have only one firm producing the product.
Political Economy
Public Choice Theory

• Government failure

2. Corruption
  • The abuse of power by government officials in order to maximize their own personal wealth or that of their associates.