Macroeconomia del turismo
Economia dello sviluppo – Paolo Figini
Sviluppo e istituzioni

Introduction

Three topics:
- Democracy and growth;
- Electoral rules and economic policy;
- The political economy of reforms.

1. Democracy and growth

The evidence that democratization drives to economic growth is quite weak;
- Democracy is too blunt a concept;
- The variables at interplay call for a much more complex analysis.

Zoom on three particular aspects:
- Democratization, liberalization and growth;
- Type of democracy and growth;
- Ex-ante and ex-post reforms and growth.

1.a Democracy, liberalization and growth

Data focus on sudden change regimes, 120 changes in 150 countries in the 1960 – 2000 period:

Many methodological issues at play, which require a careful selection of econometric techniques and tests

Giavazzi and Tabellini (JME, 2005) provide an all-round analysis of the relationship:

- Becoming a democracy accelerates growth by ¾ of a point;
- Growth slows around the transition period;
- Both democratization and liberalization have a significant and positive effect on growth, being economic reform the strongest;

- Also economic reform (without democracy) produces a positive effect;
- Democracy after liberalization has a positive and significant effect;
- Liberalization after democracy has a NEGATIVE and significant effect.

A kind of explanation: young democracies in closed economic environments are more likely bogged down in redistributive conflict and populist policies, while young democracies in open economies are forced to pay more attention to economic efficiency.

1.b Different democratic systems and economic growth

As we will see, the type of political institutions have an effect on the size and the type of economic policies. And what about the effect on growth? (Persson, NBER 2005).

- A parliamentary democracy grows 1.5% less than a presidential democracy and 0.5% less than a previous autocracy;
- The electoral system (plurality vs. proportional) does not have any significant effect;

A possible explanation lies in induced policy changes: parliamentary and proportional regimes lead to a bigger size of government spending, which, according to the authors, might lead to lower growth.

- A new plurality and presidential democracy cuts governments consumption by 2% of GDP, while a parliamentary democracy raises by almost 3% of GDP.
- However, parliamentary and proportional regimes raise the probability of a subsequent trade liberalization

1.c Ex-ante and ex-post effects of economic reforms

If democracy has positive growth effects, it raises returns to investment. Since investment reacts to expectations, expected regime changes might have a positive effect. (Persson and Tabellini, 2005).

Growth would decelerate before an imminent and anticipated coup;

PT (2005) introduce the concept of democratic capital, which shapes the willingness of its citizens to stand up for democracy;

- It accumulates under democracy, depreciates under autocracy;
- They find that under democracy, the probability of regime change hurts growth;
- However, under autocracy, the probability of regime change does not have any significant effect on growth.

A kind of conclusion: Stable and persistent democracy has a stronger effect on development than democracy per se.

2. Voting rules and economic poliy

Political institutions sistematically shape economic policies;
Political institutions are formal rules embodied in constitutions, laws, and also norms and informal rules.

Four important issues: i) plurality vs. proportional electoral system; ii) parliamentary vs. presidential government; iii) term limits to office-holders; iv) direct vs. representative democracy.

Two main "economic problems" of political institutions:

- Representation (problem of the correspondence between voters and elected). Models of spatial competition (Hotelling Downs and others);
- Accountability (problem of the elected's responsibility). Models of agency.

2.a Proportional vs. Plurality systems

Key trade-off in electoral systems: plurality favours accountability while proportional favours representation;
Does the type of electoral rule have an effect on government spending?
Three aspects of electoral rules:

- Electorate formulas translate votes into seats: under plurality rule, only the winner of the highest vote share is elected in a given district; Possible adjustment seats at the national level. Under proportional rule, seats are assigned according to the share of votes.
- District magnitudes reflect the number of legislators acquiring

a seat in a typical voting district.

- Ballot structures determine how voters cast their ballot. They can choose among individual candidates; they can choose among parties with closed lists; they can choose among parties and candidates within the party.
- However, other issues not considered here are of importance: voting procedure (single / double round) and voting rule (simple majority, qualified majority).

Yes (PT, EER99 and many others): in a plurality system, it becomes more attractive to target spending to small and geographically concentrated groups of voters (particularly when the race is too close to call), leading to a different distribution of government spending.
Yes n. 2 (PRT, 05). Post election bargaining drives to a situation in which coalition governments (the likely outcome of the proportional rule) spend more than single-party governments (the likely outcome of a plurality rule) for about 5% of the GDP – more veto power).
Yes n. 3 (Myerson, GEB93). Corruption is better deterred when the probability of re-election responds to performance. This is achieved when we have personal rather than party ballots and large rather than small districts (leading up to 20% change in corruption – twice the effect of being a Latin American country). However, the honesty vs. ideology story might play a role.

Data confirms all three theories; however the type of electoral system mainly depends on one country's characteristics (it is, at least partially, endogenous).

2.b Presidential vs. parliamentary systems

In parliamentary systems, governments are subject to the confidence of the legislature, whereas in presidential systems, the government is directly elected by the citizens.

Separating powers (as in the presidential system) creates a conflict between politicians that enables voters to better discipline their power to extract rents when in powers. Overall we should expect presidential regimes to be associated with lower spending, mainly distributed to targeted groups.

Data: Yes, cross sectional data find that presidential regimes have smaller government spendings (5% of the GDP).

Also the electoral cycle differs: the expansion of welfare-state spending in election and post-election years is significant in parliamentary systems.

2.c Term limit vs. no-term limit

Political control is achieved in part by re-election chances responding to performance while in office: poorly performing incumbents are removed from office by the voters.

- On one side, a shorter term limit reduces the incentive to please voters and hence the candidate may follow own private agendas;
- On the other side, a shorter term may allow the politician to impose short-run costs in favour of long run benefits (which are in the voters interests).

The term limit implies a change in the politicians behaviour because at the and of their period in office, they are not (politically) responsible for their actions).

- US as a natural experiment: statistically, second-term governors are associated with higher spending (and taxes) than first-term governors.

2.d Direct vs. representative democracy

Citizens' initiatives and referenda should increase accountability, thus reducing rent-seeking.

- Data with regard to US and CH (both strongly tax-adverse): yes, the size of government spending is lower when initiatives are allowed.

Citizens' initiatives and referenda change the representation of policy preferences:

- Data: huge evidence supporting the lack of congruence between policy and voter preferences on a variety of issues (effect of issue unbundling – Besley and Coate, 2000 – and / or instrument of signalling).

3. The economic policy of reforms

Why do certain countries implement economic reforms promptly while others delay, at a considerable economic cost?

- Two types of reforms: i) Stabilization programs; ii) Structural reforms.
- The war of attrition model (Alesina and Drazen, AER91) is the main explanation:
  - Two parties compete over a costly but necessary reform;
  - The status quo is associated with costs, increasing with time;
  - The implementation of the reform is associated with costs which are distributed unevenly (the party announcing the reform will loose the next elections);
  - The reform is delayed because none of the party is willing to assume the paternity of the reform;
  - A war of attrition starts: the passage of time will reveal which of the two parties is weaker (the one with the highest cost of waiting): this party will announce the reform;

Delaying a stabilization is Pareto inferior to immediate stabilization, but it is individually rational for each of the two groups to wait, because of the potential benefits of being the winner rather than the looser.

Some conclusions:

- It is easier to stabilise more decisively in times of crisis than in times of moderate economic problems;
- Stabilizations are more likely to occur when a crisis falls under a strong government (presidential systems, unified governments, few veto points, large majorities, just after the elections,...)
- Left-wing governments are more likely to implement fiscal stabilizations (maybe because they face less resistance to reform than right wing ones);
- Governments are able to sharply cut the deficit when the latter has reached extreme high values;
- External inducements (IMF conditionalities) have a very moderate effect (however there are many reverse causality problems).

Riferimenti bibliografici

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Altre letture

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