Hibbs, *The American Political Economy*

I. (Ch. 1) Macroeconomy & Macroeconomic Policy Intro

A. 3 Striking Features Postwar rel. Prewar Econ

1. Stronger real performance: dY & UE
2. Far more stable macro- & micro-econ
3. Consistently + INF, i.e. P ↑ trend

B. Explanation & how macro-ec policy works & how used

1. Crucial Institutional Changes

   a) Off gold standard ⇒ MonPol & dM possible

   b) Central Bank Act (in US, Fed Res 1951):

   (1) Lender Last Resort: FD(SL)IC ⇒ No panics

   (2) CB to manage macroecon & currency val

   c) Lrg network fed loan guarantees, subsidies, etc. ⇒ socialization of invest risk ⇒ ↑invest & growth

   d) SocSec, Welf, UE insure, etc. ⇒ soc empl & inc risk ⇒ ↓individ pain of "econ vicissitudes"

2. Policy Shift: Keynesian Demand Management

   a) Automatic Stabilizers (e.g., inc tax, UE insure) ⇒ ↓multiplier: $Y=C+I$, $C=cY \Rightarrow Y=(1-c)^{-1}I$ vs. $Y=cY^{\text{post-T\&T}}+I= c(Y-t^{net}Y)+I \Rightarrow Y=(1-c+ct)^{-1}I$

   b) Active Stabilizing Monetary & Fiscal Policy

   (1) **Monetary:** dM(V)=(dP)(dQ), with short-run equilibration of dM mostly by dQ and that fading in long-run into dP equil.

   (2) **Fiscal:** $Y=(1-c+ct)^{-1}[I+d(G-T)+(X-M)]$ &, n.b., $\uparrow Y^d \Rightarrow \uparrow P$

3. How these shifts explain performance shift:

a) *Micro & Macro Stability*: FDIC + the KWS (i.e., Soc Insure + Auto & Active Keynesian mon & fisc. stabilizing policy)

b) *Growth*: Stability + fed borrow & invest support $\Rightarrow$ ↑I & dY

c) *Inflation*: dM can sustain dP b/c off gold std, & does b/c stability $\Rightarrow$ "err on the high-side bargaining"

II. (Ch. 2) Costs of Unemployment

A. *Aggregate Costs*: Obvious, large, and broad

B. *Distribution of Costs*: Intuitively, "lower" ends Soc-Ec hierarchies higher and more-cyclical UE

C. *Redistribution*: broadly works (worked?) as intended but hardly not fully alleviates costs.

III. (Ch. 3) Costs of Inflation

A. *Aggregate Costs*: At least for moderate-to-low INF, no aggregate real costs found in evidence.

B. *Distribution of Costs*: Also, more surprisingly, not much evidence of any; if anything, small contra top-20%, &, if large for anyone, only large contra top <1%.

IV. (Ch. 4) Voters' Percepts & Perceived Costs UE & INF

A. Salience of economy & of UE & INF therein high.

B. "Biggest prob nation" UE*v.*INF tracks those 2 objectively

C. Voters' relative aversion UE & INF differs persistently by income, occupation, & partisanship (in intuitive direction)

V. (Ch.5) Partisan Political Action (Opinion) in Response to those Perceptions

A. Obvious pattern of "shadow evaluations" (partisan 'bias')

B. Relatively homogenous myopia: about 20% decay/qrtr => about 50% of effect w/in year, 80% w/in 2yrs, 95% w/in 4yrs

C. Relatively homogenously "partisan-evaluators": ca. 75%

D. "Honeymoons" & "Rally 'Round the Flag" also evident

E. $-(UE_{cost}/INF_{cost})\approx$ **-1.1 Dem; -.65 Rep**; -.49 Ind.

VI. (Ch. 6) '80 & '84 Elects: Elect Cycle or Voter Shift?

A. *Macro Evidence*: '80 & '84 fit rest elect-cycle pattern well

B. *Micro Evidence*: No sign right-shift until maybe toward end of period => possibly:

C. Electoral cycle (econ voting under circumstances 76-92) => 12 yrs right-govt => policy shifts that move voters right?

VII. (Ch. 7) Partisan Cycle Economic Policy & Outcomes

A. Logic of the Argument

1. Parties have estab'd reps serving diff constit's
2. Constits have differing relative aversion real & nominal costs
3. PMs control policies that can affect this trade@ least short-run
4. Voters know this and support accordingly.
5. => Partisan "cycle" real-, nominal-, & distribution-affecting policies and real, nominal, & distributional outcomes

B. Evidence: Partial-adjustment models UE, dY, & Inc Ineq (20/40 ratio) support.

VIII. (Ch. 8) Electoral *vs.* Partisan Cycles

A. Hibbs argues weakest link Elect-Cycle arg is that incumbs need support max'd at election time, claims need throughout.

B. Re-ests partisan models from ch. 7 w/ election indicators, finds strongest elect cycles in real disp inc per cap, but gen'ly stronger and more-robust partisan cycles.

IX. (Ch. 9) The Reagan Revolution

A. The Critic's Story:

1. Laffer Curve & tax cuts => deficits (public borrowing)
2. Neoclassical monetary econ & Volker-Reagan deflation
3. A+B => ↑↑↑ real e.r. => beach-head effect (inter alia)
4. Politically: easy sell, especially in relevant audiences.

B. The True-Believer's Story:

1. Laffer Curve & tax cuts => works; just takes decades
2. Neoclassical monetary econ & Volker-Reagan deflation => works; just need to establish firmness of resolve
3. A+B => ↑↑↑ real e.r. => beach-head effect (inter alia) => necessary response to shifting US comparative advantage
4. Politically: difficult sell, but wise policy in long run.

C. Evidence: hard to distinguish; former is far easier case to make, but if (want to) believe latter, difficult to disprove.