<u>PS 343</u>: Tufte, *Political Control of the Economy*

I. Tufte's two fundamental messages (Preface to the paperback edition, p. xi)
   A. "...to understand anything in the economy, it is necessary to understand politics. That is because the actions of politicians, the appointees of politicians, interest groups, and voters routinely and significantly determine economic policy—and, on those occasional days when policy works, economic performance" (p. xi).
   B. "...despite all the horror stories about political manipulation of the economy, it is far, far better—in a democracy at least—to maintain and extend the political control over the economy rather than turn things over to [supposed technocrats]. Unlike politicians, these folks (some of whom have conducted the recent well-financed attack against the democratic control of economic policy) do not have to face the competitive rigors of the political arena" (p. xi).
      1. "The single most important fact about politicians is that they are elected.
      2. The second most important fact is that they usually seek re-election" (p. xi).

II. "To understand the economic policies and the economic performances of the world's capitalist democracies, it is necessary to have a political theory of economic policy" [Preface (1977), p. xiii]. Thus the book seeks to...
   A. "...show how certain political variables determine macroeconomic outcomes in a systematic and predictable way..." and
   B. "...provide evidence demonstrating the role of elections and political parties in deciding who gets what, when, and how in the political arena" (p. xiii).
   C. Political Competition: "...simple fact of competition, esp. when competition is informed by political ideology, explains a great deal of what goes on in the political world and, I argue, in important parts of the economic world also" (p. xiv).

[Brougham quote on Pitt (p. 3)]
[Reagan: "are you better off now than you were four years ago?"]
[Clinton: "It's the economy, stupid!"]
[?But? Bush II?]

III. **Central Hypothesis:** "incumbents may seek to determine the *location* and the *timing* of economic benefits in promoting the fortunes of [themselves], their party and friends" (p. 4).
   N.b.: this is general: should apply somehow wherever incumbents and elections exist.
   N.b.: may be even more general: something like this mechanism should operate wherever incumbents receive political support (electoral or otherwise) based on economy
   A. **Motive:** incumbent politicians desire re-election and believe that a booming pre-election economy will achieve it
      1. The 'wisdom' of politicians and political pundits on the "pocket-book" issue. A description of the implicit theory under which politicians and their adviser seem to operate:
         a. "Economic movements in the months immediately preceding an election can tip the balance and decide the outcome of the election.
         b. The electorate rewards incumbents for prosperity and punishes them for recession.
         c. Short-run spurts in economic growth in months immediately preceding an election benefit incumbents" (p. 9).
      2. Nixon was particularly candid about all of this in some of his books. He attributed Republican losses in '54, '58, and his own loss in '60 to slumps that bottomed around election time.
   B. **Instruments:**
      1. Given goal of producing upturns timed around the election date, the administration needs an instrument that is...
         a. Easy to "rev-up" quickly
         b. Yields clear and immediate economic benefits
            (1) to large numbers of voters
            (2) or at least to some specific large group of voters [Clinton's last State of U: "Save social security first!"]
      2. That suggests the weapon of choice will be things like
         a. Transfer payments (SS, veteran's benefits, other direct mailing of checks from government to populace)
         b. Tax cuts (and delayed tax increases)
         c. Certain kinds of spending plans, esp. public works (and delayed spending cuts)
         d. Increases or decreases in public employment
      3. It suggests also that increases in growth of real disposable income [N.b.: the question of first or second derivatives] might be a reasonable summary indicator that something was afoot
   C. **Preliminary Evidence...**
      1. ...from the History of Elections and Economic Accelerations in 27 Democracies, 1961-72 [Table 1-1, p. 12]
      2. ...from Political History of Real Disposable Income in US [Figure 1-1, p. 12]
         a. 8/15 presidential-election yrs. saw real-disposable-income-per-capita-growth acceleration, 8/11 if exclude Ike
         b. [Was Eisenhower exceptional? p. 18, $p \approx .026$]
         c. [What about current political climate?]

        d. [How could we *systematically* incorporate consideration of incumbent beliefs and/or political climate?]
    3. ...from the Political History of Unemployment in the US
        a. UE_{t-12} to UE_{t-18} higher than UE at election time in 6 of 8 presidential elections [Figure 1-2, p. 20]
        b. Evidence from the purported trade-off between unemployment and inflation [Table 1-2, p. 22]
    4. ...from *content analysis* [DESCRIBE] of US presidents' State of the Union addresses from 1946-69 ==>
        a. Social-welfare policies and allocative policy are #2 issues (behind foreign policy)
        b. Rises over first term becoming dominant issue in 4th yr, lower in 2nd term (foreign-policy emphasis is opposite)
    5. ...from the stock market!

IV. **The Basic Building Blocks of the Theory**
    A. Policy-makers desire to remain in office ; incumbents desire re-election
    B. Voters and other political actors (myopically) reward good economic performance and punish bad economic performance with electoral support or lack of it
    C. Policy-makers...
        1. ...control some policies...
        2. ...which are able to affect these voters' and other actors' perceptions of the economic experience...
        3. ...and for which voters' and other actors' are able to and/or do credit/blame these perceived economic experiences to the incumbent.
    D. ==> policy-makers manipulate these policies to produce perceive economic upturns before elections and obscure or delay until after elections economic downturns

V. Some complications of the simple theory:
    A. Control over economic policy is not unified in one single policy-making entity.
        1. [Implications?]
        2. [Examples?]
    B. Degree of policy-maker discretion varies from policy to policy, from situation to situation.
        1. [How so?]
        2. [So what?]
    C. Endogenous election-timing
        1. [Define]
        2. Are dissolutions more easily timed to coincide with expansions or the other way around? [Define endogeneity]
        3. Now what will we expect? How should countries with endogenous election-timing systematically differ from those with exogenous
            a. **Consider footnote 16 on page 14**
            b. [other possibilities]
    D. Beliefs and Economic Reality
        1. Policy-makers' beliefs about economic reality
        2. Policy-makers' beliefs about voters' beliefs about economic reality
        3. Voters beliefs about economic reality
        4. [Tufte doesn't mention voters' beliefs about policy-makers' beliefs about economic reality; should he have?]
    E. Expected closeness of the coming election [why and how should this matter]
    F. Political stakes involved in economic manipulation varies systematically from year to year
        1. [What would this imply?]
        2. [What does Tufte focus on in this regard?]
        3. [Other considerations we should take into account?]
        4. Evidence on relationship between stakes and growth rate of real disposable income *per capita* [Table 1-3, p. 25]
    G. It may be politically costly to attempt to manipulate the economy (p. 23)
        1. [How so? What might be costly about it?]
        2. [What does this imply about electoral cycles?]

VI. Credit-Taking, Kyphosis, and a case-study of 1972 [Figures 2-1 to 2-7, pp. 32-41]
    A. Credit-Taking
        1. "The quickest way to produce an acceleration in real disposable income is to mail more people larger checks—that is, for transfer payments to increase" (p. 29).
            a. 9 of 13 SS increases (9/1950 to 6/1976) in even-number years (Table 2-1)
            b. 8 of 9 within-year SS increases were in even number years (Table 2-1)
            c. Since 1954, notice of increase comes with Presidential message and name (Fig. 2-1)
            d. Within-year increases usu. Sept.; Benefit increases in Sept., Taxes in Jan. (Fig. 2-2)
            e. Congress enacts automatic (COLA) increases in after the 1972 exorbitance
        2. SS Taxes

        a. Greater payroll-tax increases in 17 non-election years, 11 election years, and 1 tie
        b. Taxes collected starting Jan. until some ceiling hit; taxes over for many/most by Nov.
    3. Presidential Campaigns and "Bidding Up" the SS Promises (Follow sequence pp. 35-36)
    4. Veterans' Payments also Tend to Peak in 4th Q of Election Years (Fig. 2-3)
B. Kyphosis
    1. Normally, transfer payments peak for the year in Dec.: 7/8 odd-number years, Dec. max. (Fig. 2-4, p. 40); 4/7 even-number years, Oct. or Nov. max. (Fig. 2-5)
    2. Timing can be adjusted like so *via* politician influence of bureaucracy; does not require any new legislation
        a. Requires powerful president to sway bureaucracy, or make bureaucracy do it to avoid presidential displeasure
        b. Suggests more popular presidents will produce more kyphosis
    3. Fig. 2-6: SS checks to be delivered the 3rd day of the month or first delivery day after
        a. ==> octokyphosis if early 1st-week Nov. election (1964, 1970; elections on 3rd)
        b. ==> novemkyphosis is late 1st-week Nov. election (1962, 1972; elections on 6th, 7th)
    4. Through 1977, the fiscal year ran from July 1 to June 30; beginning FY1978, they were shifted to Oct. 1 through Sept. 30... spending tends to heap around FY transitions
        a. Public spending rises some at fiscal-year ends as agencies strive to spend remainders
        b. Public-spending increases begin at start of new fiscal years
C. The Presidential Campaign in 1972 and Economic Policy
    1. Arthur Burns, Herbert Stein, and Richard Nixon all firm believers in these mechanisms
    2. Burns bows to Pres. requests for monetary easing: [Table 2-2 on generality]
    3. p. 53 on the spending particulars; Tufte's guesstimate: 75 million benefitted from such increased transfers payments
    4. Implications: best way to get spending by conservative is to propose it in an election year

VII. Extensions of the theory
A. Compare real-disposable-income-*per-capita* manipulation with unemployment manipulation (see p. 57)
B. Transfers preferred to broad macroeconomic policy-manipulation; transfers as percent of govt spending had risen dramatically in all democracies up until very recently. Connection?
C. Stop-Go cycles and partisan electoral competition
D. Why are these politically motivated economic policies often bi-partisan and bureaucratically supported? (p. 59)
E. What role do election challengers play in all of this? (p. 60)
F. Relative power of administration, bureaucracy, and congress over electoral cycle.
G. Asymmetric policy: may be even more so that govt fails to do something it would otherwise do than that govt actively does something it otherwise wouldn't in election years
    1. *E.g.*, Military-base closings=non-election years ; "Showcase-programs"=election years
    2. *E.g.*, Methadone, foreign-policy delays/advances, appointment delays/advances/choices
H. Might the opposition even try (covertly) to sabotage the economy?

VIII. Limits on PBC's: Given all this motive, means, & opportunity, why isn't there even more extreme & regular electoral manipulation?
A. Incentives which most favor incumbent manipulation do not always obtain
B. Being seen to be manipulating the economy for political gain is politically costly ==> need at least a justification
C. Divided authority over policy and some conflict of interest among the authorities
D. Other considerations (e.g., economic shocks) affect policy as well
E. Character of incumbent
F. Ideology and beliefs of the incumbent

IX. Some complications regarding the empirical evaluation of the theory
A. In short, everything which complicates the theory, complicates (or should complicate) the empirical analysis; need to try to "control for" these things
    1. Policies motivated by lots of other concerns too (*e.g.*, the good of the nation, ideology of the policy-makers, *etc.*)
    2. Economic outcomes affected by much more than electorally-motivated policies; moreover, policies are not always effective in achieving that at which they aim
    3. There are domestic & international, political & economic, constraints upon policy-makers' discretion over policy
B. Endogeneity, esp. in light of rational-expectations economics
C. Seasonal adjustment of economic data [What is it & why is it typically done?] [Should we seasonally adjust here?]

X. A Note on Elections in the International Economy (ch. 3): Economies of capitalist democracies (especially) have become increasingly synchronized
A. Table 3-1 (p. 66):
    1. Of G-7, only Italy had greater growth in its own than in US election years
    2. All had greater growth in their own election-years than non-election years

B. All have "endogenous election-timing" (p. 67, and Fig 3-1)
   1. From1959-70, in G-7 excluding US, 13/22 in odd-years and 9/22 in even years
   2. From 1971-76, 1/12 in odd-years (and that in a boom) and 11/12 in even years
C. Suggestions / Extensions
   1. Possibility of an international electoral-cycle
   2. Diminished autonomy of smaller countries as increasingly open and coinciding with US
   3. Footnote 1 (p. 69): importance of reserve assets and, by implication, fiscal position more generally to ability to manipulate for economic advantage
   4. Footnote 3 (p. 69-70): interesting commentary on the upshot by a British observer

XI. Political Parties and Macroeconomic Outcomes (ch. 4):
A. Electoral Calendar sets schedule & timing of policy, ideology & partisanship sets substance
B. Parties of the Right:
   1. Low taxes
   2. Low inflation
   3. Modest and balanced budgets
   4. Oppose equalization
   5. Trade more UE for less INF
C. Parties of the Left:
   1. Equalization
   2. Low unemployment
   3. Larger budgets (less emphasis on balance)
   4. Accept higher INF for lower UE

D. Democratic and Republican platforms
   1. Preliminary considerations
      a. Compare '76 Dem & Rep platforms (pp. 72-73) to now; Dem more changed. Why?
      b. Dem & Rep platforms contrast more than public opinion on economic issues
      c. Notice even typographic style & how best to misquote forefathers differs (fn. 3)
      d. Platforms ('44-'64) differ more on economic and labor issues than others (foreign affairs, defense, agriculture, natural resources, welfare, government, and civil rights)
      e. Table 4-1 (p. 75): Word Usage Differences in '76 platforms
      f. Voters likewise divided (though less) (p. 76)
      g. Concern about inflation and unemployment highly cyclical and common among voters (Fig. 4-1), but persistent partisan differences evident.
   2. Analysis of "Economic Reports of the President" and "Annual Reports of the Council of Economic Advisors": the data are in Table 4-2, the analysis appears in 4-3 and 4-4
   3. The divergent party ideologies are rooted in the socio-economic differences of their supporters (pp. 84-5, Table 4-5)
      a. Independents especially influenced by economic interests and conditions ==> rise?
E. Implications: Party ideologies and platforms (promises) differ; voters recognize and act on these differences; parties generally fulfill their promises (evidence, p. 90)
   1. ==> Figures 4-2 (UE/INF), 4-3 Equalization, 4-4 & 4-5 Size of Government
   2. ==> pp. 100-1, US and other electoral policy-cycle diagram
   3. ==> pp. 101-2, two rules of the electoral policy-cycle
   4. ==> Left: infl-ue path clockwise over cycle; right: counter-clockwise (Figure 4-6:)

XII. Economic & Political Determinants of Electoral Outcomes (ch. 5) (Figures, Tables, and Table at end)

XIII. Conclusions and Evaluations (ch. 6)
A. [Second and third paragraphs on p. 137 can serve as a brief summary of the arguments and findings in the previous chapters.]
B. Limits to political control: competing devices and authorities for making economic policy and limited effectiveness of any policy in altering economic conditions in a large economy, or a small, open one, in a diverse one
   1. Private economy: the political control of the economy can usually only operate at the margin rather than on the underlying structure of the economy—much or most of economic conditions are determined by the aggregate of private-sector actions
   2. Incompetence and Exogenous Shocks—self-explanatory
   3. Policy Inertia:
      a. Difficult to change "momentum" of established policies
      b. Uncertain lead and lag times of policy implementation and effects thereof
   4. Divided Interests:
      a. Policy authority may be divided across several entities:
         (1) Governmental separation of powers and/or federalism

        (2) Bureaucratic power, including Central Bank power
    b. Important that each of these may have a different constituency
5. Mutual Agreements to "Depoliticize" Economic Policy
    a. Central banks in some places (and increasingly in many places now)
    b. The collection and reporting of economic data; despite frequent allegations (and their occasional truth), the collection and reporting of economic data has managed to be fairly nonpolitical in most democracies [why do you suppose that is?]
    c. Tufte's conjecture: *ceteris paribus*, the more important the agency, the more likely and intense the political control
6. Economic Theory and Advisers
    a. Difficult (not impossible, but takes strong political pressure) to ignore consensus among theoreticians
        (1) Free trade
        (2) No floors or ceilings on prices or wages
        (3) Selective timing of macro-policy to stabilize the economy (the consensus on this has considerably eroded)
    b. This difficulty is often over-come, though, esp. through *via* the impact of "special-interest groups" (Olson)
    c. Through the Council of Economic Advisers, the economic consensus has an institutionalized voice in the US; similar formal institutions exist in some, but not all, capitalist democracies

C. Tufte's Evaluations
1. Costs of Political Control of the Economy may be substantial
    a. Stop-and-go economies
    b. "...making election-year prank of the social security system and payroll tax..." (143)
    c. A bias toward policies with immediate and highly visible benefits and deferred, hidden costs [and v.v.]—myopia
    d. Special-interest politics biases policy toward those with small costs on many and large benefits for few
    e. Economically optimal adjustment paths may be altered to politically optimal ones (see Fig p. 144)
2. Inflationary bias of democratic (small *d*) politics?
    a. Reasons to believe there is an inflationary bias to democratic politics:
        (1) Nordhaus, working in a Tufte-like model with an exploitable inflation-unemployment trade-off concluded that "politically determined policy... will have lower unemployment and higher inflation than is optimal"
        (2) [Modern neoclassical economic theory of monetary policy]
        (3) Tufte: Voters are being misled.
            (a) The evidence indicates that voters do not like inflation
            (b) They must not be correctly evaluating the post-election inflation-costs of pre-election booms
            (c) Alternatives: (a) they consider the latter worth the former; (b) neoclassical monetary-policy story
    b. Reasons to believe there is not an inflationary bias to democratic politics:
        (1) Political costs of inflation could as easily be higher than those for unemployment ==> could be a deflationary bias
        (2) Evidence indicates that voters would punish incumbents for inflationary policy if it happened near elections
        (3) Voters know right parties produce lower inflation; they could easily elect them if concerned about "inflationary bias"
3. Short-termism: hard to argue that electoral politics does not limit the long-range planning ability of policy-makers: policies which entail costs now and benefits after election and *vice versa* may be overly hard or easy sells in democracy. If voters perfectly rational and informed, though, they should be able to evaluate appropriately
4. Any assessment of the costs of the electoral cycle of policies must depend on one's evaluation of the specific policies it promotes

D. Tufte's Prescriptions
1. Reduce [or increase?] the flexibility of incumbents in calling elections
2. Random election dates—theoretically interesting, practically implausible
3. Attempt to dilute political control of economic policy
4. Most common in monetary policy [why do you suppose that is?]
5. Not likely to work so long as voters hold politicians responsible for the performance of the economy
6. Tufte on the "depoliticization movement"
    a. Arises after the Nixon-Burns fiasco in '72
    b. Proposed cures are "obtuse"—removing economic policy from political control in general, all in an effort to reduce the particular problem of election-year economics
    c. Proposed remedies would significantly reduce electorate's control in the one area, economic policy, where

democratic model actually seems most realized in practice

7. Desynchronization of the electoral and economic calendars
8. Public pressure on collaborators in the game (bureaucracy mostly)
9. Special attention to election campaigns [we've certainly done this, what's your assessment at how it's worked?]
10. Increased public exposure of the political manipulation of the economy
    a. Any biases are not those of an informed public, but rather occur because public only partially informed
    b. Role of the opposition
    c. Role of the media
    d. Role of education

Source	SS	df	MS
Model	20309.7179	23	883.031212
Residual	1588.28213	129	12.3122646
Total	21898.00	152	144.065789

Number of obs	= 153
F(23, 129)	= 71.72
Prob > F	= 0.0000
R-squared	= 0.9275
Adj R-squared	= 0.9145
Root MSE	= 3.5089

app	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
jfk	2.581058	1.878363	1.374	0.172	-1.135329	6.297445
lbj	2.593665	2.221758	1.167	0.245	-1.802137	6.989467
rmn	10.34544	3.468119	2.983	0.003	3.483686	17.2072
grf	8.717926	4.191036	2.080	0.039	.4258592	17.00999
jec	7.386476	4.902093	1.507	0.134	-2.312434	17.08539
rwr	10.46563	5.867929	1.784	0.077	-1.144206	22.07548
ghb	12.91865	7.544661	1.712	0.089	-2.008642	27.84595
ighb	-1.854079	3.834161	-0.484	0.630	-9.44006	5.731902
igrf	25.7791	3.926221	6.566	0.000	18.01098	33.54723
ijec	19.41251	3.823367	5.077	0.000	11.84788	26.97713
ijfk	11.7294	3.913031	2.998	0.003	3.98737	19.47143
ilbj	3.58714	3.857856	0.930	0.354	-4.045722	11.22
irmn	10.40982	3.89987	2.669	0.009	2.693833	18.12581
irwr	19.6743	3.840158	5.123	0.000	12.07645	27.27214
timeindx	-.3395331	.2273093	-1.494	0.138	-.7892702	.1102039
applag	.7493016	.0445763	16.809	0.000	.6611063	.8374969
events	6.639519	.8238042	8.060	0.000	5.009603	8.269436
viet	-.4244728	.1968133	-2.157	0.033	-.8138727	-.0350729
gulfwar	25.22281	3.721331	6.778	0.000	17.86007	32.58555
pago	.0103544	.0665479	0.156	0.877	-.1213123	.142021
pexp	.0425693	.0830906	0.512	0.609	-.1218274	.206966
bago	.0133858	.0206169	0.649	0.517	-.0274053	.0541769
bfut	.1337487	.0450728	2.967	0.004	.0445711	.2229264
_cons	656.7399	444.5089	1.477	0.142	-222.7318	1536.212