PS 389 / CICS 301: Tufte, *Political Control of the Economy*

I. Economic & Political Determinants of Electoral Outcomes (ch. 5)

Off-Year Congressional Elections (note "the midterm cycle"; see also two pages down)

Table 5-1 shows the data for elections from 1946 to 1974. In equation form, the referendum model of midterm outcomes is:

$$\text{Standardized vote loss by president's party in the midterm} = \beta_0 + \beta_1 \text{Yearly change in economic conditions} + \beta_2 \text{Presidential popularity}$$

TABLE 5-1

MIDTERM ELECTIONS, 1946-1974

Year	V_t *Nationwide midterm congressional vote for party of incumbent president*	N_t^* *Mean congressional vote for party of incumbent president in 8 prior elections*	$Y_t = V_t - N_t^*$ *Standardized vote loss (−) or gain (+) by president's party in midterm election*	P_t *Gallup Poll rating of president at time of election*	ΔE_t *Yearly change in real disposable income per capita*
1946	45.27%	Democratic 52.57%	−7.30%	32%	−2.6%
1950	50.04%	Democratic 52.04%	−2.00%	43%	5.9%
1954	47.27%	Republican 49.77%	−2.50%	65%	−0.6%
1958	43.60%	Republican 49.75%	−6.15%	56%	−0.5%
1962	52.64%	Democratic 51.75%	0.89%	67%	2.6%
1966	51.33%	Democratic 53.20%	−1.87%	48%	3.9%
1970	45.77%	Republican 46.54%	−0.77%	56%	3.0%
1974	41.38%	Republican 46.17%	−4.51%	55%	−2.3%
1978		Democratic 54.40%			

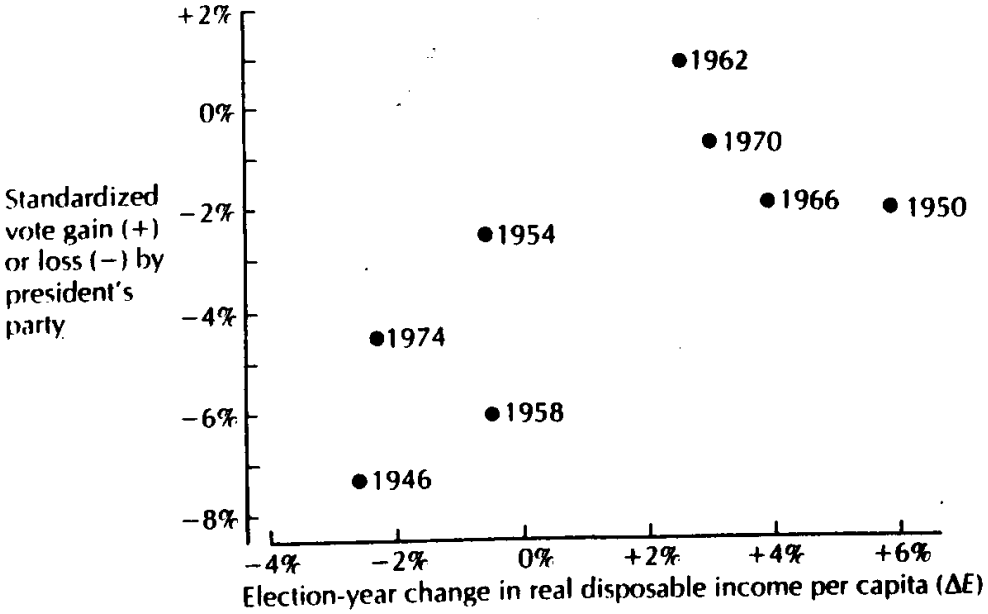


FIGURE 5-1
ELECTION-YEAR ECONOMIC PERFORMANCE AND THE VOTE IN MIDTERM CONGRESSIONAL ELECTIONS

TABLE 5-2
MIDTERM CONGRESSIONAL ELECTIONS: MULTIPLE REGRESSION

$$Y_t = \beta_0 + \beta_1(\Delta E_t) + \beta_2 P_t + u_t$$

	Regression coefficient and standard error	*Simple correlation with midterm loss*
Yearly change in real disposable income per capita (ΔE)	$\hat{\beta}_1 = .622$ .166	.72
Presidential approval rating (P)	$\hat{\beta}_2 = .132$ .044	.58
$\hat{\beta}_0 = -10.74$		
$R^2 = 0.825$		

Even more regular comparing to preceding on-year Congressional vote-share for president's party:

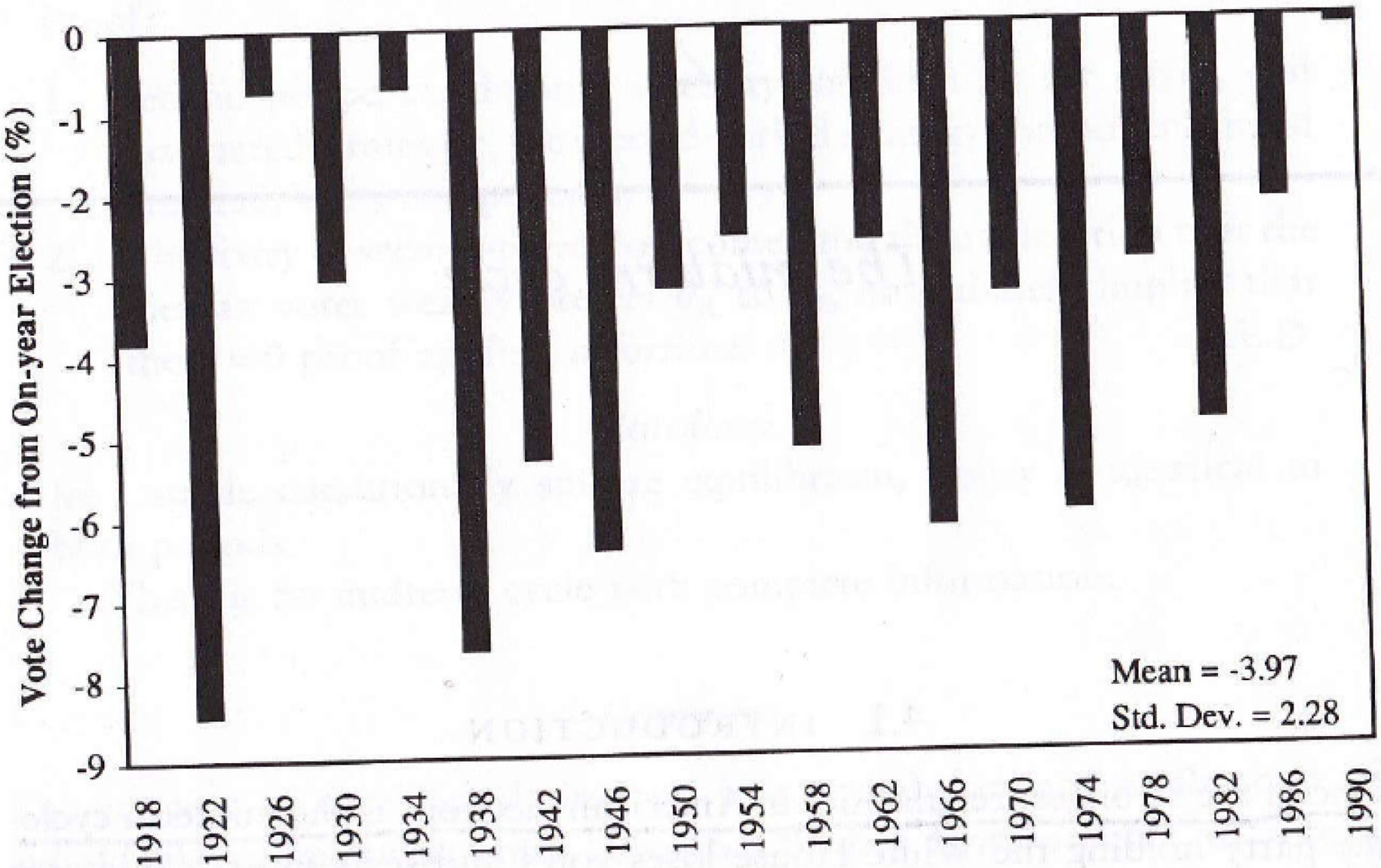


Figure 4.1. The midterm cycle, 1918–1990. The graph shows the change in the vote share of the president's party. The change is always negative.

On-Year Congressional Elections

TABLE 5-3

ON-YEAR CONGRESSIONAL ELECTIONS, 1948-1976

Year	V_t Nationwide congressional vote for party of incumbent president	N_t^* Mean congressional vote for party of incumbent president in 8 prior elections	$Y_t = V_t - N_t^*$ Standardized vote loss (−) or gain (+) by president's party	ΔE_t Yearly change in real disposable income per capita	C_t Net presidential candidate advantage (if $C_t > 0$, incumbent has advantage; if $C_t < 0$, non-incumbent has advantage)
1948	53.24%	Democratic 52.50%	+0.75%	3.4%	+0.093
1952	50.15%	Democratic 51.27%	−1.12%	1.1%	−0.408
1956	48.80%	Republican 49.53%	−0.73%	2.6%	+1.146
1960	45.03%	Republican 48.66%	−3.63%	0.0%	+0.367
1964	57.50%	Democratic 52.67%	+4.83%	5.6%	+1.044
1968	50.92%	Democratic 53.37%	−2.45%	2.8%	−0.353
1972	47.34%	Republican 46.35%	+0.99%	3.3%	+0.902
1976	42.74%	Republican 45.89%	−3.15%	3.3%	−0.221

[13] The net candidate advantage is based on all interview responses dealing with the character or image of the candidates. It equals

$$\left(\begin{matrix}\text{favorable}\\ \text{mentions of}\\ \text{incumbent}\end{matrix} - \begin{matrix}\text{unfavorable}\\ \text{mentions of}\\ \text{incumbent}\end{matrix}\right) - \left(\begin{matrix}\text{favorable}\\ \text{mentions of}\\ \text{non-incumbent}\end{matrix} - \begin{matrix}\text{unfavorable}\\ \text{mentions of}\\ \text{non-incumbent}\end{matrix}\right)$$

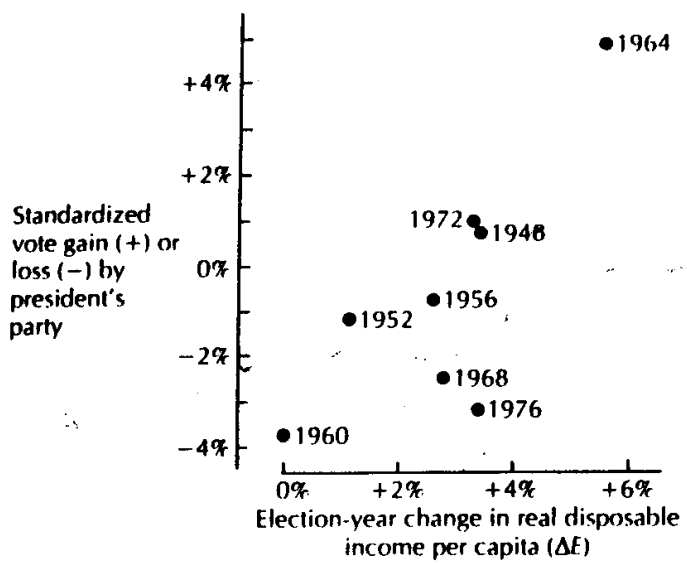


FIGURE 5-2

ELECTION-YEAR ECONOMIC PERFORMANCE AND THE VOTE IN ON-YEAR CONGRESSIONAL ELECTIONS

TABLE 5-4

ON-YEAR CONGRESSIONAL ELECTIONS: MULTIPLE REGRESSION

$$Y_t = \beta_0 + \beta_1(\Delta E_t) + \beta_2 C_t + u_t$$

	Regression coefficient and standard error	Simple correlation with on-year vote
Yearly change in real disposable income per capita (ΔE)	$\hat{\beta}_1 = 1.06$ .44	.77
Net presidential candidate advantage, likes/dislikes (C)	$\hat{\beta}_2 = 1.48$ 1.14	.59

$\hat{\beta}_0 = -3.98$

$R^2 = .702$

TABLE 5-5

PRESIDENTIAL ELECTIONS, 1948-1976

Year	"Incumbent" presidential candidate	V_t National vote for incumbent	ΔE_t Yearly change in real disposable income per capita	C_t Net presidential candidate advantage (if $C_t > 0$, incumbent has advantage; if $C_t < 0$, non-incumbent has advantage)
1948	Truman	52.37%	3.4%	+0.093
1952	Stevenson	44.59%	1.1%	−0.408
1956	Eisenhower	57.76%	2.6%	+1.146
1960	Nixon	49.91%	0.0%	+0.367
1964	Johnson	61.34%	5.6%	+1.044
1968	Humphrey	49.59%	2.8%	−0.353
1972	Nixon	61.79%	3.3%	+0.902
1976	Ford	48.89%	3.3%	−0.221

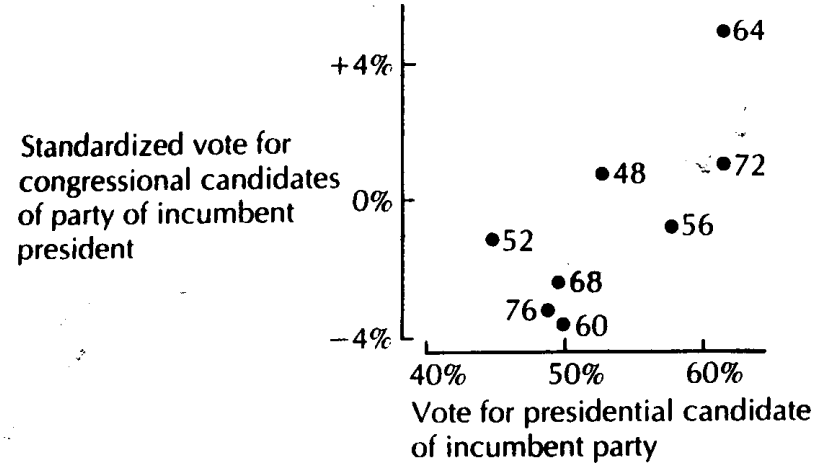
TABLE 5-6

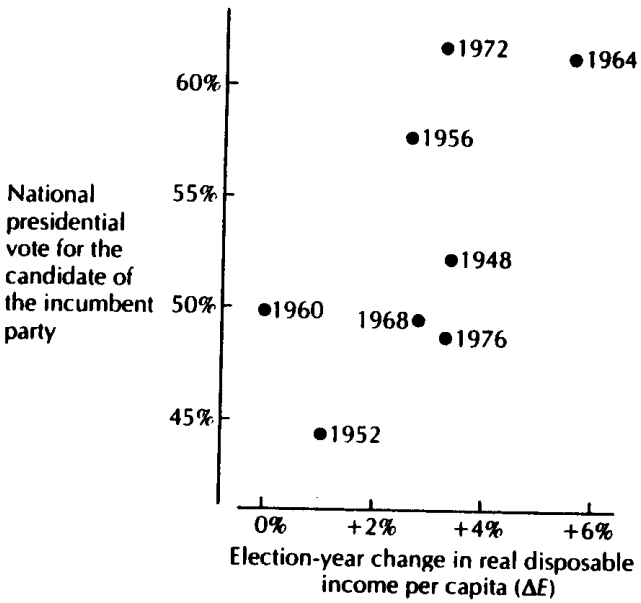
PRESIDENTIAL ELECTIONS: MULTIPLE REGRESSION

$$V_t = \beta_0 + \beta_1(\Delta E_t) + \beta_2 C_t + u_t$$

	Regression coefficient and standard error	Simple correlation with presidential vote
Yearly change in real disposable income per capita (ΔE)	$\hat{\beta}_1 = 1.32$ .45	.64
Net presidential candidate advantage, likes/dislikes (C)	$\hat{\beta}_2 = 7.64$ 1.25	.91

$\hat{\beta}_0 = 47.22$
$R^2 = .942$





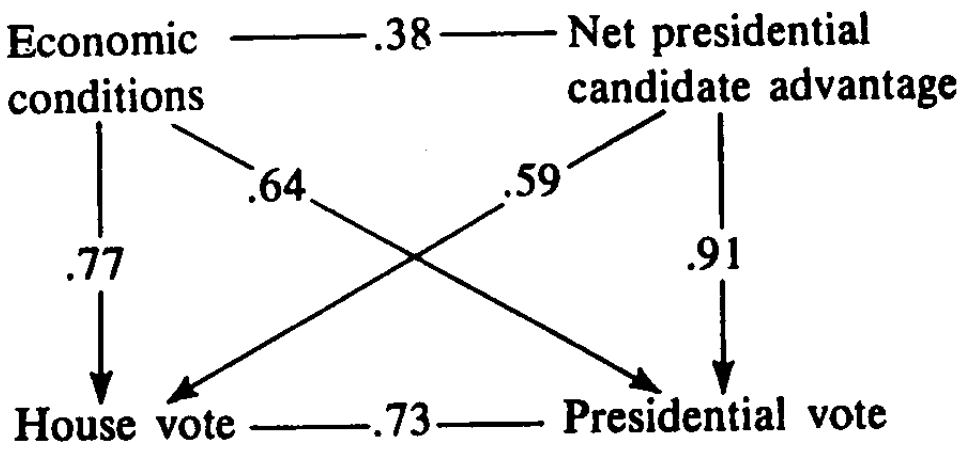


FIGURE 5-3
ELECTION-YEAR ECONOMIC PERFORMANCE AND THE VOTE IN PRESIDENTIAL ELECTIONS

No, Really, It's the Economy, I'm telling you!

TABLE 5-7

VOTE FOR PRESIDENT AND FAMILY FINANCIAL SITUATION OVER PAST YEAR: 1968, 1972, AND 1976

1968 presidential election	*Would you say that you and your family are better off or worse off financially than you were a year ago?*		
	Better	*Same*	*Worse*
Humphrey	54%	47%	35%
Nixon	46	53	65
	100%	100%	100%
N	285	415	161

1972 presidential election	*Would you say that you and your family are better off or worse off financially than you were a year ago?*		
	Better	*Same*	*Worse*
McGovern	31%	30%	48%
Nixon	69	70	52
	100%	100%	100%
N	247	279	153

1976 presidential election	*Compared to a year ago, would you say that your family is financially better off today, about the same, worse off today, or not sure?*		
	Better	*Same*	*Worse*
Carter	30%	51%	77%
Ford	70	49	23
	100%	100%	100%
N	3262	6924	3908

TABLE 5-8

CARTER VOTE: BY POLITICAL PARTY, INCOME, AND FAMILY FINANCIAL CONDITIONS OVER PAST YEAR

Percent for Carter:		*Compared to a year ago, would you say that your family is financially better off today, about the same, worse off today, or not sure?*		
		Better	*Same*	*Worse*
Among Democrats	< $5	91%	89%	97%
Income (000)	$5-$10	63%	87%	95%
	$10-$15	72%	84%	95%
	$15-$25	63%	84%	92%
	> $25	71%	83%	92%
		Better	*Same*	*Worse*
Among Republicans	< $5	9%	8%	32%
Income (000)	$5-$10	1%	5%	24%
	$10-$15	3%	8%	24%
	$15-$25	3%	7%	20%
	> $25	2%	6%	25%

Percentage bases:							
Democrats	32	170	267	Republicans	46	118	38
	62	508	497		121	282	84
	190	728	591		258	445	120
	263	782	520		419	589	150
	231	373	200		403	401	79

& not just at election time...{President-Approval Data}, where seems sociotropic & forward-looking:

Gallup Poll approval rating	Change in real disposable income per capita: 0%	+2%	+4%
40%	48.9%	50.2%	51.4%
50%	50.3%	51.5%	52.8%
60%	51.6%	52.8%	54.1%

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

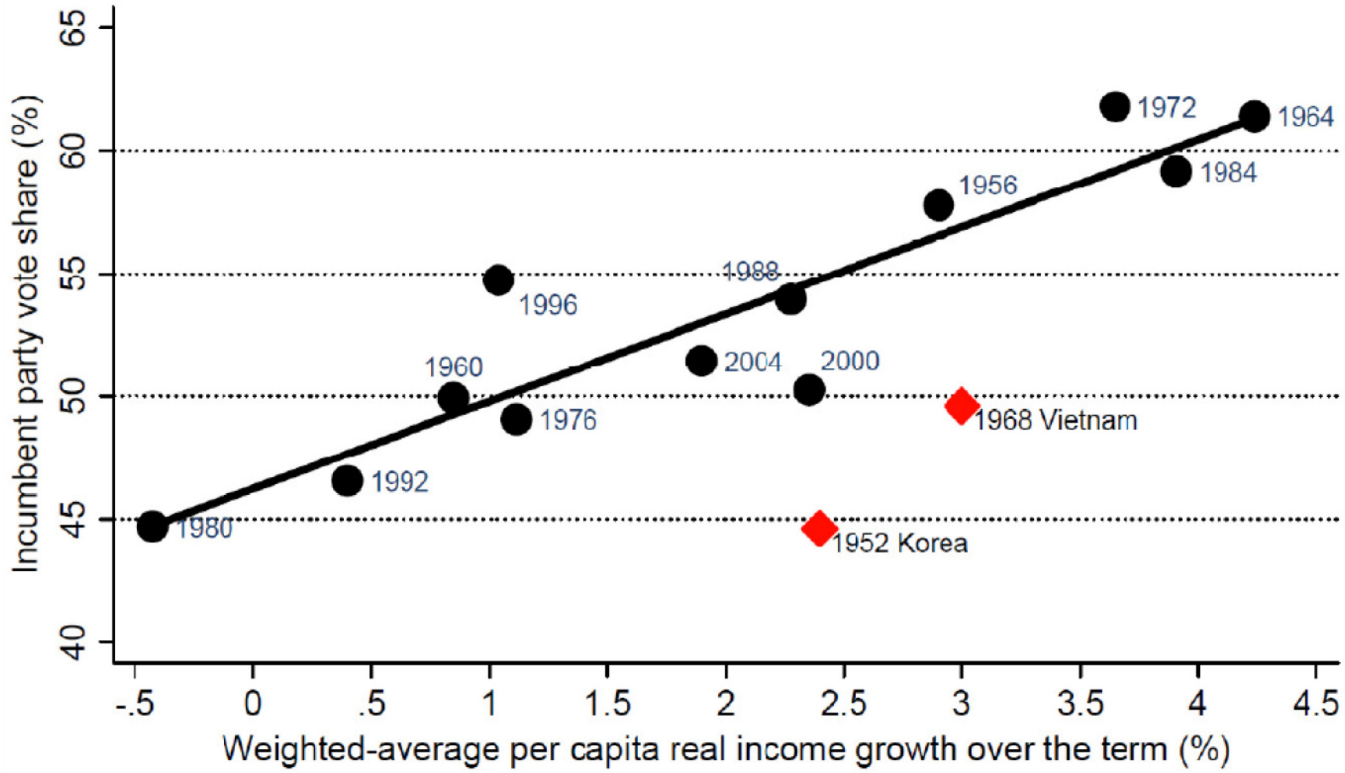
And we already saw these following figures, but we could return to them once again now for further, & comparative insights:

(1) Notice the estimated decay-rate, .95, implies:

Qrtrs Ago	$.95^Q$	Weight	Cum.Wt.
0	1.00	0.086	0.086
1	0.95	0.082	0.168
2	0.90	0.078	0.245
3	0.86	0.074	0.319
4	0.81	0.070	0.389
5	0.77	0.066	0.455
6	0.74	0.063	0.518
7	0.70	0.060	0.578
8	0.66	0.057	0.635
9	0.63	0.054	0.690
10	0.60	0.051	0.741
11	0.57	0.049	0.790
12	0.54	0.046	0.836
13	0.51	0.044	0.880
14	0.49	0.042	0.922
15	0.46	0.040	0.962
16	0.44	0.038	1.000

So, e.g., last year of incumb's term worth over 2.5 times what first year worth (.32 *vs.* .12)...

Figure 1. Bread and Peace Voting in US Presidential Elections



$$\text{Model: } \text{Vote}_t = \beta_0 + \beta_1 \left(\sum_{j=0}^{14} \lambda^j \Delta \ln R_{t-j} \left(1 \Big/ \sum_{j=0}^{14} \lambda^j \right) \right) + \beta_2 \text{CUM KIA}_t$$

		β_0	β_1	λ	β_2	$\bar{R}^2$	SEE
1.	Benchmark model, Eq. 1 (1952–1996)	46.1 (42.2/.00)	4.1 (7.4/.00)	0.95 (26.9/.00)	–0.37 (–5.5/.00)	.90	1.97

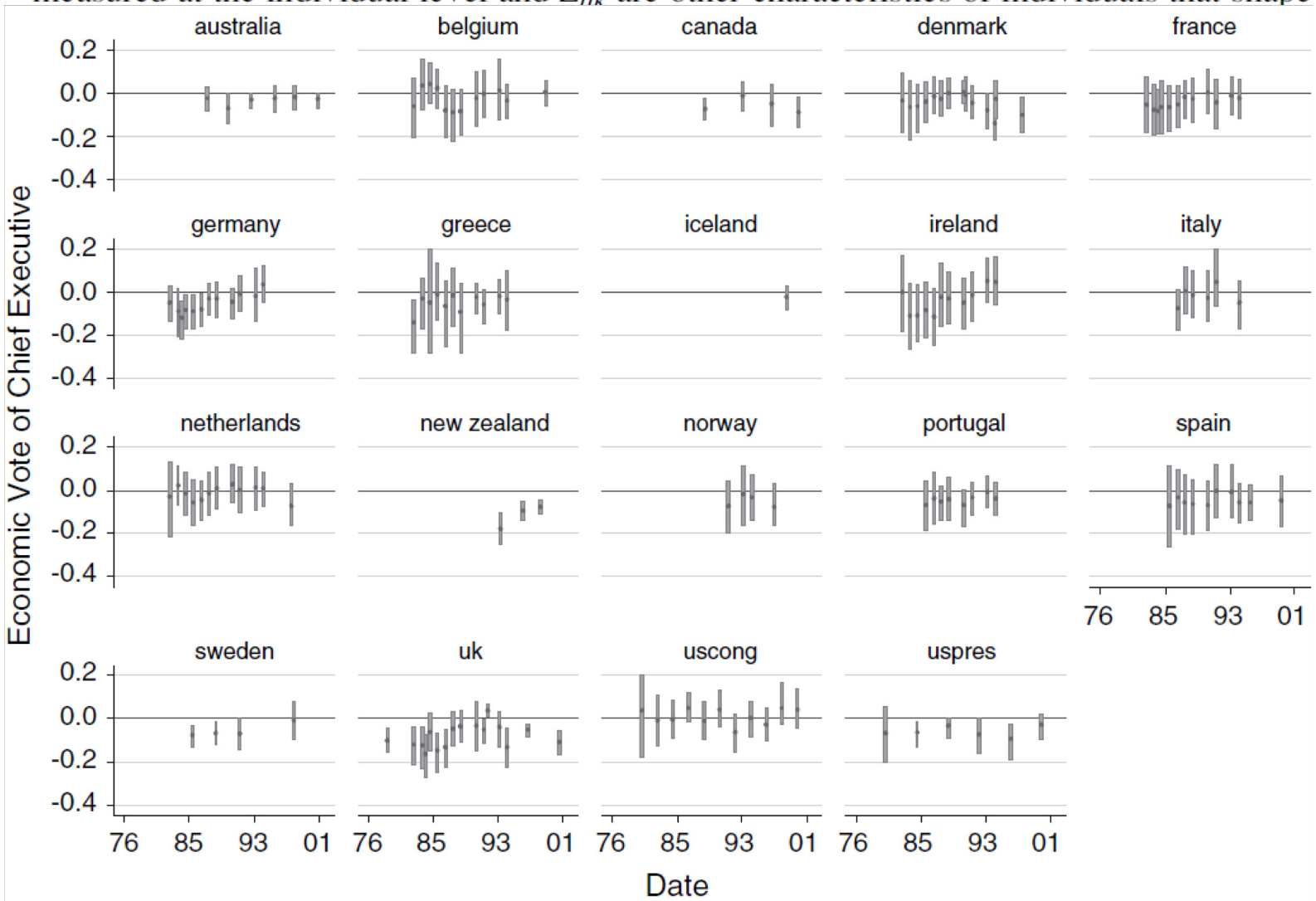
(2)

[see also next 2 slides]

$$logit(\pi_{ik}) = \beta_{0k} + \beta_{1k}X_{ik} + \sum_{j=1}^{J_k} \phi_{jk}Z_{jik}. \quad (1)$$

In this notation, v_{ik} indicates a vote for the chief executive party by voter i in each of k election surveys where $i = 1 \ldots . n_k$. Likewise, X_{ik} are retrospective economic evaluations measured at the individual level and Z_{iik} are other characteristics of individuals that shape

Incentive to electioneer varies across countries (but note that, as it does, it does so along *with accountability for the economy…*



g. 1 A map of economic voting for the party of the chief executive. The upper bound of on

Alternatively, same authors, different ways of presenting similar set of estimates:

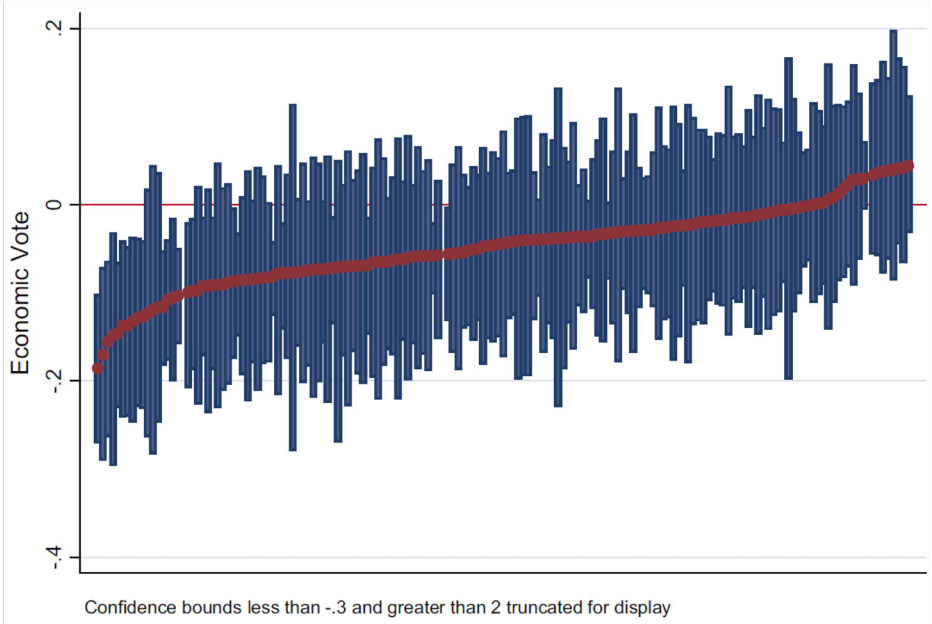
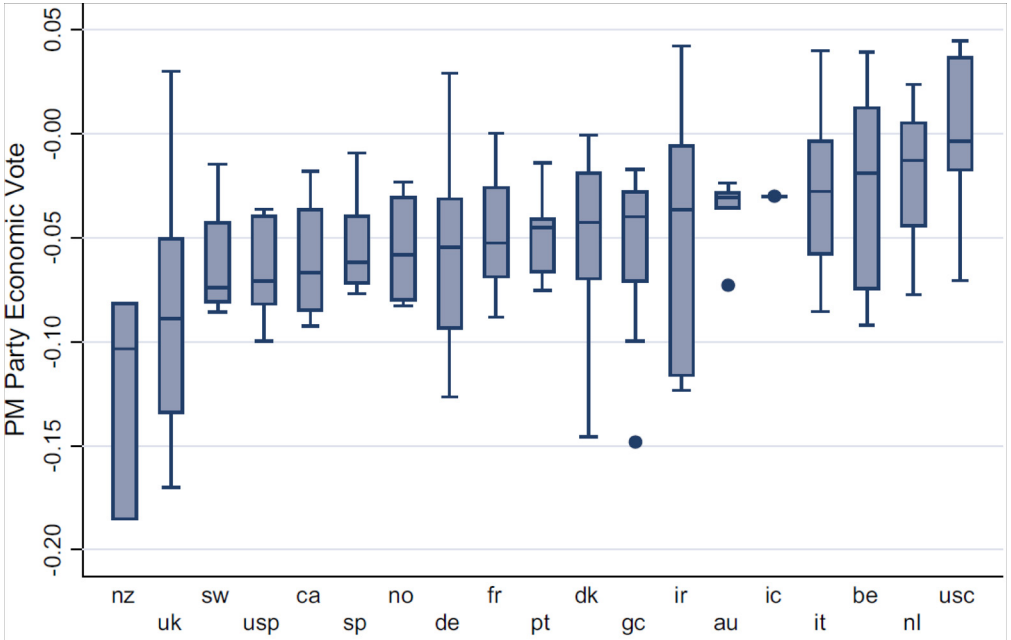


Fig. 1. Confidence bands for economic vote, PM parties.

Notice that magnitude of economic vote generally greater in countries with typically single-party, majority governments (e.g., *inter alia*).

& openness? {see next slide}

& domestic policymaker control of policies of varying maneuverability & efficacy?



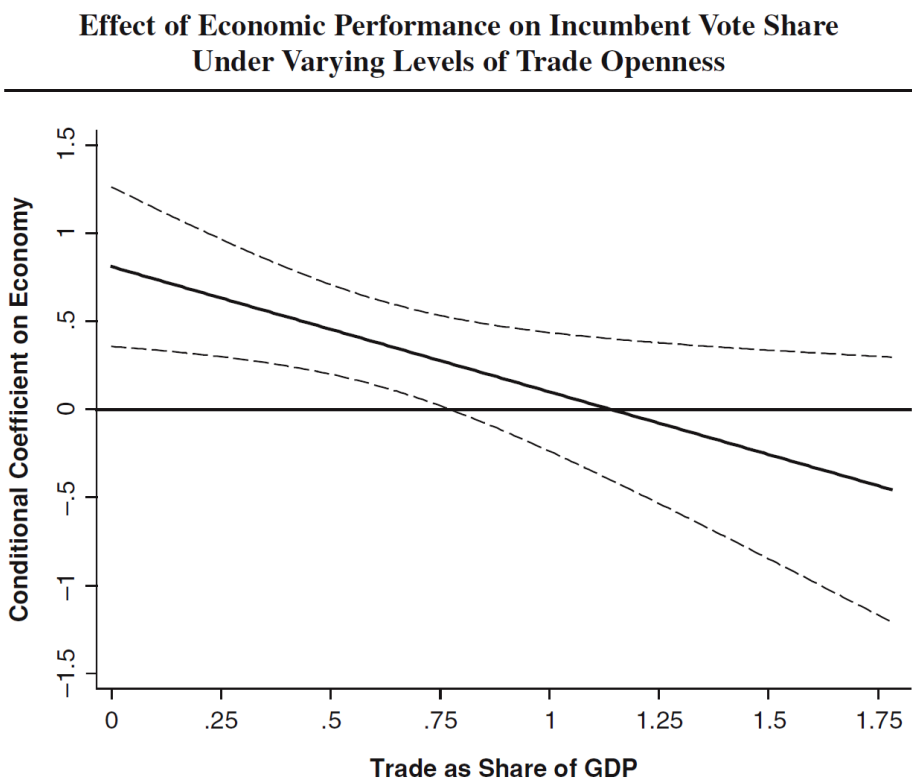
Hellwig & Samuels on Economic Exposure and the Economic Vote

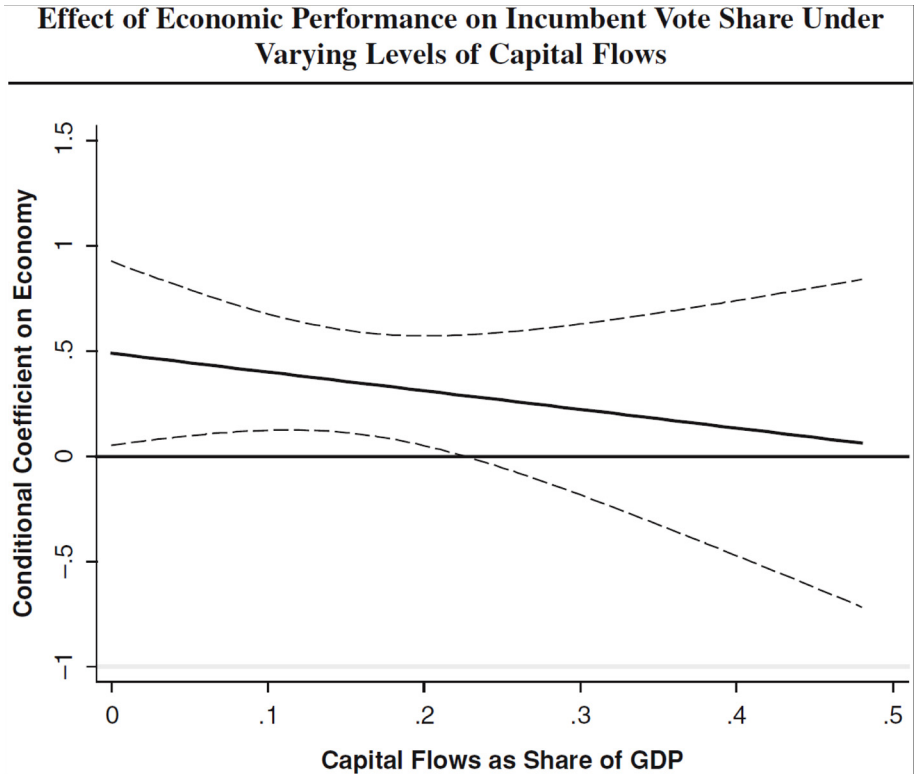
$$\text{Incumbent Vote-Share} = \ldots + b_1\text{EconPerf} + b_2\text{Openness} + b_3\text{EconPerf} \times \text{Openness} + \ldots$$

$$\Rightarrow \text{Effect of EconPerf on IncumbVote: } \frac{\Delta\text{Incumbent Vote-Share}}{\Delta\text{EconPerf}} = b_1 + b_3\text{Openness}$$

$$\Rightarrow \text{Effect of Open on Effect of EconPerf on IncumbVote:}$$

$$\frac{\Delta\left(\dfrac{\Delta\text{Incumbent Vote-Share}}{\Delta\text{EconPerf}}\right)}{\Delta\text{Openness}} = b_3$$





II. Political Parties and Macroeconomic Outcomes (ch. 4):

A. Tufte: 'If electoral calendar sets policy schedule & timing, partisanship & ideology sets its substance.' [rough quote]

B. [Hibbs more thoroughly, so may/likely defer much of this chapter.]

C. Do Parties Differ? For instance, consider economic priorities of...

D. Parties of the Right:

E. Parties of the Left:

III. Political Parties and Macroeconomic Outcomes (ch. 4):

A. Parties of the Right:

1. Low taxes
2. Low inflation
3. Modest and balanced budgets
4. Oppose equalization
5. Accept more UE for less INF

B. Parties of the Left:

1. Equalization
2. Low unemployment
3. High wages, favor equalization
4. Larger budgets (stress balance less)
5. Accept higher INF for lower UE

C. Democratic and Republican platforms

1. Preliminary considerations
   a. Compare '76 Dem & Rep platforms (pp.72-3) to Clinton era, Dem more Δ: why?
   b. Dem & Rep platforms contrast more than public opinion on issues: why?
   c. Note even typographic style & how best to misquote forefathers differs (fn. 3)
      (1) [scanned onto slide two slides down...]
   d. '44-'64 platforms differ more on economic & labor issues than other issues (foreign affairs, defense, agriculture, natural resources, welfare, govt, & civil rights)
   e. Table 4-1 (p. 75): Word Usage Differences in '76 platforms

TABLE 4-1

NUMBER OF TIMES CERTAIN PHRASES DEALING WITH ECONOMIC POLICY WERE USED IN THE DEMOCRATIC AND REPUBLICAN PLATFORMS OF 1976

	Number of times word used	
	Democratic platform	*Republican platform*
Distributional Issues		
inequity, regressive, equitable, equal, equality, redistribution	30	15
opportunity	24	7
poor, poverty	23	3
Size and Cost of National Government		
federal spending, government spending	3	22
size, cost of government	2	11
deficit, deficit spending, balanced budget	4	9
taxes	37	45
private sector, private enterprise	3	10
Unemployment		
full employment	14	0
unemployment, unemployed, jobless	34	7
Inflation		
inflation, inflationary	18	14
price stability, stable prices, rising prices, soaring prices	12	3

It's just too hilariously perfect not to quote at length...

[3] Their differences extended to typographic style and how best to misquote Thomas Jefferson. In the convention versions of the platforms, the Democrats used "Government," the Republicans, "government." Compelled by the occasion of the bicentennial to mention the Declaration of Independence, both parties treated Jefferson's revolutionary words gingerly and with incomplete fidelity. The Democrats updated the Declaration by replacing "Men" with "persons" and "People": "That all persons are created equal, that they are endowed by their Creator with certain unalienable rights, that among these are Life, Liberty, and the Pursuit of Happiness—That to secure these rights, Governments are instituted among People, deriving their just powers from the consent of the governed." The Republicans ellipsized out the mention of equality, retained the gendered references, and had Jefferson taking a tough line: "It was our 'Declaration' which put the world and posterity on notice 'that Men are . . . endowed by their Creator with certain unalienable Rights' and that those rights must not be taken from those to whom God has given them."

f. Voters likewise divided (though less) (p. 76, shown below-left); & also in economic consequences of recession, at least in perception (below that, from Ch. 5)

g. Concern re: inflation and unemployment highly cyclical and common among voters (Fig. 4-1), but persistent partisan differences evident.

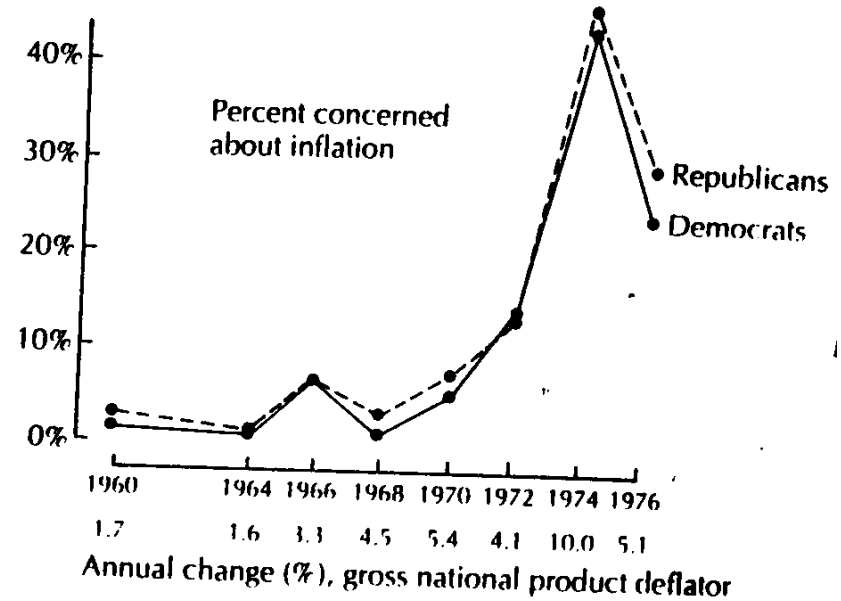
	Democrats	Republicans
Jobs more important	27%	11%
Inflation more important	18	36
Both equally important	53	51
Not sure	2	2
	100% (6,297)	100% (3,712)

licans said they had had a bad year. Within each party and income level, the following percentages of people reported that they were worse off financially in 1976:

		Democrats	Republicans
Income (thousands of dollars)	<$5	56%	19%
	$5-$10	47%	17%
	$10-$15	39%	15%
	$15-$25	33%	13%
	>$25	25%	9%

In summary, the proportions who reported a worsening of family finances during the year were:

	Democrats	Republicans
1968 (Democratic president)	17%	21%
1972 (Republican president)	24%	19%
1976 (Republican president)	38%	14%



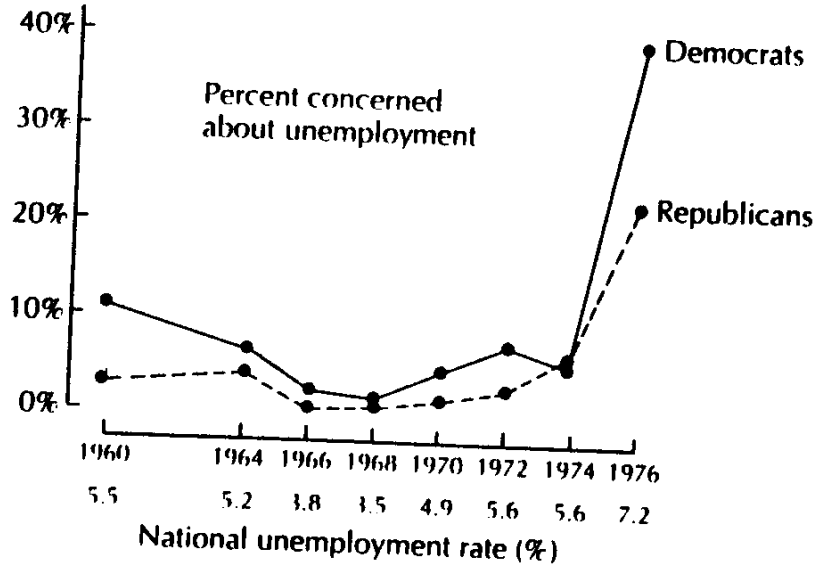


FIGURE 4-1
CONCERN ABOUT INFLATION AND UNEMPLOYMENT IN RELATION TO POLITICAL PARTY AND OBJECTIVE ECONOMIC CONDITIONS, 1960-1976

2. Analysis of *Economic Reports of President* & *Annual Reports of Council of Economic Advisors*: data in Table 4-2, analysis in 4-3 and 4-4

TABLE 4-2

"UNEMPLOYMENT" AND "INFLATION" USAGE RATES IN ANNUAL ECONOMIC REPORTS OF PRESIDENT AND CEA

Date of report (each January)	*Party of president*	*Usage rates: mentions per 10 pages* — *President's Report* "unemployment"	*President's Report* "inflation"	*CEA Report* "unemployment"	*CEA Report* "inflation"	*National economic conditions at time of report* — *Unemployment rate*	*Inflation rate*
1977	Republican	4.9	23.2	10.0	8.5	7.7%	5.1%
1976	Republican	16.1	26.8	7.9	7.9	8.5%	9.3%
1975	Republican	9.3	16.7	12.7	7.3	5.6%	10.0%
1974	Republican	7.0	18.3	2.3	3.9	4.9%	5.8%
1973	Republican	12.8	34.0	5.2	8.2	5.6%	4.1%
1972	Republican	18.8	29.2	5.4	8.2	5.9%	5.1%
1971	Republican	20.0	38.5	5.0	5.3	4.9%	5.4%
1970	Republican	10.8	21.7	4.4	7.3	3.5%	5.0%
1969	Democratic	5.7	3.8	5.7	2.8	3.6%	4.5%
1968	Democratic	5.6	2.0	3.1	2.6	3.8%	2.9%
1967	Democratic	6.0	3.0	5.2	1.7	3.8%	3.3%
1966	Democratic	7.7	5.5	4.7	2.7	4.5%	2.2%
1965	Democratic	4.8	5.4	6.2	1.1	5.2%	1.6%
1964	Democratic	9.4	6.3	3.8	1.9	5.7%	1.5%
1963	Democratic	9.2	3.6	4.4	2.5	5.5%	1.8%
1962	Democratic	13.0	3.2	9.0	3.1	6.7%	0.9%

TABLE 4-3

CEA Annual Reports, 1962-1977, Mentions of Unemployment and Inflation in Relation to Economic Conditions, the Political Party of the President, and the Special Interest of the Ford CEA in the Unemployment Problem

	Regression coefficients and (t-values) for 4 regressions			
	1	*2*	*3*	*4*
Economic conditions	.69 (3.13)		.21 (.80)	.22 (.97)
Political party of president		.98 (4.59)	.81 (2.66)	1.04 (3.72)
Ford CEA				.64 (2.35)
R^2	.41	.60	.62	.74

The regressions have the form

$$ln(UM/IM) = \beta_0 + \beta_1 ln(\bar{U}/\bar{I}) + \beta_2 P + \beta_3 F$$

where UM and IM are the number of mentions of unemployment and inflation in the CEA *Report* issued in January of year i; $\bar{U}$ is the national unemployment rate (averaged over years i, $i-1$, and $i-2$) and $\bar{I}$ is the implicit price deflator for the GNP (also averaged over three years); P is the political party of the incumbent president (Democrat = 1, Republican = 0); and F is equal to one during the years of the Ford CEA and zero otherwise.

TABLE 4-4

Economic Report of the President, 1962-1977, Mentions of Unemployment and Inflation in Relation to Economic Conditions and the Political Party of the President

	Regression coefficients and (t-values) for 3 regressions		
	1	*2*	*3*
Economic conditions	.88 (3.06)		.047 (.18)
Political party of president		1.43 (6.81)	1.40 (4.55)
R^2	.40	.77	.77

[8] Actually the logarithm of the ratio is used so that equal changes in either mentions of inflation or of unemployment receive equal weight.

3. Divergent party ideology rooted in soc-ec diff's supporters (pp. 84-5, T 4-5)

a. Economic interests & conditions especially influence independents ⇒ effect rising?

	Family income less than $5,000	Family income more than $25,000
Jobs more important	35%	13%
Inflation more important	19	29
Both equally important	42	57
Not sure	4	1
	100% (981)	100% (2,703)

Madison, *Federalist 10*:

"...most common & durable source of factions has been the various and unequal distribution of property ... regulation of these various and interfering interests forms the principal task of modern legislation and involves the spirit of party and faction in the necessary & ordinary operations of government."

TABLE 4-5

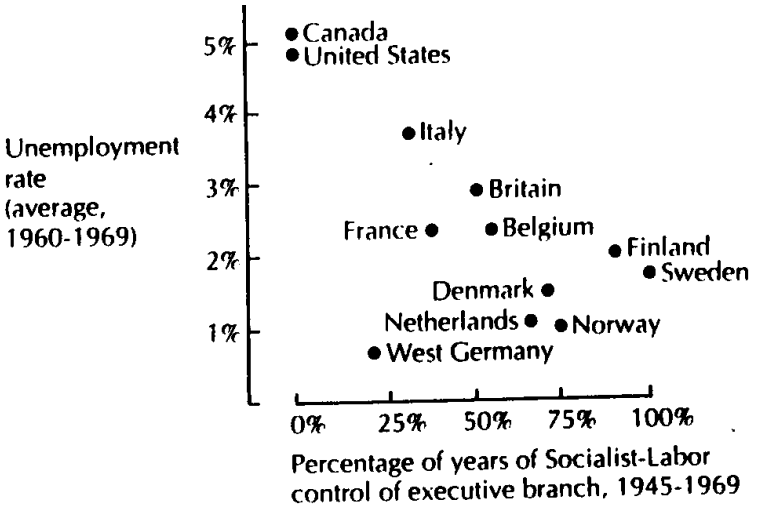
1976 PRESIDENTIAL VOTE IN RELATION TO THE VOTER'S PARTY AFFILIATION, ECONOMIC PRIORITIES, AND INCOME

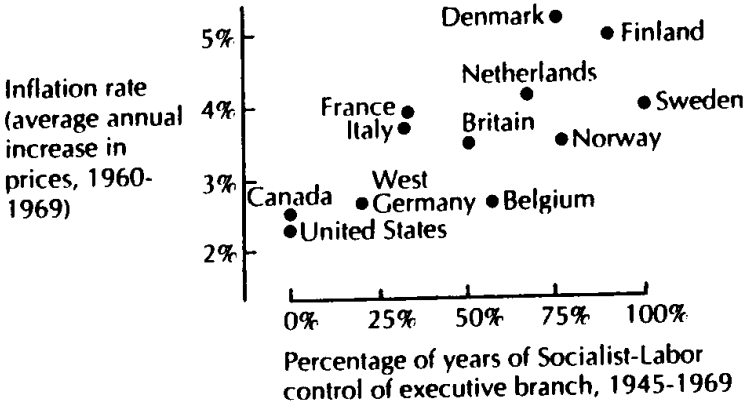
	What is the more important problem: finding jobs for people who are unemployed, holding down inflation, or are both equally important?		
Percent vote for Carter	*Jobs more important*	*Both equally important*	*Inflation more important*
Democrats	92%	84%	79%
Independents	71%	47%	28%
Republicans	15%	7%	5%

	Income				
Percent vote for Carter	*less than $5,000*	*$5,000-$10,000*	*$10,000-$15,000*	*$15,000-$25,000*	*greater than $25,000*
Democrats	93%	88%	87%	83%	81%
Independents	61%	55%	47%	44%	42%
Republicans	12%	7%	9%	8%	6%
Percentage bases:					
	1751	3191	1035	513	1181	1572	1619	836
	534	2314	869	171	471	907	1266	827
	477	1988	1354	228	516	842	1202	904

D. Implications: Party ideologies & platforms (promises) differ; voters recognize & act on these diff's; parties generally fulfill their promises

1. Evidence (p. 90): From Pomper's data, acted upon 84% of specific promises winning-party platform against 53% of losing-party platform (much agree).
2. => Figures 4-2 (UE/INF), 4-3 Equalization, 4-4 & 4-5 Size of Government





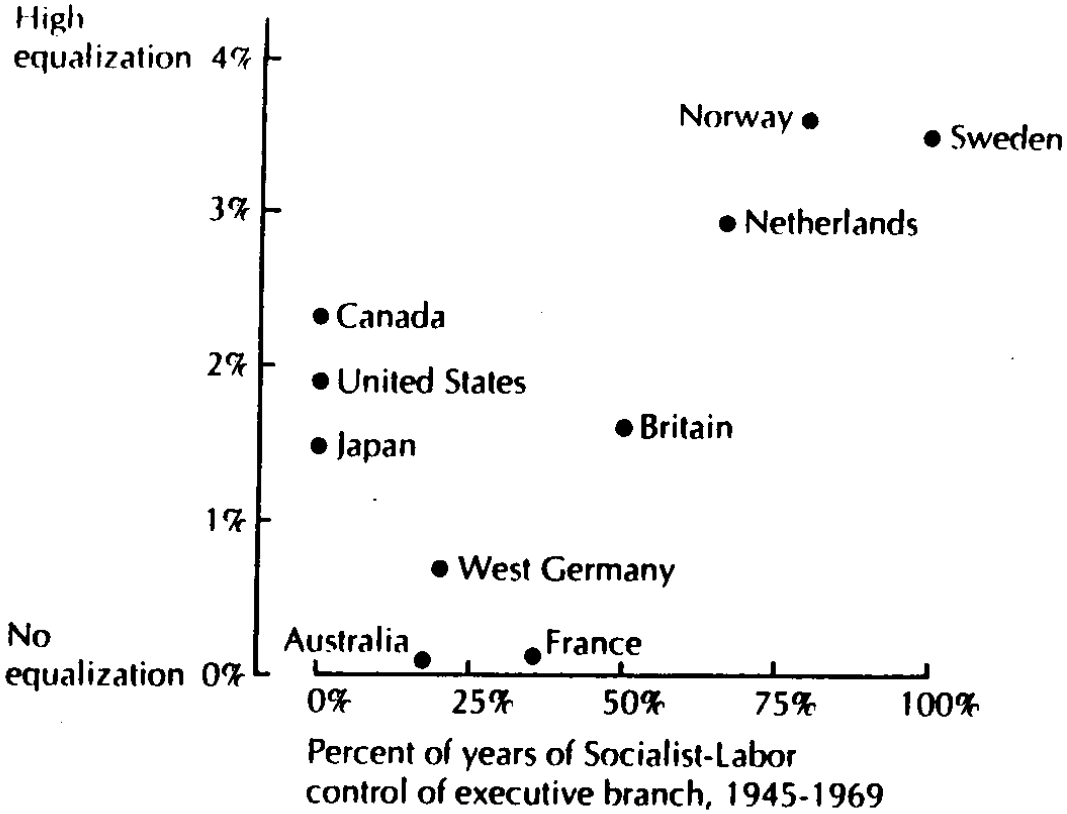


FIGURE 4-3

INCOME REDISTRIBUTION THROUGH DIRECT TAXATION IN

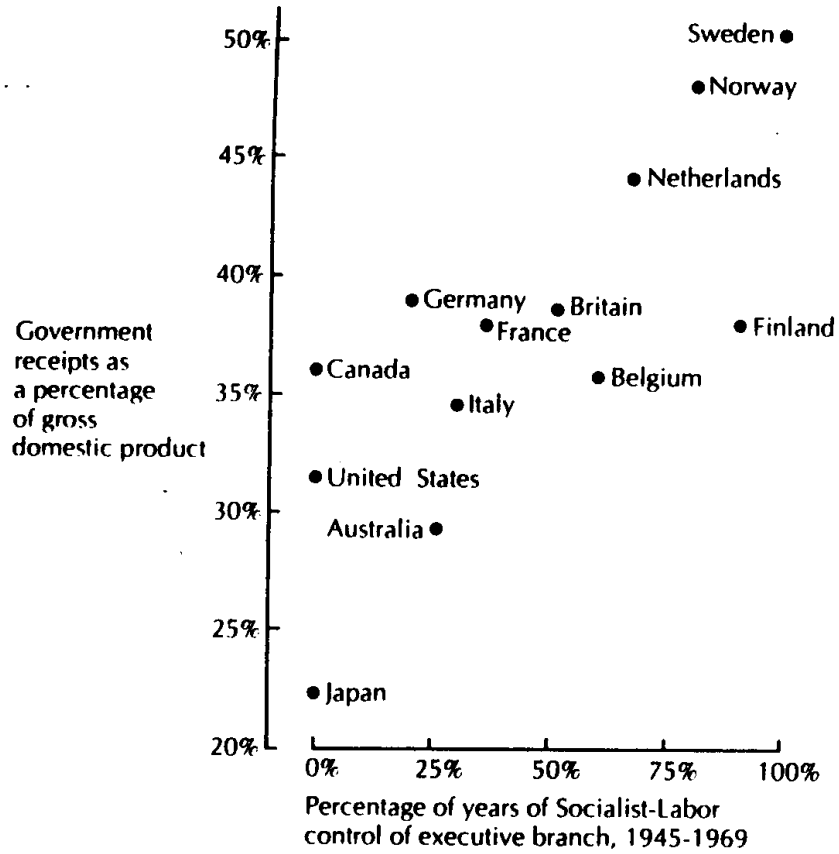


FIGURE 4-4
GOVERNMENT RECEIPTS (AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT IN 1971-1972) IN RELATION TO LENGTH OF EXECUTIVE CONTROL BY SOCIALIST-LABOR PARTIES

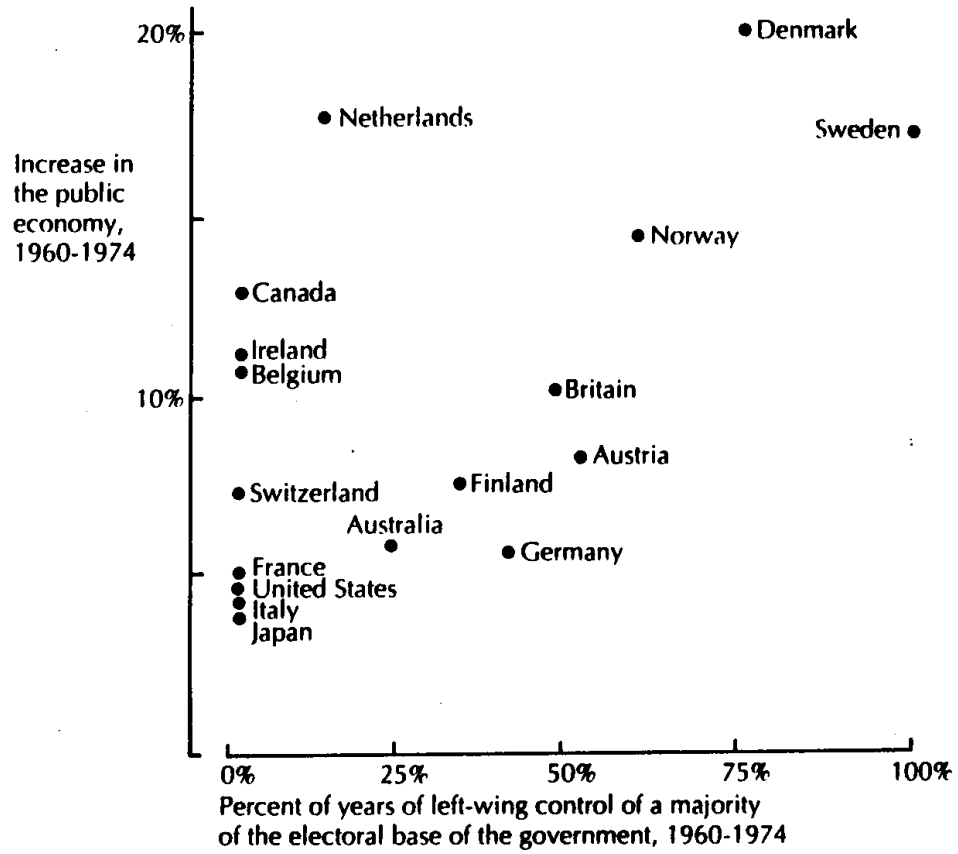
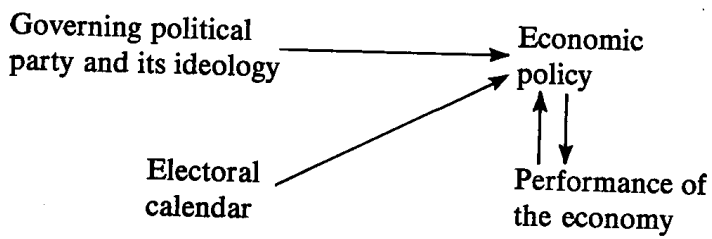
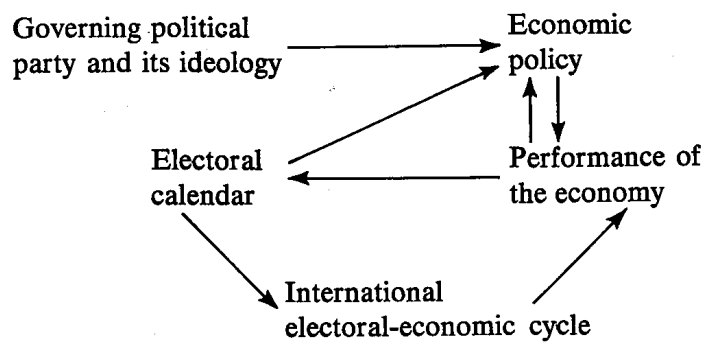


FIGURE 4-5
PARTISANSHIP OF THE GOVERNMENT AND EXPANSION OF THE PUBLIC ECONOMY, 1960-1974 (CAMERON'S DATA)

3. => pp. 100-1, US and other (diff's are open econ & endog elects) electoral policy-cycle diagrams:





4. => (pp. 101-2) Tufte's Conclusion: two rules of the electoral policy-cycle:

   a. if prominent problem in public opinion, tackle that regardless; if not, then follow partisan preference-ordering.

   b. => Left's INF-UE cycle path coming into elect differs from Right's:

      (1) Tufte says that suggests Left clockwise & Right counter-clockwise...

      (2) ...except I don't think that holds so well empirically... (Fig 4-6)

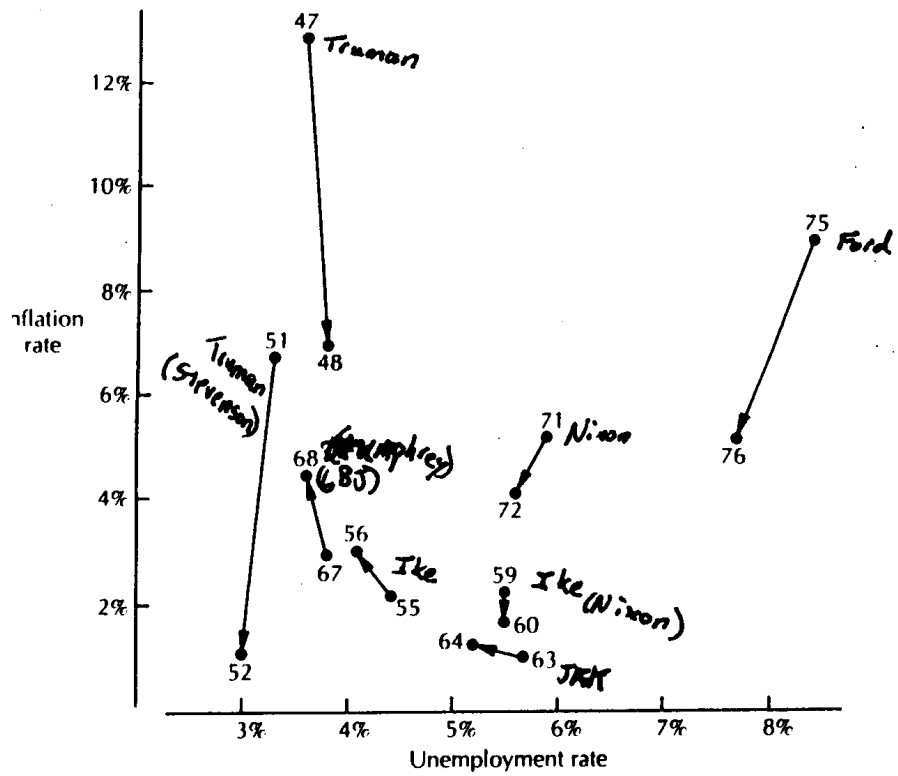


FIGURE 4-6
UNEMPLOYMENT AND INFLATION RATES IN RELATION TO PRESIDENTIAL ELECTIONS, 1947-1976

IV. 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. (Scanned to next…)}

B. Limits to political control:

1. Competing authorities & other actors for making & affecting econ policy.
2. Limited effectiveness of any policy in altering economic conditions in a large economy, or a small-open one, or a diverse one…
3. Private economy: political control of economy can usually only operate at margin rather than on underlying structure of economy—much or most of economic conditions determined by aggregate of private-sector actions.
4. Incompetence and Exogenous Shocks—self-explanatory.
5. Policy Inertia:
   a. Difficult to change "momentum" of established policies.
   b. Uncertain lead and lag times of policy implementation and effects thereof.

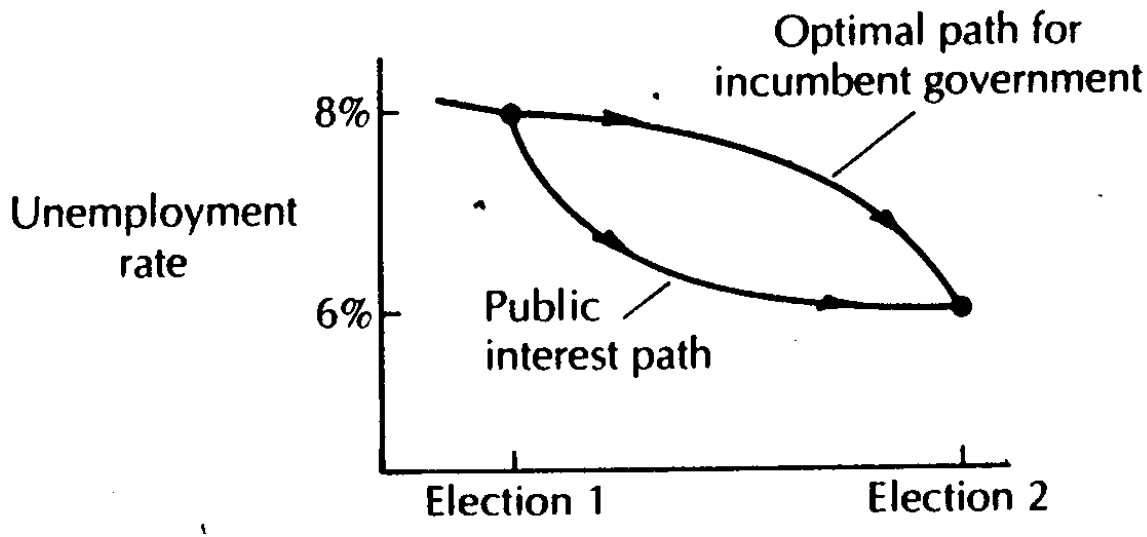
The regular, routine features of political life—the beliefs of politicians about the electorate, the timing of elections, the ideologies and platforms of political parties, and the location on the left-right spectrum of the political party controlling the government—are significant determinants of almost all important aspects of macroeconomic policy and performance. In particular, the timing of elections influences the rate of unemployment and growth in real disposable income, the short-term management of inflation and unemployment, the flow of transfer payments, the undertaking of expansionary or contractive economic policies, and the time perspective of economic policy-making. The platform of the political party controlling the government helps decide policies that determine the unemployment rate, the inflation rate, the size and rate of growth of central government, the extent of income equalization due to the tax system, taxing principles and practices, and social welfare activity.

Political life, then, is far more than an occasional random shock to a self-contained, isolated economic system; rather, economic life vibrates with the rhythms of politics.

6. 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.
7. Mutual Agreements to "Depoliticize" Economic Policy:
   a. Central banks in some places (and increasingly in many places now);
   b. Collection & reporting econ data; despite frequent allegations (and their occasional truth), econ data collect & report managed stay fairly nonpolitical in most dem's
   c. Tufte conjectures: *cet. par.*, as ↑ importance agency, ↑ likely & intense pol control.
8. Economic Theory and Advisers:
   a. Difficult (not impossible, but takes strong political pressure) to ignore *consensus* among theoreticians, such as:
      (1) (Generally) Free(ish) trade; No floors or ceilings on prices or wages;
      (2) Macro-policy to stabilize the economy (consensus here has considerably eroded).
   b. Difficulty often overcome, though, esp. *via* impact 'special-interest groups' [Define SIG's...] [Olson's Logic of Collective Action...]
   c. Through Council of Economic Advisers, economic consensus has institutionalized voice in US; similar formal institutions in some, 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 elect-year prank of the social security system & payroll tax..." (p. 143)
   c. Bias toward policies with immediate and highly visible benefits and deferred, hidden costs [and v.v. away from those w/ the reverse characteristics]—*myopia*.
   d. Special-interest politics biases policy toward those with small costs on many and large benefits for few [even if former may far outweigh latter].
   e. Econ. optimal adjustment paths altered to politically optimal ones (Fig p. 144).



2. Inflationary bias of democratic (small *d*) politics?
   a. Reasons to believe inflationary bias to democratic politics:
      (1) Nordhaus, in Tufte-like model with exploitable INF-UE tradeoff concluded 'politically determined policy…{has} lower UE & higher INF than optimal'
      (2) {Modern neoclassical economic theory of monetary policy}
      (3) Tufte: Voters misled.
         (a) The evidence indicates that voters do not like inflation;
         (b) Must not correctly evaluate post-electoral INF-costs of pre-electoral booms;
         (c) Alternatives: (*i*) consider latter worth former; (*ii*) neoclassical monetary-policy story.
   b. Reasons to believe no inflationary bias to democratic politics:
      (1) Political costs of INF could easily be higher than those for UE ⇒ deflationary
      (2) Evidence indicates voters would punish incumb's for inflationary policy if near elections
      (3) Voters know right parties produce lower inflation(ary biases); they could easily elect them if concerned about "inflationary bias".
3. Short-termism: hard to argue electoral politics does not limit long-range planning ability of policymakers: policies that entail costs now and benefits after election and *v.v.* may be overly hard or easy sells in democracy. If voters rational and informed, though, they can evaluate appropriately
4. Any assessment of costs of the electoral policy and outcome cycle depends on one's evaluation of specific policies it promotes

D. Tufte's Prescriptions

1. Diminish Motive &/or Opportunity: I.e., adjust electoral-timing aspects.
   a. Reduce {or increase?} the flexibility of incumbents in calling elections;
   b. Random election dates—theoretically interesting, practically implausible;
   c. Desynchronization of the electoral and economic calendars.
2. Reduce opportunity &/or weapons: I.e., attempt to dilute political control of economic policy:
   a. Not likely to work as long as voters hold politicians responsible for economy;
   b. Most common in monetary policy. {why in monetary do you suppose?}
   c. Tufte on the "depoliticization movement":
      (1) Arises after the Nixon-Burns fiasco in '72; that was extreme, & seems to have self-corrected to considerable degree;
      (2) Proposed cures "obtuse"—removing economic policy from political control in general, all in effort to reduce particular problem of election-year economics;
      (3) Proposed remedies significantly reduce electorate's control in area, economic policy, where democratic model actually seems most realized in practice.

3. Increase Enforcement:
   a. Public pressure on collaborators in the game (bureaucracy mostly).
   b. Increase public attention to election campaigns {how? Certainly info quantity increased; what's your assessment of how well that's worked?}
   c. Increased public exposure of the political manipulation of the economy
      (1) Any biases are not those of an informed public, but rather occur because public only partially or not informed;
      (2) Role of the opposition, media, and education.
4. {In considering these prescriptions, how might we begin to estimate empirically the extent to which may be helpful?}