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. \( P \uparrow \) trend

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

1. Crucial Institutional Changes
   a) Off gold standard \( \Rightarrow \) MonPol & dM possible
      1) Lender Last Resort: FD(SL)IC \( \Rightarrow \) No panics
      2) CB to manage macroecon & currency val
   c) Lrg network fed loan guarantees, subsidies, etc. \( \Rightarrow \) socialization of invest risk \( \Rightarrow \) ↑invest & growth
   d) SocSec, Welf, UE insure, etc. \( \Rightarrow \) soc empl & inc risk \( \Rightarrow \) ↓individ pain of “econ vicissitudes”

2. Policy Shift: Keynesian Demand Management

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

   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., ↑\( Y^d \) \( \Rightarrow \) ↑P

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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 ⇒ ↑I & dY
   c) *Inflation*: dM can sustain dP b/c off gold std, & does b/c stability ⇒ “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” UEv. 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. \( -(UE_{cost}/INF_{cost}) \approx -1.1 \text{ Dem}; -.65 \text{ Rep}; -.49 \text{ Ind.} \)

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 at 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.