Introduction to the Symposium in Political Economy

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This is a collection of articles in political economy, a very broad and interdisciplinary field which bridges Economics and Political Science. It has a long history building on the studies in social choice and public choice in the 40s and 50s that led to celebrated achievements such as the Arrow Impossibility Theorem. But it also draws insights from even earlier studies dating back to the work of 18th century social philosophers such as Condorcet. While the unifying questions lie on the interrelation between the workings of political institutions and the effect of economic forces, the methodologies are very diverse, ranging from formalized theory, to quantitative empirical analysis, and experiments.

There are ten articles in this collection. Eight of them are theoretical pieces, and two are experimental work (Battaglini and Palfrey, 2011; and Frechette, Kagel and Morelli, 2011). The articles in this collection attempt to describe the frontier in the state of research, building on some of the main ideas and questions of the field. The pieces in this symposium are authored by some of the world authorities in the field of political economy. They can be grouped in four different themes. The first theme is how parties influence policies, the second one is how campaigning is organized and how it shapes electoral competition, the third theme is how lobbying

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influences legislation, and the final theme is legislative bargaining. We now proceed by describing the themes in detail.

The first theme in the collection is the study of how parties as institutions influence policies. This question is related with the well-known Krehbiel critique (Krehbiel, 1993), which provocatively asks what is the role of parties in predicting policy, beyond the characteristics of the individuals that compose such institutions. Partially in response to this question a large literature has arisen in the attempt to explain why parties are such a prevalent institution. Feddersen (1993) explains party formation as coalitions of voters. Snyder and Ting (2002) study the relationship between platform choices and the information power of party labels. Ashworth and Bueno de Mesquita (2004) provide a formal analysis in which party discipline, candidate affiliation, and ideological homogeneity are all determined endogenously within a strategic electoral-legislative setting. Morelli (2004) studies a model in which parties facilitate coordination among voters and allow candidates to commit to policies. He finds conditions under which proportional representation gives rise to more parties than plurality. Levy (2004) focuses on the role of parties in insuring the credibility of policy commitments. Bernhardt et al. (2009) uncover a "party competition effect" in a rich repeated election citizen candidate model, according to which all citizens benefit from the existence of parties.

There are two articles included in this collection, that investigate how the party institution influences policies. Both paper's starting point is the recognition that parties are not unitary actors, but rather, they are a coalition of individuals with divergent motivations, and that parties choose policies according to the internal majority preference within the party. The two papers then diverge on their take on party discipline. The specific question studied in Ansolabehere, Leblanc and Snyder (2011), determines how the absence of a strong party discipline may affect political platform positioning in an election between office motivate candidates. The question studied by Eguia (2011), instead, provides a theory of party formation that highlights how the

ability to commit to a joint platform under a single party label may be advantageous to politicians, in presence of strong party discipline.

The work by Ansolabehere, Leblanc and Snyder (2011) can be briefly described as follows. Formal studies of electoral races usually assume that parties act as unitary agents to maximize their chances to win elections. But in absence of a strong party discipline, such an assumption may be unrealistic. The paper presents a model of party platform choice that modifies the assumption that platforms are chosen so as to maximize the chances that parties win the elections. Instead, platforms are chosen by majority rule among all legislators within a party. This formulation is inspired by the observation that politicians, while running under a common party label, seek to win their own specific seat in the election. Hence, politicians would like that the party platform is as close as possible to the median voter's ideal point in their district, rather than in the electorate at large. In both single-member district and proportional representation systems, equilibrium platforms are shown to diverge substantially, with one party located near the 25th percentile of the voter distribution and the other near the 75th percentile, rather than converge to the median.

The article by Eguia (2011) can be introduced as follows. The paper shows that, due to the multidimensional nature of preferences, members of an assembly that chooses policies on a series of ideological issues have incentives to coalesce and coordinate their votes. As a result, a theory of endogenous political party formation is developed. Studying the model in details, they find that, if an agent has an advantage to organize a party at a lower cost, then a unique party forms. To the benefit of party members, the policy outcomes diverge from the Condorcet winning policy. If all agents have the same opportunities to coalesce into parties, instead, then at least two parties form. The paper concludes by investigating the robustness of these findings to consideration of an endogenous agenda, and to generalizations of the distribution of preferences.

The second theme in the collection focuses on the study of how campaigning is

organized and how it influences electoral competition. This is one of the key problems in political economy, and by now a large literature has developed around two main strands. One strand of this literature assumes irrational voting behaviour in which campaign advertising buys votes, implying that it has no social benefit (Baron, 1994). Grossman and Helpman (1996) study a model of interest group influence on policy in which: (i) interest groups can credibly commit to transfers contingent on the policies chosen by candidates, and (ii) there exist naive voters whose vote depends only on the campaign expenditures that follow from interest group contributions. Grossman and Helpman (1999) study a model of interest group endorsements, where some partisan voters who share the view of an interest group use its endorsement as a cue for voting choices.

Another strand presumes that rational voters observe platforms with errors. Then, campaign advertising that reduces the noise may be beneficial to risk-averse voters (Austen Smith, 1987). In Coate (2003), opposing parties choose candidates whose ideology is not known by the public. Advertising helps reveal ideologies, which provides parties with incentives to select candidates whose ideologies are closer to the median. Prat (2002) provides a rationale for campaign spending limits that does not hinge on irrational voters; but, rather, on the informational advantage of lobbies with respect to the candidates' competence. Similarly, Coate (2002) shows that banning campaign contributions may be Pareto improving, because large campaign effort tend to cancel each other and provide only a small advantage to more competent leaders.

Within the papers included in this collection on the campaigning theme, Morton and Myerson (2011) study a fundamental model of two-party electoral competition in which spending on campaign advertisements can directly influence voters' preferences, and contributors give the money for campaign spending in exchange for promised services if the candidate wins. Iaryczower and Mattozzi (2011) considers non-majoritarian electoral systems, and explore the effect of spending caps on the overall competitiveness of the electoral competition. Levy and Razin (2011) presents

a very innovative model of campaigning, where voters' attention is scarce, and electoral candidates compete for the electorate's attention.

In order to better introduce this theme of the symposium, let us now briefly describe the articles in details. Morton and Myerson (2011) study a two-candidate electoral race with a one-dimensional policy space. They suppose that campaigning can directly influence voters' preferences. Campaigns requires funding, and contributors give the money for campaign spending in exchange for support if the candidate wins. They find that the contributors' beliefs about which candidate is likely to win determines the winner of the election. Further, the contributions tend to concentrate on a single candidate, so that the opponent has no chance of winning. If the voters are only weakly influenced by advertising or if campaign spending caps are tight, then the candidates choose policies close to the median voter's ideal point, but the contributors still determine the winner. However, these results are sensitive to the assumption that the median voter is known. Uncertainty about the Condorcet-winning point (or its nonexistence) can generate equilibria in which both candidates have substantial probabilities of winning.

Iaryczower and Mattozzi (2011) situate their analysis within a model of non-majoritarian elections with entry of potentially any number of parties. They consider simultaneously competition both in policies and also in campaign spending. The overall competitiveness of the electoral race depends both on the endogenous level of campaign spending and on the endogenous number of parties running in the election. The key measure to assess the overall competitiveness of the electoral race is the total equilibrium level of political rents. The relation between campaign spending and the level of political rents may often be counter-intuitive. As a result, it is shown that under some conditions spending caps can be pro-competitive, leading to an increase in the number of parties contesting the elections.

Levy and Razin (2011) present a novel model of campaigning and political debate between two interested parties. The main innovation in the model is to take into

account the complexity of the policy positions. Because the attention of the electorate is scarce, and their attention span limited, the two debaters engage in all-pay-auctions to win slots of time/attention to present their positions to the electorate. More complex policy positions require a larger number of slots of attention to get across. They show that when the number of attention slots is scarce, but still large enough to allow for both sides to fully present their policies, simple policies have an advantage over more complex ones. Further, it is found that this advantage of simple policies is diminished only when the number of attention slots is fairly large and when the electorate is much more likely to be persuaded by more detailed and complex policies.

The third theme of the symposium is how lobbying influences legislation, a theme closely related to the one of campaigning. Since the seminal papers by Tullock (1980), and Baye, Kovenock and De Vries (1993,1996) who identify lobbying as an all-pay auction, a specialized literature has been studying this subject. Skaperdas (1996) proposes the concept of contest success function to settle the outcome of the lobbying competition. Che and Gale (1996) study a model of caps on lobbying. Siegel (2008) expands the model to allow for general rules describing the outcome of the lobbying competition. Within context of this literature, Baron and Hirsch (2011) departs from stylized models of lobbying in that it merges insights from the lobbying literature with a model of legislative bargaining. In a similar vein, Jordan and Meirowitz (2011) elaborate on the lobbying model, by analyzing a framework in which an agenda setter proposes legislation which is then voted by legislators.

In describing these papers in more detail, Baron and Hirsch (2011) study a model of common agency lobbying in which policy-interested lobbies can act at different levels. First, they can influence the choice of a proposed coalition. Moreover, they can influence the legislative bargaining over policy within that coalition. They find that the equilibrium policy in the legislative bargaining stage maximizes the aggregate policy utility of the coalition members and the lobbies. But an efficiency loss can occur because lobbying may lead to the preservation of the status quo and lobby-induced

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gridlock. Because legislative bargaining under unanimity within the coalition leads to efficiency within the coalition regardless of the identity of the proposer, the policy outcome is essentially determined by the selection of a coalition.

Jordan and Meirowitz (2011) studies a model of nested lobbies in which lobbies first compete to influence a legislative agenda setter, then compete to influence legislative votes over the resulting agenda. If the resulting legislation grants discretion to the executive, the final prize is allocated in yet one more contest in the bureaucracy. From the point of view of lobbies, this seems inefficient because too many resources are expended in lobbying. Indeed, they find that when the status quo is non-discretionary, competition over the agenda never results in an agenda that includes discretion. Surprisingly, however, a discretionary status quo can stand with probability one if the bureaucracy and agenda setter must be biased in favor of one lobby while the legislature is biased in favor the other.

The fourth theme in this collection of articles is legislative bargaining, containing one theoretical article and two experimental ones. Following the seminal paper by Baron and Ferejohn (1989), a large literature has flourished on this argument. Baron (1991) studies a model of legislative bargaining that includes both ideological differentiation and division of the spoils of office. Banks and Duggan (2000) generalize this model to multi-dimensional choice space. Groseclose and Snyder (1996) provide a model that justifies the observation of supermajorities. Diermeier and Merlo (2000) study a dynamic model of government formation in Parliamentary democracies. Morelli (1999) studies a bargaining model where more than one proposals can be on the table at the same time. Eraslan (2002) shows uniqueness of stationary equilibrium in the Baron-Ferejohn model. Snyder, Ting and Ansolabehere (2005) study resource distribution under weighted voting. Battaglini and Coate (2007, 2008) build on the Baron-Ferejohn model to construct a dynamic political economy theory of public spending, taxation and debt.

Within this theme in the collection, Baron, Diermeier and Fong (2011) study

a model of parliamentary democracy with proportional representation in which the policy chosen in one period becomes the status quo for the next period. Battaglini and Palfrey (2011) present an experimental study of a version of the Baron-Ferejohn model in which the current decision becomes the status quo in the next period; whereas Frechette, Kagel and Morelli (2011) present an experiment of a legislative bargaining model with both public and particularistic goods.

Turning to describing these last three papers in detail, Baron, Diermeier, Fong (2011) present a dynamic model of elections, government formation, and legislation in a parliamentary democracy with proportional representation in which the policy chosen in one period becomes the status quo for the next period. In every period, the electorate votes strategically by anticipating the likely governments that parties would form based on their representation, and the policies that would be chosen as a function of the status quo. Because the status quo affects both the election outcomes and the parties' bargaining power, a formateur party has incentives to strategically position the current policy to gain an advantage in both the next election and the subsequent bargaining. Surprisingly, these incentives can result in policies that are outside the Pareto set of the parties.

Battaglini and Palfrey (2011) study dynamic committee bargaining over an infinite horizon with discounting. In each period a committee proposal is generated by a random recognition rule, the committee chooses between the proposal and a status quo by majority rule, and the voting outcome in period t becomes the status quo in period $t + 1$. After studying symmetric Markov equilibria of the resulting game, an experimental study is conducted to test hypotheses generated by the theory. The specific object of investigation are the effects of concavity in the utility functions, the existence of a Condorcet winning alternative, and the discount factor. Several new findings are uncovered. The voting behavior is selfish and myopic. Status quo outcomes have great inertia. There are strong treatment effects, that are in the direction predicted by the Markov equilibrium. There is strong evidence of risk aversion.

Frechette, Kagel and Morelli (2011) experimentally investigate a legislative bargaining model with both public and particularistic goods. Consistent with the qualitative implications of the model, they establish the following findings. There is near exclusive public good provision in the pure public good region, in the pure private good region minimum winning coalitions sharing private goods predominate, and in the "mixed" region proposers generally take some particularistic goods for themselves, allocating the remainder to public goods. As in previous experiments, proposer power is not nearly as strong as predicted, resulting in public good provision decreasing in the mixed region as its relative value increases. This last finding is inconsistent with the theory.

In conclusion, the ten contributions in this symposium attempt to describe the frontier in the state of research in political economy, building on some of the main ideas and questions of the field. The articles are authored by some of the world authorities in the field and cover four different themes, ranging from how parties influence policies, to how campaigning shapes electoral competition, turning to how lobbying influences legislation, and finally dealing with the workings of legislative bargaining.

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