Norman Schofield
Gonzalo Caballero
Editors

The Political Economy of Governance

Institutions, Political Performance and Elections

Springer

Studies in Political Economy

More information about this series at

Norman Schofield • Gonzalo Caballero
Editors

The Political Economy of Governance

Institutions, Political Performance and Elections

Springer

Editors
Norman Schofield
Department of Political Science
Washington University in Saint Louis
Saint Louis, MO, USA

Gonzalo Caballero
Faculty of Economics
University of Vigo
Vigo
Spain

Printed on acid-free paper

Introduction

Norman Schofield and Gonzalo Caballero

In recent years, political economy has advanced in the understanding and modeling of institutions, democracy, governments, the behavior of policymakers and the nature of voting in society, among other issues. Politics and economics have interacted to make new contributions to political and economic theory.

The current volume includes contributions from authors of papers that were presented at the conference on the *Political Economy of Governance, Institutions and Elections*, held in Baiona, Spain, April 2014, under the auspices of the University of Vigo. The editors thank the University of Vigo, and the Weidenbaum Center at Washington University in Saint Louis for the support they provided. Moreover, other chapters have been invited to be included in this volume too.

Each chapter in this book went through a review process before publication. These chapters deal with theoretical and empirical issues over the behavior of institutions and the operation of democratic elections. Below we briefly sketch the topics discussed in these chapters.

Part I: Institutions

1. Demand for Wealth Reducing Institutional Change. The Role of Ideas and Interests Thráinn Eggertsson (University of Iceland)

Dani Rodrik (2014), in a recent paper, calls on economists to recognize the role of ideas in institutional change. This chapter takes up the challenge by considering ideas about how the world works and ideas about the legitimacy of social arrangements, distinguishing between instrumental models (the relations between instruments and outcomes) and moral models (issues of legitimacy). I then explore an empirical case, the efforts by the government of Iceland 2009–2013 to dismantle the country's regulatory system of ocean fisheries, which is based on individual transferable quotas and widely seen as the most efficient system of its

kind in Europe. The exports of fish products have for more than a century been Iceland's engine of growth. The attempts at introducing inefficient institutions came in the wake of, and even as a response to the country's dramatic 2008 financial collapse. I identify seven instrumental and moral theories that were crucial for the reform process. The decision makers' varying understanding and acceptance of these ideas gave substance to the traditional variables of power and interests and influenced how the agents responded to individual transferable quotas.

2. Cultural Legacies: Persistence and Transmission Leonid Peisakhin (New York University Abu Dhabi)

It is well established that institutions evolve in a path-dependent manner, yet this essay shows that certain types of formal institutions leave a cultural legacy by creating political attitudes and behaviors that can persist for a surprisingly long time even in the face of hostile material and institutional environments. Making use of a natural experiment of history, a partition of a homogenous population of ethnic Ukrainians between Austrian and Russian empires, the chapter demonstrates how differences in political preferences that came about as a result of a historical accident have persisted over the course of several centuries. The essay records contemporary differences in political attitudes and behaviors in a survey of over 1,600 individuals residing in settlements that are located within 15 miles of a long-defunct Austrian-Russian imperial border. The chapter also proposes and tests a theory of political identity transmission. It finds that families, as long as they remain embedded within likeminded communities, play a vital role in transmitting historical political identities. By contrast, state institutions, and especially schools, are dominant in identity building and transmission in families where historical political identities have not taken root.

3. Judicial Independence: Evidence from the Philippine Supreme Court 1970–2003 Desiree Desierto (University of Wisconsin-Madison)

Is the Philippine Supreme Court independent from the Executive branch? Using data from Haynie et al.'s (2007) High Courts Judicial Database, I compare how each of the ten Chief Justices from 1970 to 2003 decides cases involving the national government 2 years prior and 2 years after their appointment as Chief Justice, in a difference-in-differences framework. To verify whether differences could be due to selection bias from the possible non-random assignment of cases and strategic timing of decisions, I also verify whether panels that did not include the Chief Justice exhibit differences in behavior during the same 4-year time periods. I find that they do not. In contrast, it is only the panels that include the Chief Justice which show some significant differences in the probability of favoring the government in its decisions pre- and post-appointment of the Chief Justice.

4. Comparative Analysis of Institutional Incentives and Organizational Adjustment of Social Actors in Eight European Countries Rosa Nonell (University of Barcelona) and Ivan Medina (Autonomus University of Madrid)

This chapter compares the institutional differences between some European social actors and their implications in the policy-making process. We observe

the difference between reinforcement of social pacts or reinforcement of social actors and their results in economic performance. We emphasize the pernicious effects of bargaining systems excessively based on institutional rewards and political rationales as opposed to centralized and coordinated bargaining system. If the roles of social actors in economic policy-making are restricted in exchange for monopoly of representation, that reduces the necessity to recruit new members and ensures access to public resources. In the case study between different countries firstly, we argue that social pacts are often short-sighted compromises with no compulsory clauses concerning policy outcomes. Secondly, we point out that political social pacts draw upon numerous trades off logics between the government and social actors. In this case, thirdly, such a scenario urges social actors to be focused primarily on institutional representation. However, they face serious constraints as far as most of the advisory forums and monitoring institutions remain outside the core of decision-making. The cases of Spain and Italy give the best examples to understand the incapacity to resolve political and economic problems with these instruments.

5. The Historical Origins of Regional Economic Inequality in Spain: The Cultural Legacy of Political Institutions David Soto (University of Vigo)

This chapter delves into the role of historical institutions and culture in current regional economic inequality in Spain. It starts from the theoretical basis that there exist certain cultural traits that are associated with a better economic performance within a liberal institutional framework—these include generalized trust, orientation toward political issues, associative participation, attitudes toward individual independence. These are highly persistent and were partly shaped by political experiences in the distant past. With regard to the relevant historical facts that could have led to the promotion of these cultural traits, this study relies on two different but related works: Tabellini (2010) and Guiso, Sapienza and Zingales (2008). Specifically, two historical political aspects that vary regionally are considered: the type of political institutions in the Early Modern Age and the level of local autonomy in the High Middle Ages. The former is measured by the political constraints on the executive within the period 1600–1850 and the latter by the level of autonomy in the formation process of the local legal order between the eleventh and fifteenth centuries. This work empirically tests this causal argumentation that relates past political institutions to current regional economic distribution through this cultural legacy. The results support this hypothesis and are robust even against other so-called fundamental causes of development such as geography and human capital.

6. Institutional Change in Spain from Francoism to Democracy: The Effects of the Great Recession Gonzalo Caballero and Marcos Álvarez-Díaz (University of Vigo)

Institutional Change in Spain in the second half of the twentieth century has been a story of success. After the Spanish Civil War, a dictatorship was established in the country in 1939 and the political regime implied an institutional design that evolved over time. In 1959, there was an important reform that propelled

economic markets and development, and the death of General Franco in 1975 opened up a period of institutional change that conduced to democracy. The new self-enforcing institutional framework that emerged in the political reform of democratization has implied a modern democratic system, the adhesion to the EU and an Europeanization of civil society, a decentralization political process, social and cultural modernization, the making of a Welfare State and the expansion of the economy. These institutional foundations adequately worked until the Great Recession that has intensely affected the Spanish economy since 2008. The huge economic crisis has implied electoral changes, new social movements and distrust on political institutions, and understanding these trends is relevant to study how the economic crisis can influence the process of institutional change in Spain. Therefore, this study attempts to provide new and original empirical evidence on the existence of a long-run relationship between economic crisis and political trust in Spain using monthly data. Specifically, the Autoregressive Distributed Lag (ARDL) approach to cointegration is employed to discover such relationship, and to quantify the impact of the economic crisis on the Spanish political trust. The empirical findings indicate that the economic crisis has a negative impact on political trust and provide an estimation of this effect.

7. Institutional Determinants: A Case Study of IMF Programme and Non-programme Countries Omer Javed (University of Barcelona)

The study attempts to explore significant determinants of institutional quality—economic and political—in the case of non-programme- and programme countries. The period of analysis is 1980–2009, as the activity of IMF increased during this time. Results primarily indicate that military in power significantly reduces institutional quality, while improvement in property rights, openness, aggregate governance, and real GDP growth all remain highly important in improving institutional quality, while enhancement in monetary- and investment freedom also help; and hence need to be the focus of IMF programmes.

Part II: Democracy

8. An Experimental Study of Jury Voting Behavior Lisa R. Anderson (College of William and Mary), Charles A. Holt (University of Virginia), Katri K. Sieberg (Tampere University) and Allison Oldham (University of Virginia)

This chapter uses experimental analysis to test the Feddersen and Pesendorfer (1998) theoretical results regarding the Condorcet Jury Theorem. Under the assumption that jurors will vote strategically (rather than sincerely based on private information), Feddersen and Pesendorfer derive the surprising conclusion that a unanimity rule makes the conviction of innocent defendants more likely, as compared with majority rule voting. Previous experimental work largely supported these theoretical predictions regarding strategic individual behavior, but failed to find support for the conclusions about the relative merits of unanimity and majority

rule procedures in terms of group decisions. We extend this literature with an experiment in which the cost of convicting an innocent defendant is specified to be more severe than the cost of acquitting a guilty defendant. This payoff asymmetry results in a higher threshold of reasonable doubt than the 0.5 level used in earlier studies. We find very little evidence of the strategic voting predicted by theory (even for our asymmetric payoff structure) and no difference between the use of unanimity and majority rules. Overall, it was very difficult for the juries in our experiment to achieve a conviction, and no incorrect convictions occurred. Our experimental results suggest that the standard risk neutrality assumption can lead to misleading conclusions. We argue that a high cost associated with convicting the innocent can interact with risk aversion to produce an even higher threshold of reasonable doubt than would result from risk neutrality, which tends to neutralize the negative effects of strategic voting under a unanimity rule.

9. Trading Portfolios: The Stability of Coalition Governments Betul Demirkaya and Norman Schofield (Washington University in St. Louis)

In this chapter, we explore the question of how the inclusion of a niche party influences the allocation of ministries in coalition governments. In particular, we ask whether niche parties have an advantage because of higher values that they place on certain ministries that the other parties are less interested in. We provide a model where two parties are dividing a portfolio of three ministries, and compare the stable coalitions formed by two mainstream parties with those formed by a mainstream party and a niche party. The results show that in some cases the niche party is able to form stable coalitions with higher payoffs than the mainstream party. This advantage, however, makes the niche party a less desirable coalition partner because the latter cannot commit not to ask for better payoffs.

10. A Median-Activist Theorem for Two-Stage Spatial Models Daniel Kselman (IE Business School, Madrid)

The spatial model of electoral competition has for decades been a staple of formal political theory. As part of this field, a number of authors have developed two-stage spatial models in which electoral candidates must first win intra-party primary elections, and then compete in a general inter-party election. A universal result in these two-stage models is that party selectorates, and in particular the "median party activist," exert a centrifugal pull on party platforms. The current paper brings this basic finding into question, suggesting that party voters only exert this centrifugal force under fairly strict conditions; and in particular only if candidates attach fairly high value to the outcome {Win Nomination, Lose Election}. The paper's primary result, a "Median-Activist Theorem," suggests that if candidates place little value on winning the nomination in and of itself, primaries are necessary, but not sufficient, for generating more extreme electoral platforms.

11. No Polarization in Spite of Primaries: A Median Voter Theorem with Competitive Nominations Gilles Serra (CIDE, Mexico City)

It is commonly assumed that primaries induce candidates to adopt extremist positions. However, the empirical evidence is mixed, so a theoretical investigation

is warranted. This chapter develops a general model introducing the fundamental elements of primary elections in the well-known spatial voting model by Downs (1957). In spite of significant incentives for candidates to diverge, I find the surprising result that they will all converge to the median voter's ideal point. The result in this paper suggests that primaries are not sufficient to create polarization by themselves. Rather, for candidates to diverge from the center, other complementary features must be present. An implication is that previous formal results in the literature predicting that primaries lead to polarization probably contain other factors that must be interacting with primaries. Future research should endeavor to disentangle these factors.

12. Downsian Competition with Assembly Democracy María del Pino Ramos and M. Socorro Puy (University of Málaga)

This chapter studies a scenario of political competition between two parties, a traditional downsian party and a party implementing assembly democracy. The latter party celebrates a pre-electoral assembly and a post-electoral assembly open to all who wish to take part in which citizens are invited to launch proposals and vote over them. The multiple proposals at the assembly generates a lottery over some policies which is evaluated by voters against the single policy proposed by the traditional party. We show that extremist assembly parties induce the traditional party to locate at the median policy position, whereas centrist assembly parties move the traditional party away from the median just in the opposite direction of the assembly's median. Besides, we find that centrist assemblies, with respect to extremist assemblies, have more chances of winning the elections.

13. Rent Seeking and the Size of Parliamentary Majorities Jan Klingelhöfer (RWTH Aachen University)

This chapter presents a model in which the party that loses the general elections can still try to capture the majority in Parliament by convincing members of the majority faction to switch sides. These attempts are not successful in equilibrium. Nonetheless, the results of the general elections are partly determined by this additional stage of political conflict. Larger majorities are shown to lead to lower rent payments and some voters therefore face a trade-off between lowering rent payments by supporting the party that wins the elections or supporting their preferred party. Multiple equilibria in the general elections with either party winning are possible. Moreover, the size of the equilibrium majority is larger than when no bribes after the elections are possible.

14. A Comment on Choice Rules and Median Outcomes Jon Eguia (Michigan State University) and Francesco Giovannoni (University of Bristol)

This chapter studies one particular property of voting rules in applications in which the choice set is one-dimensional: whether the median alternative is chosen. Our results suggest that with three or more alternatives, it is difficult to rule out non-median outcomes, even if all voters have linear Euclidean preferences.

15. How Should Votes Be Weighted to Reflect the Existing and "Calculated" Distribution of Voting Power of Weighted Voting Organizations Integrating Different Majority Requirements? Michèle Khouri-Hagot (IESEG School of Management, Paris) and Bertrand Lemennicier (Sorbonne University, Paris)

Voting weight and voting power are not necessarily equal. The former represents the number of votes allocated to each member while the latter represents the ability of a member to influence voting outcomes. In this paper, we observe that, in general, "calculated" voting powers, measured by the normalized Banzhaf index, tend to be linearly linked to voting weight. However, there are key exceptions; larger countries or "outliers" have powers far less or more than proportional to their weight and their powers vary with majority requirements. First, based on a sample of weighted voting organizations [African Development Bank (AfDB), International Bank for Reconstruction and Development (IBRD), International Fund for Agricultural Development (IFAD), and International Monetary Fund (IMF)], in 2008, we confirm the main results of Fisher and Schotter (1978) and Dreyer and Schotter (1980): despite the change in the distribution of voting weight since the 1978 or 1999, in 2008 our findings show that under simple majority requirements, especially for larger contributors, voting powers are greater than voting weight while under qualified majority requirements voting powers are far less than voting weight. Second, inspired by Leech (2002), we ask, ourselves, how the votes should be weighted to reflect the existing and "calculated" distribution of voting power, or the potential "calculated" voting powers a larger country could expect with its "existing" voting weight if proportionately between weight and voting power is the one observed for all other smaller countries and is the desired one. In this last case, we offer an estimation of the opportunity cost of cooperation in the international organization in terms of loss of power but at the same time an estimation of the minimum implicit gains which cover these costs.

Part III: Elections

16. Party Activists in the 2009 German Federal Election Norman Schofield (Washington University in St. Louis) and Anna-Sophie Kurella (University of Mannheim)

Formal modelers of party competition often have to face the fact that their models predict far too centrist equilibrium positions when compared to empirically observed party positions. Various components have been suggested as extensions for the standard Downsian spatial model, in order to receive more plausible, diverging equilibrium configurations. One important improvement was the inclusion of a valence term that accounts for non-policy related factors that influence vote decisions. The underlying assumption is that valence describes an overall perceived external popularity or competence, that is ascribed to a party and/or its leader and cannot be attributed to the parties' policy position. This valence term is thus assumed to be exogenous and constant among the voters. The model can further be extended

by the inclusion of an additional individual specific non-policy element, such as partisan bias or ideological distances to party positions. This stabilizes the formal game of party competition by diminishing the probability of parties leapfrogging each other in equilibrium configurations. Still, the predictions of those models show significant discrepancy to empirical party configurations.

17. Application of the Variable Choice Logit Model to the British General Election of 2010 Elena Labzina and Norman Schofield (Washington University in St. Louis)

The chapter aims to estimate the modification of the classic spatial electoral model and to evaluate the convergence of the electoral system at the origin for the case when the assumption of irrelevant alternatives (IIA) is violated, and, hence, the standard multinomial logistic model is inapplicable. The work looks at the General British election of 2010, in which the voters from Scotland and Wales could vote for Scottish National Party and Plaid Cymru, respectively, in addition to the parties common with the voters of England. To account properly for the presence of these additional parties, the theoretical model of Yamomoto (2011) for the varying choice logit is implemented by applying Gibbs sampling. For the convenience of the analysis, the set of common parties is restricted to the three major parties, the Conservatives, Labour and Liberal Democrats, that are of our main interest. In the end, we find that the electoral system diverges, because of the saddle location of Plaid Cymru. Meanwhile, conditional on the insignificance of this party, the system converges. A separate study of Scotland is particularly relevant because of the referendum on Scottish independence in September, 2014. The method deployed here is also relevant in many countries in Europe where there are regional parties, including Spain, Belgium and Italy.

18. Turnout and Polarization Under Alternative Electoral Systems Konstantinos Matakos (London School of Economics), Orestis Troumpounis (Lancaster University) and Dimitrios Xefteris (University of Cyprus)

This chapter presents a formal model of electoral competition where parties' platforms are endogenously chosen and depend on the degree of the electoral rule disproportionality. We first show that proportional electoral systems generate centrifugal forces that increase candidate differentiation. This in turn implies that more proportional systems are associated with lower levels of abstention from indifference. This two-step theoretical prediction of the effect of electoral systems on turnout is then empirically validated even when we jointly control for the prevailing pivotality and party-system size hypotheses. Thus, our work highlights an additional link in the proportionality-turnout nexus.

19. Fiscal Deficits and Type of Government: A Study of Spanish Local Elections Joaquin Artes (Universidad Complutense) and Ignacio Jurado (University of York)

The literature on public choice has largely argued that when several actors are part of a decision-making process, the results will be biased towards overspending. However, the empirical studies of the effect of minorities and coalition governments on spending have yielded mixed support for this theoretical claim. This chapter

argues that the inconclusiveness of the empirical evidence is related to problems of standard regression models to accurately capture unobserved heterogeneity. We use data from Spanish municipalities for the period 2004–2011 to compare the results of four typically used estimation methods: mean comparison, OLS, fixed-effects regression, and matching. We argue that out of these models, matching deals better with unobserved heterogeneity and selection bias of the type of government, allowing us to reduce estimating error. The results show that, when we account for these problems in a matching model, minorities run lower surpluses than single party majorities. This result did not arise in simple mean comparisons or OLS models, or even in the fixed-effects specification. These results give support to the law of 1/n (Weingast et al. 1981) and also underscore that in order to identify correctly the impact of government characteristics on policy-making, we need to understand that these are not randomly assigned across our units of observation. This advises the use of more quasi-experimental methods in our empirical research.

20. Federalism, Proportionality and Popular Will in US Presidential Elections: Did Colorado Have the Right Idea? Jose Manuel Pavia and Fernando Toboso (University of Valencia)

As is well known, the USA is a federal country composed of 50 states plus the District of Columbia, where the individual states and the country as a whole are each sovereign jurisdictions. This is reflected everywhere in its political-administrative structure, including the election of the US President, who is elected by the Electoral College and not directly by the people; an issue that provokes a confrontation between abolishers of the Electoral College and supporters of the current system each time a candidate not winning the most popular votes is elected President (last time in 2000 elections). Between both extremes, there are intermediate solutions that, while continuing to respect the spirit of a federal nation like the USA, enable proportionality to be incorporated into the process. This was, for example, the idea behind Amendment 36 to the Colorado Constitution (LCCGA, 2004). After studying the merits and drawbacks of the current system, this paper investigates what would have happened if Colorado proposal had been used nationwide in Presidential elections from 1828 to 2012. The chapter concludes that the Colorado idea might have made electoral colleges' results closer to popular will, would have diminished the risk of electing a non-popular winning President and would have served to require a more balanced regional support to be elected. As counterpart, it would have encouraged the emerging of third minor candidates.

Contents

About the Editors and Authors

Norman Schofield was the Director of the Center in Political Economy at Washington University in Saint Louis from 1992 until 2012. He is currently the William R. Taussig Professor of Political Economy, and Professor in the Departments of Economics and Political Science. He has Ph.Ds in both government and economics from Essex University, a LittD from Liverpool University, and a doctorate from the University of Caen. His research includes the theory of social choice, political economy, and democracy. He has written several books, including Multiparty Government (with Michael Laver, in 1990), Social Choice and Democracy (Springer, 1985), and edited or co-edited ten volumes, including The Political Economy of Institutions, Democracy and Voting (co-edited with Gonzalo Caballero, Springer, 2011). His book, Mathematical Methods in Economics and Social Choice, was published by Springer in 2003, and the second edition in 2013. In 2006, he published Architects of Political Change as well as Multiparty Democracy (with Itai Sened) both with Cambridge University Press. His book, The Spatial Model of Politics, was published by Routledge in 2008, followed by The Political Economy of Democracy and Tyranny in 2009 with Oldenbourg (Munich). His book, Leadership or Chaos (co-authored with Maria Gallego) was published by Springer in 2011. He has been the recipient of a number of NSF awards, most recently one on electoral politics and regime change. In 2003, he was the Fulbright distinguished professor at Humboldt University and, in 2007 and 2008, visiting fellow at ICER in Turin. In Spring 2008, he was the visiting Leitner Professor at Yale University and was a National Fellow at the Hoover Institution in summers 2009 and 2010. He was recipient of the Riker prize for contributions to political theory in 2002, and was elected to the American Academy of Arts and Sciences in 2005.

Gonzalo Caballero is an Associate Professor of Economics at the University of Vigo, Spain. He received a Ph.D. and a B.Sc. in Economics with Honors from the University of Vigo and he has an M.Phil. in Contemporaneous Political Studies from the University of Santiago de Compostela. He has been a Visiting Scholar at the Center for New Institutional Social Sciences, Washington University in

St. Louis, the Center for Advanced Studies in the Social Sciences (Juan March Institute, Madrid), the University of California in Santa Barbara, and the University of California in Berkeley. He has been a visiting professor at Charles University (Prague, Czech Republic), Comenius University (Bratislava, Slovakia), University of Valencia (Spain), Universita Roma Tre (Italy), Tallinn University of Technology (Estonia), University of Granada (Spain), and University of Oulu (Finland). He has published over fifty papers on institutional analysis and political economy in journals such as Economic Modelling, Journal of Institutional Economics, Ecological Economics, Ocean & Coastal Management, Marine Policy, Environmetrics, Aquaculture Research, Forest Policy and Economics, Trimestre Económico, Brazilian Journal of Political Economy, Política y Gobierno, Revista de Estudios Políticos, Economic Analysis Review, Revista Española de Investigaciones Sociológicas, Perfiles Latinoamericanos, CLAD Reforma Democracia, and Revista Española de Ciencia Política, among others. He has written several books and recently coedited three volumes: Political Economy of Institutions, Democracy and Voting (Springer, 2011, with Norman Schofield), Nuevo Institucionalismo: Gobernanza, Economía y Políticas Públicas (CIS-Madrid, 2013, with Xosé Carlos Arias), and Advances in Political Economy: Institutions, Modeling and Empirical Analysis (Springer, 2013, with Norman Schofield and Daniel Kselman).

Biographies of Contributors

Marcos Álvarez-Díaz is an Associate Professor at the University of Vigo (Spain). He holds a Ph.D., M.Ph., and M.A. in Economics from Columbia University (New York, USA). He is the head of the research group on Economic Modeling and Forecasting at the University of Vigo. His work has appeared in several economic journals such as Applied Economics, Economic Modelling, Tourism Management, Journal of Forest Economics, Ecological Economics, and Empirical Economics, among others. His main area of interest is centered on time series modeling and forecasting using nonlinear techniques.

Lisa R. Anderson is the Francis T. West Professor of Economics at the College of William and Mary. Prior to joining the faculty of William and Mary in 1997, Anderson earned a doctorate in economics from the University of Virginia. Anderson is currently conducting experimental research in the areas of financial decision making, collusion in markets and voting rules. She teaches courses on experimental economics and game theory. She has conducted economics and multidisciplinary research through six National Science Foundation grants and a grant from the Financial Industry Regulatory Authority Investor Education Foundation.

Joaquin Artes is an Associate Professor of Economics at the Universidad Complutense de Madrid. His research interests include political economy, public economics, Spanish politics, and voting behavior from a comparative perspective. His work has appeared in journals such as Public Choice, the European Journal of

Political Economy, the European Journal of Political Research, Party Politics and Social Indicators Research.

Betul Demirkaya is a Ph.D. student in political science at Washington University in St. Louis. She received her undergraduate and master's degrees in political science from Bogazici University, Istanbul.

Desiree A. Desierto is a Ph.D. student in Political Science at the University of Wisconsin-Madison and holds a Ph.D. in Economics from the University of Nottingham. She was an Associate Professor at the University of the Philippines School of Economics (UPSE) and a Founding Fellow of the Angara Centre for Law and Economic Policy. Prior to joining the UPSE faculty, she was a Robert Solow Postdoctoral Fellow at the Cournot Centre for Economic Studies in France and a visiting researcher at the Faculty of Economics and Politics of the University of Cambridge.

Thrain Eggertson is Professor of Economics at the Institute of Economic Studies, University of Iceland, and Adjunct Professor at Hertie School of Governance, Berlin, Germany.

A native of Iceland, he received his university education in England and the USA, and has been visiting professor and visiting scholar at several U.S. universities, including Washington University, Indiana University, Stanford University, and Columbia University. In 2005–2010, Eggertsson served as Distinguished Global Professor of Politics at New York University. In Germany, he has been Senior Fellow with the Max Planck Society. Eggertsson's work focuses on the politics and economics of property rights in the context of history, economic development, and modern technological change. His papers have appeared in a wide range of scholarly books and journals. His books include Economic Behavior and Institutions (1990), and Imperfect Institutions: Possibilities and Limits of Reform (2005). In 1998–2005, he was co-editor with Randy Calvert of the Cambridge University Press series Political Economy of Institutions and Decisions.

Jon X. Eguia is an Associate Professor of Economics at Michigan State University, and a Reader in Economics at the University of Bristol. He obtained his Ph.D. from the California Institute of Technology in 2007. His fields of specialization are Political Economy and Microeconomic Theory. His work on party formation, voting and elections, and information aggregation in financial markets has been published in journals such as the Journal of Political Economy, the American Journal of Political Science and Games and Economic Behavior, among others. In addition, he is serving as a Guest Editor for a special issue on Political Economy for the journal Games.

Francesco Giovannoni is a Reader in Economics at the University of Bristol and holds a Ph.D. in Economic Analysis and Policy from Stanford University. His research interests focus on Microeconomics Theory with particular focus on Auctions, Political Economy, and Signaling. He has published in journals such as

the International Economic Review, the Journal of Law and Economics, and Games and Economic Behavior.

Charles Holt is the A. Willis Robertson Professor of Political Economy at the University of Virginia, where he also teaches in the Batten School of Leadership and Public Policy. He is currently the director of the Experimental Economics Laboratory at Virginia. He has written and edited several books on topics in experimental economics, and was a founding co-editor of the journal, Experimental Economics. He has previously served as President of the Economic Science Association, the Southern Economic Association, and the Society of Economic Educators. Much of his current research pertains to auction design, e.g. for greenhouse gas allowances, spectrum licenses, auto license plates, and toxic banking assets. Other work includes measures of risk aversion and subjective beliefs, and studies of strategic behavior in games and bargaining, using a mix of theory and experiment.

Omer Javed is a trained economist who is currently doing a Ph.D. in Economics at the University of Barcelona (Spain). He previously completed his masters in economics from the University of York (UK), and earlier from Government College University Lahore (Pakistan). In his doctoral thesis, he is focusing on institutional change, macroeconomic stabilization, and economic growth in International Monetary Fund (IMF) member countries. His work experience spans both the public and privates sectors. His work as economist at the Resident Representative Office of IMF in Pakistan served as a strong motivation in his choice of specialization in the doctoral thesis.

Ignacio Jurado is a Lecturer in Politics at the University of York. He holds a DPhil in Politics from the University of Oxford (Nuffield College), and he is a Doctor-Member of the Juan March Institute in Madrid. His research has been published in the European Journal of Political Research, the European Journal of Political Economy, and Party Politics, among others. His fields of research are comparative political economy, electoral behavior, and distributive policies.

Michèle Khouri is currently an Adjunct Professor in Economics at IESEG School of management, Paris. "Centre de Recherche sur l'Economie de Droit" (CRED) at Pantheon-Assas Paris 2.

She received her Ph.D. and Masters in Economics with honors from the University of Pantheon-Assas, Paris 2. She has been a Research and teaching assistant and a teaching fellow at the University of Pantheon-Assas, Paris 2. She has been a junior lecturer at the Faculty of Law, Economics and Management of Paris (FACO Paris), and the Faculty of Law (FLD) at la Dé fense, Paris.

In the fall of 2009, she was a Visiting Scholar at the "Center for the Study of Democracy" in the University of Irvine California.

Her research fields are international organizations, democracy, public choice theory, political economy, and voting theory.

Jan Klingelhöfer is a Post-Doctoral Fellow at RWTH Aachen University in Germany. He completed his Ph.D. in economics at the Institute for International

Economic Studies in Stockholm in October 2010 and spent 1 year as a Max Weber Fellow at the European University Institute in Florence. His research interests are political economics and applied game theory.

Daniel Kselman received his Ph.D. in Political Science from Duke University in 2009, where he also received a Master's Degree in Economics. Before joining IE Business School in 2013, Daniel was a Visiting Fellow at the University of Notre Dame's Kellogg Institute for International Studies, and from 2010 to 2013 was a Research Fellow at the Juan March Institute in Madrid. Daniel has published research on political parties in contemporary democracies, and more generally on the interface between political and economic processes in contemporary society. He is specialist in Turkish politics, and serves as the President of the Minga Foundation, an international NGO with a focus on community-led development.

Anna-Sophie Kurella studied Politics, Public Administration, and Sociology at the Universities of Konstanz and Mannheim, Germany. Currently, she is working as a researcher at the Mannheim Centre of European Social Research and enrolled as a graduate student at the Center of Doctoral Studies in Social and Behavioral Sciences at the University of Mannheim. Her research interests are mainly focused on party competition and political sociology.

Elena Labzina is a graduate student in political science at Washington University. She reserved a BS in applied mathematics from Lomonosov Moscow State University in 2007, MA in economics from New Economic School in 2010, and MA in political science from Central European University in 2011. Her substantive research interests are electoral politics, political coalitions, protest movements, and digital technologies applied to the politics. Methodologically, she aims to combine computationally statistical, including Bayesian, and game theoretical approaches in her research.

Bertrand Lemennicier, Doctor in Economic Sciences, he is full Professor of economics at the economic department of the Faculty of Law of the University of Paris Sorbonne, Pantheon-Assas.

He built his research career by following great economists like Gary Becker, Ronald Coase, James Buchanan, or Friedrich Hayek who applied the tools of the economic analysis to fields outside from the core of economics like education, female labor supply, marriage, law, and politics. Executive director of the Institut de Recherche sur la gouvernance et l'Economie des Institutions (IRGEI) for several years, he is currently emeritus professor at the university of Paris, member of the Research Center in Law and Economics (CRED) of Paris Panthéon-Assas University and Research Fellow at the International Center for Economic Research (ICER) located in Torino, Italy.

Author of many publications in scientific reviews, his field of research is mainly Public Choice and Law and Economics. He also published several books including: Marriage Market and Family (Le marché du mariage et de la famille 1988 Editions P.U.F), five questions about trade unions (Cinq questions sur les syndicats, this last in collaboration with Jacques Garello and Henri Lepage, 1990 Editions P.U.F),

Law and Economics (Economie du Droit 1991 Cujas Editions), and Ethics Facing Economics (La morale face à l' économie, Editions of Organization, 2006). In this last work, it approaches various debates to show that the economy, far from being immoral or amoral, treats moral questions, because it treats human actions. He is also the author of an e-learning textbook: Microeconomic Theory and its Applications, published by bwm-mediasoft, Luxemburg and of an eBook on L'art de l'argumentation; un guide pratique pour intellectual subversif, Contemporay BookStore 2014.

He is member of the American Economic Association (AEA) and of the Mount P élerin Society (MPS).

Konstantinos Matakos received his Ph.D. in Economics from the University of Warwick, UK (June 2012). He is currently a Fellow in Political Economy and Public Policy at the London School of Economics (Government Department). His primary research fields are Quantitative Methods, Formal Theory, Political Economy, and Comparative Politics. His current research focuses on the political economy of redistribution and machine politics, electoral behavior and formal models of multi-dimensional electoral competition, the design of electoral institutions, and their impact on political competition and polarization.

Iván Medina is a Postdoctoral Fellow "Alianza 4 Universidades" at the Department of Political Science and International Relations, Autonomous University of Madrid, Spain. He holds a PhD in Political Science from the Autonomous University of Barcelona, Spain. His research focuses on business associations, social concertation, and regionalism. He is member of the Research Group on Elites and Political Parties (GREP) at the Autonomous University of Barcelona, Spain.

Rosa Nonell has a Ph.D. in Economics from the University of Barcelona (UB) and is a full professor of Economic Policy in the Department of Economic Policy. She is also the director of the Department and member of the research team in Governments and Markets and of the IREA Institute of Research of UB. Her principal research activity is in the field of the behavior of interest groups and their role in the policy making process. She has published papers about employers' associations and the policy process, and the determinants of their participation in social pacts. In recent years, she has been a member of an interdisciplinary network about industrial relations in comparative perspective.

Allison Oldham is a Jefferson Fellow studying Economics at the University of Virginia. She graduated with Honors from The College of William and Mary, majoring in Mathematics and Economics.

Jose M. Pavía, M.Sc. in Maths and Ph.D. in Economics and Business Science, is Quantitative Methods Professor in the Economics Faculty of the Universitat de Valencia, Spain. He is director of the Elections and Public Opinion Research Group of the Universitat de Valencia, and his areas of interest include political issues, election forecasting, spatial statistics, risk analyses, regional economics, and income inequality. His main research has been published in journals like Journal

of the American Statistical Association, Environment and Planning A, Journal of the Royal Statistical Society, International Journal of Forecasting, The Political Quarterly, European Urban and Regional Studies, Technological and Economic Development of Economy or Revista Española de Investigaciones Sociológicas.

Leonid Peisakhin is assistant professor of political science at New York University, Abu Dhabi. Peisakhin works on political legacies of colonial and imperial rule, political identities, good governance, and transparency. He is currently finishing a book project on persistence of imperial-era political identities in Ukraine. Peisakhin's research combines multiple methods including experiments, surveys, archival research, and ethnography. Peisakhin holds a Ph.D. in Political Science from Yale University, and in 2011–2014 he was a postdoctoral fellow at the Juan March Institute in Madrid. Peisakhin's doctoral dissertation won the Juan Linz Best Dissertation Prize from APSA's Comparative Democratization section.

Maria del Pino Ramos-Sosa is a Research Fellow and a Ph.D. candidate in Economics at the University of Málaga, Spain. She is developing her Ph.D. thesis in topics related to party strategies, voters' behavior, and electoral systems. She currently uses game theory and mechanism design in her research. Her main interests include the demand of direct democracy from society, social movements, and electronic voting.

Mª Socorro Puy is Associate Professor in Economics at the Universidad de Má laga and has a Ph.D. in Economics from the Universidad de Alicante. Her research interests are social elections, political economy, and public economics. Her current research involves primary elections from a game-theory perspective, the study of ambiguity in the proposals of the political parties, and the analysis of identity and salience in elections with a nationalist dimension. Her recent work has appeared in the European Journal of Political Economy, Public Choice, Social Choice and Welfare, Regional Science and Urban Economics, Journal of Public Economic Theory, Theory and Decision among others. She has had visiting appointments at the universities of Harvard, Rochester, Copenhaguen, Louvain, Namur, Pompeu Fabra and Autónoma de Barcelona.

Gilles Serra graduated with a Ph.D. in Political Economy and Government from Harvard University in 2007. He won a fellowship to do post-doctoral research in Nuffield College at the University of Oxford until 2010, and he is currently an assistant professor at the Center for Economics Research and Teaching (CIDE) in Mexico City. He uses formal theory to study political parties, elections, campaigns, and congressional reforms. His main regions of interest are Latin America and the USA. His publications have appeared in respected academic journals such as the Journal of Politics, the Journal of Theoretical Politics and Electoral Studies. This research has been presented at several universities in the USA, Europe, Latin America and Canada.

Katri Sieberg is a Professor of North American Studies in the School of Social Sciences and Humanities at the University of Tampere in Finland. Her research

combines approaches from economics and political science to address the issues of how and why things work—or don't work. To that end, her research uses social choice theory to address how people make decisions, policy analysis to assess the effect of these decisions, and experimental analysis to evaluate the underlying theories. One of her key interests is welfare state institutions, with a recent focus on health care structures.

David Soto-Oñate is a Ph.D. candidate in Economics at the University of Vigo, Spain. He received his B.A. in Business Administration and his M.A. in Economics from the same university. Among his fields of interest are institutional economics, economic sociology, and economic history. His research is currently focused on the role of institutions and cultural systems in economic development.

Fernando Toboso is a senior lecturer at the Department of Applied Economics, University of Valencia, Spain. He obtained his degree in Economics with honors in 1985, and completed his Ph.D. in Economics in 1990 after spending year at the Public Choice Center, George Mason University. His research interests mainly are in methodological and epistemological issues in economic analysis and with the organization of policy tasks and public services provision, with an emphasis on the new Spanish quasi-federalism. Dr. Toboso has published in various academic journals including the Cambridge Journal of Economics, Regional and Federal Studies, History of Economic Ideas, European Journal of Law and Economics and the Journal of Interdisciplinary Economics. He has also contributed to several edited volumes such as Philosophical Foundations of Social Research Methods, Alternative Institutional Structures: Evolution and Impact and Political Economy, Institutions and Voting} (Springer). Recently, he has also served as invited Editor for several special issues in the Revista de Analisis Econmico and also Revista Asturiana de Economia. He has been visiting scholar at Leeds University and Universitadi Bologna.

Orestis Troumpounis obtained a Ph.D. in Economics from Universidad Autonoma de Barcelona in 2011. He is currently a Lecturer in Economics at the Lancaster University Management School. His published and ongoing research uses game theoretic concepts and aims at understanding how institutions shape individuals' and parties' strategies in different (political) contexts. So far he has focused on the analysis of different electoral rules (such as proportional representation and participation quorums) and different public funding systems.

Dimitrios Xefteris obtained a Ph.D. in Economics from Universitat Aut ònoma de Barcelona in 2009. He is currently an assistant professor in the department of economics of the University of Cyprus. His research interests lie in the fields of applied game theory, political economics, and social choice theory. So far he has focused on the effect of candidate valence on determination of political platforms, on the effect of different electoral rules (such as multiple-ballot and runoff systems) on stability of electoral competition, and on understanding how different kinds of institutions emerge as a consequence of decisions of the relevant political actors.

Part I
Institutions

Demand for Wealth-Reducing Institutional Change: The Role of Ideas and Interests

Thráinn Eggertsson

1 Introduction

Rodrik (2014), observing that a raison d'être of political economy is to explain why rational actors often support wealth-reducing institutional change, asks why ideas have little or no role in modern economic analysis. Political economy does not assign an independent role to ideas but links inefficient outcomes to pressures from organized interests and to the cost of collective action. Usually the models assume instrumental rationality, which implies full knowledge of all potential policy tools and associated outcomes, either in absolute terms or as probabilities. Rodrik (2014, 190) challenges the practice of assuming that "there is a well-defined mapping from 'interests' to outcomes. This mapping depends on many unstated assumptions about the *ideas* that political agents have about: (1) what they are maximizing, (2) how the world works, and (3) the sets of tools they have at their disposal to further their interests." A few economists have studied how ideas influence political agents but their approaches have not initiated major research programs (Leighton and López 2013). For instance, North (1990, 2005) in his work on economics of institutions gives a central role to ideas and ideology but Acemoglu and Robinson (2008, 2012, 2013), who (among others) have continued North's work, do not rely on ideas as key explanatory variables.

Analyzing and measuring the role of ideas in institutional change challenges the usual methods of economics. The scholar must often deal with potentially untestable hypotheses, preference falsification, and the complex issue of explaining the birth

T. Eggertsson (✉)
Institute of Economic Studies, Oddi, University of Iceland, 101 Reykjavik, Iceland
e-mail: thrainn@hi.is

and death of ideas.[1] Yet in daily life we observe decisions by neo-Keynesian or perhaps supply-side macro central bank directors and ideological suicide bombers that apparently are motivated by particular rather than universal ideas. Some of our standard economic concepts are not entirely irrelevant when we examine the influence of ideas on behavior. The notion of substitution applies to idea-motivated behavior; except perhaps for suicide bombers, corner solutions are not the rule. People consume low-cost ideas to enjoy an internal glow; strategically invest in ideas to get ahead in politics and obtain material benefits; and sometimes they make moral commitments to ideas and are willing to pay a high price for their beliefs. In principle we are able to test instrumental ideas or models, which correspond to positive social science, but the validity of moral models is by definition untestable.

The purpose of this paper is to examine the role of ideas in the emergence of pressures for wealth-reducing institutional change. In the following two sections, I outline my framework. In Sects. 4 and 5 I examine an empirical case, attempts by the government of Iceland in 2009–2013 to implement wealth-reducing institutional change in the country's ocean fisheries. The Iceland fishing industry, which unlike the country's other industries is the most efficient industry of its kind in Europe, became a local symbol for the drastic collapse of Iceland's banking sector. Facing potential insolvency from the 2008 crisis, the government gave priority to two major structural changes, applying for membership in the European Union and dismantling the institutions governing the country's fisheries. A final section concludes.

2 The Ideas: Instrumental and Moral Models of the Social System

One way to classify modern social models (ideas, theories) is to distinguish between the top-down paradigm and the bottom-up paradigm.[2] Economic history of the last 250 years or thereabouts reveals an ideological pendulum swinging slowly back and forth between the two paradigms with each journey lasting several decades (Eggertsson 2005, Chapter 3). As the pendulum swings, the various ideologies of political parties and other social groups (including social scientists) are revised in the direction of the paradigm shift. There are those who ignore current trends, as we shall see, but they are relatively few.

---

[1]See Kuran (1995) on preference falsification. We may theorize about types of environments that are most likely to stimulate creativity but obviously we do not foresee new ideas.

[2]The distinction between the top-down and bottom-up paradigms bears a superficial but misleading resemblance to the macroeconomics and microeconomics distinction in economic theory. The content of mainstream economics changes as the ideological pendulum swings between the two paradigms. In the bottom-up phase, macroeconomics takes on the appearance of microeconomics.

   In economics, central planning belongs squarely with the top-down paradigm and laissez-faire to the bottom-up paradigm. Each paradigm emphasizes specific issues at the expense of other concerns. The top-down approach exaggerates the knowledge and information of central managers and ignores or plays down the importance of individual incentives. The favored idea is that central managers can scientifically direct social organizations toward desired goals. The bottom-up approach emphasizes the dispersion of information and knowledge and the belief that market competition is an effective mechanism for coordinating economic activities. The former approach overestimates the capacity and willingness of central managers to internalize social externalities, and the latter overestimates the capacity of decentralized individuals to negotiate around externalities.

   The swings of the ideological pendulum are driven by widespread dissatisfaction with outcomes associated with the dominant paradigm of the day. The dissatisfaction may be linked to catastrophic events, such as the Great Depression and the Financial Crisis of 2008, or the gradual deterioration of social systems, such as the decades-long decline of the Soviet Union or slow productivity growth and increasing income inequalities in market economies.

   The two paradigms provide a general background for specific ideas about how the social world works. These specific ideas (models, theories) can be divided into instrumental models and moral models. Instrumental models are theories about the relationship between policy instruments and social outcomes. The term social technology refers to applied knowledge derived from instrumental models, involving practical methods for building and maintaining social systems. Long-run economic growth depends on new ideas and the creation of both new social technologies and new physical technologies. The two technologies are complements. Major social technologies include the creation of money, the corporation, limited liability, patents and copyright, and China's dual-track system.

   The assumption that political agents, no less than economic ones, make rational decisions and optimize leads us directly to the idea of social equilibrium.[3] In social equilibrium, only unexpected and uncontrollable events upset the balance of power, and reformers have no obvious role. New ideas sometimes provide a way out of such traps because they are usually unexpected events that may upset the balance of power. Moreover, new social innovations can create win-win situations for both proponents and potential opponents of wealth-enhancing reforms (Rodrik 2014, 198–201). The famous dual-track system that China used in its transformation process is an example of how ideas can overcome a pernicious social equilibrium.[4]

---

[3]Bhagwati (1978), in an early recognition of the limits to reform, refers to the implications of endogenous policy as the "determinacy paradox." Eggertsson (2005, 142–145) discusses the determinacy paradox.

[4]The authorities in China maintained existing planning quotas but allowed economic agents to produce for the market once they had met the assigned planning targets, thus creating opportunities for the agents to profit. The dual-track system, at least in theory, came close to meeting the marginal efficiency conditions of neoclassical economics (Qian 2003).

Moral models of the social world contain ideas about the legitimacy of institutions and paradigms. An institution is valued in itself and/or for its consequences (its instrumental usefulness). For many people, the death penalty is an illegitimate institution, irrespective of its power to deter murderers.[5] Moral models are not required for explaining social change if they are merely a convenient cover for material interests, whereas independent moral ideas, even weakly held ones, can have significant impact on social change. Social entrepreneurs, for instance, political ones, often focus opposition to (or support for) a particular social institution by linking it with fundamental values. Court decisions also are often grounded in moral values.

Institutional change involves four types of players. The ultimate power to set formal rules is with the rule maker—the state. The rule maker category includes the executive and legislative arm of government and also the judiciary. New rules confer formal property rights on actors when they perform in specific social roles. They are the right holders. Right holders demand new rules when they believe that the status quo hurts their (material) interests and alternative arrangements will improve their lot. New institutions (property rights) are unlikely to function effectively unless they meet basic requirements of the right holders and are suited to their circumstances. Also, new rights for a subset of the citizens require at least tacit support of other actors, the duty bearers. Duty bearers can render rules ineffective by disobeying them and by acting through the political process. I distinguish two types of duty bearers. Material duty bearers are asked to obey rules that hurt their material interest, for instance, by excluding them from access to specific resources. Moral duty bearers are required to obey rules that they see as illegitimate and morally wrong although the rules do not affect their material interests.[6]

3   The Case: A New Social Technology and Relevant Social Ideas

3.1   The Logic of ITQs in Marine Fisheries

High costs of exclusion and enforcement have rendered impractical the use of traditional exclusive property rights to regulate the harvesting of migrant marine species in the oceans, thus inviting some form of open access. In the second half of the twentieth century, perverse interactions between steady increase in demand, improvements in fishing technology, and flawed ownership arrangements created

---

[5]Instruments of policy are visible and unambiguous but the related outcomes are not, for instance, in the case of the death penalty. Uncertainty about outcomes creates an opportunity for competing social entrepreneurs to make their cases for and against particular institutions.

[6]The same agent can be simultaneously both material and moral duty bearer, although empirically it may be impossible to measure the impact of each component on behavior.