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The Political Economy of Public Policy – Editorial introduction

The papers in this special issue were presented at a conference on the Political Economy of Public Policy at Ariel University on September 10–12, 2017. Papers were reviewed using the same merit-based criteria that are applied for all regular and special issues of the European Journal of Political Economy. The conference was opened by the chancellor of Ariel University, Yigal Cohen-Orgad, who was instrumental in founding the college at Ariel that became, in the course of time, a campus of Bar-Ilan University and which, after becoming independent, achieved university status in 2012 to become the eighth research university in Israel and the first new research university in 40 years. Yigal Cohen-Orgad studied economics at the Hebrew University in Jerusalem and is a former Finance Minister of Israel. In his opening remarks, he commented on his experiences in government and observed how politics can intrude into policy decisions.

In an opening academic presentation, Robert Yisrael Aumann, a Nobel Prize Laureate in economics, proposed that in decision making, collectives – nations, political parties, workplaces, corporations, families, sports teams, and so on – are in many ways like individuals. Inter alia, the concept of individual ‘free will’ is to a large extent an illusion; our ideologies and goals are strongly influenced by our environment, by the collectives to which we belong. In Game Theory, for example, it is legitimate to treat nations – as distinguished from their citizens – as ‘players’; not only for practical reasons, but because doing so is substantively justified. Aumann noted a moral or ethical consequence of this viewpoint: a decrease in moral responsibility – both of the individual and toward the individual – for collective actions.

The papers in this issue address a range of public-policy issues that can be categorized as: data for policy decisions; decisions about public policy; reconsideration of appropriate policies; and politics and public spending.

1. Data for policy decisions

1.1. *Self-interest in the reporting of research results*

Martin Paldam, in the opening paper of this issue, asks whether the empirical results that economists report are necessarily truthful indications of the estimates obtained. Paldam suggests that the utility-maximization hypothesis that is applied to market and political behavior also applies to researchers strategically presenting their empirical results. He addresses the procedures and strategies used by empirical researchers to make their results appealing for academic publication or policy advice. In turning economists' incentive-based framework towards themselves, Paldam reaches conclusions suggesting self-interested behavior by economists in using reported results to promote self-importance or to support personally preferred policies. On the same theme, Doucouliagos, Paldam, and Stanley conclude that there is often ‘thin ice’ over reported results, particularly in initial published research on a topic. They look at studies covering 101 economic issues that have been coded and find that the first five papers in the literature on a topic often report exaggerated empirical results that have a large variation. The tools of meta-analysis do not help to identify what is going on in the reporting of the initial studies, but, as the literature progresses, the meta average stabilizes. They propose that the best way to seek truth from early literature is to follow the Paldam rule, which calls for dividing the average reported empirical result by two.

1.2. *Survey data and environmental policy*

Björn Kauder, Niklas Potrafke, and Heinrich Ursprung use survey data to study expressive rhetoric regarding environmental policy. Rhetoric is even less costly than voting. Answers to survey questions can reflect a self-chosen identity that need not be consistent with actual behavior if individuals' declared policy positions were to have personal consequences. They find that proclaimed support for environmental protection policies depends, apart from political ideology, on cultural and psychological factors, some of which are not

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filtered through political ideology but directly influence the proclaimed attitudes. They identify as important behavioral determinants the locus of control and particular psychological traits that capture the respondents' susceptibility to use expressive rhetoric.

1.3. Survey data on efficient change and compensation

Martin Rode and Andrea Sáenz de Viteri use survey data to study attitudes to compensation. When a policy results in efficient change, the gainers can in principle compensate the losers and still be better off (by the definition of Pareto efficiency). A public-policy question is: does compensation of losers actually need to take place to allow an efficiency-enhancing policy to be introduced, or is it sufficient that compensation could in principle take place? There are different views. On the 'left' the view is that efficient change requires actual compensation because of the need for social justice. The right, on the other hand, does not insist on actual compensation and prioritizes efficiency over 'fairness'. The empirical estimates in the study include as explanatory variables an individual's declared location on the 'right-left' political spectrum and personal experience with globalization. The results show polarization of policy positions. Ideological positions are reinforced by globalization experiences to increase the opposition of the 'right' to actual compensation. The estimates control for expressive behavior, which makes polarization more pronounced.

1.4. Survey data on support for government income transfers

Ekaterina Borisova, Andrei Govorun, Denis Ivanov, and Irina Levina use survey data to study how social capital influences individuals' preferences for redistribution to target groups. They find that individuals with higher social capital exhibit lower willingness to provide income support to groups susceptible to fraud (e.g. the self-declared poor) and greater willingness to support groups with easily verifiable criteria for need (e.g. the elderly). They explain their results as driven by different perceived likelihoods of dishonesty by beneficiaries of income transfers. The greater trust of higher social capital is thus asymmetric—not everybody is equally trusted.

1.5. Measurement of the rule of law

Jerg Gutmann and Stefan Voigt analyze a novel indicator for the rule of law. They find that specific determinants of long-run development such as colonization events and strategies operate via the rule of law. Other phenomena such as the timing of early state formation and the transition from hunter-gatherer to agrarian societies are not related to the rule of law.

2. Decisions about public policy

2.1. Populist policies

Elena Seghezza and Giovanni Battista Pittaluga pose the interesting policy-choice question of why governments choose populist policies. They depart from previous views of populism as means for an existing regime to seek popular support. Rather, they present evidence that populist policies have been used to change the institutions of government. They show empirically that when commodity prices have increased, resource rents have been used to finance populist policies that were in turn used to compromise democracy and introduce autocracy. The justification proposed for the populist policies was that previous governments had been 'unfair' to the lower-income population. When resource rents declined as commodity prices fell, the populist policies were not sustainable and democracy was further compromised.

2.2. Refugee resettlement policies

Leonid Azarnert develops a theoretical model to study refugee-resettlement policies. Although some economists and political scientists lauded the Arab Spring as the beginning of a new era of peace and stability, the hopes of the Arab spring dissipated in violence that resulted in large numbers of asylum seekers or refugees in Europe. Azarnert models refugee resettlement based on comparative advantage of different locations in resettling refugees and shows how the policies chosen have consequences for redistribution and growth.

2.3. The Nobel Peace Prize and policy decisions

Arye Hillman and Ngo Van Long study policy choice against the background of the political principal-agent problem that arises when a political leader chooses public policy with the objective of winning the Nobel Peace Prize. The quest for the Prize can result in a policy that appeals to the members of the Nobel Peace Prize Committee, although a majority of voters do not view the policy as in their best interest. The principal-agent problem created by the Nobel Peace Prize is studied against the background of the decision to admit large numbers of asylum seekers to Germany and subsequent policy switching.

2.4. The decision to call a state of emergency

Christian Bjørnskov and Stefan Voigt investigate why governments choose to call a state of emergency. Their results show that governments are more likely to declare a state of emergency after a natural disaster, the less politically costly it is to do so, but cost is unimportant when a state of emergency is declared as justified by political turmoil. A state of emergency based on political turmoil is

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