



## Soothing politics

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### ABSTRACT

We consider a political agency model where voters learn information about some policy-relevant variable, which they can ignore when it impedes their desire to hold optimistic beliefs. Voters' excessive tendency to sustain optimism may result in inefficient political decision-making because political courage does not pay off when voters have poor information. However, voters infer information from policies and incentives to ignore bad news decrease when policy-making is more efficient. This generates multiple equilibria: an equilibrium where voters face up to the reality and politicians have political support to implement optimal policies, and another where they shy away from reforms to cater to the electorate's demand for soothing policies.

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## 1. Introduction

The recent debt crisis in the euro zone has evidenced the coexistence of what has been presented as two models, epitomized by the tale “The grasshopper and the ant”: as Northern countries (“the ants”) were implementing structural reforms, Southern countries (“the grasshoppers”), who had made a significant adjustment effort to enter the eurozone, allegedly enjoyed good times while turning a blind eye to alarming signals about their debt burden and consistently delaying structural adjustment reforms.<sup>1</sup> Although the grasshopper–ant typology is somewhat crude and overlooks the idiosyncrasies of each country in the crisis, political outcomes in the latest decades hint that some countries seem to have been more “reform-minded” than others.<sup>2</sup>

In this paper, we argue that these cross-country differences reflect the existence of multiple political equilibria where the electorate's awareness/ignorance and political courage/febleness are mutually reinforcing. The premise is that voters experience anticipatory utility, i.e. prefer (*ceteris paribus*) to hold rosy beliefs, which leads them to sometimes disregard worrisome signals they might observe, such as the need for structural reforms. Meanwhile, as reforms themselves remind them of bad news, investing in ignorance is profitable only when politicians shy away from reforming. Because voter information improves political discipline, this is all the more likely as voters are worse informed. Therefore, informational complementarities arise endogenously between voter awareness and the efficiency of politics, possibly leading to multiple equilibria: a “Realpolitik” equilibrium in which voters face facts and politicians have political support to implement difficult policies; a “soothing politics” equilibrium in which political courage does not pay off because of voters being “in denial”. We establish that policy-making is less efficient when voters are a priori more optimistic, which may explain why it is easier to implement reforms in times of crisis and why it often takes several attempts before reforms take place: each try paves the way for future reforms by increasing awareness, until voters are “ripe” for reforms. We also show that equilibrium multiplicity is more likely on issues which involve large risks, and for which uncertainty is unlikely to resolve in the near future. Natural illustrations of our theory include pension and labor market reforms, as well as the issue of climate change.

On pensions, Boeri et al. (2001) document “a systematic overestimation of benefits and underestimation of costs of public pension systems” in France, Germany, Italy and Spain. Strikingly, only 40% of the Spanish

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<sup>1</sup> See for instance Alan Greenspan's declarations in November 2011: “The ‘Club Med’ ethic – a vacation-centric mentality that prizes enjoyment and easy living over production and hard work – that characterizes countries such as Greece and Italy was never abandoned once they adopted a common currency. Meanwhile, countries such as Germany (...) continued to save and made the northern economies more competitive.” See <http://blogs.wsj.com/economics/2011/11/10/greenspan-europes-debt-crisis-comes-down-to-north-vs-south/>.

<sup>2</sup> For instance, in the “Lisbon agenda scorecard” published in 2010, the five best performers were three Scandinavian countries, the Netherlands and Austria, while Spain, Portugal, Greece and Italy ranked 19th, 20th, 22nd and 24th respectively. See <http://www.cer.org.uk/publications/archive/report/2010/lisbon-scorecard-x-road-2020>.

citizens surveyed expected that a reform of pensions would be necessary in the 10 years to come. This dramatic rate of ignorance parallels the absence of any significant reform of Spanish pensions.<sup>3</sup> Conversely, in Germany, France, and Italy, where pension reforms have been implemented over the same period, citizens were mostly aware that their pension systems were not sustainable. The high awareness rate in these countries can be related to previous reforms (or reform attempts), confirming the idea (featured in the model) that policies have a feedback effect (Pierson, 1993): voters do learn from policies and attempts to reform, whether successful or not, do result in a change in voters' attitudes.<sup>4</sup> As regards labor markets, the wide variety of industrial relations traditions across European countries, going from "statist market economies" (France and Mediterranean countries), to "liberal market economies" (the UK), and "coordinated market economies" (Scandinavian and German-speaking countries), illustrates how different regimes, characterized by different policies, outcomes, and beliefs, can emerge as different political equilibria: on the one hand, indicators hint that coordinated market economies seem to do better in terms of labor market performance and to implement more reforms than statist market economies<sup>5</sup>; on the other hand, there are important variations in beliefs on the role of the state in industrial relations across regimes.<sup>6</sup> Finally, on the issue of climate change, our results are in line with Steves and Teytelboym (2013), who evidence that countries where the public is more aware of global warming implement more effective climate policies. The level of awareness on climate change is for instance significantly lower in the US than in other developed countries, and this lower awareness goes hand in hand with the US lagging behind in terms of climate change mitigation policies. In addition, there is evidence suggesting that climate change "denial" is an important concern in the US, in particular among conservative citizens (and politicians), who appear to be more prone to discarding scientific evidence on global warming. Finally, time-series variations in aggregate climate change concerns and in political partisanship on environmental issues have followed similar patterns in the US, suggesting that different equilibria may alternate over time.<sup>7</sup>

Voter information has always been a central topic in political science: "Political information is to democratic politics what money is to economics: it is the currency of citizenship"<sup>8</sup> But while what being informed means is rather clear, it is important to distinguish between different forms of failures to be informed. Kuklinski et al. (2003) notably stress the difference between "uninformed" and "misinformed" voters. Uninformed voters make individual mistakes, which average out at the aggregate level. In addition, uninformed voters use heuristics which are shown to work pretty well on average. Voter uninformedness thus does not seem to be so much of an issue. However, "misinformed" voters suffer from systematic biases. Kuklinski et al. (2003) document how voter beliefs are often skewed in the direction of their preferences. This may generate adverse effects on politicians and policies.<sup>9</sup> One may suspect misinformation to be pervasive in democratic politics, as no

voter is ever pivotal, making the instrumental value of information tiny. The literature actually documents different rates of awareness of objective facts across partisan groups. For instance, Sweeney and Gruber (1984) show that President Nixon's supporters knew less about the Watergate investigative committee than other citizens. In the same spirit, Bartels (2002) provides evidence that Democrat citizens were underestimating the decrease in unemployment and inflation rates under the Reagan administration (as a mirror image, most Republicans were ignorant of the budget deficit reduction during the Clinton presidency). Nalder (2010) documents Californian citizens' misinformation on Proposition 13, a measure which imposes a tax cap on property: a third of respondents only were aware that the cap equally applies to residential and commercial property. Interestingly, unawareness was stronger among homeowners, suggesting self-serving beliefs: citizens who do enjoy low taxes do not want to know that large corporations benefit from the same tax treatment.<sup>10</sup> Finally, the literature in social and cognitive psychology has also provided plenty of experimental evidence of manipulation of beliefs for self-serving motives.<sup>11</sup>

In economics, Akerlof and Dickens (1982) show that workers in a dangerous job may prefer to remain ignorant of the exact risk they face at work, despite the instrumental value of this information. Modeling beliefs explicitly, Carrillo and Mariotti (2000) show that strategic ignorance may help a time-inconsistent agent overcome his procrastination problem. Bénabou and Tirole (2002) introduce a memory management game in which an agent who needs to be confident about his ability chooses whether to repress discouraging news, and shows that individuals may end up in self-traps. Other papers, in which belief manipulation is driven by anticipatory utility, include Caplin and Leahy (2001), Brunnermeier and Parker (2005), Köszegi (2010), and Bénabou and Tirole (2011).

Our paper also relates to the literature on the political economy of reforms, particularly to papers based on asymmetric information: when there is uncertainty about their ability or preferences, policy-makers in office use policies to signal desirable traits to the electorate in the hope of boosting their reelection prospects. Career concerns of policy-makers may have a disciplining effect on "bad politicians", like in this paper, but can also induce "good" policy-makers to posture, sometimes at the expense of social welfare (Maskin and Tirole, 2004; Canes-Wrone et al., 2001). A critical feature of these models is that how much political behavior is "distorted" by career concerns (whether this is good or bad for welfare) depends on the amount of voter uncertainty, as stressed by Acemoglu et al. (2013) and Bonfiglioli and Gancia (2011). In this paper, we explicitly model optimal awareness strategies and therefore endogenize voter uncertainty. Few economic papers have focused on the impact of behavioral decision-making on politics. Notable examples are Bénabou and Tirole (2006) and Schuett and Wagner (2011). The former considers agents manipulating information in order to sustain desirable beliefs on the relative impact of luck and effort on outcomes, and shows that two political equilibria with different levels of taxation and redistribution may coexist. The latter considers hindsight-biased voters and shows that the bias disciplines politicians, and sometimes enhances social welfare.

## 2. The model

We consider a model of political agency in which a policy-maker tries to develop a reputation for being congruent with the electorate in order to increase his chances of reelection. His reputational incentives

<sup>3</sup> Annual reports of the IMF or the OECD in the 2000s have repeatedly urged the Spanish government to stop delaying the reform of its pension system.

<sup>4</sup> In Germany, Boeri et al. (2002) show that the Riesel reform, which happened in 2001, i.e. between two consecutive surveys by the same authors, resulted in a change of beliefs, with citizens being on average better informed.

<sup>5</sup> For instance, Brandt et al. (2005) document that countries like Italy, Spain or France have undertaken rather minor labor market reforms, either in terms of breadth or intensity; on the other side, Finland, Denmark, the Netherlands, and, to a lesser extent, Germany, have implemented more significant and broader reform packages.

<sup>6</sup> In a 1996 survey of the International Social Survey Programme (ISSP), the share of respondents who agreed that "The government should control wages by law" was 65% in Italy, 67% in Spain, versus 27% in (West) Germany and 28% in Sweden, while France and the UK were situated between these two poles (50% and 38%).

<sup>7</sup> Section 4 is dedicated to the issue of climate change, and offers a more detailed account of these arguments.

<sup>8</sup> Carpinini and Keeter (1997), quoted by Kuklinski et al. (2003).

<sup>9</sup> Bartels (1996) for instance shows that uninformed voters are more likely to support incumbents, and argues that such misinformation accounts for a nontrivial fraction of the incumbency advantage in US Presidential elections.

<sup>10</sup> Notice also that respondents which are usually better informed on politics (the more educated and wealthier citizens) also held less accurate beliefs, reinforcing the suspicion of self-serving beliefs.

<sup>11</sup> For instance, Brock and Balloun (1967) exposed believers and atheists to a recording attacking Christianity. The tape had an annoying static, which subjects were given the option to remove so as to better understand the message. While most atheists picked this option, most believers deliberately chose to listen to the garbled message. A similar experience with smokers and non-smokers essentially gave similar results.

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