



Heidelberg, March 18, 2021

### Summer Term 2021

### Empirical Public Choice

#### Lecture:

Prof. Dr. Axel Dreher

Phone: +49 6221 54 - 2921

Fax: +49 6221 54 - 3649

Office hour: please arrange per e-mail (office: 01.019a+b)

E-mail: [axel.dreher@awi.uni-heidelberg.de](mailto:axel.dreher@awi.uni-heidelberg.de)

Web: [www.uni-heidelberg.de/fakultaeten/wiso/awi/professuren/intwipol/index\\_en.html](http://www.uni-heidelberg.de/fakultaeten/wiso/awi/professuren/intwipol/index_en.html)

#### Exercise:

Charlotte Robert

Phone: +49 6221 54 - 3739

Fax: +49 6221 54 - 3649

Office hour: please arrange per e-mail (Office: 01.022 and Skype)

E-mail: [charlotte.robert@awi.uni-heidelberg.de](mailto:charlotte.robert@awi.uni-heidelberg.de)

Time of Lecture:	Wednesday, 9.30-11.45, AWI Room 00.028 (Weekly, after lockdown. Until then lectures are available online).
Exercise:	Tuesday, 16.15-17.45, updated online.
Exam:	A 120-minute exam at the end of the term, 20 points for homework
Language:	The lecture will be held in German and the exercise and exam in English

Due to the ongoing pandemic, lectures and exercise sessions will be delivered online until further notice. There is uncertainty about whether and when in-person classes may begin and how exams will take place. All changes will be communicated in time to students. Thus, this syllabus is subject to change.

For online classes, you will have slides with audio lectures available for the lectures and exercise sessions on Moodle. In addition, you will have access to other materials such as research articles and worksheets. This will provide you flexibility to study everything carefully.

## **I. Content**

The approach of New Political Economy is helpful for a better understanding of economic and financial policy. The lecture will focus on the scientific discussion of theoretical reflections and the results of empirical research, as well as on the possibilities and limits of Political Economy.

## **II. Literature**

The standard textbook “Public Choice III” by Dennis Mueller covers most subjects:

\* Mueller, Dennis C., 2003, *Public Choice III*, Cambridge, New York and Melbourne: Cambridge University Press.

## **III. Schedule**

### **Part 1 Politics from the Perspective of Political Economy**

#### **1. Introduction: Public Finance and Public Choice**

Frey (1982), K  lp (1982), Mueller (2003): Chap. 1

#### **2. Models of Government Behavior**

Dreher et al. (2009a), Mueller (2003): Chap. 11-12, Pommerehne (1978)

#### **3. Electoral Popularity and Political Business Cycles**

Alt and Lassen (2006), Brenden and Drazen (2008), Jordahl (2006), Mueller (2003): Chap. 19, Reynolds (2014)

### **Part 2 Essential Political Institutions**

#### **4. Economic Theory of Representative Democracy**

Mueller (2003): Pages 264-278, Persson and Tabellini (2004), Persson, Tabellini and Trebbi (2003)

#### **5. Economic Theory of Direct Democracy**

Benz and Stutzer (2004), Frey and Stutzer (2000, 2006), Matsusaka (2005)

#### **6. Economic Theory of Federalism**

Frey and Eichenberger (2001), Mueller (2003): Chap. 9-10, Oates (2005)

### **Part 3 Important Players in Political Processes**

#### **7. Lobbies and Interest Groups**

Luechinger and Moser (2014), Mueller (2003): Chapters 15, 20

#### **8. Bureaucracy**

Mueller (2003): Chap. 16

### **Part 4 Selected Aspects of Political Economy**

#### **9. Development Aid**

Dreher, Eichenauer, Gehring (2018), Dreher et al. (2019a), Kuziemko and Werker (2006)

#### **10. International Organizations**

Dreher et al. (2009b, c, 2013), Schneider (2013)

#### **11. Corruption**

Dreher and Gassebner (2013), Dreher and Rudolph (2011), Rose-Ackerman (2004)

## IV. Literature

Electronic files of most literature can be downloaded from Moodle. Additional literature will be indicated in the lectures.

- Acemoglu, Daron, 2005, Constitutions, Politics, and Economics: A Review Essay on Persson and Tabellini's the Economic Effects of Constitutions, *Journal of Economic Literature* 43, 4: 1025-1048.
- Acemoglu, Daron, Johnson, Simon and James Robinson, 2001, The Colonial Origins of Comparative Development: An Empirical Investigation, *American Economic Review* 91, 5: 1369-1401.
- Alesina, Alberto and David Dollar, 2000, Who Gives Foreign Aid to Whom and Why? *Journal of Economic Growth* 5, 1: 33-63.
- \*Alt, James E. and David Dreyer Lassen, 2006, Transparency, Political Polarization, and Political Budget Cycles in OECD Countries, *American Journal of Political Science* 50, 3: 530-550.
- Andersen, Thomas B., Hansen, Henrik and Thomas Markussen, 2006, US politics and World Bank IDA-lending, *Journal of Development Studies* 42, 5: 772-794.
- Avis, Eric, Claudio Ferraz, Frederico Finan, and Carlos Varjão, 2017, Money and Politics: The Effects of Campaign Spending Limits on Political Competition and Incumbency Advantage, No. w23508. National Bureau of Economic Research.
- Barro, Robert J. and Jong-Wha Lee, 2005, IMF Programs: Who Is Chosen and What are the Effects? *Journal of Monetary Economics* 52:1245-1269.
- Baretti, Christian et al., 2000, Der deutsche Federalismus auf dem Prüfstand: Vorschläge zu einer effizienteren Gestaltung. In: *ifo-Schnelldienst*, Jg. 53 (28/29), 26ff.
- Becker, Gary S., 1976, *The Economic Approach to Human Behavior*, Chicago: Chicago University Press.
- \*Benz, Matthias and Alois Stutzer, 2004, Are voters better informed when they have a larger say in politics? Evidence for the European Union and Switzerland, *Public Choice* 119, 1-2: 31-59.
- Berggren, Niclas, Jordahl, Henrik and Panu Poutvaara, 2010, The Looks of a Winner: Beauty, Gender, and Electoral Success, *Journal of Public Economics* 94, 1-2: 8-15.
- Besley, Timothy, 2006, *Principled Agents? The Political Economy of Good Government*, Oxford: Oxford University Press: Kapitel 1.
- Besley, Timothy and Marta Reynal-Querol, 2011, Do Democracies Select More Educated Leaders? *American Political Science Review* 105, 3: 552-566.
- Besley, Timothy and Anne Case, 1995, Incumbent Behavior: Vote-Seeking, Tax-Setting, and Yardstick Competition, *American Economic Review* 85, 1: 25-45.
- Best, Heinrich and Maurizio Cotta, 2000, *Parliamentary representatives in Europe 1848-2000, Legislative recruitment and careers in eleven European countries*, London: Oxford University Press. → In der Campusbibliothek Bergheim ausleihbar
- Bertrand, Marianne, Matilde Bombardini, Raymond Fisman, and Francesco Trebbi, 2018, Tax-Exempt Lobbying: Corporate Philanthropy as a Tool for Political Influence. No. w24451. National Bureau of Economic Research.
- Bland, Elizabeth and Christopher Kilby, 2012, Informal influence in the Inter-American Development Bank, Villanova School of Business Department of Economics and Statistics Working Paper Series 22, Villanova School of Business Department of Economics and Statistics.
- Blankart, Charles B., 2000, The Process of Government Centralization A Constitutional View, *Constitutional Political Economy* 11: 27-39.

- Brender, Adi and Allan Drazen, 2005, Political Budget Cycles in New Versus Established Democracies, *Journal of Monetary Economics* 52, 7: 1271-1295.
- \*Brender, Adi and Allan Drazen, 2008, How Do Budget Deficits and Economic Growth Affect Reelection Prospects? Evidence from a Large Panel of Countries, *American Economic Review* 98, 5: 2203-2220.
- Buchanan, James and Gordon Tullock, 1965, *Calculus of Consent*, Ann Arbor: University of Michigan Press.
- Buchanan, James and W. Craig Stubblebine, 1962, Externality, *Economica*, New Series 29, 116: 371-384.
- Burnside, Craig and David Dollar, 2000, Aid, Policies and Growth, *American Economic Review* 90, 4: 847-868.
- Dal Bó, Ernesto, Frederico Finan, Olle Folke, Torsten Persson, and Johanna Rickne, 2017, Who Becomes a Politician? *The Quarterly Journal of Economics* 132, no. 4: 1877-1914.
- Dal Bó, Ernesto, Pedro Dal Bó, and Erik Eyster, 2018, The Demand for Bad Policy When Voters Underappreciate Equilibrium Effects, *The Review of Economic Studies* 85, no. 2: 964-998.
- Djankov, Simeon et al., 2003, Who Owns the Media? *Journal of Law and Economics* 46, 2: 341-81.
- Dreher, Axel, Méon, Pierre-Guillaume and Friedrich Schneider, 2014, The devil is in the shadow. Do institutions affect income and productivity or only official income and official productivity? *Public Choice* 158: 121-141.
- \*Dreher, Axel, Eichenauer, Vera and Kai Gehring, 2018, Geopolitics, Aid and Growth: The Impact of UN Security Council Membership on the Effectiveness of Aid, *World Bank Economic Review* 32: 268-286.
- \*Dreher, Axel, Andreas Fuchs, Roland Hodler, Bradley C. Parks, Paul A. Raschky, Michael J. Tierney, 2019a, African Leaders and the Geography of China's Foreign Assistance, *Journal of Development Economics* 140: 44-71.
- \*Dreher, Axel and Martin Gassebner, 2013, Greasing the wheels of entrepreneurship? The impact of regulations and corruption on firm entry, *Public Choice* 155: 413-432.
- \*Dreher, Axel, Klasen, Stephan, Vreeland, James and Eric Werker, 2013, The costs of favoritism: Is politically-driven aid less effective? *Economic Development and Cultural Change* 62: 157-191.
- Dreher, Axel, Schmaljohann, Maya and Peter Nunnenkamp, 2015, The Allocation of German Aid: Self-interest and Government Ideology, *Economics & Politics* 27: 160-184.
- \*Dreher, Axel and Alexandra Rudolph, 2011, Korruption und Schattenwirtschaft: die Bedeutung guter Regeln, in T. Theurl (ed.), *Gute Regeln oder Wirtschaftslenkung? Europas neue Herausforderungen*, 181-212, Berlin: Duncker & Humblot.
- Dreher, Axel and Justina A.V. Fischer, 2010, Government decentralization as a disincentive for transnational terror? An empirical analysis, *International Economic Review* 51, 4: 981-1002.
- Dreher, Axel and Friedrich Schneider, 2010, Corruption and the Shadow Economy: An Empirical Analysis, *Public Choice* 144: 215-238.
- \*Dreher, Axel, Lamla, Michael, Lein, Sarah and Frank Somogyi, 2009a, The impact of political leaders' profession and education on reforms, *Journal of Comparative Economics* 37, 1: 169-193.
- Dreher, Axel, Valentin Lang, Katharina Richert, 2019b, The Political Economy of International Finance Corporation Lending, *Journal of Development Economics* 140: 242-254.
- \*Dreher, Axel, Jan-Egbert Sturm and James Vreeland, 2009b, Global Horse Trading: IMF loans for votes in the United Nations Security Council, *European Economic Review* 53: 742-757.

- \*Dreher, Axel, Sturm, Jan-Egbert and James Vreeland, 2009c, Development Aid and International Politics: Does Membership on the UN Security Council Influence World Bank Decisions? *Journal of Development Economics* 88: 1-18.
- Dreher, Axel and Nathan Jensen, 2007, Independent Actor or Agent? An Empirical Analysis of the Impact of US Interests on IMF Conditions, *Journal of Law and Economics* 50, 1: 105-124.
- Dreher, Axel, 2004, The Influence of IMF Programs on the Re-election of Debtor Governments, *Economics & Politics* 16, 1: 53-75.
- Dreher, Axel and Roland Vaubel, 2004, Do IMF and IBRD cause moral hazard and political business cycles? Evidence from panel data, *Open Economies Review* 15, 1: 5-22.
- Faini, Riccardo and Enzo Grilli, 2004, Who Runs the IFIs?, CEPR Discussion Papers 4666.
- Fleck, Robert K. and Christopher Kilby, 2006, How Do Political Changes Influence US Bilateral Aid Allocations? Evidence from Panel Data, *Review of Development Economics*, Wiley Blackwell 10, 2: 210-223.
- Fратиanni, Michele and John Pattison, 2005, Who Is Running the IMF: Critical Shareholders or the Staff?, *Multidisciplinary Economics*. Springer US, 279-292.
- \*Frey, Bruno S., 1982, Wohlfahrtsökonomik III: Wahlverfahren, in: Willi Albers et al. (Hg.), *Handwörterbuch der Wirtschaftswissenschaft*, Band 9, Fischer u.a.: Stuttgart, 494-502.
- Frey, Bruno S., 1990, *Ökonomie ist Sozialwissenschaft*. München: Vahlen.
- Frey, Bruno S., 2001, A Utopia? Government without Territorial Monopoly, *Journal of Institutional and Theoretical Economics* 157, 1: 162-75.
- Frey, Bruno S., Benz, Matthias and Alois Stutzer, 2004, Introducing Procedural Utility: Not Only What, but Also How Matters, *Journal of Institutional and Theoretical Economics* 160, 3: 377-401.
- Frey, Bruno S. und Simon Luechinger, 2004, Decentralization as a Disincentive for Terror, *European Journal of Political Economy* 20, 509-15.
- \*Frey, Bruno S. and Reiner Eichenberger, 2001, A Proposal for a Dynamic Federalism: FOCJ. In: Ram Mudambi, Pietro Navarra and Giuseppe Sobbrío (eds), *Rules and Reason*, Cambridge: Cambridge University Press: 237-257.
- Frey, Bruno S. and Friedrich Schneider, 1986, Competing Models of International Lending Activity, *Journal of Development Economics* 20, 3: 225-245.
- \*Frey, Bruno S. and Alois Stutzer, 2000, Happiness, Economy and Institutions, *Economic Journal* 110, 466: 918-938.
- \*Frey, Bruno S. and Alois Stutzer, 2006, Direct Democracy: Designing a Living Constitution. In: Roger D. Congleton and Birgitta Swedenborg (eds), *Democratic Constitutional Design and Public Policy*, Analysis and Evidence. Cambridge: MIT Press.
- Hall, Robert E. and Charles I. Jones, 1999, Why Do Some Countries Produce So Much More Output per Worker than Others? *The Quarterly Journal of Economics* 114, 1: 83-116.
- Hayek, Friedrich A., 1968, The Confusion of Language in Political Thought, The Institute of Economic Affairs.
- Hayek, William A., 1971, *Bureaucracy and Representative Government*, Chicago: Aldine-Atherton.
- Hernandez, Diego, 2013, Does Inclusion Guarantee Institutional Autonomy? The Case of the Inter-American Development Bank, Department of Economics Discussion Paper Series No. 541, University of Heidelberg.
- Hirschman, Albert O., 1970, Exit, Voice and Loyalty. Responses to Decline in Firms, Organizations and States. Harvard University Press, Cambridge MA.
- Jones, Benjamin F. and Benjamin A. Olken, 2005, Do Leaders Matter? National Leadership and Growth Since World War II, *The Quarterly Journal of Economics* 120, 3: 835-864.
- \*Jordahl, Henrik, 2006, An Economic Analysis of Voting in Sweden, *Public Choice* 127, 3-4: 251-273.
- \*Külp, Bernhard, 1982, Wohlfahrtsökonomik I: Grundlagen, in: Willi Albers et al. (Hg.), *Handwörterbuch der Wirtschaftswissenschaft*, Band 9, Fischer u.a.: Stuttgart, 469-486.

- Kunicova, Jana and Susan Rose-Ackerman, 2005, Electoral Rules and Constitutional Structures as Constraints on Corruption, *British Journal of Political Science* 35: 573-606.
- \*Kuziemko, Ilyana and Eric Werker, 2006, How much is a Seat on the Security Council Worth? Foreign Aid and Bribery at the United Nations, *Journal of Political Economy* 114, 5: 905-930.
- Levitt, Steven D. und John A. List, 2007, What Do Laboratory Experiments Tell Us About the Real World? *Journal of Economic Perspectives* 21, 2: 153-174.
- Lewis-Beck, Michael S. and Martin Paldam, 2000, Economic Voting: An Introduction, *Electoral Studies* 19, 2-3: 113-121.
- Lim, Daniel Y. M and James R. Vreeland, 2013, Regional Organizations and International Politics: Japanese Influence over the Asian Development Bank and the UN Security Council, *World Politics*, 65 1: 34-72.
- \*Luechinger, Simon and Christoph Moser, 2014, The Value of the Revolving Door: Political Appointees and the Stock Market, *Journal of Public Economics* 119: 93-107.
- Luhmann, Niklas and Renate Mayntz, 1973, *Personal im öffentlichen Dienst – Eintritt und Karrieren*, Baden-Baden: Nomos.
- \*Matsusaka, John G., 2005, Direct Democracy Works, *Journal of Economic Perspectives* 19, 2: 185-206.
- Mauro, Paolo, 1995, Corruption and Growth, *The Quarterly Journal of Economics* 110, 3: 681-712.
- McMillan, John and Pablo Zoido, 2004, How to Subvert Democracy: Montesinos in Peru, *Journal of Economic Perspectives* 18, 4: 69-92.
- Mulligan, Casey B. et al., 2004, Do Democracies Have Different Public Policies than Nondemocracies? *Journal of Economic Perspectives* 18, 1: 51-74.
- New York Times, Trading Votes for Pork Across the House Aisle, October 2, 2006.
- Nordhaus, William D., 1975, The Political Business Cycle, *Review of Economic Studies* 42: 169-190.
- Norris, Pippa, 1997, *Passages to power, Legislative recruitment in advanced democracies*, Cambridge University Press.
- \*Oates, Wallace E., 2005, Toward a Second-Generation Theory of Fiscal Federalism, *International Tax and Public Finance* 12, 4: 349-373.
- Oatley, Thomas and Jason Yackee, 2004, American Interests and IMF Lending, *International Politics* 41: 415-429.
- Olson, Mancur, 1965, *The Logic of Collective Action: Public Goods and the Theory of Groups*, Cambridge, MA: Harvard University Press.
- Ostrom, Elinor, 1990, *Governing the Commons: The Evolution of Institutions for Collective Action*, 2nd print. Cambridge: Cambridge University Press.
- Ostrom, Elinor, 1998, A Behavioral Approach to the Rational Choice Theory of Collective Action, *American Political Science Review* 92, 1: 1-22.
- Peltzman, Sam, 1976, Toward a more general theory of regulation, *Journal of Law and Economics* 19: 211-240.
- Persson, Torsten and Guido Tabellini, 2000, *Political Economics: Explaining Economic Policy*, Cambridge, MA: MIT Press.
- Persson, Torsten and Guido Tabellini, 2003, *The Economic Effects of Constitutions*, London: MIT Press.
- \*Persson, Torsten and Guido Tabellini, 2004, Constitutions and Economic Policy, *Journal of Economic Perspectives* 18, 1: 75-98.
- \*Persson, Torsten, Tabellini, Guido and Francesco Trebbi, 2003, Electoral Rules and Corruption, *Journal of the European Economic Association* 1, 4: 958-989.
- \*Pommerehne, Werner W., 1978, Institutional approaches to public expenditure: Empirical evidence from Swiss municipalities, *Journal of Public Economics* 9, 2: 255-280.

- Rajan, R. G. and A. Subramanian, 2008, Aid and growth: What does the cross-country evidence really show?, *Review of Economics and Statistics* 90, 4: 643-665.
- \*Reynolds, C. Lockwood, 2014, State Politics, Tuition and the Dynamics of a Political Budget Cycle, *Empirical Economics* 46, 4, 1241-1270.
- Rogoff, Kenneth and Anne Sibert, 1988, Elections and Macroeconomic Policy Cycles, *Review of Economic Studies* 55, 1: 1-16.
- Romer, Thomas and Howard Rosenthal, 1978, Political Resource Allocation, Controlled Agendas, and the Status Quo, *Public Choice* 33, 4: 27-43.
- Romer, Thomas and Howard Rosenthal, 1979, The Elusive Median Voter, *Journal of Public Economics* 12, 143-170.
- \*Rose-Ackerman, Susan, 2004, *Governance and Corruption*, In: Bjørn Lomborg (ed.), Global Crises, Global Solutions. Cambridge, UK: Cambridge University Press: 301-362.
- Rubinfeld, Daniel L. and Edward M. Gramlich, 1982, Voting on Public Spending: Differences between Public Employees, Transfer Recipients, and Private Workers, *Journal of Political Economy*, 536-560.
- Schaltegger, Christoph A., Somogyi, Frank und Jan-Egbert Sturm, 2011, Tax competition and income sorting: Evidence from the Zurich metropolitan area, *European Journal of Political Economy* 27, 455-470.
- Schaltegger, Christoph A. and Lars P. Feld, 2001, On Government Centralization and Budget Referendums: Evidence from Switzerland, *CESifo Working Paper Series 615*, CESifo Group Munich.
- \*Schneider, Christina J., 2013, Globalizing Electoral Politics: Political Competence and Distributional Bargaining in the European Union, *World Politics* 65, 3: 452-490.
- Schneider, Friedrich, 2005, Shadow economies around the world: what do we really know? *European Journal of Political Economy*, Elsevier 21, 3: 598-642.
- Siegenthaler, Hansjörg, 1993, Regelvertrauen, Prosperität und Krisen. Die Ungleichmäßigkeit wirtschaftlicher und sozialer Entwicklung als Ergebnis individuellen Handelns und sozialen Lernens, Tübingen. →In der Campusbibliothek Bergheim ausleihbar
- Stigler, George J., 1971, The Theory of Economic Regulation, *Bell Journal of Economics*, The RAND Corporation 2, 1: 3-21.
- Stutzer, Alois und Lukas Kienast, 2005, Demokratische Beteiligung und Staatsausgaben: Die Auswirkungen des Frauenstimmrechts, *Schweizerische Zeitschrift für Volkswirtschaft und Statistik* 141, 4: 617-650.
- Thacker, Strom C., 1999, The High Politics of IMF Lending, *World Politics*, 52, 1: 38-75.
- Tiebout, Charles, 1956, A Pure Theory of Local Expenditures, *Journal of Political Economy* 64, 5: 416-424.
- Tullock, Gordon, 1967, The Welfare Costs of Tariffs, Monopolies, and Theft, *Western Economic Journal* 5, 3: 224-232.
- Wittmann, Donald, 1973, Parties as Utility Maximizers, *American Political Science Review*, 490-498.