

Essays on the Single-mindedness Theory

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Abstract

The scope of this work is analysing how economic policies chosen by governments are influenced by the power of social groups. The core idea is taken from the Single-mindedness Theory, which states that preferences of groups and their ability to focus on the consumption of goods, or issues, enable them to achieve a great political power and eventually to obtain the most favourable policies. The general framework I designed departs from the traditional models which are based on the Median Voter Theorem (Black (1948), Downs (1957)) and which illustrate how in equilibrium political candidates choose the policy vector preferred by the median voter. Instead, my approach exploits the advantages of Probabilistic Voting Theory (Davis, Hinich, and Ordeshook (1970); Enelow and Hinich (1983), Lindbeck and Weibull (1987), (1993), Coughlin (1992), Persson and Tabellini (2000)) which are the ability to manage the multidimensionality of policies and the possibility to study more precisely how politicians tailor their policies to groups' features. Nevertheless, unlike classic probabilistic voting models, the theory I propose assumes that the density function which captures the distribution of political preferences of voters depends on consumption of goods and preferences of individuals. The higher the consumption of goods (or leisure), the higher the density, the higher the political power. This mechanism is better explained by considering the role played by swing voters, those individuals who do not have any particular preference for candidates. Since these voters are pivotal to changing the political equilibrium, candidates must favour them, because they realise that even a small change in policy could force them to vote for the other candidate who would win the elections. In other words, the lower the loyalty of voters for parties, the higher the benefit they obtain. There is no way for the candidates to avoid the threat represented by more powerful groups, as long as they are concerned with winning elections. As a consequence, these groups are better off and represent the winners of the political process.

The Single-minded Theory may be applied to several fields of Political Economy, both theoretical and econometrical. From a theoretical point of view I used the Theory in three papers.

The first deals with Social Security Systems and assumes that, in a society divided into two generations (the young and the old), one generation has greater preferences for leisure than the other. Furthermore, two vote-seeking candidates run for election and have to choose a vector of policy encompassing marginal tax rates on labour. The balanced-budget constraint they have to clear is no longer based on lump-sum transfers, as in the traditional literature, but on labour income distortionary taxation. In this constant-sum game, a generation obtains a benefit, whilst the other must bear the entire cost of social security systems. Furthermore, I demonstrate via numerical simulations that the gener-

ation which is more single-minded on leisure is better off, because it is more able to capture politicians. Finally, I demonstrate a set of useful results to be used in probabilistic voting models with distortionary taxation and single-minded generations: standoff in political competition, convergence of policies, characteristics of internal and corner equilibria when the value function is not strictly concave.

The second and the third papers analyse the problem of indirect and direct taxation moving from the hypothesis that Governments do not maximise a typical Social Welfare Function but the probability of winning elections, instead. For indirect taxation, results show how it is neither the goal of equity by the government nor the weight that society attaches to the utility of single individuals which drives the equilibrium policy, but the weight that candidates attach to the power of groups, instead. The essential basic principle stated by the Ramsey rule (1927) modified by Diamond (1975) is maintained, because it is still the distributive characteristic which drives the optimal tax rate in equilibrium; nevertheless, this time the distributive characteristic is a function of the size and density of groups, and it can be demonstrated that the optimal tax rate is a function of their political power. If in Diamond the poor were the better off groups and the rich the worse off groups, due to social weights attached by society, here the more powerful and single-minded groups are better off, whilst less powerful groups are worse off. The same thing happens to a model of direct taxation, where again I move from the hypothesis that candidates maximise the probability of winning elections and not a welfare function as in Mirlees (1971) and Atkinson and Stiglitz (1980). The optimal tax rate depends again on the density and size of groups and not on the importance attributed by society to individuals' wealth. In turn, these two models demonstrate how taxation loses its function of transferring resources from the rich to the poor, whilst they consider it a tool used by politicians in order to win elections. These models also offer a possible explanation for the existence of indirect taxation, when it was demonstrated that indirect taxation is not necessary under an optimal income tax structure (Atkinson and Stiglitz (1976)) and even if this structure were not optimally designed (Laroque (2005), Kaplow (2006)). Considering that direct taxation is progressive, whilst indirect taxation is mildly regressive, we may understand how some social groups have more than an interest in preventing a substantial shift from indirect to direct taxation.

Finally I also wrote a fourth contribution which represents the empirical evidence of my work. From this point of view, there was a need to empirically demonstrate the validity of the assumptions on which the theory is based. Some claims, such as the existence of a difference in preference for goods and leisure amongst individuals, especially the young and the old, could appear too ad-hoc and deserved to be demonstrated. Using the British Election Study I was able to find the data needed to demonstrate how judgments and political preferences of individuals are related to age, along with other characteristics of individuals. To do that, I uses LOGIT/PROBIT regressions and non-parametric estimates in order to capture these differences amongst cohorts. In particular, results demonstrated how age is almost always a significant variable to explain political orientations, judgements given on governments' policies and the political activism of voters. Furthermore, Kernel Density estimation and Kolmogorov-Smirnov tests showed how cohorts have different distributions with respect to political parameter of interest (i.e. position of the right-left scale), corroborating the idea that the old and the young are differently minded about political affairs.

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All errors are mine.