

EE461

Lecture 10: Politics and Development

April 28th , 2012

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MODELING POLITICS WITH GAME THEORY



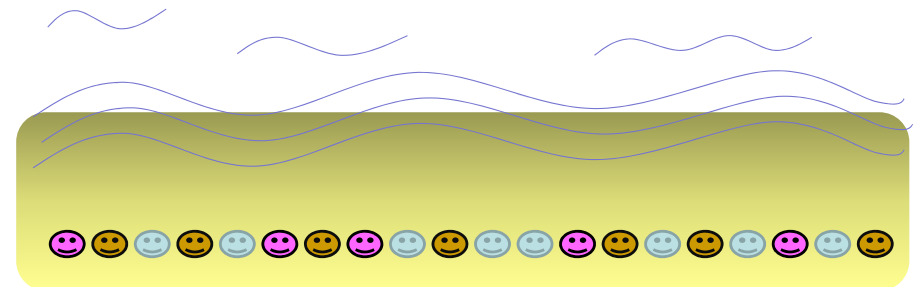
Familiar Place

- Usual economics problems of store location

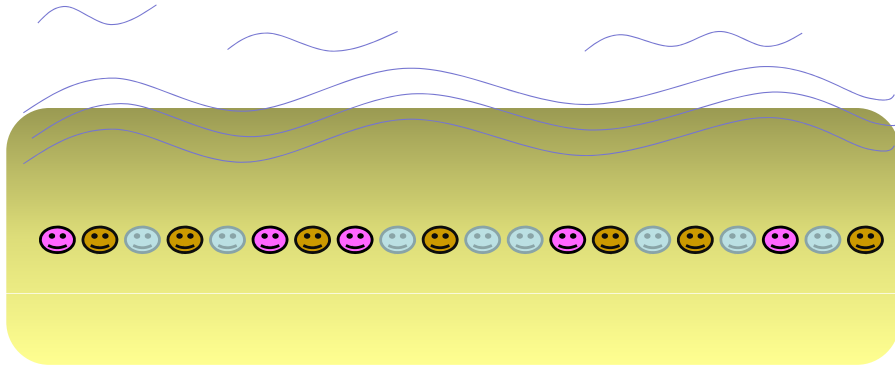


Where Would They Build?

- People are uniform on the beach and will only go to the nearest convenience store.
- 7/11 and Lotus Express are choosing where to place their store.



Where?



- Why?

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How Does It Help Us Understand Politics?

- Political issues are *always* multidimensional.
- However, for us to understand, we often reduce the conflict into *two* dimensions.
 - **NOTE:** This is for pure convenience of abstraction, not a representation of true conflict
 - **Ex.** Rich-Poor, Liberal-Conservative, Left-Right, Proletariat-Bourgeoisie, Commons-Royalist, ...

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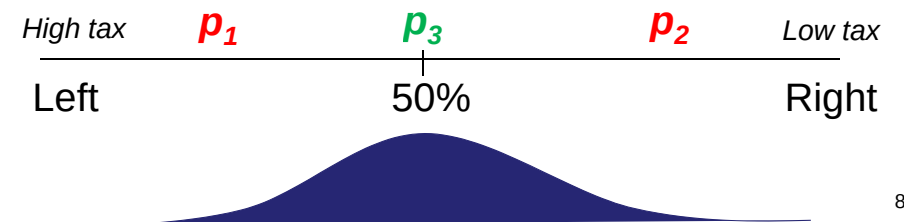
Majority Rule

- In democracy, decision is reached by majority rule.
 - Conflicting preference and opinions are resolved
 - in most cases, Simple Majority
 - Supermajority requires
- John Adams, Alexis de Tocqueville, John Stuart Mill, Friedrich Nietzsche: “Tyranny of the Majority” is possible
 - best to do it Greek style?

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Under Simple Majority

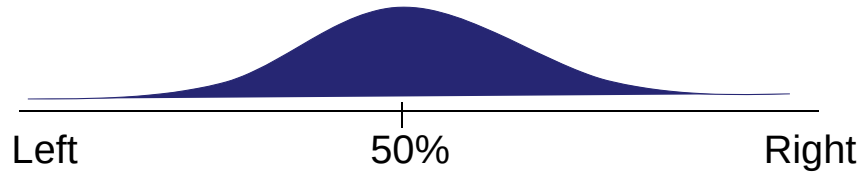
- 50% or more to win
 - If $x \sim F()$ for any distribution and $F(x) = 0.5$, then what is x ?
- For example, consider a policy, p .



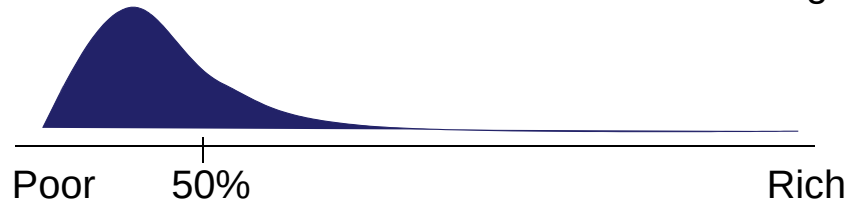
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Other Distributions

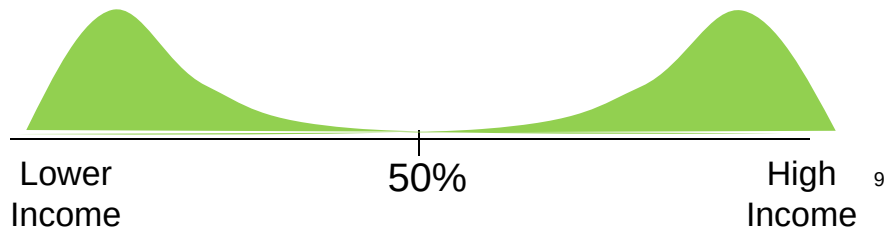
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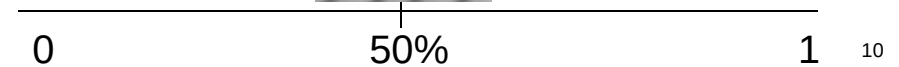


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Median Voter Theorem

- When you have politicians vying for your votes, they will move towards the median voter's stance
- In fact, both of them will take the same stance and voters cannot distinguish the policy stances.



Weaknesses of MVT

- Office may not be the only thing politicians seek
 - Policy preference of the politician, beliefs and values
- Other attributes matter for voting decisions
 - Only voters know what and God knows why!
- Nonetheless, it remains widely popular and applicable in more cases than it seems!

Democracy and Public Goods:
Efficient Outcome?

Efficient Level of Public Goods?

- A public good is a good for which use of a unit by one consumer *does not* preclude its use by others.
 - *Non-rival* with low degree of excludability
- What is the efficient amount of public goods?
 - Paul Samuelson (1954) showed that it is efficient when

$$\sum_i MB_i = MC$$

- That is, the marginal value to society must equal to the marginal cost.
- That's why government must provide it!

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Democracy Choosing Public Good

- Now to have identical condition, the preference of the *median voter* must be such that
- which can be true only if
- That is, median must equal mean, or a distribution of preference!

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Democracy fails Economics

- Symmetric distribution is unlikely to be true in almost all countries
- However, it *doesn't* mean that it's a bad system
 - Clearly, *dictatorship* is worst in this regard!

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Politics and Development: Vote Buying and Corruptions

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Vote Buying: Questions?

1. Is vote buying bad? Why is it bad?
2. If the right to vote is treated as a normal good, then what's wrong with selling it?
3. If you accept money, but don't vote for the payer, what's wrong with it apart from morally?
4. If politics never reach the hands of the poor, is vote buying still that bad? A system of benefit sharing?
5. Is vote buying with policies different from with cash? Which is worst?
6. Is vote buying on voters and vote buying on MPs the same? why bother with petty payments?

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Some votes for sale

- In a uniformly distributed economy, median voter predicts the policy outcome. Why?



Poor 50% Rich

- What if the bottom 25% sell their votes to the rich?



Poor median Rich 18

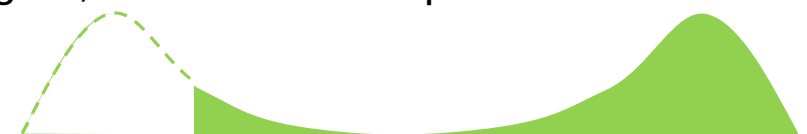
Some votes for sale

- In a society with highly uneven distribution, the winning policy is



Poor 50% Rich

- Again, what if the 25% poorest sell their votes?



Poor Rich

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So what?

- Vote buying government's accountability and commitment to the poor
- Policy will be in favor of
- How about 'buying vote' with populist policy?
 - Who funds such vote buying?
 - Good policy for the poor should get their feet back on the ground and out of poverty

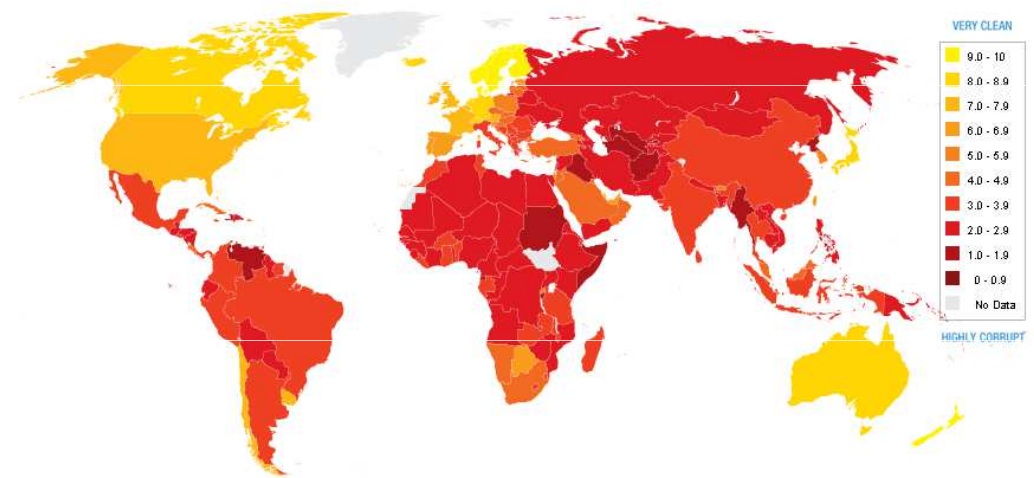
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Corruption

- “The abuse of public power, office, or resources by government officials or employees for personal gain, e.g. by extortion, soliciting, or offering bribes.”

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Corruption Perception Index



Data: Transparency International, 2010

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Corruption and Vote Buying

- Vote buying allows politicians to corrupt more. Why?
 - No need to be accountable for people who voted for them
 - Corruption usually comes with interest groups, who are often the sponsors of vote buying.
- Things become a vicious cycle

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CONCLUSION

Quit playing games!

- Voting is a game in which at the end median voters win
- Vote buying is also a game, but at the end no one (but politicians) wins
- To help the poor through politics, the poor need to understand that policies that seem to benefit them in the short run may actually keep them in poverty in the long run