A Congressional Politics Theory of the Size of Government

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Motivation

- Total government as a percentage of GNP rose from 10% in 1929 to 28.3% by 1999 (Muller 2003) in the U.S..

- This rapid rise in the size of the United States government has led to a cottage industry of papers seeking to model and explain the underlying causes of the rise of the size of government.

- The size of the government sector has many implications for fiscal policy and other such Macro considerations..
  - There is as of yet no positive theory (either formal or empirically based) that adequately explains this growth.

Meltzer

- A major work in this literature is Melter and Richard's Journal of Political Economy piece (Meltzer 1981), which modeled the government as a redistributionalist machine.

- Their paper predicted much higher levels of redistribution than empirical tests by Goueveia and Masis (Gouveia 1998) find.

Meltzer's error

- In this project, I posit that the flaw in models in the Meltzer mold is that they rely on a general population median voter as the decision maker.

- It seems far more likely to me that when considering redistribution, the pivotal actors would be Congress and the President.
  - Tax policy happens in Congress with the consent (or at the behest) of the president; therefore, it is important to include these actors in the model.

A Better Mousetrap.

- A model which incorporates Congress and the President can be brought into the mix in place of the median voter as the decision making agents for taxes and transfers.

- This change will give a more nuanced predicted level of redistribution than Meltzer's model and hopefully to be more in-line with existing empirical estimates.

Which model of Congress?

- "Balancing Theory"
  - Fiorina (1996)
  - Alesina and Rosenthol (1995)
- "Pivotal Politics"
  - Krehbiel (1996)
  - Krehbiel (1998)
- "Responsible Party Government"
  - Cox and McCubbins (2005)

Goals of the project.

- Modify each of these models of Congress to analyze taxes and transfers. Then find the predicted level of taxes and transfers each model generates.

- Then go to the data and see which of the models is supported.

- Lastly, submit the paper to QJPS if Krehbiel is supported or JLEO if Cox and McCubbins are supported.

- So the results will be two fold:

  1. May lead to a positive theory that can help us better explain the growth of the tax and transfer system over the last century.

  2. Will hopefully provide some empirical evidence as to which model of Congress is the most plausible.

The "Pivotal Politics" model.

- Here we will use a single-dimensional policy space.
- Single-peaked and symmetric preferences.
- A utility function $u_i(x)$ maps from the policy space, X, onto utility space for each player i.
- We will have n legislators in a *unicameral* legislature, and a President.

A few ideal points to note:

- $p \equiv$ President's ideal point.
- $m \equiv$ Median voters ideal point.
- $v \equiv$ The veto pivot's ideal point.
  - The president the right to veto legislation but the legislature may over-ride by a 2/3rds vote.
  - This can in effect raise the voting requirement from the normal simple majority.
- $f \equiv$ The filibuster pivot's ideal point.
  - Senate Rule 22 confers to each member to filibuster subject to a 3/5ths vote to stop debate.
  - In some cases this also in effect raises the voting requirement from simple majority.

Rules of the procedure.

- We will model the process as "open rule".
- Any member of the modeled legislature may offer any proposal at any time, after which the proposal voted on.
- Under an open rule procedure the process continues until no member wants to make a proposal.
- Due to these rules member located at certain points in the policy set become *pivotal players*.

The order of play. (I'm just a bill sitting on Capitol Hill)

1. Member of Congress (median maybe) proposes a tax/transfer level x. If not the status quo (q) level remains.

2. The bill is then either filibustered, voted down or passed and sent to the President. If filibustered or voted down q remains.

3. The President then vetoes, or signs the bill (x is new policy). If vetoed the bill goes back to Congress.

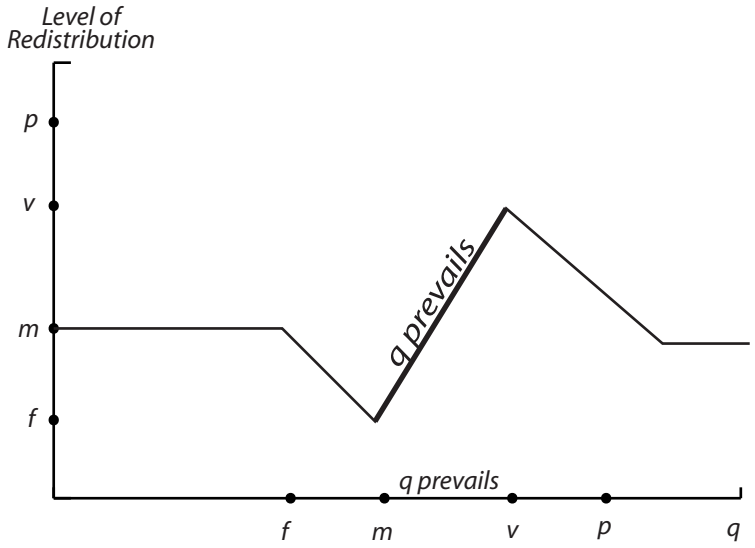
4. Congress can override the veto (x becomes the policy), or fail to override, in which case q remains.

What about the status quo?

- Obviously given the scenario above the location of the status quo will be a key determinant as to what level of x is chosen.

- So for a moment lets fix the location of the members and the president and see how the level of taxes and transfers will change given different q's.

Equilibrium levels of x given fixed legislative/presidential preferences and varying q.



Interpretation

- When the q is very high or very low then the x that passes is the median voter's ideal level of taxes and transfers.
  - f prefers it, p prefers it, and the resulting coalition that passes x will be large.

- As q approaches the f's ideal point some concessions have to be made due to the fact that q is now preferred by f to many things that the median would prefer to f.
  - Consequently the level of transfers and taxes will fall.

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- All the q's between f and v cannot be defeated and the status quo level of taxes and transfers will hold.

- For the q's past v's ideal point the level of taxes and transfers will jump considerably and slowly fall until the distance from p to v is the same as the distance from p to the q. At that point we are back in the extreme case.

Next Steps

1. Finish the analysis with the Pivotal Politics model.

2. Model the process with the "Balancing Theory" and "Responsible Party Government" models.

   - How do I make the results form each model comparable?

3. Then empirically test.

   - What actual dimension do I want to use?
   - Status Quos?

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