5. Application of Political Economy Models

I. Crisis management

II. Populism on the Rise
   a) What is populism?
   b) What drives populism?
   c) Potential policy responses
   d) Conclusions

III. Dictatorship
   a) The origins
   b) Goals of a dictator
   c) Functioning and survival of the regime
   d) Rise and decline of the Regime
   e) Dictatorship and economic performance
I. Crisis management*

Three basic characteristics of a crisis:

• unexpected;
• unpleasant;
• requires an urgent response.

It is difficult to incorporate crisis in rational choice models, as the standard assumptions are inconsistent with the characteristics of crises.

These standard assumptions include:

- full information;
- complete and transitive preference orderings.

**Concept of ignorance**

Although the data may be complete, the dimensions observed in the data are too few; there are missing variables.

- Rational ignorance;
- unconsidered ignorance:
  - sufficient condition for a crisis to emerge,
  - incomplete list of responses to a crisis,
  - limited understanding of causal relationships.
Simple rational choice model

\[ U = U(C, H) \] with \( C = \) consumption, \( H = \) health

\[ H = H(E, R, Z) \] with \( E = \) private health expenditures, \( R = \) public health programs, \( Z = \) unobserved variables

\[ E^* = E(H, Z) \] optimal private plan

\[ R^* = R(Z) \] optimal public plan

As long as \( Z \) remains constant, public and private plans are effective.

As soon as \( Z \) changes, a policy crisis may emerge. Knowledge is not sufficient to avoid the crisis.
The crisis may than proliferate

➔ crisis cascade!

The consequence may be a constitutional crisis.

Other related problems:

• agency problems;
• term length and crisis prevention;
• federalism and crisis ("Katrina");
• the media and crisis;
• rent-seeking and crisis;
In December 2019, a new Corona virus (Covid 19) was observed in China, in particular in Wuhan (Province Hubei).

Illustrative example of the validity of Congleton’s theory.
Covid 19 in the model context

\[ H = H (E, R, Z) \]
with \( E = \) private health expenditures,
\( R = \) public health programs,
\( Z = \) unobserved variables (new virus)

At the beginning, \( Z \) was not fully understood worldwide: neglect, downplay, conspiracies.

- China: local cadres denied it, punished Li Wenlinang, a doctor who reported it to the public (who later died of it); the public was not informed before early 2020.
- Other countries treated it like a “China-Virus”, first being as negligent as China.
- Crowded football games in March (Bergamo, Leipzig, Liverpool)
- Lockdown in different countries followed only with significant lags.
Agency problems

- Those who know try to avoid panic and insist on non-transparency.
- Information only slowly flows from local to regional to national authorities.
- In autocratic regimes more prevalent (Covid 19 as “Chernobyl moment” of the Chinese government).
- Governments under- or overstate the crisis depending on political objectives; President Trump and the US-election, Brazil, UK.
- Health systems underequipped (US).
Term length and crisis prevention

- Long-term measures to prepare for unknown crisis do not pay off politically.
  - Health system
  - Old age care system

- Even if years ago information was gathered, a new government may not know (Pandemic scenario from RKI in 2012 in Germany, http://dipbt.bundestag.de/dip21/btd/17/120/1712051.pdf).
Federalism and crisis

- Conflict over competencies in the crisis (US federal level vs US States).
- Unfit preparation for health crisis, e.g. if government party on state level is different from government party on federal level.
- If federal level is in charge, they may be too distant from the crisis.

However:
- Targeted intervention, e.g. in hot spots; states and even counties may act quicker, bolder or more targeted (City of Jena).
- Centralisation may lead to bold responses too (NHS).

**Main problem**: Reduction of civil liberties, temporary or not?
Rent-seeking and crisis

- Unfit health system because of rent-seeking,
- Some groups are too weak to express their interests (in Covid 19 context e.g. children, students, pensioners), leading to
  - crisis cascades;
  - risk underestimation.
- Lockdown leads to economic and social crisis, leading to
  - sectors hit by the crisis demand support (car industry),
  - decreasing social coherence domestically,
  - trade tensions (sicken thy neighbour)
  - rising international distrust.
The media and crisis

• Media may exaggerate or misreport …
  • forced by governments,
  • having own political aims,
  • Want to boost sales

Remedies against all sort of crisis

⇒ scenario building (und use of it);
⇒ sunset legislation;
⇒ buffer stock, import diversification;
⇒ international cooperation;
⇒ constitutional design;
⇒ limited amendments (stability)