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Prologue

This book is written for undergraduate students in economics and in political science who want to learn about the political economics of redistributive policies. While being initially offered only at Master and PhD level, political economics has recently gained interest even among undergraduate students, as understanding the complex political processes behind the policy-making of public policies has become ever more important. Yet, classical textbooks in political economics tend to be highly formalized and thus to target more advanced students. To fill this gap, this book provides a positive analysis of the political process behind the design and implementation of redistributive policies, by using the minimum level of mathematical formalization required, in an attempt to be accessible to undergraduate students in their second or third year. The approach has been tested on several cohorts of undergraduate students in economics and political science at Bocconi University. I am thankful to them for keeping up with the different versions and – particularly to the 2017/18 class in Political Economics and to Dario Laudati – for spotting the typos. The book does not span the entire domain of political economics but concentrate of redistributive policies. This includes monetary transfers, such as pensions and unemployment benefits, as well as regulations, in the labor and product market, which allow to redistribute economic rents. Although the book is mostly self-contained, readers are expected to have a basic knowledge of microeconomics.

The book begins with an introduction to the basic concept of political economics (chapter 1). The next two chapters develop the political economic tools needed to analyze redistributive policies. Special emphasis is given in chapter 2 to the understanding of two popular voting models: the median voter model, which has been the workhorse in political science for several decades, and the probabilistic voting model. Chapter 3 presents a simple model of decentralization of policy decisions and introduces the classical lobbying model.

The focus on redistributive policies begins in chapter 4, which portrays a picture of the government intervention in the economy, provides a positive rational for this public involvement and shows its magnitude in different OECD countries and over time. A simple political economic theory of redistributive policies is introduced in chapter 5, which analyzes the political process, driven by electoral concerns, may lead to redistribution from high to low income individuals. Yet, most current redistributive policies have an intergenerational cleavage. The politics of pension systems, which transfer resources from (young) workers to (elderly) retirees, is discussed in details in chapter 6. Regulations in the labor market may also induce redistribution (of working rights) from (young) unemployed or workers on temporary contracts to (elderly) senior workers. This aspect is examined with a theoretical model in chapter 7.

The last part of the book summarizes the recent literature in political economics to discuss two hot issues in the political debate: structural reforms and migrations. Chapter 8 provides an overview of the structural reforms of labor and product markets that have been implemented in the last few decades and analyzes the economic and political drivers of the successful reform attempts. Chapter 9 addresses the recent politics of anger. The electoral results of the last few years indicate that many voters are upset with the current economic and political system. What are the drivers of this discontent? Chapter 9 summarizes the recent political economic literature to discuss the role of immigration and globalization in the recent populist wave.