Growth and Distribution with Endogenous Political Preferences

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Abstract

While the interaction between the political and the economic cycles has been extensively investigated by the macroeconomic literature, the renewed interest in inequality and unexpected polling results in different developed countries have shifted the attention to the possible effects of functional and personal distribution of income on voters' behaviour.

This paper proposes a nonlinear dynamic model with heterogeneous agents and endogenous political preferences which are affected by both political and economic variables. The proposed model builds on the tradition of Lux (1995) and Brock and Hommes (1997), and provides a novel framework in the voting literature.

The analysis of the stability conditions of the dynamical system and the numerical simulations provide a set of original insights. In particular: (*i*) voting cycles and business cycles can emerge due to the interaction of political and economic dynamics; (*ii*) contrary to Downs (1957) and to the vast literature based on his work, in our

model a two-party system can reach stability without ideological consensus among voters; (*iii*) the responsiveness of the ruling party to voters' preferences affects periodicity and amplitude of the political cycle; (*iv*) the relationship between opinion dynamics and personal distribution of income is sensitive to changes in the functional distribution of income.

References

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