
Preface

This book examines the reasons why governments fail to live up to their responsibilities or worse engage in outright corruption. We focus on the quality of governance because of its importance in real-world policy making and because it serves to motivate the development and application of macroeconomic models of political economy. The book can be viewed as macroeconomic theory mixed with applied fiscal policy analysis. We especially concentrate on the tendencies of the government to burden future generations rather than invest in them and the consequences that this has for long-run economic growth. We present the underlying theories in a serious but self-contained fashion, accessible to anyone who has a background in intermediate-level microeconomics. A thorough appendix is provided with the necessary technical background to insure that all those who wish to follow the analysis carefully will be able to do so. Each chapter includes exercises to refine understanding and sharpen modeling skills. Solutions to the exercises can be found on the Springer.com page for the book.

As suggested, the thinking in the book is guided and disciplined by formal economic models. Formal models are needed, not only to articulate, explain, and quantify the effects of government corruption and short-sighted policies but also to demonstrate how economics is intertwined with politics. For example, we use models to argue that the policies generating the looming fiscal crisis in the developed world are closely connected to other common economic problems: the slowdown in economic growth, the rise in wage inequality, and the exploding costs of medical care and higher education.

Most of the basic ideas are illustrated using a two-period model that shows the future cost of fiscal policies that favor present consumption and misallocate investment (Chap. 2). The more subtle and advanced issues are examined and quantified using the overlapping-generations model of economic growth (Chap. 4). These base models, first used to demonstrate the fundamental mechanisms of economic growth, are then extended to incorporate politics and the behavior of public officials (Chaps. 3, 5, and 6). The new political economy of macroeconomics can be technically difficult and conceptually challenging.¹ We sacrifice full generality to incorporate the relevant thinking from the political economy literature as simply as possible while adding a few new twists along the way. The final product offers a unified explanation for the causes and consequences of government failure, the

fiscal crisis, growth slowdowns, and rising inequality. The needed policy reforms that emerge from the analysis are also discussed in detail (Chap. 7).

We have used the text with undergraduates by taking a slow pace, making use of the background material in the technical appendix, and assigning easier questions and problems. For example, we have based an intermediate macroeconomics course on Chap. 2 (Sects. 2.1, 2.2, 2.3, 2.4, and 2.10), Chap. 4, and Chap. 7. In graduate courses, we go through the material in Chaps. 2 and 4 more quickly; mix in some political economy from Chaps. 3, 5, and 6; and hold the students responsible for the harder problems. For researchers, the more original material proposes common causes of the Big Three economic problems facing the developed world (Sects. 2.4 and 4.8, and Chap. 7), models the cultural connection between tax evasion and corruption (the portion of Chap. 5 that summarizes our 2016 *Economic Inquiry* article), and extends this model to include the interaction between tax evasion, corruption, and public debt (Chap. 6).

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