PCTIQ: A POLITICAL COASE THEOREM FOR THE INTELLIGENT

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Is there a political Coase theorem?

- Wittman, *Myth of Democratic Failure:*
  - YES, for democracies.
  - Democracies are reasonably efficient
  - Bargain to output-maximizing outcomes
  - If not, someone would have counteroffered
- Rest of economics: NO
  - Irrational voters (Caplan, *MRV,* 2007)
  - Commitment problems (Acemoglu, 2003: "Why not a political Coase theorem?")
  - Time Inconsistency of optimal plans (Kydland/Prescott)

Human capital:
Input to good governance

"The key human capital externality is not technological but political …"

Glaeser et. al (2004)

PCTIQ

- A syllogism:

- Good political institutions are prisoner's dilemmas
  - Urge to rent-seek is everywhere
  - Hard to commit to rule of law when you have power
  - Ostrom's work on creating good institutions:
    - Cooperation is hard, not impossible

- Higher IQ predicts cooperation in repeated PDs

- Therefore, smarter groups are more Coasian.

Some Microstructure: IQ and patience

- A robust link: *inter alia*
  - Frederick (JEP 2005)
  - Warner and Pleeter (AER 2001)
  - Dohmen, Falk et al. (AER 2010)
  - Shamosh/Gray meta-study of psych experiments.
  - Mischel's Marshmallow Experiments.

Patience and the PCT

- Dynamic political economy models depend on patience
  - Folk theorem results
  - Barro/Gordon: Rules versus Discretion

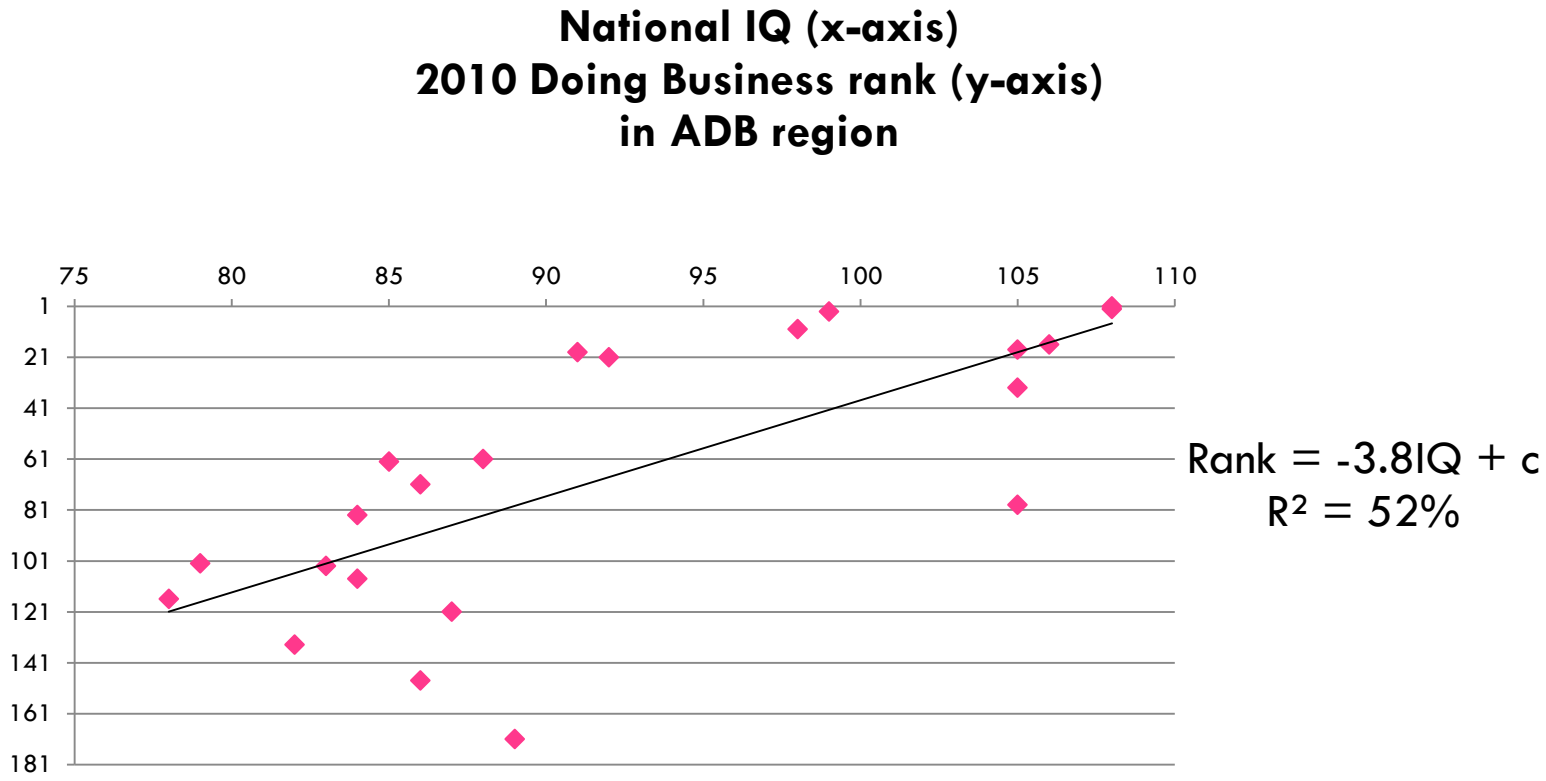
    "..inflation and monetary growth look more like.. discretion when the discount rate is high."
  - Capital Taxation: Fischer's Capital Levy problem
  - Bureaucrats: Wait or Predate?
  - Acemoglu's original PCT paper:

    "..if β increases…the highest investment that can be supported…increases." If β is high enough "the PCT applies."

Where you see a role for patience in a political economy model…

….you see PCTIQ

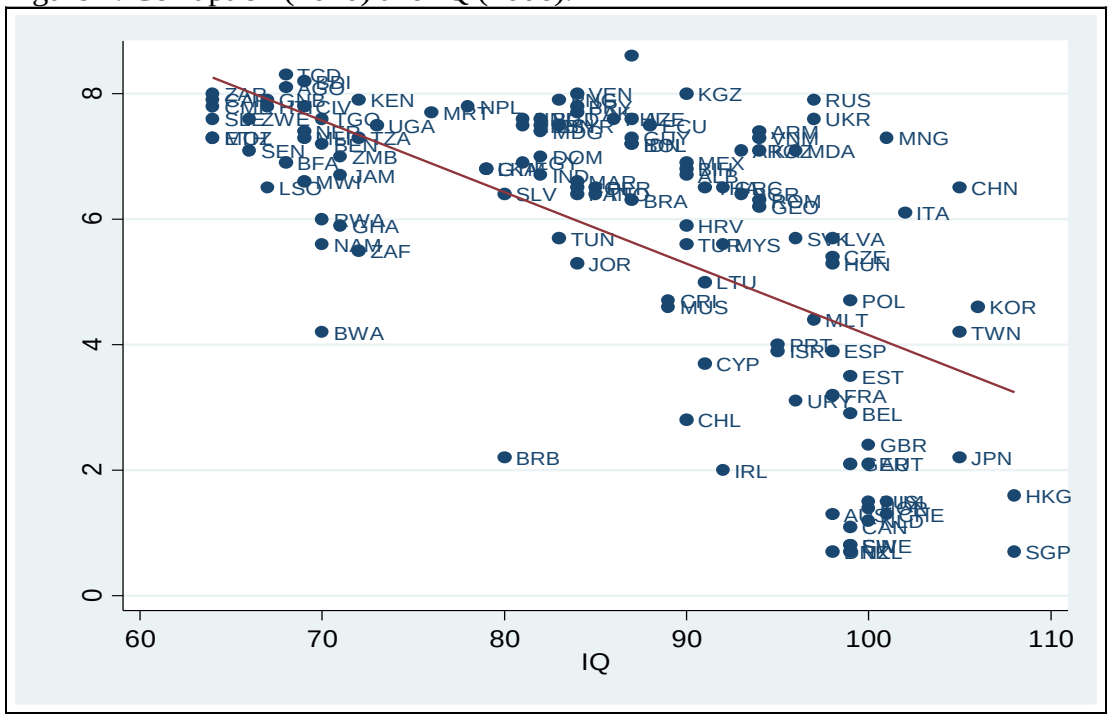
National IQ and Good Institutions across Asia



Source: Jones (2011), "National IQ and National Productivity: The Hive Mind Across Asia," *Asian Development Review,* Journal of the Asian Dev't Bank.

Corruption & IQ around the world

Figure 2: Corruption (2010) and IQ (2006).



Correlation coefficient: -0.63. Source: Transparency International (2010) and Lynn and Vanhanen (2006)

Source: Potrafke (2011), "IQ and Corruption," *Economics Letters*.
IQ significant at 0.1% after continental controls; at 5% level after adding GDP, legal origin, globalization, democracy controls.

IQ and cooperation: Many results

- Jones (JEBO 2008): When repeated prisoner's dilemma run at high-SAT schools, higher cooperation
  - 100 more SAT points→5% to 8% more cooperation
  - Robust to controls for private schools, money, rounds
- Putterman et al. 2010: IQ predicts donation in public good experiments at Brown
- Burks et al. (PNAS 2009): IQ predicts trust, trustworthiness in sequential PD
- High IQ associated with other forms of social capital in US and UK
  - Voting, organ donation, cash donation
  - Age 10 IQ predicts age 34 trust, after controls

al-Ubaydli, Jones, Weel (2011)

- 10 round RPD, IQ tests afterward
- IQ is 5x more powerful for pairs than for individuals
- 1 s.d. rise in pair IQ→ 11% more cooperation
  - 22% is average rate→ 50% semi-elasticity

- Round 2: High IQ players reciprocate cooperation
  - Gets cooperation off the ground:
  - Higher IQ awakens *Homo reciprocans*
  - *The intelligent are conditional reciprocators.*

Example: Raven IQ, Patience, Risk

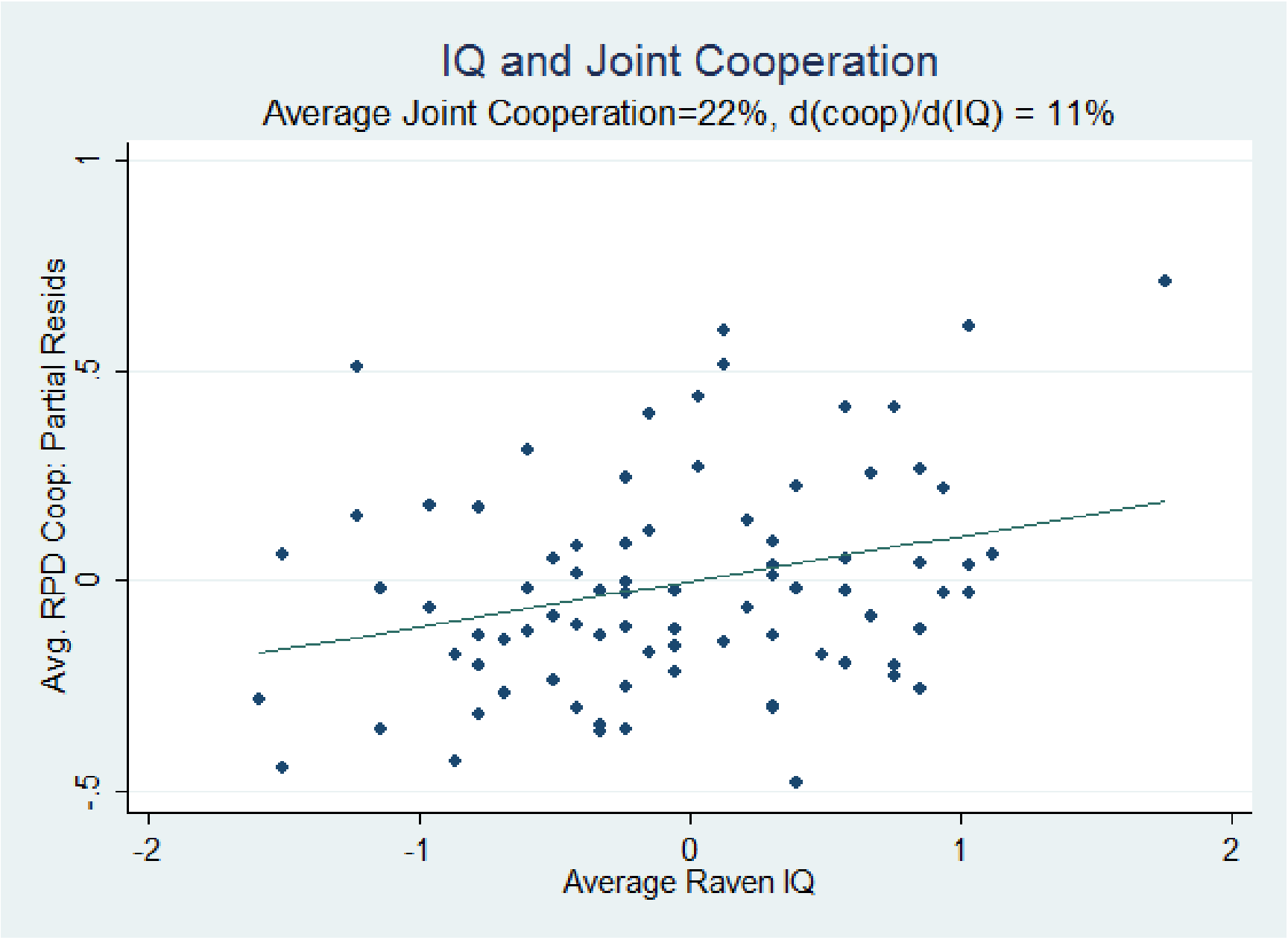
Table 1: Individual Results

Individual Cooperation	**Coef.**	**Std. Err.**	**P-value**
Raven (1б)	2.4%	2.4%	0.40
Risk loving (1б)	0.0%	2.5%	0.99
Patience (1б)	2.3%	2.5%	0.36

Table 2: Joint Results

Joint Cooperation			
Raven (1б)	11.5%	4.6%	0.01
Risk loving (1б)	4.8%	5.6%	0.40
Patience (1б)	-2.8%	5.5%	0.62

Both include personality, age, session, round, gender controls. Robust standard errors. Similar results if these additional controls are excluded


IQ and Joint Cooperation
Average Joint Cooperation=22%, d(coop)/d(IQ) = 11%
Avg. RPD Coop: Partial Resids
-.5
0
.5
1
-2
-1
0
1
2
Average Raven IQ

A micro-level PCTIQ: Divorce

- Marriage: The land of implicit contracts
  - Should often be able to "Coase up" efficient renegotiation after a shock.
- Do high-IQ couples divorce at higher or lower rates?
- Netherlands since '58 (Dronkers, 2003) and USA (Holley et al, *J. Family Issues* 2006; Blazys 2009): *lower*.
- High-IQ couples: Rewriting rules, keeping cooperation going, avoiding transaction costs.

Conclusion

- PCTIQ: A new area within behavioral public choice
- If institutions matter, and if IQ improves institutions, development economists should find ways to raise national IQ
- Raising national IQ:
  - Nutrition, healthier environments, perhaps schooling
  - *And immigration of high-IQ populations:*
    - *Pro-STEM immigration: the politically practical version.*