

Political Discounting Framework

Preventive Public Policy (PPP)

Institutional Time Preference, Electoral Cycles, and Intertemporal Fiscal Distortion

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1. Purpose of the Framework

This document formalises the Political Discounting Framework within Preventive Public Policy (PPP). Its purpose is to model and explain how institutional time preference, electoral cycles, and political incentives can distort the appraisal of long-horizon preventive interventions.

The framework does not reject orthodox economic discounting. Instead, it distinguishes between socially optimal discounting and politically induced discounting, and analyses the fiscal consequences of this divergence.

2. Conceptual Foundation

Standard public investment appraisal applies a social discount rate (r) reflecting time preference, opportunity cost of capital, and intergenerational equity considerations.

Political systems, however, operate within electoral cycles. Elected officials face re-election horizons typically ranging from 4–5 years. This can generate an implicit political discount rate (r_p) that exceeds the social rate.

Where $r_p > r$, long-horizon preventive benefits appear systematically undervalued relative to short-term visible expenditures.

3. Formal Model

The Preventive Fiscal Efficiency Model (PFEM) is expressed as:

$$NPFE = \sum (A_t / (1 + r)^t) - C_0$$

The Political Discounting Extension is defined as:

$$NPFE_{\text{political}} = \sum (A_t / (1 + r_p)^t) - C_0$$

Where:

C_0 = initial preventive investment

A_t = expected avoided fiscal costs

r = social discount rate

r_p = effective political discount rate

T = appraisal horizon

The divergence between NPFE and NPFE_{political} quantifies institutional distortion.

4. Electoral Time Horizon Effects

Short electoral cycles incentivise:

- Preference for policies with immediate visible gains
- Underinvestment in long-tail risk reduction
- Budgetary focus on near-term fiscal presentation
- Deferral of capital-intensive preventive measures

Political discounting therefore acts as a structural filter on intertemporal efficiency.

5. Distortion Mechanisms

Political discounting arises from:

A. Electoral Incentives

- Reelection pressure
- Short-term voter responsiveness

- Media cycle reinforcement

B. Budget Cycle Structures

- Annual spending reviews
- Short-term fiscal targets
- Public borrowing optics

C. Institutional Accountability Design

- Performance metrics weighted toward annual outputs
- Limited horizon reporting

These mechanisms combine to elevate r_p relative to r .

6. Fiscal Consequences

When r_p materially exceeds r :

- Preventive interventions with positive social NPV may appear marginal or negative under political evaluation.
- Capital-heavy long-term programmes face disproportionate rejection risk.
- Reactive expenditure may dominate despite inferior lifecycle efficiency.

Political discounting therefore shifts budget composition toward short-term stabilisation rather than upstream prevention.

7. Threshold Sensitivity

Political discount sensitivity analysis requires:

- Testing NPFE under multiple discount regimes
- Identifying discount-rate breakpoints where NPV crosses zero
- Estimating tolerance bands for institutional viability

This converts abstract political distortion into measurable fiscal thresholds.

8. Empirical Estimation Approaches

The effective political discount rate (r_p) may be approximated through:

- Observed investment horizon patterns
- Comparative policy adoption timing
- Budget reallocation frequency
- Electoral cycle expenditure clustering

Empirical refinement of r_p strengthens predictive modelling of preventive policy feasibility.

9. Governance Mitigation Strategies

Institutional design can reduce political discount distortion through:

- Independent long-term fiscal councils
- Multi-cycle budgeting commitments
- Capital ring-fencing mechanisms
- Transparent long-horizon reporting

- Sunset clauses tied to threshold breaches rather than electoral cycles

These mechanisms align institutional incentives with social time preference.

10. Integration with PPP Doctrine

The Political Discounting Framework reinforces PPP by:

- Explaining structural resistance to preventive investment
- Quantifying institutional bias
- Integrating behavioural political economy with fiscal modelling
- Converting time-preference divergence into calculable parameters

Preventive policy is therefore not only economically evaluated but institutionally contextualised.

11. Final Conclusion

Political discounting represents a measurable and structural divergence between socially optimal appraisal and electoral incentive structures.

By formally modelling r_p alongside r , PPP transforms political time preference from a rhetorical critique into a quantifiable fiscal variable.

Preventive governance becomes not merely an economic choice, but an institutional design challenge requiring alignment between fiscal logic and democratic time horizons.