

How Accountable Should Public Officials Be?

(based on joint work with J. Tirole)

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May, 2010

Premise behind democracy: public decisions should reflect the will of the people

In most democracies, few decisions made directly by public

– typically, they are made by representatives

Expected that representatives will do better job

- more expert

- have greater incentive

(citizens subject to free-rider problem)

Schumpeter:

“The private citizen expends less disciplined effort on mastering a political problem than he expends on a game of bridge.”

But what induces a representative to act on behalf of public?

1. Desire to leave a “legacy”

- but this may not always suffice
- that’s why often we require officials to run for reelection, i.e., we make them accountable

2. Desire to be reelected

Requiring reelection has two potential benefits to the electorate:

1. May induce official to act on behalf of the public
2. Allows electorate to “weed out” an official whose interests are non-congruent with society’s

But accountability also has two serious drawbacks:

1. official may “pander” to public opinion in order to gain reelection

accountability may discourage the independence of thought that representative democracy is premised on.

2. ability to remove officials from office may give too much power to majority- - not enough weight given to minority interests

An optimal constitution – the determination of who gets to decide what – must strike a balance between these considerations

This talk is about optimal constitutions

In particular, will focus on three leading alternatives

1. **Direct Democracy**

(public decides directly)

2. **Representative Democracy**

(officials subject to reelection decide)

3. **Judicial Power**

(officials not subject to reelection decide)

Analysis turns on

- how good the public is at determining the right decision
- how good the public is at choosing officials who will act in their interest
- how much the public learns ex post about the optimality of a public decision
- how much officials want to be reelected
- the extent to which the electorate is homogeneous or heterogeneous (i.e., whether there are minority interests to protect)

Basic Model

3 Periods

period 0	constitution “design”
period 1	decision between a and b
period 2	decision between a and b

a and b need not be describable in advance; need not be the same in periods 1 and 2

For now, electorate is homogeneous

- alternatively, electorate may be heterogeneous but maximizing welfare of majority \leftrightarrow maximizing social welfare
- rules out possibility that minority's interest outweighs that of majority

Electorate risk-neutral

- gets utility 1 from each right decision
- gets utility 0 from each wrong decision

In each period

p = prob. that electorate attaches to a being
the right choice

Assume $p \geq \frac{1}{2}$; a is the “popular” choice

- if $p \approx \frac{1}{2}$, electorate knows very little
- if $p \approx 1$, electorate knows a great deal
- magnitude of p reflects amount of
information that electorate possesses (likely
to be low for highly technical issues)

- If constitution specifies direct democracy, then electorate itself chooses between a and b (and so a will be chosen)
- If constitution specifies that an official makes the decision and electorate chooses the official then $\pi =$ prob. that official is “congruent” with electorate (has same preference ranking of a and b as electorate)
- $1 - \pi =$ prob. that official has “noncongruent” (opposite) preferences

Assume $\pi \geq \frac{1}{2}$

– magnitude of π

reflects electorate's ability to screen
officials

nature of candidate pool

Official knows which action is best for her
(and for society)

Her payoff depends on

- her decision

 - gets utility $G(>0)$ from choosing preferred action

 - gets utility 0 from choosing other action

- her benefit from being in office R

- discounting

 - second period payoffs discounted by factor β

Official who is in office for two periods has
payoff

$U_1 + R + \beta(U_2 + R)$, where U_i is utility from
period i decision

After period 1, the electorate

- learns whether first-period decision was right
with probability q
- learns nothing with probability $1 - q$

Depending on constitution, first-period official can

- run for reelection (if loses, replaced by official who is congruent with probability π)
- remain in office (if given two-period term)
- leave office (if one-period term limit)

Period 2, terminal date is artificial

- more natural model would have overlapping generations of officials
- most qualitative results don't differ

Constitution designer chooses constitution to maximize expected welfare of electorate

Case I: $q = 0$ (electorate gets no information about optimality of first-period decision)

Start by comparing 3 institutions:

Direct Democracy, Judicial Power, Representative Democracy

Direct Democracy: electorate chooses a or b itself

$$W^{DD} = 2p$$

Judicial Power: official chosen for two period term
(not subject to reelection)

$$W^{JP} = 2\pi$$

$R = \text{perks}$

$\beta = \text{discount factor}$

Representative Democracy:

official runs for reelection after first period

- equilibrium outcome depends on magnitude of R and β

let $\delta = \beta (G + R) / G$

First, assume $\delta > 1$ (strong concern for reelection)

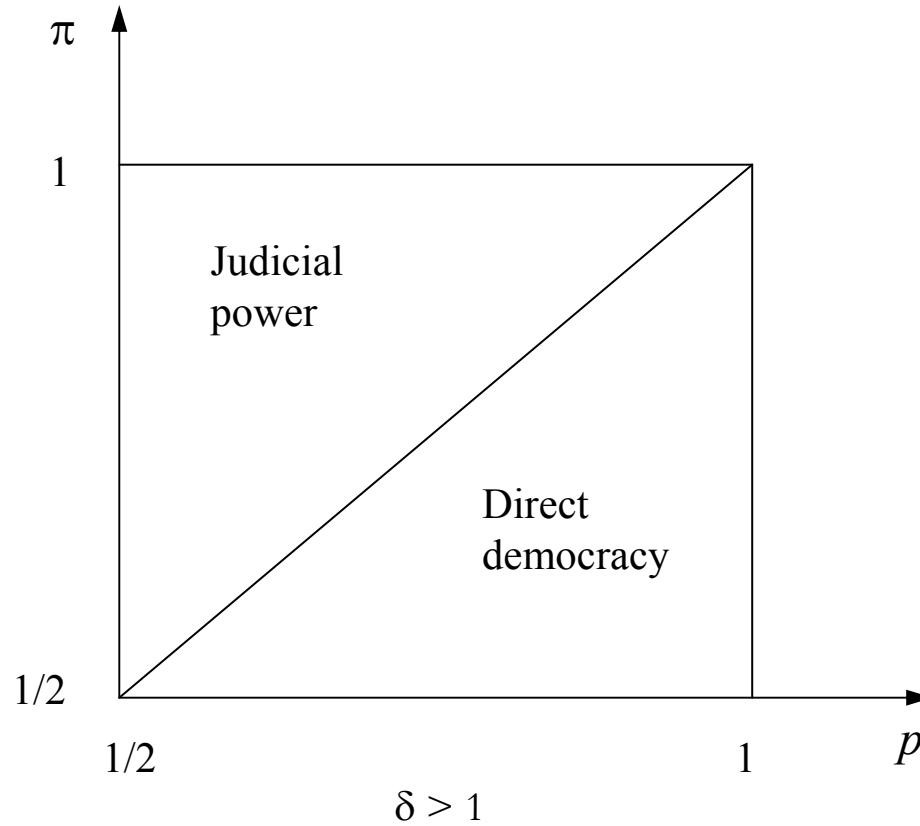
- in unique pure-strategy equilibrium*, official chooses a (popular action) in first period regardless of its optimality or her preferences; this is pandering (also true of mixed-strategy equilibria if restrict to Markovian equilibria—players with same preferences behave the same way)
- official reelected if and only she chose a
 - suppose she prefers b
 - $0 + \delta G$ (if she chooses a)
 - $> G$ (if chooses b)

*assuming that a small proportion of officials always choose their preferred alternative

$$W^{RD} = p + \pi$$

Hence generically

$$W^{RD} < \max \left\{ W^{DD \frac{2p}{2\pi}}, W^{JP} \right\}$$



Notice that *JP* favored over *DD* when p low (e.g., decision is technical)

Next, suppose $\delta < 1$

- no pandering is unique equilibrium: official chooses her preferred action in period 1

Pr (official congruent|chose a) =

$$\frac{\pi p}{\pi p + (1 - \pi)(1 - p)} > \pi$$

Pr (official congruent|chose b) =

$$\frac{\pi(1 - p)}{\pi(1 - p) + (1 - \pi)p} < \pi$$

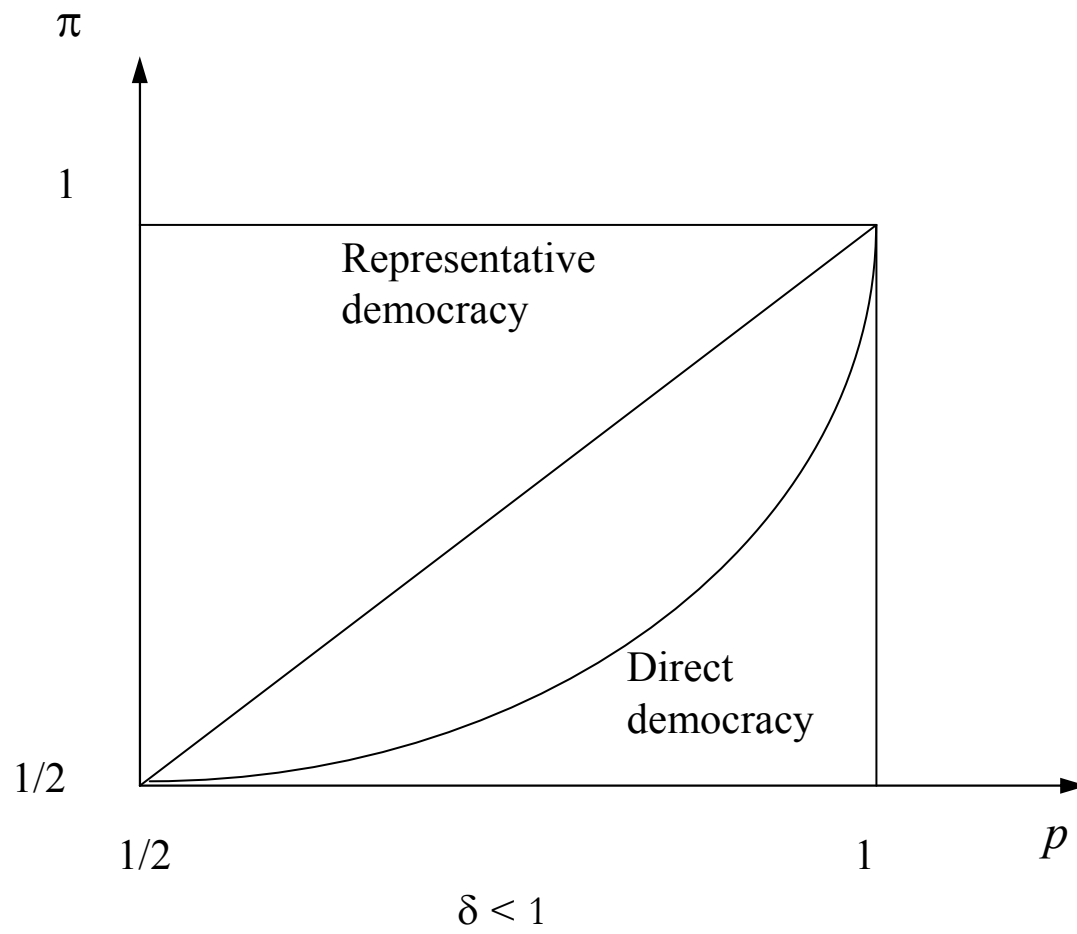
So official reelected if chose a

$$W^{RD} = \pi(1 + p + (1 - p)\pi) + (1 - \pi)p\pi$$

↑
↑
 prob. official prob. official
 reelected not reelected

$$W^{RD} > W^{JP}$$

No pandering and reelection help screen out noncongruent officials (who are more likely to choose b than are congruent officials)



Important Decisions

- Suppose legacy payoff drawn each period from distribution with mean G

- Consider particularly important issue

$$G' > G$$

- notional discount factor for this decision is *lower*:

$$\delta' = \beta \left(\frac{G + R}{G'} \right)$$

- Decisions of particular importance should be assigned to politicians

Note: When $q=0$, accountability (reelection) does not induce official to act on behalf of electorate

when $\delta > 1$ official panders

when $\delta < 1$ official acts in her own interest

Only benefit of reelection: screening out noncongruent officials

Suppose choose officials for one period only-
term limits

$$W^{TL} = 2\pi \quad (\text{same as JP})$$

Good reasons for longer tenure

- learning by doing
- set-up costs

We'll see later that there are also good reasons for limiting scope and discretion of long-term, unaccountable officials

Optimal Government Can we do better than DD , RD ,
and JP ?

Let

x_a = prob. of reelection if a chosen

x_b = prob. of reelection if b chosen

Don't want official to pander, so must satisfy

$$1 \geq \delta(x_a - x_b)$$

But would like $x_a > x_b$ to take advantage
of screening

If $\delta > 1$, optimum is

$$x_a = \frac{1}{\delta} \quad x_b = 0 \quad \text{if } p \text{ not too much greater than } \pi$$

But $x_a = \frac{1}{\delta}$ is most likely unenforceable

If $\delta < 1$, optimum is

$$x_a = 1 \quad x_b = 0$$

If $\pi > p$, solution is *RD*

If $\pi < p$, then may do better to

- install official in period 1
- hold an election
- adopt *DD* if official loses

In equilibrium, official reelected if chose a

This scheme RD/DD

- enjoys benefits of screening in first period
- enjoys benefit of DD in second period
- may be something of an artifact (in overlapping-generations model, no final period and so the advantage of screening does not vanish)

Costly Information

- have assumed that official knows which is right choice
- but suppose such information is costly to acquire (cost c)

- Under *JP*, official's expected payoff from acquiring information is

$$G-c$$

if doesn't acquire, payoff is

$$pG$$

so acquires information as long as

$$(1-p)G > c \quad (*)$$

- Under *RD*, official has greater incentive to pander; doesn't need info to do this
 - So condition for information acquisition is more stringent than (*)

Limited Scope/Discretion

- Judges and other unaccountable officials typically have narrower spheres of action and less discretionary power than accountable officials such as legislators
- Thus, US Supreme Court can consider only the cases brought before it and is constrained to decide them according to constitutionality
- By contrast, Congress can pass any law it wishes
- Can we explain difference using model?

Discretion confers greater benefit under RD
than under JP

- introduce a third alternative (status quo)
- status quo generates welfare $\sigma \in [0,1]$

Should official be given power to choose between a and b in period 1, or should she be constrained to choose the status quo?

Under JP , official given discretion if

$$\pi \geq \sigma$$

Under RD , official given discretion if

$$\pi + \Delta \geq \sigma ,$$

where

Δ = additional benefit from weeding out noncongruent official

So accountable official given more discretion.

Campaign Promises

- If imply no commitment, have no effect
- Suppose candidate committed to pledge

2 cases

- if candidate willing to carry out unpreferred action to get elected
 - get pandering in *both* periods
- if candidate not willing to so,
 - candidates will promise their preferred actions
 - if enough candidates, electorate can infer with high probability which candidates are congruent (marketplace of ideas)
 - hence get full optimum

Case II: $q > 0$

- with prob. q , electorate gets signal about the optimality of first-period decision
- DD and JP unaffected by signal
- Assume $\delta > 1$
- two new mutually exclusive possibilities

If $\delta q > \frac{1 + \delta}{2}$, the unique equilibrium* entails

forward-looking pandering (FLP)

- in period 1, official chooses the right (welfare-maximizing) alternative, regardless of her own preferences
- official is reelected if
 - signal indicates decision was optimal
 - or
 - there is no signal

Noncongruent official's payoff from choosing right action is

$$q(0 + \delta) + (1 - q)\delta$$

$$> 1 + (1 - q)\delta$$

(payoff from preferred action)

Inequality reduces to

$$\delta q > 1$$

If $\frac{1+\delta}{2} > q\delta > 1$, two possible equilibria:

FLP and full pandering

If $\delta q < 1$, one equilibrium is full pandering

Other equilibrium entails partial pandering

(PP)

– in period 1, official chooses her preferred action unless she is noncongruent and a is the right action, in which case she

– chooses b with probability y
chooses a with probability $1-y$,

$$\text{where } y = \frac{1}{p} - 1$$

– Official is reelected with probability

$$\frac{1 - q\delta}{\delta(1 - q)}$$

if she chooses a and there is no signal

or

– Official is reelected with probability 1

if signal indicates decision was optimal

Electorate is willing to randomize between reelecting and not reelecting if official has chosen a because

$$\text{prob (official is congruent} | a) = \pi$$

- *PP* generates greater welfare than *JP* in first period:
 - either an official chooses her preferred action (as in *JP*)
 - or
 - noncongruent official panders (which enhances welfare)
- *PP* also generates greater welfare than *JP* in second period:
 - if there is no signal, *PP* and *JP* are the same
 - if there is a signal,
 - $Pr(\text{official is congruent} | \text{favorable signal}) > \pi$

In study of *RD*, there are 3 types of equilibrium in which accountability enhances welfare

1. When $\delta < 1$ and $q = 0$, official chooses her preferred action; welfare enhanced by weeding out noncongruent officials (screening effect)
2. When $\delta q > 1$, official chooses right action in *FLP* equilibrium; welfare enhanced by inducing proper behavior (incentive effect)
3. When $\delta q < 1$ and $q > 0$, official chooses either her preferred action or right action in *PP* equilibrium; welfare enhanced by both screening and incentive effects

Benefit of raising q

1. Raises welfare directly (PP and FLP generate more welfare than JP) $\delta > 1$
2. Improves pool of candidates
 - raises payoff to congruent official
 - lowers payoff to noncongruent official
 - if there is a cost to candidacy, then proportion of congruent officials will rise

Heterogeneous Electorate

2 groups: Majority and Minority

Majority knows that action a is best for it

Minority knows that action b is best for it

With probability x , net benefit of a over b is $B > 0$

With probability $1-x$, net benefit of b over a is $L > 0$

Normalize social welfare from b to 0

3 types of officials

- congruent with majority prob. π_M
- congruent with minority prob. π_m
- congruent with overall
electorate prob. π_W

Direct Democracy

Majority always prevails

$$W^{DD} = 2(xB - (1-x)L)$$

Judicial Power

$$W^{JP} = 2[\pi_M[xB - (1-x)L] + \pi_m[0] + \pi_W[xB]]$$

Representative Democracy

If $\delta > 1$, official will pander

- same outcome as *DD* in period 1
- same outcome as *JP* in period 2

If $\delta < 1$

- get same outcome as *JP* in period 1
- official who chooses *a* is reelected
- official who chooses *b* is not
- so RD weeds out minority-congruent official and (with some probability) overall-congruent official

Thus, for low values of x or B/L , JP is optimal

- minority rights are important, and RD weeds out minority- and overall-congruent officials

For moderate values of x or B/L , RD is optimal

- RD better than DD because puts some weight on minority- and overall-congruent officials
- but doesn't over-do it like JP

For high values of x or B/L , DD is optimal

– JP and RD put too much weight on minority

Separation of Powers

- Unless x is very high, don't want DD
- Suppose there were a signal indicating potential constitutional conflict (x low)
- In such circumstances, would be optimal to shift control to JP
- In absence of signal, stick with RD

JP entails greater risk than *RD* (or *TL*)

- suppose electorate risk-averse with concave utility function V
- under *JP*, payoff is $\pi V(2)$
- under *TL*, payoff is $\pi^2 V(2) + 2\pi(1 - \pi)V(1)$
 $(> \pi V(2))$
- thus, although *JP* may result in higher mean payoff, also results in higher variance than *RD* or *TL*
- so, if electorate risk-averse, want to limit “investment” in *JP* (limit scope of official power)