Policy responsiveness versus stability

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Trade off policy responsiveness vs stability

Posner and Vermeule (2002):

> *"Many political institutions are celebrated for their effect on the stability of government: constitutionalism, stare decisis, representative government, and so forth are said to make government more predictable, and this makes it easier for individuals to arrange their affairs. It is always immediately pointed out in response that too much stability is a bad thing, that government should change its policies when circumstances change. The best government reflects a balance of these competing concerns"*

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  - Fiscal policies over the business cycle
  - Social security and changing demographics
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- This paper: **divided versus united gvt**

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- Allocation of political power affects...
  - ...how policy makers' votes are aggregated

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- Allocation of political power affects...
  - ...how policy makers' votes are aggregated
    $\longrightarrow$ Divided gvt optimally trades off policy responsiveness and stability
  - ... but also how policy makers vote
    $\longrightarrow$ Divided gvt induces policy makers to behave in a more polarized way
- If voters can pick the allocation of power at any time, they always choose a divded gvt
- Greater term length allows them to commit to choose a united gvt, which can be beneficial

The model

Primitives

Time:

- Infinite horizon: $t \in \{0, 1, ...\}$

Alternatives:

- In each period t, a policy $x(t)$ must be chosen in $X = \{L, R\}$

Players:

- Two policy makers l and r (choose policy $x(t)$)
- A representative voter m (chooses allocation of power)

Payoffs

- Players maximize expected discounted sum of period payoffs (δ)
- Period payoff of player $i \in \{l, m, r\}$ in period t is

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- Remark: policy makers are **policy motivated**

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4. Game moves to $t+1$ with status quo $s(t+1) = x(t)$

How the allocation of power affects policy makers' behavior

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- Bottomline:
  - Equilibrium behavior is characterized by **voting distortion** $d_i^\sigma \in \mathbb{R}$
  - d_i^σ captures i's **preferences over the next status quo**

The benchmark case: permanent dictator

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- Intuition: status quo matters only via cost of policy change c
  - Permanent dictator r expects she will prefer policy R tomorrow

  $\rightarrow$ r prefers status quo R tomorrow to minimizes likelihood of policy change

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- Intuition: under a divided gvt, status quo also affects future pivotality
  - When l & r have to agree to change the policy, r (l) is pivotal under status quo R (L)

  $\longrightarrow$ pivotality effect increases r's preference for status quo R relative to permanent dictatorship

How voters choose the allocation of political power

Voter's incentives (fixing policy makers' behavior)

- Consider first the "game" in which
  - policy makers' voting distortions are fixed (with $d_l = -d_r$)
  - in any period, m chooses the allocation of power optimally

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  - when $s(t) = R$, $R \succ_m L$ is more likely than $L \succ_m R$, so the latter is more likely than the former

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Remark

m choosing $\gamma(t) = div$ *is equivalent to m choosing* $\gamma(t) = r$ *if* $s(t) = R$ *and* $\gamma(t) = l$ *if* $s(t) = L$.

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Corollary

If we abstract away from policy makers' incentives, having a divided gvt in all period is an optimal allocation of power for m.

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- What we have learned so far?
  - Fixing policy makers' behavior, m is better off with a divided gvt
  - But once we take into account policy makers' incentives, a divided gvt exacerbates their polarization

General equilibrium

Equilibrium behavior

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- Intuition: policy makers' behavior in t are driven by their expectation about $\gamma(t')$ for $t' > t$

  $\longrightarrow$ m's choice of $\gamma(t)$ does not affect current nor future voting behavior

  $\longrightarrow$ m chooses $\gamma(t)$ taking policy makers' behavior as given

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Proposition

When c is sufficiently small, p is sufficiently large, and/or f sufficiently "flat", m would be better off if she could commit to permanently appoint l or r.

$\longrightarrow$ Dynamic commitment problem

How can we solve the voter's dynamic commitment?

- Natural extension: limited political tenure of T periods
  - m can change the allocation of political power $\gamma(t)$ only every $T > 1$ periods
  - Policy makers can revise the previous policy (according to the current $\gamma(t)$) in every period as before

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Proposition

When c is sufficiently small, p is sufficiently large, and/or f sufficiently "flat", then there exists an equilibrium in which in the election periods, m chooses to appoint l (r) under status quo L (R).
In that equilibrium, voting distortions are smaller than when gvt is permanently divided.