Executive Performance under Direct and Hierarchical Accountability Structures

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Policymakers in government: **executive + assembly**
- president + parliament
- mayor + city council
- CEO + board of directors

Control mechanisms:
- **direct control** (e.g. presidential government, strong mayor city)
- **hierarchical control** (e.g. parliamentary government, corporation)
How does the type of control affect government accountability?

Two dimensions of accountability:

1. **representation** (Is the control mechanism able to clean up government of unrepresentative agents?)

2. **incentives** (Can the control mechanism motivate agents to pursue voter interests, even when it’s against their own self-interest?)
(2.1) Approach

- Poorly informed voters make policy $\rightarrow$ biased policy choices.

- **Why not delegate policymaking to an agent?**
  - Good, because agent will acquire expertise.

- **But what if the agent has a conflict of interest?**
  - Bad, sometimes the agent will act against voter interests.

- **Can’t voters do anything to reduce agency loss?**
  - Yes, reserve the right to remove the agent.
    - Screening out "bad" agents. Imperfect, but improves representation.
    - Giving incentives for "good" behavior. However, this biases the incentives of "good" types (Maskin and Tirole 2004).
Conclusion: Poorly informed voters in control → imperfect screening, biased incentives.

**MY QUESTION:** Why, then, not delegate control of the agent to an informed monitor?

- This should keep incentives unbiased.
- Agent screening should also be more precise.

**But what if the monitor has a conflict of interest?**

- Sometimes the monitor will act against voter interests → "reverse screening," weak agent incentives.

**What if voters keep the monitor accountable?**
(2.3) Results

- **Behavior**

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<tr>
<th>Politics under DC</th>
<th>Politics under HC</th>
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<td>policy gridlock</td>
<td>executive-legislative cohesion</td>
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<tr>
<td>executive pandering</td>
<td>executive corruption</td>
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- **Performance**

Comparison turns on which agency problem is more severe: **voter ignorance** or **conflict of interest**?

- voter ignorance: HC better screening and incentives.
- conflict of interest: DC better screening, sometimes better incentives.

Danger! If voters disengaged, both representation and incentives break down.

- **Implication:**

HC may look "less democratic" than DC, but can achieve more accountability if voter ignorance is a bigger problem than conflict of interest.
(3) Literature

Electoral Agency

- Expertise asymmetry:
  - direct democracy vs. appointed judges vs. elected politicians (Maskin and Tirole 2004)
  - term limits (Smart and Sturm 2004).

Constitutional Rules

- Is parliamentarism more prone to rent-seeking than presidentialism? Persson, Roland and Tabellini (1997): Yes, because executive has more discretion → weak incentives, more moral hazard.
Two legislative periods, separated by an electoral period.

Two alternatives to the status quo.
- One alternative is popular, it may or may not be optimal.

Three players: executive, assembly, voter.

Preferences:
- Voter wants: optimal policy (Which one is it?)
- Agent wants reelection and:
  - if good type: optimal action
  - if bad type: sub-optimal action

Information:
- Voters are uncertain about how policy is going to affect them.
- Executive has "policy expertise." Acts as agenda setter.
- Assembly gets information before voters and has veto power.
(4.2) Timing: Direct Control

Executive Legislative
Elections   Elections

E1         A1    V   V
[S₁,X₁]    proposal  yes/no
r/nr  r/nr

E2         A2
CK[S₁]  [S₂,X₂]
proposal  yes/no
(4.3) Timing: Hierarchical Control
Definition

The equilibrium = (strategies, beliefs) that satisfy:

- strategies are optimal given beliefs.
- on-equilibrium-path indifference leads to "principled" actions.
- on-equilibrium-path beliefs are consistent, in the sense of satisfying Bayes’s Rule, with equilibrium strategies.
- off-equilibrium-path beliefs are consistent with "principled" actions.
(5.1) Equilibrium

**DIRECT CONTROL**

**Complex Issue:**
- Good E: optimal
- Bad E: suboptimal
- Voter: reelect E, no matter what

**Simple Issue:**
- Good E: \( \begin{cases} \text{popular, wp } p^* \\
\text{optimal, otherwise} \end{cases} \)
- Bad E: \( \begin{cases} \text{popular, wp } p^* \\
\text{suboptimal, otherwise} \end{cases} \)
- Voter: reelect E, iff popular

**HIERARCHICAL CONTROL**

**Good E:** optimal
**Bad E:** \( \begin{cases} \text{optimal, wp } p^{**} \\
\text{suboptimal, otherwise} \end{cases} \)
- Voter: reelect A, iff popular
- Good A: keep optimally-behaved E
- Bad A: keep suboptimally-behaved E

\( p^{**} < p^* \)
(5.2) Equilibrium Comparison

Proposition

Without policy feedback before elections:

(a) for **complex policy issues** HC dominates DC in both periods;

(b) for **simple policy issues** HC dominates DC in both periods if and only if \( p \leq \pi \) (high voter ignorance).

When \( p > \pi \) (high conflict of interest) neither institution is dominant by both criteria.

- DC improves executive screening.
- HC improves executive incentives for strong reelection concerns
  \( 0 < X_1 < \pi \delta (R_e + \bar{x}) \)
- DC improves executive incentives for moderate reelection concerns
  \( \pi \delta (R_e + \bar{x}) < X_1 < \delta (R_e + \bar{x}) \)
- Incentives are the same for weak reelection concerns \( X_1 > \delta (R_e + \bar{x}) \).
(5.3) Robustness

Results/intuition goes through when:

- voters may receive information before elections
  - executive incentives are strengthened if feedback sufficiently fast
- there is collusion between the executive and the legislative branch
  - pandering under HC
  - less sharp differences
What is the effect of institutions on accountability?

Environment with tradeoff between informed agents (good) and conflict of interest (bad).

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Performance

Comparison turns on which problem is more severe: voter ignorance or conflict of interest.

- voter ignorance: HC better screening and incentives.
- conflict of interest: DC better screening, sometimes better incentives.
  Danger! If voters disengaged, both representation and incentives suffer.
(6) Conclusion

- HC may look "less democratic" than DC
- HC can achieve more accountability if voter ignorance is a bigger problem than conflict of interest
- Informational story can explain the institutional tradeoff