**The Politician and the Judge:
Accountability in Government**

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Motivations

- Compare governance technologies
  - Direct democracy (DD): voters decide
  - Representative democracy (RD): voters delegate to elected official
  - Judicial power (JP): voters delegate to unelected official [should in fact be called technocratic power]
- Common assumptions
  - Imperfect information of voters
  - Officials better informed (can invest in acquiring information) but possibly biased
  - Therefore no clearly dominant technology, trade-off between better informed and biased decisions
- Other papers (e.g Alesina Tabellini 2007) use similar approach

Assumptions (1)

- Two periods 1 and 2
- Two possible decisions *a* and *b* (in each period)
- One action dominates the other one (corresponds better to voters' preference) but voters do not know their own ranking
- *a* is the 'popular' action. Voters know *p* (>0.5) the probability that it corresponds to their preferences
- Technicality reduces *p*. Familiarity with the issue increases it
- Voters are risk-neutral. Pay-off is 1 if action is optimal, 0 otherwise (so max pay-off over two periods is 2)

Assumptions (2)

- Decision can be taken by voters (with risk of error) or delegated to an official who knows what is the optimal action
- However the official has his own preferences, which may or may not coincide with those of the voters (probability of congruence is *π* > 0.5)
- The judge is appointed for two periods and thus choses his preferred action in each period
- The elected official is subject to reappointment at end of period 1. S/he may chose popular action in period 1 to be reappointed (and own preferred action in period 2)
- If official's utility is G if selects preferred action, R if reappointed, the official's decision in period 1 depends on her discount factor **β** (the lower **β**, the more s/he discounts the future)

Basic case

Expected utility of voters

- Direct democracy: 2p (p in each period)
- Judicial power: 2π (π in each period)
- Representative democracy
  - If official strongly cares about reappointment (pandering) s/he choses a in period 1, so utility is p + π
  - If official does not care about reappointment s/he behaves as a judge in period 1 but can be fired before period 2 if non-congruent
- Therefore:
  - **In case of pandering DD > RD > JP if p > π, JP > RD > DD otherwise**. Therefore **RD is dominated** by alternative technologies
  - **In case of no-pandering RD dominates JP** because behaviour is the same in period 1, while RD permits replacement in period 2

Direct or Representative Democracy?
The no-pandering case

- Assume voters know the official does not pander, is perfectly informed, but is congruent with probability π only
- If s/he chose **a** in period 1 ex-post probability of congruence is:
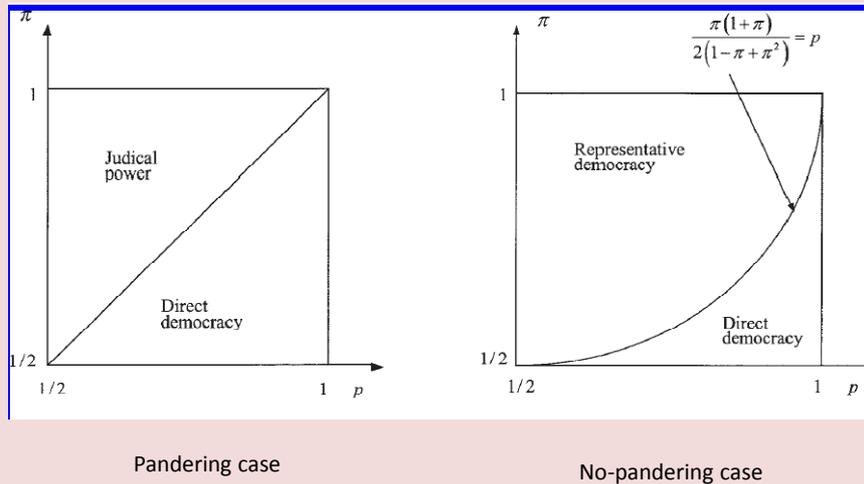
$$\frac{\pi p}{\pi p + (1-\pi)(1-p)}$$

Probability that voters are right and the official is congruent

Total probability of choosing a

- Leads to determining that RD dominates DD iff:

$$2p < \frac{\pi(1+\pi)}{1-\pi+\pi^2}$$

Summing up

Pandering case

No-pandering case

Feedback case

- Electorate can learn ex-post about optimality of decision in period 1 (e.g. consequences of fiscal policy decisions - stimulus or retrenchment)
- Assume electorates learn at end of period 1 with probability *q* whether first-period action was optimal
- This does not change performance of DD and JP but changes performance of RD as pandering may get punished
- It can be shown that this creates scope for socially optimal 'forward-looking pandering' (the official intends to please the voters *after they have learned about first-period optimal decisions*)
- Example: pensions reform

Insights

- Ranking of governance technologies depends on:
  - Ex-ante degree of public information
  - Ex-ante technicality of subject matter
- Accountability encourages officials to behave according to the voters' preferences (and not their own) but involves the risk of pandering
- Non-accountability (technocracy) preferable when voters are ill-informed, acquiring information is costly and feedback on past decisions is slow