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Games and Economic Behavior

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ARTICLE INFO

Article history:

Received 6 February 2014

Available online 23 February 2015

JEL classification:

C72

C73

D72

Keywords:

Political agency

Repeated elections

Interest groups

ABSTRACT

We examine a political agency problem in repeated elections where an incumbent runs against a challenger from the opposing party, whose policy preferences are unknown by voters. We first ask: do voters benefit from attracting a pool of challengers with more moderate ideologies? When voters and politicians are patient, moderating the ideology distribution of centrist and moderate politicians (those close to the median voter) reduces voter welfare by reducing an extreme incumbent's incentives to compromise. We then ask: do voters benefit from informative signals about a challenger's true ideology? We prove that giving voters informative, but sufficiently noisy, signals always harm voters, because they make it harder for incumbents to secure re-election.

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1. Introduction

This paper examines how changes in the ideology distribution of individuals running for office or in the information voters have about candidates affect equilibrium outcomes and voter welfare. These are important determinants of equilibrium behavior for two reasons. First, in the predominately two-party system in the United States, an incumbent officeholder typically runs for re-election against an untried challenger drawn from the opposing party. Voters know far more about an incumbent because they see her policy choices in office. In contrast, a challenger is a risky option whose true preferences are unknown. As a result, an incumbent can implement policies away from the median voter's preferred policy and still win re-election. Second, in this two-party system, the likely policy choices that a challenger might select if elected serve as the chief device with which voters can discipline office-holders to control this political agency problem. The fear of losing to the opposing party's candidate who may implement policies far from an incumbent's ideal policy provides a key inducement to incumbents to moderate policy choices when politicians cannot commit to policies.

We begin by addressing a basic question: when do voters benefit from attracting a better pool of challenging candidates? Concretely, when do voters gain if challengers are more likely to hold views closer to those of the median voter? We then ask: do voters benefit from receiving an informative, but noisy, signal about a challenger's ideology prior to an election? That is, do voters benefit from learning about a challenger's views of the world, so that they can more precisely predict her likely policy choices if elected?

[☆] For their helpful comments, we thank Jon Eguia, John Matsusaka, Joseph McMurray, as well as seminar participants at the Queen's University Belfast, University of Southern California, and 2012 Midwest Political Science Association Conference (Chicago). The paper also benefited from the suggestions of the anonymous referees.

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These changes in the ideology distribution of candidates or the information available to voters may reflect changes in the political environment—e.g., changes in the degree of ideological polarization between competing interest groups, the behavior of media outlets covering politics, or the institutions governing primary elections, campaign financing and spending—studied by the political economy literature. Our analysis complements this literature and provides insights into the possible equilibrium implications of such changes.

Our core model builds on the infinite horizon, repeated elections models of Duggan (2000) and Bernhardt et al. (2009a). It features a pool of politicians with ideologies symmetrically distributed around the median voter, divided into a left-wing $[-1, 0]$ and a right-wing $[0, 1]$ party. We investigate the welfare of voters who incur quadratic disutility from policies that deviate from their preferred policies. Equilibrium outcomes are characterized by two ideology cutoffs, w and c , where $0 < w < c < 1$. When in office, “centrist politicians” with ideology $i \in [-w, w]$ implement their preferred policies and are re-elected. “Moderate politicians” with ideology $i \in (w, c)$ choose to compromise and adopt policy w in order to win re-election, while politicians in $(-c, -w)$ compromise to $-w$. “Extreme politicians” with ideology $i \in [-1, -c] \cup [c, 1]$ implement their preferred policies, but lose re-election.

In an ideal world, with no other agency problems, social welfare would be maximized by a pool of politicians whose interests were *perfectly* aligned with the median voter’s, and hence would *want* to adopt the median’s preferred policies. But, in practice, selecting challengers is a complex, noisy process, resulting in significant variation in the realized preferences of challengers, and substantial voter uncertainty about a challenger’s preferred policies. In this context, the welfare effects of attracting more politicians with ideologies close to the median and fewer politicians with ideologies far from the median are less clear. The direct benefit from attracting a better population of challengers is obvious—when replacing an incumbent, most voters want to elect as moderate a challenger as possible. However, improved selection of challengers also adversely feeds back to affect incentives of office holders to moderate policy choices to win re-election. In particular, an office holder does not mind losing by as much if she is likely to be replaced by a moderate rather than an extremist from the opposing party: better challengers weaken the threat of replacement that voters use to discipline incumbents. This gives rise to a negative indirect effect of moderating challengers—cutoff c falls, as more incumbents choose to implement extreme policies.

Do voters benefit from attracting a more moderate pool of challengers? We show that if voters and politicians are sufficiently *impatient*, then given any two ideology distributions of challengers, voters always prefer the more moderate distribution.¹ Intuitively, when incumbent politicians do not care much about the future, they do not care much about compromising to be reelected. The indirect negative welfare effects for voters of changes in cutoff c are then small relative to the direct benefits of ideology moderation.

In sharp contrast, if voters and politicians are *patient*, moderating the ideology distribution of centrist and moderate politicians, while keeping constant the ideology distribution of more extreme politicians, hurts voters. To understand why, observe that (i) although centrist and moderate politicians have ideologies $i \in (-c, c)$, they only implement policies in the smaller set $[-w, w]$; and (ii) when players are patient, the compromise cutoff w is close to the median voter, but c is far away. As a result, moderation in the *ideology* distribution of centrist and moderate politicians only provides a small direct benefit to the median voter, since these politicians already implement *policies* close to the median. In contrast, ideology c is far from the median voter and the policy set $[-w, w]$, so moderation of centrist and moderate politicians has a large direct positive impact on a right-wing incumbent’s expected payoff from being replaced by a left-wing challenger. This causes enough extreme incumbents to cease compromising that the direct benefit is swamped, reducing voter welfare.²

What happens when ideology moderation shifts the distribution of extreme politicians? A naïve conjecture would be that when the proportion of extreme politicians is reduced, voter welfare would always rise. This conjecture is false. We consider a class of linear ideology distributions, for which moderation implies a rotation that shifts extreme ideologies closer to the median. We show that such moderating shifts reduce voter welfare as long as politicians and voters are sufficiently patient.

Our findings indicate that one must be cautious when evaluating the welfare impacts of changes to the processes that select challengers. Many institutional or strategic changes may lead to a pool of more moderate challengers—a shift from a closed to open primary system that draws more independents; increased party filtering of challengers to improve electability; or increased concerns of primary voters for more moderate candidates, with better chances in the general election. Alternatively, reductions in the opportunity cost of running for office, e.g., increased compensation, may differentially appeal to “good” (moderate) challengers. Our findings highlight that differentially drawing particularly attractive, moderate challengers robustly and paradoxically reduces voter welfare whenever voters and officeholders are patient. Indeed, a robust empirical feature of electoral competition is that “weak” incumbents who adopt extreme policies are more likely to draw “good” challengers. Paradoxically, this endogenous response raises the incumbent’s incentives to adopt extreme policies, harming voters.

Having characterized how a more *moderate distribution* of challenger ideologies affects outcomes, we next characterize how more *information* about challengers affects outcomes. Specifically, we derive the impact of a political campaign process prior to an election that reveals information to voters about a challenger’s attributes. We want to understand whether and when voter learning via the electoral process improves political outcomes. We suppose that voters receive a binary (good

¹ For politicians with right-wing ideologies $i \geq 0$, ideology distribution F'_R is more moderate than F_R if F_R first order stochastically dominates F'_R . The opposite holds for the symmetric left-wing politicians.

² When voters are impatient, holding constant any discount factor, we prove that any moderation in the ideology distribution of politicians sufficiently close to the median voter always reduces voter welfare.

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