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Institutional Constraints and the Inefficiency in Public Investments

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Abstract

This paper studies limits on executive authority by identifying a dynamic channel through which they interact with policy-making. The model features two agents, one of which becomes the incumbent in each of the two periods and unilaterally decides on investment in a common-interest public good, targeted pork spending and the future executive constraint. While a weak constraint permits an incumbent to enact his desired policies in case of re-election, the same applies to his opponent in the opposite scenario. However, this trade-off changes with the level of the public good, because the agents' shared investment interest dominates their conflict over pork spending to a lesser extent as the efficiency gains from investing get exhausted. In equilibrium, more efficient states of the public good are associated with tighter executive constraints. Despite the fact that agents share the same preferences over public good consumption, equilibrium public good provision is inefficient. Moreover, this inefficiency worsens as the incumbent's re-election chances deteriorate. These findings shed light on why incumbents facing similar electoral environments make different institutional choices.

Keywords : Executive constraints, Public goods, Pork-barrel spending.

JEL Classification : D72, D78, H42.

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