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Political accountability and sequential policymaking☆

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ABSTRACT

We develop a model of political accountability with sequential policymaking. When a bureaucrat's actions are transparent, his overseer faces a political time inconsistency problem—she is tempted to revise her retention rule in the middle of the policymaking process. As a result, the bureaucrat's equilibrium behavior overemphasizes later tasks. If the overseer knows the technology by which policies translate into outcomes, then she can eliminate these distortions using task-specific budget caps. However, if the overseer is uncertain about this technology, such budget caps introduce ex post inefficiency. When uncertainty is sufficiently large and consequential, the overseer prefers an institutional environment with a fungible budget and no transparency. Such an environment allows the overseer to exploit the bureaucrat's expertise, though at the cost of weaker overall incentives.

The launch of the Healthcare.gov website in October 2013 was a significant policy setback for the federal government. The site was meant to provide access to an online marketplace to facilitate the purchasing of mandatory health insurance under the 2010 Patient Protection and Affordable Care Act. However, it did not work as intended—users had trouble accessing the website, experienced long delays, and were unable to enroll in health insurance—setting off a political and policy crisis.

Many factors contributed to the problems at Healthcare.gov. The United States Government Accountability Office (GAO) reports that one important factor was a failure of oversight inside the Centers for Medicare & Medicaid Services (CMS).[1] According to the GAO report, in early 2013, CMS identified significant problems in the work done by one of its major contractors, CGI Federal. CMS had the authority to hold CGI Federal accountable. But, the GAO reports, CMS "delayed key governance reviews" and "chose to forego actions, such as withholding the payment of fee, in order to focus on meeting the website launch date".[2] Indeed, in August of 2013, CMS sent a letter stating it "would take aggressive action, such as withholding fee … if CGI Federal did not improve or if additional concerns arose," but quickly withdrew the letter in order to "better collaborate with CGI Federal in completing the work in order to meet the October 1, 2013, launch".[3] It was only after the actual website launch failure that CMS took any significant actions to hold CGI Federal to account, transitioning responsibility from CGI Federal to Accenture Federal Services in January, 2014.[4]

This episode illustrates a general problem in accountability and oversight in political settings. The sequential nature of the policymaking and implementation process creates issues of dynamic consistency. Up front, an overseer may assert that agents will be held accountable for actions taken throughout the process. But once a given action is taken, the overseer is primarily concerned with obtaining good outcomes going forward and, thus, may be tempted to revise the accountability standard to optimize future incentives. This appears to be what CMS did when it failed to punish CGI Federal for early failures in order to avoid future delays. If agents anticipate that overseers will so revise accountability standards, they can exploit this fact by shirking early in the process, as CGI Federal may have done.

We consider how the sequential nature of the policymaking process impacts the efficacy of political accountability and optimal political institutions. Political economy models typically assume that there is only a single policy action prior to moments of accountability.[5] However, in most important policy domains, a policymaker or bureaucrat takes multiple sequential actions between decisions by an overseer

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[1] See GAO-14-694, "HEALTHCARE.GOV: Ineffective Planning and Oversight Practices Underscore the Need for Improved Contract Management", July 2014. http://www.gao.gov/assets/670/665179.pdf.

[2] GAO-14-694, page 1.

[3] GAO-14-694, page 34.

[4] GAO-14-694, page 37.

[5] Of course, multitask problems (Holmström and Milgrom, 1991) have been analyzed in many settings, including political agency settings (Lohmann, 1998; Besley and Coate, 2003; Ashworth, 2005; Ashworth and Bueno de Mesquita, 2006; Gehlbach, 2006; Bueno de Mesquita, 2007; Bueno de Mesquita and Stephenson, 2007; Hatfield and Padró i Miquel, 2007; Patty, 2009; Daley and Snowberg, 2011; Ashworth and Bueno de Mesquita, 2014; Le Bihan, 2014). None of these models consider the issue of sequential actions prior to a retention decision, which is our focus.

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regarding whether to reward or punish the agent. Such dynamic considerations have not been captured in the context of models of political agency.[6]

We develop a model of political agency with sequential actions. Our model is in the tradition that focuses on agency problems in bureaucratic politics associated with incentives for effort or budget expenditures (McCubbins et al., 1987; Moe, 1990).[7] Our model yields two key kinds of results that underscore the importance of explicitly modeling sequential policymaking. First, our model gives rise to equilibrium behavior that overemphasizes the late stages of the policymaking process. The intuition behind this result is the political time inconsistency problem described above.

Second, we provide a novel argument for the potential benefits of eliminating transparency in political settings. This argument starts with the observation that, if the overseer knows the technology by which policy translates into outcomes, then she can solve the time inconsistency problem, while maintaining the most powerful incentives possible, by establishing perfectly tailored task-specific budget caps. However, if the overseer is uncertain about this technology, such task-specific budget caps introduce ex post inefficiency by constraining the policymaker's ability to allocate resources to those tasks that turn out to have the highest marginal returns. In effect, in the presence of uncertainty, task-specific budget caps achieve ex ante efficiency at the cost of sacrificing the overseer's ability to use the ex post expertise of the policymaker. We show that when uncertainty is large and consequential, the optimal institution for the overseer can be one that is strictly inferior without uncertainty—in particular, the optimal institution may have neither transparent actions nor task-specific budgets. Eliminating transparency weakens incentives. However, it can nonetheless be beneficial on net because the overseer, lacking information about the policymaking process, can do better by forcing herself not to manage the details of the policymaker's behavior. She does so by tying her hands to condition retention decisions only on outcomes and leaving the budget fungible.

As we highlight in Section 7, the logic of this argument has a number of implications for both institutional and policy design. It suggests that, in institutional settings characterized by transparency, policy designers may wish to mandate policy interventions that are less sensitive to early stage inputs (e.g., crafting rules) and are more sensitive to late stage inputs (e.g., monitoring and enforcement). This may be true even when such an approach would not be optimal absent the distortions associated with the overseer's time inconsistency problem. With respect to institutional design, our analysis sheds new light on debates over the merits of "fire alarm" vs. "police patrol" approaches to legislative oversight (McCubbins and Schwartz, 1984). Police patrols involve active oversight and, thus, induce transparency and allocative distortions of the sort we model. A fire alarms approach, by contrast, conditions oversight only on outcomes, eliminating allocative distortions, albeit at the cost of reduced incentive power. For policy problems characterized by sequential policymaking, our model provides an argument for the potential relative appeal of a fire alarms approach.

The paper proceeds as follows. Section 1 discusses empirical settings captured by our modeling approach and presents a simple numerical example of our main argument. Section 2 describes the model. Sections 3–4 provide the main formal analysis of the baseline model, including a characterization of a second-best benchmark and equilibrium. Section 5 considers the effect of transparency and task-specific budget caps in the baseline model. Section 6 shows that non-transparency can be optimal when the overseer is uncertain of the production technology. Section 7 discusses applications. Section 8 offers concluding remarks, including a discussion of the extent to which our results can be expected to extend to other canonical approaches to modeling bureaucratic politics.

1. Setting and basic argument

We study a game between an Overseer (she) and a Bureaucrat (he). Before turning to the formalization, we first describe the basic structure of our model and the political settings it is meant to describe, and provide a simple numerical example that illustrates our argument.

In our game, the Bureaucrat allocates resources to two sequential tasks (call the allocations a_1 and a_2), both of which impact the eventual success or failure of a policy. The Overseer has an opportunity to communicate with the Bureaucrat prior to each action. After the Bureaucrat has taken both actions and the policy outcome has been realized, the Overseer retains or dismisses the Bureaucrat.

Modeling the Overseer's decision as being about whether to retain the Bureaucrat captures a key feature of political environments in a simple way. In many political settings, overseers are constrained to use blunt instruments, such as retaining or replacing policymakers, allocating or not allocating a fixed budget, or reassigning an agent to a less desirable job. Our model of the retention decision may be interpreted more broadly as a model of such blunt instruments.

The two key features that characterize the institutional environment we model—an Overseer with retention authority and a fixed moment of accountability—describe a large number of government bureaucratic appointees, where our model of communication between the Overseer and Bureaucrat is particularly natural. As our opening example highlights, such relationships exist within the hierarchy of the bureaucracy itself at many levels. In the United States, they are perhaps most visible between the President and many senior appointed bureaucratic officials. For instance, many heads of executive bureaus (e.g., the Federal Energy Regulatory Commission, Internal Revenue Service, and Federal Aviation Administration, among many others) and independent agencies (e.g., the National Transportation Safety Board, Securities and Exchange Commission, Federal Trade Commission, Defense Nuclear Facilities Safety Board, and Federal Communications Commission, among many others) hold their offices for a fixed term subject to reappointment or replacement by the President.[8] Similar institutionalized arrangements are common outside the United States. For instance, the members of the European Food Safety Authority and the French Competition Authority (which polices anti-competitive behavior), Prudential Supervisory Authority (which monitors banks and insurance companies), and High Health Authority, among many others, all serve for fixed, renewable terms.

Now consider a simple numerical example of our argument. The Bureaucrat values retaining office and also values resources that he doesn't expend on policy. In the example, the value of retaining office is $B = 1$, the Bureaucrat's budget is $\bar{A} = 4$, and the value of resources not expended on policy is given by the square root. For the sake of the example, assume that the probability the policy succeeds is given by a symmetric and concave function, so that, for any given level of spending, the probability of success is maximized if the resources are divided evenly between the two tasks.

Start by noticing that the most the Bureaucrat could possibly be induced to spend between the two tasks is an amount, $A^{\max}$, that leaves

[6] The most closely related theoretical literature we are aware of is papers by Sarafidis (2007) and Muthoo and Shepsle (2010) that focus on explaining the well-known pattern of behavior whereby voters primarily focus their attention on the later stages of a politicians' term leading incumbents to allocate disproportionately more effort or resources to these later stages (Popkin et al., 1976; Shepsle and Weingast, 1981; Weingast et al., 1981; Figlio, 2000; Rothenberg and Sanders, 2000; Albouy, 2011). Even in these models, the overemphasis of late stages emerges due to the assumption that the voters have a "recency bias". In our model, related time inconsistency is the result of strategic factors with a rational overseer.

[7] Another research tradition in bureaucratic politics focuses on ideological disagreements (Epstein and O'Halloran, 1994; Clinton and Lewis, 2008; Lavertu et al., 2013). We discuss the extent to which our results can be expected to extend to such environments in Section 8.

[8] See Lewis and Selin (2012) for a complete description of all federal bureaucratic positions with fixed terms of office.