Journal of Public Economics 134 (2016) 85–99

Contents lists available at ScienceDirect

Journal of Public Economics

journal homepage: www.elsevier.com/locate/jpube

Hierarchical accountability in government☆

Razvan Vlaicu[a,*], Alexander Whalley[b,c]

[a] Inter-American Development Bank, Research Department, 1300 New York Ave NW, Mailstop E-1007, Washington, DC 20577, USA
[b] University of Calgary, Department of Economics, 2500 University Dr. N.W., Calgary, AB T2N 1N4, Canada
[c] NBER, 1050 Massachusetts Ave., Cambridge, MA02138, USA

ARTICLE INFO

Article history:
Received 30 May 2014
Received in revised form 17 December 2015
Accepted 22 December 2015
Available online 6 January 2016

JEL classification:
D72
D73
H70

Keywords:
Pandering
Accountability
Incentives
City manager

ABSTRACT

This paper studies a setting where a relatively uninformed voter holds a policymaker accountable through an informed intermediary. In equilibrium the voter uses the intermediary to insulate the policymaker from pandering incentives when the voter's policy expertise is low or the policymaker's congruence is high. The voter can thus enjoy the benefits of bureaucratic expertise without forfeiting electoral responsiveness. We examine the model's predictions using U.S. city-level data, and find that hierarchically-accountable managers reduce popular city employment, and adjust it more flexibly, than electorally-accountable mayors. The estimated incentive effects are smaller in cities with high voter expertise and larger during election years, and are robust to instrumentation by precipitation shocks that influenced early 20th century manager government adoptions for reasons obsolete today.

1. Introduction

The accountability of government officials to the general public is a fundamental principle of democratic governance. Yet, this principle's most direct manifestation – electoral accountability – while a useful safeguard may nevertheless introduce distortions in the policymaking process. Having to periodically face a public whose policy expertise is limited gives electorally-accountable officials incentives to disregard their private expertise and adopt popular policies not necessarily in the public interest by engaging in pandering (Canes-Wrone et al., 2001) or electoral manipulation (Rogoff, 1990). Delegating policymaking instead to unaccountable technocrats may allow expertise to be used without fear of electoral retribution but runs the risk that technocrats may pursue private goals that can disconnect policymaking from the public interest (Maskin and Tirole, 2004). An important question then is how to resolve this tension between expertise and responsiveness, that is, how to allow public officials' expertise to be expressed in policymaking while also preserving accountability to the general public.

In this paper we focus on a setting where the policymaker is accountable to the voter through an intermediary. Policymakers such as prime ministers, city managers, and school district superintendents cannot be directly removed by voters. However, they remain accountable to the voter in the sense that they can be replaced at will by a popularly elected intermediary, e.g., legislature, city council, school board. Following contract theory terminology we refer to this type of principal–intermediary–agent relationship as hierarchical accountability.[1]

At first sight, holding a policymaker accountable through an intermediary seems to disconnect policymaker choices from voter preferences. If the voter is fully informed he can, nevertheless, exploit the intermediary's reelection motivation to control policymaker moral

☆ We would like to thank Jim Davies, Allan Drazen, Fernando Ferreira, Price Fishback, Lisa George, Gabriele Gratton, Alex Hirsch, Shawn Kantor, Ethan Kaplan, Ken Shotts, Gergely Ujhelyi, Richard Van Weelden, Emanuel Vespa, Joel Waldfogel, John Wallis, and seminar participants at Florida State University, FTC, IIES, New York University, Stanford University, Stockholm University, University of Chicago, University of Houston/Rice University, University of Illinois at Urbana, University of Pittsburgh, Canadian Public Economics Conference, Econometric Society NAWM, and Princeton Political Economy Conference. Erin Moody, Krystal Tapia, Michael Wall, and Marko Zivanovic provided excellent research assistance.

* Corresponding author.
E-mail addresses: vlaicu@iadb.org (R. Vlaicu), awhalley@gmail.com (A. Whalley).

[1] About half of U.S. cities are run by city managers. "If the manager is not responsive to the governing body, it has the authority to terminate the manager at any time." (ICMA, 2007, p. 2). Other forms of indirect accountability grant the policymaker a fixed term, e.g., top regulators, central bank governors.

http://dx.doi.org/10.1016/j.jpubeco.2015.12.011

hazard just as effectively as the voter could directly (Persson et al., 1997).[2] In an incomplete information environment, however, the voter also faces an adverse selection problem which weakens electoral accountability by producing pandering incentives. Even if the voter's best interest is to limit policymaker pandering, a commitment problem renders him unable to do so. Ex ante an uninformed voter may prefer to insulate a better-informed policymaker. Ex post, however, he would rather replace an unpopular policymaker because unpopular policies signal that the policymaker may have different preferences.[3]

When accountability to an imperfectly-informed voter distorts the policymaker's incentives in this way, delegating policymaker accountability to an informed intermediary seems justifiable. The case for delegation is less clear-cut, however, if the intermediary's preferences may also differ from the voter's. In that case the voter needs to provide incentives for the intermediary to act in the voter's interest. Under what conditions can an informed intermediary help the voter insulate the policymaker from pandering incentives?

To understand behavior in this setting we first develop a hierarchical agency model (voter–intermediary–policymaker model) where the voter is uncertain about the optimal policy but leans toward a "popular" policy. The intermediary is a political expert, i.e., informed about the policymaker's type, and the policymaker is a policy expert, i.e., informed about the optimal policy. The model's key insight is that the voter can credibly use the intermediary to insulate the policymaker from popular pressure when pandering is relatively detrimental to the voter. That happens when the voter's policy expertise is low or the policymaker's congruence, i.e., alignment with voter preferences, is high. In these cases the voter is ex ante better off retaining an unpopular policymaker and the intermediary allows him to commit to do so ex post. This is because an unpopular policymaker is still more likely congruent, so retaining an unpopular policymaker signals intermediary congruence. Hierarchical accountability thus offers the voter the flexibility to promote policymaking expertise without forfeiting electoral responsiveness. Voters can credibly and optimally switch between erring on the side of expertise and erring on the side of responsiveness when their informational and political environment changes.[4]

In our empirical application we study policymaking by U.S. city managers, hierarchically-accountable officials with the same major policy responsibilities as electorally-accountable mayors, i.e., writing the budget and hiring personnel. While manager government provides a natural measure of hierarchical accountability, how to measure pandering behavior is less clear. We propose that pandering behavior can be detected empirically in policy issues that satisfy three conditions: (i) is a primary (not secondary) policy issue over which the policymaker has jurisdictional control, (ii) the optimal policy is state-contingent, and (iii) the public has a clear stance on this issue. We argue that police officer employment satisfies these requirements as (i) crime has consistently ranked among the top two local policy issues in Gallup surveys of local attitudes since 1959 (see Gallup, 2000) and crime prevention ranked among the top two city services with high "resident sensitivity to quality" (Levin and Tadelis, 2010); city executives have juristictional control over public safety, a substantial local budget item, (ii) the probability of crime fluctuates with economic and social conditions, changing the optimal policy response, and (iii) due to constant voter concern over public safety, demand for police officers by relatively uninformed voters can be expected to persist even when the probability of crime is low; in contrast, civilian police employment, e.g., administrators, dispatchers, as well as other city employee categories, should not elicit such a clear popular preference. Across a number of specifications we find that on average managers employ 8–14% fewer police officers per capita than mayors but a comparable number of police civilians and non-police employees per capita.

A central challenge to estimating institutional effects is that institutions may be endogenous to policymaking, for instance through unobserved voter preferences (Aghion et al., 2004). To address potential endogeneity in accountability form we propose an instrument for manager government. The instrument is based on the observation that before the 1936 Flood Control Act transferred flood prevention from local governments to the federal Army Corps of Engineers cities often responded to flood-related infrastructure crises by adopting manager government because it facilitated the ascension of engineers into the top executive office. We document that pre-1936 precipitation shocks influenced early switches to manager government for reasons obsolete today and find that the city employment patterns noted above also appear in this IV setting.[5]

We further explore the theory model's incentive mechanisms and find that policy volatility is higher in manager governments because managers can more often, i.e., when insulated, act on their expertise to adjust the policy to the stochastic state. We also propose a measure of voter expertise and find that the manager–mayor officer employment differential decreases in cities affected by the crack epidemic, where voters should be more aware of the state of crime. It is also more pronounced in election years, when the theory model predicts that incentives should be sharper. We note that these patterns cannot be fully explained by alternative mechanisms, such as pure patronage motivations or policymaker type selection.

Our paper relates to the literature on the career concerns of expert policymakers. Maskin and Tirole (2004) show how relying on unaccountable technocrats, e.g., unelected bureaucrats or tenured judges, eliminates pandering incentives but makes removing noncongruent policymakers harder; thus there is a tradeoff between expertise and responsiveness in policymaking. Similarly, media providers improve the monitoring of public officials, but face incentives to be 'yes men' themselves (Ashworth and Shotts, 2010); allowing decisionmaking behind closed doors (Fox, 2007), or imposing term limits (Smart and Sturm, 2013), both reduce the electoral pressure on congruent policymakers to be popular, but also allow noncongruent ones to adopt suboptimal policies; candidate competition reduces pandering, but encourages anti-pandering (Kartik et al., 2013). Our theory shows, by contrast, that hierarchical accountability affords the voter the flexibility to optimally choose between insulating congruent policymakers, on the one hand, and providing pandering incentives to noncongruent policymakers, on the other. The voter can thus enjoy the benefits of bureaucratic expertise without forfeiting electoral responsiveness.

Our contribution to the empirical literature is two-fold. First, we provide an empirical measure of pandering behavior grounded in the logic of the theoretical pandering literature and use it to quantify how pandering incentives respond to informational and electoral factors. In the previous literature pandering has been measured by looking at how U.S. presidents' budgetary proposals respond to public opinion surveys of citizen spending preferences (Canes-Wrone and Shotts, 2004), how judges with reelection concerns or facing stronger competition issue more punitive sentences

[2] One caveat is possible policymaker–intermediary (executive-legislature) collusion. In that case, the executive would have more discretion to engage in rent-seeking.

[3] Besley and Smart (2007) and Smart and Sturm (2013) notice the commitment issue in the context of fiscal rules and term limits, respectively.

[4] In contract theory and corporate finance, hierarchical agency models study optimal incentives through wage contracts (e.g., Strausz, 1997; Park, 2000). Our main theory result echoes the finding in this literature that under asymmetric information an intermediary allows the principal to commit to a broader range of incentive structures for the agent.

[5] To our knowledge this is the first instrument for manager government in the literature, if we exclude Baqir's 2002 use of lags of city institutions as instruments for current city institutions.