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Strategic delegation and voting rules

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ABSTRACT

The selection of political representatives depends on the political system. Principals, such as voters or districts, may benefit by strategically electing representatives different from themselves. While a status-quo biased delegate may be a better negotiator, an enthusiastic representative has a better chance of being included in the majority coalition. A larger majority requirement leads to "conservative" delegation and hence a status quo bias; a poor minority protection does the opposite. Through strategic delegation, the political system also determines whether centralization or decentralization is beneficial.

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1. Introduction

Political decisions are made by delegates, not the citizens themselves. In most legislatures, every district is represented by a delegate who, on its behalf, negotiates and votes on whether certain policies should be approved. Each district may have an incentive to strategically elect a representative that is biased one way or the other. What determines the incentives to delegate strategically? Do they depend on the political system? Can institutions be designed to ensure "optimal" delegation?

Strategic delegation may be costly from a social point of view: If the delegates are "conservative" (status quo biased), they tend not to implement projects even if they are socially optimal. If, instead, the delegates are "progressive" (public-good lovers), they implement projects even if these are too costly. Strategic delegation may thus separate voters' preferences from those of the politicians. It is thus highly important to understand when and how voters strategically appoint representatives.

Unfortunately, there are contradictions in the literature on delegation. Starting with Schelling (1956), a large bargaining literature shows how principals delegate to status quo biased agents to gain "bargaining power". Such agents are less desperate in reaching an agreement and, therefore, able to negotiate a better deal.

On the other hand, a more recent literature in political economy argues that "voters attempt to increase the probability that their district is included in the winning coalition by choosing a representative who values public spending more" (Chari et al., 1997, p. 959). The majority coalition will typically consist of the winners, i.e., the representatives who are least costly to please (as in Ferejohn et al., 1987). And, being a member of the majority coalition is important, since this shares the surplus and expropriates the minority whose votes it does not need. To increase the "political power" (the probability of being a member of the majority coalition), districts should therefore delegate progressively — not conservatively.

This paper captures both the incentives to delegate conservatively (to gain bargaining power) and progressively (to gain political power). In equilibrium, the direction of delegation depends on which concern is stronger and this, it turns out, depends on the political system. In particular, if the majority requirement is large, being a member of the majority coalition is not very beneficial, since it will have to compensate most of the losers. Bargaining power is then more important, and the principals delegate conservatively, just as predicted by Schelling. If the majority requirement is small, however, the majority coalition expropriates a large minority, and divides the revenues on just a few majority members. Political power is then very beneficial, and districts delegate progressively, as argued by Chari, Jones and Marimon.

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To return to the initial questions, strategic delegation does indeed depend on the political system; the voting rule in particular. But the strategic choice of delegate depends on several other parameters, as well. Some of these are details of the legislative game, such as the minority protection, the agenda-setting power, the majority coalition's discipline and its stability. The characteristics of the political issue are also important, such as the heterogeneity, the expected value of the collective project, and its variance. In every case, the first-best *can* be achieved by carefully selecting the majority requirement.

Strategic delegation has also consequences for the optimal allocation of authority across alternative institutions. If the voting rules cannot be changed, they determine whether an issue ought to be centralized or decentralized to local governments.

The results are important for understanding empirical observations, since voting rules do differ across both countries and political chambers within the same country.[1] The observation might also be important for the EU, applying various rules for different decisions and political chambers. While a serious test of the theory must await future research, the concluding section discusses some anecdotal evidence.

After a further discussion of the literature, the following section presents the simplest version of the model. Solving the game by backward induction, Section 4 shows how the districts have incentives to either delegate conservatively or progressively, depending on the political issue and the political system. The optimal majority rule balances the strategic concerns, and induces a first-best selection of projects. Section 5 applies the model to shed light on the trade-offs between centralization and decentralization, while Section 6 generalizes the legislative game by discussing the possibility to tax, minority rights and coalition stability. The final section concludes, while Appendix A contains all the proofs.

2. Related literature

As noticed above, there is a controversy in the literature on delegation. Starting with Schelling (1956), a large bargaining literature shows how principals delegate to status quo biased agents to gain “bargaining power”. Schelling's argument is formalized by Jones (1989) and Segendorff (1998) in two-player games. Elsewhere (Harstad, 2008), I show how this argument hinges on the existence of side transfers, perhaps making transfers harmful. Milesi-Ferretti et al. (2002) compare majoritarian and proportional systems where three districts delegate to gain bargaining power. With one-dimensional policies, single-peaked preferences and without side payments, Klumpp (2007) shows that voters may delegate to status-quo biased representatives to make their acceptance sets smaller. An *n*-person bargaining game is studied by Brückner (2003); he finds that the bias may be mitigated by relaxing the unanimity requirement. Besley and Coate (2003) study strategic delegation in a context where two districts maximize joint utility. In a similar model, Dur and Roelfsema (2005) show that the direction of delegation may go either way, depending on the cost-sharing rules.

Much of the political economy literature goes the other direction, however, arguing that voters may want to delegate to (“progressive”) public good lovers since these are likely to be included in the winning coalition (Chari et al., 1997; Ferejohn et al., 1987). Austen-Smith and Banks (1988) and Baron and Diermeier (2001) show how voters consider the induced coalition-formation when electing representatives, although bargaining power is *not* considered. The trade-off between bargaining power and political power is apparent in the seminal contribution of Baron and Ferejohn (1989): In numerical examples, they show that a high probability of being recognized as the next agenda-setter makes the legislator less attractive as a coalition-partner. However, the trade-off is not explicitly discussed and they do not study strategic delegation. Recently, Christiansen (2009) does allow for both conservative and progressive delegation in the Baron–Ferejohn bargaining model. In equilibrium, however, delegation is never conservative since types are binary and deterministic in his model.

The model below compares centralization and decentralization. So do Besley and Coate (2003), and their “non-cooperative centralization” corresponds to my own definition of centralization. But they assume decentralization prevents *any* bargaining, and their “cooperative centralization” is a situation where the legislature simply maximizes the delegates' total utilities. In contrast, this paper allows for cooperation even under decentralization. Gradstein (2004) studies how the *threat* of decentralization (or secession) affects delegation, while Lorz and Willmann (2008) let districts delegate before negotiating whether to centralize in the first place.

The emphasis on voting rules ties the paper to a large literature going back to Rousseau (1762), de Condorcet (1785), Wicksell (1896), Buchanan and Tullock (1962) and, more recently, Aghion and Bolton (2003).[2] Wicksell, in particular, argued that unanimity were the appropriate requirement, since otherwise the majority would expropriate the minority.[3] Without delegation, Wicksell would be right in my model. However, every district delegates conservatively if the majority requirement is large, and reluctant representatives implement too few projects. Taking this effect into account, the optimal majority requirement should be smaller.

In the model, each district trades off an incentive to gain bargaining power and the desire to be included in the majority coalition. This trade-off is similar to that in Harstad (2005), and the legislative games are quite similar in the two papers. However, Harstad (2005) ignores the upper boundary on taxes, and the analysis requires there to be small transaction costs related to the transfers. More substantially, Harstad (2005) studies optimal incentives to prepare for a collective project, ignoring the incentives to delegate strategically, emphasized in this paper.

3. The model

3.1. Players and preferences

A set of districts, I, must agree to a policy, specifying whether a binary public project is to be implemented and, in any case, how to allocate tax revenues. For individual j in district $i \in I$, the project has a realized gross value $\tilde{v}_i^j$ but a cost $\tilde{c}_i^j$. These can be arbitrary distributed. Define the (net) value as $v_i^j \equiv \tilde{v}_i^j - \tilde{c}_i^j$, and district i's average net value as v_i.

Each district $i \in I$ elects a delegate i_d. As proven in Section 4.2, all voters in district i happen to agree on which i_d to elect, so a strong version of the Median Voter Theorem turns out to hold. The

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[1] In the US, the majority requirement is effectively larger in the Senate than in the House, because of the possibility to filibuster. In Europe, the effective majority requirement varies across countries because of different explicit voting rules, but also because the number of parties, chambers and quorum requirements differ widely (Döring, 1995).

[2] See also Messner and Polborn (2004), who show how voters may prefer a super-majority rule as a way of delegating the pivotal role in the future, and Barbera and Jackson (2006), who explain how heterogeneity within countries determines their optimal voting weights. However, such heterogeneity is not important when side payments are available, as I assume.

[3] Buchanan and Tullock (1962) argued that unanimity would imply too high “decision-making costs” and Aghion and Bolton (2003) suggested that the “winners” of a project may not have deep enough pockets to compensate the “losers”. The present paper does not include any of these features, giving Wicksell right — where it not for strategic delegation.

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