Popular Referendum and Electoral Accountability

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Research Question

- How does the possibility of voters calling for a referendum affect electoral accountability?

Arguments in favor of the popular referendum

- Popular referendum improves congruence between enacted policies and the preferences of the electorate (Gerber, 1996; Hug, 2004; Besley and Coate, 2008).

Arguments against the use of the popular referendum

- Voters, unlike elected representatives, lack the expertise to make wise decisions (Weber, 1921; Schumpeter, 1942).
- Elected representatives more likely to choose suboptimal policies in fear of being overturned (Matsusaka and McCarty, 2001).
- Direct democracy weakens the authority of elected representatives and therefore undermines representative democracy (Mueller, 1996).

Electoral accountability model in which voters are uncertain about the best policies.
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Electoral accountability model in which voters are uncertain about the best policies
At least three types of referenda:

- Constitutionally mandated;
- Initiated by the government or other elected officials;
- Initiated by the citizens themselves.

Focus here: citizen-initiated referenda

24 states, Switzerland, Italy, Latvia, Slovakia, Serbia, Uruguay...

Common place subject restrictions for citizen-initiated referenda: 'No referendum may be held on a law regulating taxes, the budget, amnesty or pardon, or a law ratifying an international treaty.' (Italy, Art. 75 of the Constitution)
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- But popular referenda also create positive externalities for representative democracy: improved congruence on policy dimensions on which voters **cannot** call for a referendum.
- Improved policy congruence even when it is commonly known that voters will not become informed about which policies are in the public interest.
- Direct Democracy can eliminate the perverse effect of the value of additional information.
Motivation - (Very Partial) Intuition

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- Referendum limits policy benefits of separation, and therefore increases the relative value of re-election
  ⇒ stronger incentives to choose the same policies as congruent politicians would on all policy dimensions in order to improve chances of re-election
Model

- **Actors:** Incumbent (I), representative Voter (V).
  - I can be congruent or non-congruent.
- **Timing:**
  1. Nature determines:
     - state of the world \((\omega_1, \omega_2)\)
     - type of the Incumbent \((\pi > 1/2)\).
  2. I observes state of the world and chooses policies \(p_1, p_2 \in \{-1, 1\}\).
  3. V observes policy choices, second component of the state of the world \((\omega_2)\) and with probability \(q_1 \in [0, 1]\) first component of the state of the world \((\omega_1)\).
  4. Voter decides whether to hold a referendum on policy \(p_1\) at cost \(\kappa > 0\).
  5. V decides whether to reelect I.
  6. Nature chooses state of the world \(\omega_3\).
  7. I chooses policy \(p_3\).
Preferences:

1. Voter gets additional 1 for each policy matching its corresponding state of the world, 0 otherwise.
2. Incumbent cares about policy:
   - Congruent I: same policy preferences as Voter.
   - Non-congruent I: opposite policy preferences.
3. I does not care about policy when not in office.
4. I receives additional benefit $B \in (0, 1)$ if reelected.
Improved congruence

- $p_1 \neq \omega_1$, $p_2 \neq \omega_2$

- $p_2 = \omega_2$ with non-degenerate probability
  - $p_1 \neq \omega_1$

- $p_1 = \omega_1$, $p_2 = \omega_2$

- $1 - \frac{2B}{B+1}$ with non-degenerate probability
  - $p_1 = \omega_1$ and $p_2 = \omega_2$

- $\frac{B}{B+1}$

- $\frac{1}{B+2}$

- Value of holding office B

- Probability that Voter learns $\omega_1, q_1$
Proposition

For any $q_1 \in [0, 1]$, improved congruence with respect to $p_1$ and $p_2$. 
Recall: Under RD, probability that $p_2 = \omega_2$ in eq’m is weakly decreasing in the probability of uncertainty resolution $q_1$. 
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**Proposition**

**Under DD:**
- if the value of holding office is sufficiently high, probability that \( p_1 = \omega_1 \) and probability that \( p_2 = \omega_2 \) is weakly increasing in \( q_1 \).
- if the value of holding office is low, then multiple equilibria, non-monotonicities, much ugliness.
Utility of $N$ when no referendum:

| $U_N(p_1 \neq \omega_1, p_2 \neq \omega_2)$ | 2 |
| $U_N(p_1 = \omega_1, p_2 \neq \omega_2)$ | 1 |
| $U_N(p_1 \neq \omega_1, p_2 = \omega_2)$ | $1 + (1 - q_1)r(B + 1)$ |
| $U_N(p_1 = \omega_1, p_2 = \omega_2)$ | $q_1r(B + 1) + (1 - q_1)r(B + 1) \leq B + 1 < 2$ |

Utility of $N$ with referendum:

| $U_N(p_1 \neq \omega_1, p_2 \neq \omega_2)$ | $1 + (1 - q_1)(1 - R)$ |
| $U_N(p_1 = \omega_1, p_2 \neq \omega_2)$ | $1 + (1 - q_1)R$ |
| $U_N(p_1 \neq \omega_1, p_2 = \omega_2)$ | $(1 - q_1)(1 - R + r(B + 1)) \leq (1 - q_1)(B + 2)$ |
| $U_N(p_1 = \omega_1, p_2 = \omega_2)$ | $q_1r(B + 1) + (1 - q_1)r(B + 1) \leq B + 1$ |
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- Robust to strong office-holding motive, $B > 1$
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Conclusion

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  - Empirical research should look beyond policy fields which can be subjected to a referendum.
- Lack of expertise of voters may be a less severe problem than thought.
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Lack of expertise of voters may be a less severe problem than thought.

With citizen-initiated referenda the value to the electorate of being informed may be higher.
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Hence, N chooses between \((p_1 \neq \omega_1, p_2 = \omega_2)\) and \((p_1 \neq \omega_1, p_2 \neq \omega_2)\).
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V never re-elects N, when \(p_1 \neq \omega_1\) is revealed.

When the probability of uncertainty resolution \(q_1\) is high, N is unlikely to get re-elected upon playing \((p_1 \neq \omega_1, p_2 = \omega_2)\) and thus prefers to choose \((p_1 \neq \omega_1, p_2 \neq \omega_2)\).

When \(q_1\) is low, N prefers choosing \((p_1 \neq \omega_1, p_2 = \omega_2)\) as the probability of re-election is high.
As benefits of holding office are limited, \( N \) never chooses \((p_1 = \omega_1, p_2 = \omega_2)\).

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When \( p_1 \neq \omega_1 \) is not revealed, \( V \) may re-elect upon observing \((p_1, p_2 = \omega_2)\).
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Hence, if N chooses \((p_1 \neq \omega_1, p_2 = \omega_2)\) he incurs a policy cost of 1 (as he gives up policy \(p_2\)) but may obtain a gain of \(B + 1\) (the benefit of re-election) when \(\omega_1\) is not revealed.
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When \(q_1\) is low, N prefers choosing \((p_1 \neq \omega_1, p_2 = \omega_2)\) as the probability of re-election is high.
V never holds referendum upon observing \((p_1 = 1, p_2 = \omega_2)\), because:

- \(p_1 = 1\) is popular policy
- Congruent incumbents always choose \((p_1 = \omega_1, p_2 = \omega_2)\)
- Incumbent ex ante more likely to be congruent \((\pi > \frac{1}{2})\)

Hence, if \(N\) chooses \((p_1 = 1, p_2 = \omega_2)\) upon observing \(\omega_1 = -1\), he essentially only needs to give up policy \(p_2\) in order to get re-elected.

\(\Rightarrow\) \(N\) never chooses \(p_2 \neq \omega_2\) if \(\omega_1 = -1\) and \(q_1\) is low.

- Let \(V\) hold a referendum to set \(p_1 = 1\) whenever he observes \(p_2 \neq \omega_2\).

Then, \(N\) receives a payoff of 1 when choosing \(p_2 \neq \omega_2\) upon observing \(\omega_1 = 1\), whereas choosing \(p_2 = \omega_2\) potentially yields a payoff of \(B + 1\).

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A different interpretation

- Pandering:

  - Pandering: An incumbent implements a policy that voters think is in their best interest, even though the policy maker knows that a different policy is actually better for the voters (Shotts and various coauthors, 2001-2012).

  - Pandering: An incumbent chooses a popular policy in order to get reelected, although this policy does not conform with the policy preferences of the official (Maskin and Tirole, 2004).

  - According to P, a non-congruent incumbent panders if he chooses $p_i = 1$ although $\omega_i = -1$.

  - According to P', a non-congruent incumbent panders if he chooses $p_i = \omega_i$.

Corollary

- Decreased P (by non-congruent incumbents).
- Increased P' (by non-congruent incumbents).
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- **Pandering:**
  - P: an ‘incumbent implements a policy that voters think is in their best interest, even though the policy maker knows that a different policy is actually better for the voters’ (Shotts and various coauthors, 2001-2012).
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Because congruent incumbents always match the policies to their respective states of the world: improved congruence
Increased congruence with Voter’s beliefs

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The effect of additional information

Proposition

- Under RD, probability that $p_2 = \omega_2$ in eq’m is weakly decreasing in $q_1$.
- Under DD:
  - if the value of holding office sufficiently high, probability that $p_1 = \omega_1$ and probability that $p_2 = \omega_2$ is weakly increasing in $q_1$.
  - if the value of holding office is low, multiple equilibria, non-monotonicities, much ugliness.
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Proposition

- **Under RD**, if $q_1 < \frac{B}{B+1}$, then probability that $p_2 = \omega_2$ in eq’m decreases in $\alpha$.
- **Under DD**, if $q_1$ low, then probability that $p_2 = \omega_2$ in e’m increases in $\alpha$. 
Reelection decision

- Aspects of a retrospective rule:

  1. V does not reelect if $p_i \neq \omega_i$ for $i \in \{1, 2\}$.

  2. If uncertainty about state of the world $\omega_1$ is not resolved, V is more likely to reelect if $p_1$ is the popular policy.

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DD reduces the ability of $V$ to select good types, and so diminishes $V$’s second-period welfare.

$\Rightarrow$ Tension between selecting good types and improving accountability.
Proposition

1) If $q_1$ is high, then $V$ does not hold a referendum in eq’m.
### Frequency of Referenda

#### Proposition

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3) If \( q_1 \) intermediate, then V holds a referendum in eq’m with certainty when V observes \( p_1 \neq \omega_1 \) and with positive probability when V observes \( p_2 \neq \omega_2 \).
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**Corollary**

If $B \geq \underline{B}$, then the probability that $V$ holds a referendum increases in the probability of feedback $q_1$ on $\left[0, \frac{1}{B+2}\right]$ before remaining constant at 0 on $\left[\frac{1}{B+2}, 1\right]$. 
Frequency of Referenda

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Referenda as evidence of ‘general’ anti-incumbency sentiment.

V sometimes holds a referendum to set $p_1 = -1$, although $\omega_1$ not revealed.
$B > 1$

Value of holding office $B$

Probability that Voter learns $\omega_1, q_1$

$B + 1$

$p_1 \neq \omega_1, p_2 \neq \omega_2$

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$B = 1$

$p_1 = \omega_1, p_2 = \omega_2$

$\frac{B}{B+1}$

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Proposition

Assume $B > 1$. In equilibrium without DD:

1. If $q_1 \geq B + 1$, non-congruent incumbents implement $(p_1 = \omega_1, p_2 = \omega_2)$.
2. If $q_1 < B + 1$, non-congruent incumbents choose $p_1 = \omega_1$ with non-degenerate probability and $p_2 = \omega_2$ with certainty.
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Proposition

If $q_1 \in \left[\frac{1}{B+2}, \frac{1}{B+1}\right]$, then improved congruence with respect to $p_1$. 
Semi-congruent types

- Model as before, except:

  - I is congruent with respect to policy $p_i$ with prob. $\pi_i$, i.e.:
  - congruent with respect to both policies with prob. $\pi_2$,
  - congruent with respect to one but not the other with prob. $\pi(1-\pi)$,
  - non-congruent with respect to both policies with prob. $(1-\pi)^2$.

- I chooses policies $p_3, p_4$ in 2nd period.

- Preferences over $p_1$ and $p_3$ ($p_2$ and $p_4$ respectively) are identical.

- Result

  - If the Voter observes a first-period policy vector which is never chosen by a congruent Incumbent in equilibrium, she does not reelect.

  - Incentives for non-congruent I to separate in baseline model and to pool in model with referendum remain similar.
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Improved congruence, \( q_1 = 1, \ q_2 \in [0, 1] \)