
Term limits and electoral accountability



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1. This paper in perspective

- Termination *vs.* reappointment as incentive or selection device in various agency relations:
 - **companies**: relation between shareholders and managers (more frequent dismissal in under-performing firms)
 - **public administration**: relation between different layers (e.g., parliament / govt. appointing officials, such as central bank governor)
 - **politics**: relation between voters and politicians (this paper)

Reappointment *vs.* termination in politics: pros and cons

- **PRO:** financial incentives cannot be used to incentivize politicians (danger of corruption) ⇒ threat of termination more important than in companies or public administration.
- **CON:** threat of termination may induce politicians to “care too much about their reputation” ⇒ “timid equilibrium” where good and bad types pool and play a strategy that is not sensitive to their information (this paper).

2. A role for term limits

- Term limits (TL) reduce value of reputation (e.g., incumbent can be re-elected only once)
⇒ induce types to separate, i.e. reveal their true preferences and play strategies that are sensitive to their information
⇒ selection effect
- Note: not a real tradeoff with the selection effect of reappointment. The selection effect is absent in the “timid equilibrium”!

But result holds only if...

- **Politicians have a high discount factor β** = high concern for reputation. (TL kill “timid equilibrium” just because they lower discount factor by decree: “effective” $\beta = 0$ beyond term limit.)
- **Voters have a low probability ϕ of detecting the true state of nature s_t** (actually $\phi = 0$ in the baseline model) \Rightarrow ex post, voters cannot easily to detect if the incumbent chose the right policy.
- **No re-sampling of past winners**: after reaching term limit, politician is never allowed to re-enter later contests (e.g., “in office twice and you are out”).

Otherwise...

- If politicians are less concerned for reputation *and/or* voters more aware of suitability of policies, in equilibrium types may separate or both play first-best pooling policy $x_t = s_t$. (But little exploration outside “timid equilibrium” region.)
- Also, TL that do not prevent re-election forever are less effective in destroying the “timid equilibrium”.

3. A different role for term limits: detering entrenchement

- Agent may **change the principal's preferences:**

- *elected official* can create a dominant constituency at other voters' expense (Dick and Lott 1993, Buchanan and Congleton 1994, Chari 1997).
- *appointed bureaucrat* can buy favor of bodies that decide on his re-appointment
- *manager* may try to affect composition of share ownership (e.g., induce friendly takeover)

- Agent may **change the principal's opportunities:**

- *elected official* can engage in long-term policies where he has comparative advantage (e.g., wage war on Islam)
- *appointed bureaucrat* can create executive structure loyal only to him
- *manager* may deter raiders by granting generous long-term employment contracts (Pagano-Volpin, JF 2005)

Anti-entrenchment role of term limits

- Suppose that **time in office** increases the **ability to entrench** or the **ability to enjoy** rents from entrenchment (or **both**)
⇒ TL may play an **anti-entrenchment effect** (as in Glazer and Wattenberg 1996, and in the other studies quoted above).
- But TL will generally set off also a negative **selection or incentive effect**: commitment to terminate also thwarts agent's incentives. Note: here **tradeoff** is genuine!

Empirical implications of the two models

- Smart & Sturm's model:
 - No TL: incumbent always re-elected. In contrast, with TL: incumbent's re-election depends on first-term policy
 - With endogenous types, TL reduce the average quality of politicians.
- Entrenchment model:
 - Also here, TL reduce re-election probability
 - But TL also induce less entrenchment activities (e.g., transfers to own constituency)
 - With endogenous types, TL discourage entrenchment-seeking politicians, i.e. improve their average quality.

4. Why are term limits more frequent in politics?

- Not observed in firms. Sometimes in public administrations, but rarely in central banks. Why?
- Smart & Sturm's model:
 - reputation is more important in politics: really?
 - politicians' performance is harder to observe or contract upon than managers': perhaps!
- Entrenchement model:
 - politicians are better at entrenching: quite possible, because they can “change the rules of the game”!