

Term Limits and Electoral Accountability

Michael Smart
University of Toronto

Daniel Sturm
University of Munich and
London School of Economics

The Traditional Role of Accountability

- There is a general presumption that (electoral) accountability of public officials is desirable for two reasons:
 - Voters are able to selectively retain good incumbents
 - The threat of electoral defeat constrains opportunistic behavior

Why Term Limits?

- From this perspective term limits seem very undesirable:
 - Voters are unable to retain good incumbents who face a binding term limit
 - Voters ability to punish bad behavior is limited

Why Term Limits?

- From this perspective term limits seem very undesirable:
 - Voters are unable to retain good incumbents who face a binding term limit
 - Voters ability to punish bad behavior is limited
- Nevertheless term limits are popular and widely used:
 - United States: president, many governors and state legislatures
 - A substantial number of central bank governors

This Paper

- In this paper we address this apparent contradiction
- Our two main contributions are:
 - We show that term limits can be in the interest of voters despite the disciplining effect of elections
 - Our approach can explain why a limited number of reelection possibilities followed by a term limit can be optimal

Related Literature

- Term limits:
 - Dick and Lott (1993), Glaeser (1997), Glazer and Watterberg (1996)
- Political agency:
 - Barro (1973), Besley (2006)
- Reputation:
 - Morris (2001), Ely and Välimäki (2003)

Economic Model

- In each of an infinite number of periods the incumbent has to implement a policy $x_t \in \{0, 1\}$
- The payoff of the policy depends on a state $s_t \in \{0, 1\}$ which is equal to zero with probability $p > 1/2$
- Per period utility of the representative voter is

$$v(x_t, s_t) = x_t s_t + (1 - x_t)(1 - s_t)$$

Politicians

- Politicians come in two types:
 - “Good” types share the preferences of the voter
 - “Bad” types are biased in favor of $x_t = 1$
- A randomly drawn politician is good with probability π_0
- While politicians perfectly observe the realization of the state s_t voters only receive a noisy signal

Political Equilibrium Without Term Limits

- Proposition 1: For sufficiently low discount rates the Markov perfect equilibrium with the highest possible payoff for the voter is a “timid” equilibrium in which both types of politicians always choose $x_t = 0$.
- Intuition:
 - Low discount rates imply large continuation payoffs
 - Such large payoffs make even a public-spirited politician unwilling to take actions that are in the interest of the voter if this reduces his reelection probability

Two-Term Limits

- Proposition 2: For any non-negative discount rate the unique equilibrium with two-term limits is a “truthful” equilibrium in which both types of politicians implement their preferred policy in each period.
- Intuition:
 - In their second term politicians follow their own preferences
 - Due to the reduced continuation, payoff politicians prefer to implement their preferred policy also in their first term in office even if this implies electoral defeat

Welfare Effects

- The welfare impact of two-term limits depends on two effects:
 - “Truthfulness” effect (ambiguous)
 - Selection effect (positive)
- Proposition 3: If the proportion of good politicians is sufficiently large or the difference in preferences between good and bad politicians sufficiently small then the welfare of the voter is higher under two-term limits than in the timid equilibrium.

The Optimal Number of Terms

- In the basic model the optimal term limit restricts tenure to two or more terms
- The higher the discount rate of politicians the longer is the optimal term limit
- It is also possible to extend the model to generate a case for one-term limits

Empirical Implications

- The model has two testable implications:
 - It predicts a “lame duck effect”
 - With two-term limits re-election rates should be lower at the end of a politician’s first term than in the absence of term limits
- Both predictions find considerable empirical support

Summary

- Two-term or longer limits can be in the interest of voters
- The key elements of our story are:
 - Term limits induce more “truthful” behavior
 - “Truthfulness” in turn improves selection
 - The combination of these effects can improve the welfare of voters