

## I. Introduction: The Institutions of Democracy and Public Policy

- A.** Modern democratic governments **share** a number of fundamental characteristics, which we have used in our electoral models,
- i. All representative democratic governments count voters to determine the persons who actually make policy decisions, the members of parliaments and other elected officials.
  - ii. And all parliaments (legislatures) select policies using majority rule.
  - iii. Insofar as these are important (influential) democratic institutions, our pure election models can be used as "first approximations" of the process through which policies are chosen.
- B.** Both the median voter model and the stochastic voting model are pure models of public policy formation.
- i. The essential feature of democratic elections is assumed to be majority rule, in both cases, and the essential aim of the policy proposals of politicians is assumed to be winning the election.
  - ii. Under these assumptions, both election models imply that
    - a. candidate (or party) platforms tend to converge to similar platforms (insofar as the "electoral game" is symmetric)
    - b. and the **policy outcomes** of democracy tend to be "moderate" or middle of the road policies.
      - Indeed, in the case of the median voter model, the result is an exactly "middle of the road"-- at the median of the distribution of voter policy preference.
      - Whereas, the result from a stochastic voting model tends to be a weighted average of voter preferences, where the "weights" particular voters receive in candidate strategies vary according to the extent to which voters will change their votes as a result of changes in political platforms.
  - iii. Having established these essential properties of majoritarian politics, we now extend the model(s) in various ways to explore how other features of democratic institutions may affect electoral politics or policy outcomes.
- C.** However, those same democratic governments **differ** in many respects that may also affect the policies chosen. For example:
- i. Some parliaments are elected via proportional representation and others are elected via "plurality" contests in single member districts.
  - ii. Historically, the number of persons who have the right to cast votes has changed many times.

- Note that suffrage law can change the median voter and thereby public policy.
  - (Illustration: see class notes.)
- iii. Candidates routinely form political organizations called **political parties**.
    - Evidently, political parties have substantial effects on the probability that individual candidates are elected to office (or candidates would not join them).
  - iv. Public policies are not directly implemented by politicians but are adopted by governmental organizations staffed by unelected officials, bureaucrats.
    - The interests of bureaucrats are not necessarily the same as those of voters (or the median voter) and they may be able to use their discretion to advance somewhat different policies than voters have demanded.
  - v. Politically active groups often lobby for specific rules and regulations, as generally permitted (or encouraged) by laws regulating free association and demonstrations.
    - Interest groups may affect policies by persuading voters or government insiders to adopt different policies than they originally favored.
    - In some cases, bribery and other forms of corruption may occur.
  - vi. (Note that many of these institutional difference emerge as a consequence of "ordinary" politics, while others are properties of constitutional design.)
- D.** In order to determine the effects of institutions on public policies, we next attempt to more explicitly incorporate them in our models of political competition and policy making.

## II. Some Causes and Effects of Political Parties

- A.** Political parties tend to emerge in all large scale democracies, and thus the existence of organized clubs of politicians can be considered one of the fundamental institutions of modern democracy.
- i. It bears noting, however, that political parties are not required for democracy, but rather tends to emerge in democracies, especially in elections involving large electorates, because few voters will know the candidates personally.
    - Political parties are a relatively recent invention, they arose in the early nineteenth century in the United States and in the late nineteenth century in most of Europe.
    - It bears noting that small scale elections often remain nonpartisan, as for example in elections to posts within universities.
    - Direct democracy (referenda) also require no political parties.

- ii. Since **membership in parties is voluntary** in democracies, it must be the case that political candidates find it useful to join such organizations. Otherwise, parties would not be observed.
    - a. Advantages of party organizations include:
      - ◆ the fellowship or company of like-minded individuals (politicians).
      - ◆ Economies of scale in fund raising and organizing political campaigns
    - b. Parties generally are constructed of persons whose policy preferences, or target portion of the electorate, are similar.
      - ◆ This allows parties to explain how its members will vote on particular issues to voters.
    - c. This ideological and platform homogeneity clearly **reduces the information costs of voters**, who can use party affiliation to predict a candidate's future voting behavior, without knowing very much else about the candidate.
      - ◆ This, in turn, increases the benefits of belonging to parties, because it reduces the information costs that candidates face when attempting to inform voters of their views.
    - d. Indeed, in party list systems (PR and mixed member systems), party affiliation is essentially necessary to run in elections.
      - ◆ In such systems, especially those with significant minimum thresholds, it is nearly impossible for "independent" candidates to be elected.
  - iii. Insofar as parties provide useful information to voters, parties tend to make democracies work better by reducing the number of mistakes made by voters when they cast votes.
  - iv. On the other hand, to the extent that parties reduce the range of alternative platforms from which voters and candidates may choose from, it is possible that they make democratic governance somewhat less responsive to voter interests.
- B. The number of parties** that emerge within a given democratic system, ultimately reflects their advantages to candidates and voters within the that system.
- i. In plurality systems with single member districts, there is a tendency for two major parties to emerge.
    - a. It turns out that two parties can block the entry of a third party by taking positions a bit to the left and right of the median voter
    - b. (See Duverger (1954), or more recently Palfrey (1984).)
    - c. [Illustrate the entry blocking positions along a 0-1 spectrum of voter preferences: at "1/3" and "2/3" points in the distribution of voter preferences.]
    - d. Note that Duverger's prediction works very well for the US, but somewhat less well for the UK and France. ([why?](#))

- ii. In PR systems the number of parties under **Duverger's** "blocking alignment" tends to be determined by the participation thresholds.
    - ◆ The lower the participation threshold is, the more parties it takes to block entry.
    - ◆ For example, if the threshold is 10%, only 9 or 10 parties can potentially be supported. If the threshold is 5%, then 19 or 20 parties can potentially be supported.
  - iii. In the course of legislation after representatives are elected, however, the need for majorities in parliaments elected via PR electoral systems tends to cause clusters of parties to join forces.
    - ◆ Insofar as we are essentially back in a plurality contest, Duverger suggests that two dominant coalitions will tend to emerge under either electoral system.
- C. If there are just two significant parties or coalitions, then there will really be only two significant platforms in the election, a left of center and a right of center platform, regardless of the number of parties.**
- i. With only two feasible alternatives, there can be no cycles in elections for representatives.
    - ◆ (Note that recall elections are very rare.)
  - ii. Parties, themselves, may in this case be said to **produce electoral stability**--e.g. equilibria..
    - ◆ The existence of parties can increase the stability of democratic decision making!
    - ◆ (Recall that lecture 3 developed the theory of cyclic majorities.)

### III. Institutionally Induced Stability

- A. Real majoritarian democracies operate under a variety of formal and informal rules and procedures.**
- i. Some of these rules are established with ordinary legislation and custom; others are part of a polity's formal institution.
  - ii. To the extent that these rules and procedures continue through time, they may be regarded as institutions or quasi constitutional in nature.
- B. Internal rules within legislatures often determine who gets to propose a particular policy (**agenda control**) and places constraints on methods by which these proposals may be revised or vetoed.**
- i. Such rules give the **agenda setter a good deal of power**, but also tend to reduce the probability of a cycle.
    - a. For example, the rules may allow only relatively large policy changes to be considered.

- b. If alternatives have to be far enough from the status quo (original position) then all feasible alternatives may be **outside the win set** of the status quo.
- c. In this case the agenda setter can choose the best policy (for him self or his supporters) that cannot be defeated by another.
- ii. [In an extreme cases of agenda control, without rules restricting alternatives, the **agenda setter can usually devise a series of votes which will approach his own personal ideal point**, and not allow alternatives to be voted on which would be his ideal point's win set.]
  - ◆ Demonstration of the power of an agenda setter (from black board).
- C. Other institutions may restrict the alternative voted on to single dimension (or at least a relatively small number of dimensions), as with a committee or cabinet systems of government in which only policies within a particular policy area to be considered.
  - a. Such procedures yields **median voter outcomes in each dimension**, even if no overall median position exists.
  - b. A possible example of this type of rule is that U. S. Congress is supposed to pass **thirteen separate appropriation bills** each year rather than a single budget bill.
    - ◆ (See Congleton and Sweetser, *Public Choice* 1992)
- D. Note all institutions contribute to the stability of democratic outcomes, but many do.**
  - i. The strand of research that investigates such questions is sometimes called the "**institutionally induced equilibrium**" literature.
  - ii. Researchers in this field of inquiry explore how various agenda restrictions and/or voting rules may contribute to the observed stability of democracies.
    - a. The first paper in this research program was written by Shepsle and Weingast (*Public Choice*, 1981)
    - b. It provides a nice overview of various (agenda controlling) procedural rules which might generate "institutionally induced" majoritarian equilibria in cases where voter preferences are not fundamentally single dimensioned or arrayed with great symmetry.
  - iii. Essentially, the institutionally induced equilibrium literature suggests that many political institutions control the types of issues that can be voted on in a manner that reduces the likelihood of cycles.
    - ◆ Of course, the importance of this theory of "democratic stability" depends in part on how likely majority cycles would be without these particular institutions.
    - ◆ This as noted above, will also depend upon the distribution of voter preferences as noted in lecture 3.
- iv. Many institutional arrangements in the US Congress appear to be stability enhancing:
  - a. The final vote is always against the status quo *after* all amendments have been adopted. (Policy changes have to be in the win set of the status quo.)
  - b. Each proposed piece of legislation has to be majority approved by a series of committees.
    - ◆ (Policy changes have to be in the intersection of the win sets of each successive vote.)
  - c. Since proposed alternatives must win approval within committees and by the Congress as a whole (or at least in each chamber) committees have an incentive to take account of the preferences of the entire Congress so that their preferred policies can ultimately be adopted.
    - ◆ (Consequently, committees provide some screening of policy options for the congress as a whole.)
  - v. Shepsle & Weingast argue that institutional arrangements that constrain the process of collective choice have the effect of reducing the inherent instability of the majority rule method of collective decision making.
- E. Another series of institutions that may affect public policy outcomes are the large ones specified in constitutions, such as federalism, bicameralism, and the like.**
  - i. For example Schap (1984) examines the extent to which an executive veto induces stability.
  - ii. Hammon and Miller (1987), Brennan and Hamlin (*Public Choice* 74, 1992) examine the effects of Bicameralism.
  - iii. These analyses are related to each other, and to the structure induced equilibrium literature, in that they show that a requirement for unanimity among the chambers can increase stability.
    - ◆ That is to say, there are many cases in which a stable outcome y demonstrate that a variety of stable policy outcomes exist under such sequential voting procedures. [Illustration]

#### IV. Empirical Research on the Impact of Democratic Institutions

- A.** The influence of the institutional features of the policy making process has attracted considerable attention by empirical public choice, rational choice political scientists and the new political economy research circles.
- B.** Generally, considerable empirical (statistical) support has been found for rational choice based theories that suggest that the details of democratic design matter.

- i. See the introduction and particular chapters in Congleton and Swedenborg (2006, MIT Press) for overviews of research that shows:
  - a. that Bicameralism stabilized public policy,
  - b. that PR systems tend to have higher expenditure levels than plurality systems,
  - c. that presidential systems are somewhat less stable than prime ministerial systems but exhibit somewhat lower corruption.
  - d. Direct democracy can improve voter satisfaction with policy outcomes in many dimensions, evidently in part by reducing political agency problems.
  - e. Several other institutional arrangements (line item veto) have also been found to affect policy outcomes.
- ii. For policy specific analyses, see Weber and Wagner (1977): tax code complexity, or Crain and Miller (W&M Law Rev, 1990): line item veto, constitutional requirement of balanced budgets).

## V. Choosing Electoral Rules and other Formal Political Institutions: Constitutional Design

- A. Buchanan and Tullock's classic the *Calculus of Consent* (1962) provide the first assessment of the relative merits of alternative voting rules and other institutions of modern democratic states such as bicameralism and federalism using rational choice models.
  - i. One implication of B&T's analysis is that particular voting rule used, the size of the majority, will have clear effects on public policies.
    - a. (Illustration of their voting cost diagram)
    - b. For example, some rules favor the "status quo" (supermajority rules) and others favor rapid and continual change (minority rule).
  - ii. Note that under majority rule, the majority can always impose costs on the minority simply by enacting policies.
    - ◆ Generally, the minority is made worse off by such policies.
    - ◆ That is why they oppose them!
  - iii. Under unanimous agreement, new policies are very difficult to enact, whereas under "one man" rule, new policies might be adopted every time a new person is elected to office.
    - ◆ (Student Puzzle: Consider the EU's unanimity and super majority voting rules for major changes. Are these consistent with Buchanan and Tullock's analysis?)

- B. The voting rules favored by voters operating behind what B&T call a veil of uncertainty varies with the policies to be decided, because the anticipated **external cost and decision costs** of the collective action varies by policy area.
  - Lower anticipated external costs from policy decisions call for smaller levels of consensus (in the limit, perhaps delegation to a single man or woman).
  - Higher anticipated external costs call for larger super majorities (in the limit unanimous agreement), on the other hand the stability of electoral outcomes tends to increase.
- i. Voters presently in the minority might nonetheless favor majority rule, if the "average" results of public policy under majority rule is better than that under other rules.
  - a. On the other hand, if bad results from new policies adopted under majority rule are expected on average, then individual will tend to favor voting rules that require supermajority rules, even if decision costs tend to be higher.
  - b. [Use Unanimous agreement to see that stability increases. E.G. once one adopts a Pareto efficient point, no other policies could be adopted unanimously because there are not more Pareto Superior moves.]
- ii. Note also that super majority requirements tend to generate policies that are more stable than ordinary majority rule because the **win sets tend to become smaller as the required majority increases**. (Illustrate with a five person diagram)

- C. Other nontraditional voting rules have also been analyzed including:

- Approval Voting,
- the Demand Revealing Process,
- Weighted voting,
- Proxy Voting etc.

## VI. Undesirable Equilibrium? A Digression on the Pork Barrel Dilemma (if time permits)