

RESEARCH INSIGHTS



How Do Elections Affect Policy Outcomes?



The opportunity to run for reelection provides a significant incentive for incumbent U.S. governors to exert effort, creating a disciplining effect. This improves policy outcomes by 4.9 percent.



Reelected governors are more aligned with voters than non-reelected governors, meaning that elections induce a selection effect. This selection improves policy outcomes by 2.9 percent.



The widely used two-term election regime improves voter welfare by 4.2 percent compared to a one-term regime. Better voter information about governor effort further increases voter welfare by up to 0.5 percent.

CONTEXT

Elections can improve policy outcomes in at least two ways: either by changing the policy choices of policymakers, or by changing the policymakers themselves. First, elections give incumbents who want to be reelected incentives to exert effort to improve policy outcomes, thus disciplining poor performance. Second, elections also serve a selection function by screening out low performers. How effective are elections in performing these two critical functions? What can enhance the ability of elections to improve policy outcomes?

THE PROJECT

We adopt a standard model of electoral accountability where voters are imperfectly informed principals using the electoral mechanism to improve the performance of elected policymakers as their agents. We structurally estimate the parameters of this political agency model with adverse selection and moral hazard to quantitatively assess the importance of discipline and selection. Several counterfactual exercises assess the welfare implications of allowing the possibility of reelection and of improving voter information. Our estimates are based on U.S. states where governors have a two-term limit in office, currently the most prevalent regime. We use data from 5,549 job approval surveys covering 93 gubernatorial stints in 32 states.

Key Concept



DISCIPLINE EFFECT

A change in the policies of an elected official that is explained by the policymaker's goal of improving their electoral prospects.

Key Concept



SELECTION EFFECT

An improvement in the quality of the elected officials that is explained by the ability of voters to identify and retain policymakers whose preferences are aligned with their own.

RESULTS

We find that 52 percent of governors are of the “good” type that exerts high effort independent of which term they are in. The possibility of reelection provides a significant incentive for some “bad” governors to exert high effort in their first term in order to increase their chances of reelection. Compared to a one-term limit, allowing a second term leads 27 percent of bad governors to exert high effort in their first term, implying a 13 percentage point increase in the share of all governors who exert high effort in their first term.

Discipline would be stronger if high effort always led to high performance, or if reelection were always correlated with performance. Nonetheless, the two-term-limit regime leads to an increase in voter lifetime welfare of 4.2 percent relative to a one-term limit. About two-thirds of this gain comes from the disciplining of bad governors. The remainder comes from the selection effect, that is, more good governors surviving to the second term because better first-term performance signals high effort and hence a higher probability that the governor is of the good type. The selection effect is reduced by a mimicking effect in that high first-term effort by bad governors makes it harder for voters to identify them as such.

We additionally perform counterfactual experiments. In a two-term setup where all bad governors are disciplined in the first term, welfare improves by 6.8 percent over the benchmark. Discipline increases in a version of the model where effort is at least partially observable, but this effect is mitigated by the uncertainty of election outcomes. Moreover, as elections generally favor incumbents, bad incumbent governors’ incentives to exert high effort are reduced. Even if effort were fully observable, only 42 percent of bad governors would be disciplined, leading to a 0.5 percent increase in welfare relative to the benchmark.

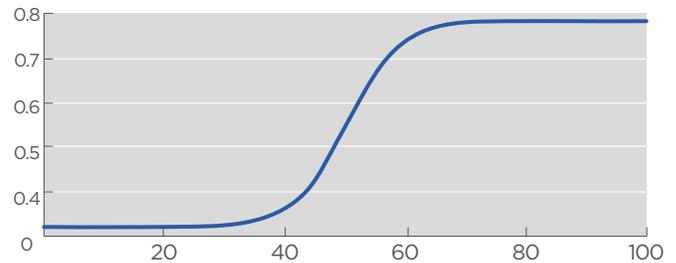
Key Concept



MIMICKING EFFECT

A decrease in the quality of the elected officials that is explained by the ability of unaligned policymakers to copy the policy choices of aligned policymakers.

How Reelection Probability Depends on First-Term Policy Outcomes



Notes: Graph shows the estimated relationship between reelection probability (vertical axis) and first-term policymaker performance (horizontal axis).

POLICY IMPLICATIONS

1. Policymakers may not always adopt the policies that citizens want. This can occur either because of different policy preferences or because of lack of effort needed to develop better policies. Elections can provide an important mechanism for improving policy outcomes and the welfare of voters. Promoting the legal and cultural environment for democratic accountability—free and fair elections, a culture of electoral participation, impartial media—can thus be an important strategy in effective policymaking.
2. Elections function better when voters participate in the democratic process and are informed about the policy actions of their elected officials. This implies that government should promote transparency in its operations and that mass media independence should be protected to impartially provide policy-relevant information.
3. It is particularly important for voters to participate in local and regional elections, where many policies are made that affect their welfare. Local and regional elections provide an opportunity for voters to be engaged in the democratic process by supporting candidates that represent their preferences and by holding those elected accountable for policy outcomes.

IDB RESEARCH ON POLITICAL ECONOMY

This research project was a collaboration between the IDB Research Department and the University of Maryland.



FULL STUDY

[Aruoba, S.B., A. Drazen, and R. Vlaicu. 2017. A Structural Model of Electoral Accountability.](#)

[Also published in *International Economic Review*.](#)

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