

Lowering the Stakes and Fostering Trust  
in Executive Politics

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Project Proposal

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T. Clark Durant  
McKinsey & Company

Michael Weintraub  
Department of Government  
Georgetown University

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## 1. Motivation

Bad policy often results from high-stakes conflict to win an executive seat. Elite office-seekers strategically allocate spoils in the form of appointments, subsidies, tax-breaks, monopoly privileges, and government contracts (Olson, 1982; Kevin Murphy, 1993; Bates, 2008). They strategically select public policies that mobilize co-partisans, bribe swing voters, and/or divide the opposition (Downs, 1957; Stigler, 1971; Cox, 2009). Elite office-seekers strategically showcase and/or hasten the benefits of their agenda, while hiding and/or delaying its costs (Cowen, 2005). Bad policy can get in the way of democratic consolidation and economic growth (Robinson, 1998; Rodrik, Subramanian and Trebbi, 2004; Acemoglu and Johnson, 2005; North and Weingast, 2009).

The question is how to design institutions that induce leaders to choose better policies and policy-making institutions. Our hypothesis is that office-seeking elites will make better choices (1) when the stakes of electoral conflict are lower, and (2) when they have capabilities and incentives to be mutually trustworthy - to form, enforce, and adapt the “rules of the game” that govern policy-making institutions.

In effect, “high stakes” competition is the malady and better “rules of the game” is the remedy.<sup>1</sup> Unfortunately, with winner-take-all institutions, the malady is strong and the remedy weak. Elsewhere, we propose a turn-taking institution that would make the malady weak and the remedy strong (Durant and Weintraub, 2012). With this mechanism, the whole executive term goes to a sufficiently-inclusive supermajority coalition; if no coalition qualifies, major coalitions take short, alternating turns several times before the next election (e.g. the larger coalition takes the first and third years, and the smaller takes the second and fourth years). The turn-taking institution combines some of the best features of single veto-gate (“winner-take-all”) and multiple veto-gate (“power-sharing”) systems. As in a winner-take-all system, electoral competition yields a single executive in office able to take unilateral actions to respond effectively to shifting circumstances. As in a power-sharing system, electoral competition is low stakes, and - once the election is over - opposing stakeholders have incentives to cooperate.

The experimental lab is uniquely valuable as a test-bed for institutional designs that have informal or game-theoretic justifications, but no real-world analogs (Smith, 2008, 310). Our primary aim is to test to what extent (1) the turn-taking institution would lower the stakes of electoral conflict and (2) give office-holders to the incentive to become mutually trustworthy, relative to a winner-take-all benchmark. Our secondary aim is to do so using building blocks from the existing experimental literature (in particular, Tullock lotteries, dictator’s dilemmas, and trust games). This approach makes this round of tests more stylized and less realistic than they could be otherwise. However, we believe the temporary sacrifice of external validity is worth the additional checks on internal validity.

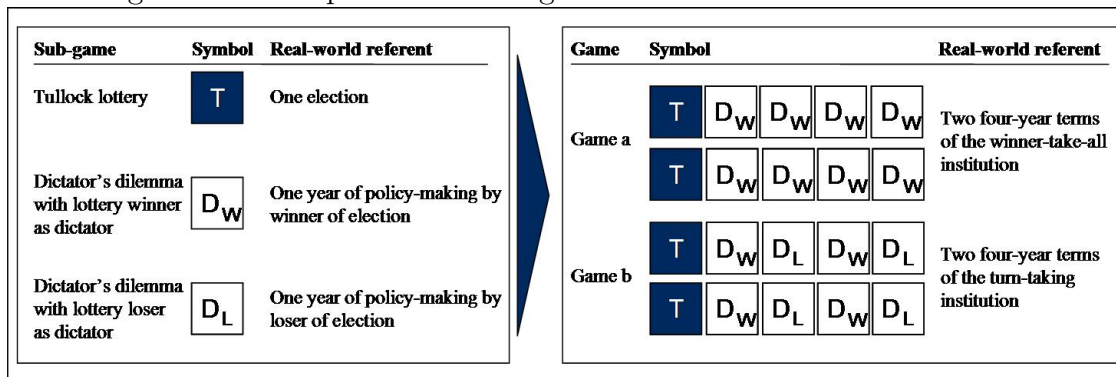
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<sup>1</sup>With some variations, this is the account given by North and Weingast (1989); Moe (2005); Hardin (1999); Weingast (1997, 2005); and North and Weingast (2009).

## 2. Protocol

The core game of the experiment is a probabilistic all-pay auction (i.e. a Tullock lottery) that determines who gets to be the dictator in a dictator’s dilemma game (see Figure 1).

Figure 1: The experimental sub-games and their real-world referents.



The Tullock lottery stands in for an electoral contest. Each side makes irreversible but mutually negating investments in the attempt to increase their probability of winning (Baye and Hoppe, 2003; Chowdhury and Sheremeta, 2011). For example, if subject A invests \$5 and subject B \$10, then A has half the chance of winning that B has; each subject’s probability of winning is proportionate to their relative investment. Money invested - whether by the winner or loser - is destroyed. The socially productive behavior is for both players to refrain from investing in the conflict.

The dictator’s dilemma game stands in for the policy-making process. If subject A is the dictator, then he is given \$10 to allocate between himself and subject B. Each dollar he invests in the other is multiplied so that the most socially productive behavior is to invest all the money; with a 2x multiplier, subject A can keep \$10 for himself, or give \$20 to subject B, or anything in between. The dictator’s dilemma combines the asymmetry between the players in the dictator game with the implicit conflict between individual and mutual benefits in the trust game or the prisoner’s dilemma game. The asymmetry between the players reflects the asymmetry between those “in” and “out” of office. The implicit conflict between individual and mutual benefits reflects the conflict between policy that benefits partisans at the expense of the opposition and policy that benefits the electorate as a whole.

Our focus is on testing the relative robustness of winner-take-all and turn-taking institutions to a number of known obstacles to low-stakes competition and mutual trust. These include (1) noise that obscures the extent to which the other side is trusting and trustworthy, (2) incumbency advantages, (3) a short shadow of the future, and (4) a lack of communication. As a starting place, we will focus on testing the effects of the first obstacle when the remaining three obstacles are already present. We will use a 2 x 2 factorial design, which allows me to compare institutional performance (winner-take-all versus turn-taking) with and without the “noise” obstacles. With “noise” turned on, policy choices result in unintended consequences that obscure the extent to which players intended to cooperate. With “noise”

turned off, policy choices have their intended effect. This reflects the fact that exogenous changes and inadvertent errors make it harder for policy-makers to correctly infer one another's intentions based only on observed outcomes (Wu and Axelrod, 1995; Berbey-Meyer and Roth, 2006).

We compare electoral contests and policy-making within the two institutions each according to two objective measures: efficiency and equity (Marco Battaglini, 2007). When it comes to the electoral contest, the efficient outcome is for both parties to bid nothing; the equitable outcome is for both to have an equal chance of winning. When it comes to the policy-making process, the efficient outcome is for each party to pick the most productive policy when in office; the equitable outcome is for both parties to benefit equally. In addition to these objective criteria, our design allows subjects to reveal a subjective preference for one of the institutions, and to offer a rationale for their preference.

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