WHY DO POLITICIANS DELEGATE?

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Abstract

Opportunistic politicians maximize the probability of reelection and rents from office holding. Can it be optimal from their point of view to delegate policy choices to independent bureaucracies? The answer is yes: politicians will delegate some policy tasks, though in general not those that would be socially optimal to delegate. In particular, politicians tend not to delegate coalition forming redistributive policies and policies that create large rents or effective campaign contributions. Instead they prefer to delegate risky policies to shift risk (and blame) on bureaucracies.

1 Introduction

The questions of whether and why politicians delegate substantial decision power to various bureaucracies are fundamental for understanding the organization of governments. Clearly in many (in fact most) policy areas bureaucrats act under a more or less direct supervision of elected politicians, who retain the ultimate decisions power. But this is not the focus of our paper. The focus here is on the cases in which substantial decision power is delegated to bureaucrats who act with almost complete independence.

On the first question, (whether) there is little doubt that the answer is yes and Epstein and O' Halloran (1999) provide an excellent survey of the literature. For sure there are controversies about the extent and the pros and cons of such delegation; some authors (Lowi (1969) amongst others) argue that delegation in the US is too extensive and deleterious, an abdication of the legislators' responsibility and a way of favoring

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special interests (Stigler (1971)). Other authors (Mc Cubbins, Noll and Weingast (1987, 1989)) instead claim that the legislators can, at least up to a point, control the bureaucratic agencies by means of procedural rules. Carpenter (2001) dissents and argues instead that the rise of the regulatory state has given a large latitude to many bureaucracies to decide in addition to implementing legislation. Overall it would be hard to argue that high level bureaucrats have no decision power at all. In many cases, in fact, bureaucratic agencies are given a very broad task and are free to perform such task rather independently. Think of the Central Bank for example, whose goals are to keep inflation low and stabilize the business cycle; most Central Banks around the world and especially in industrial democracies are quite independent; so are many regulatory agencies; on the other hand, foreign policy is almost exclusively in the hands of politicians.

So, clearly politicians do delegate substantial decision power in some areas, but then, and this is the second question, why? Two are the potential answers. One is "optimistic" and relates to the need for division of labor, allocation of skills, solving commitment problems[1]. Others are more cynical: Epstein and O' Halloran (1999) argue that the type of delegation chosen is the one that maximizes the benefits for elected politicians rather than social welfare; this is precisely what we model in the present paper.

We revisits this question (why delegate?) using a model based on the presumption that politicians and bureaucrats are motivated by different incentives. Politicians want to be reelected, bureaucrats want to be perceived as competent in performing a task assigned to them. For example the main goal of an American President is to win reelection in his first term and to favor his party's reelection in his second term of office.[2] On the contrary, a Central Banker's goal is to appear competent at managing monetary policy, both for his rewards in office but especially for his future career. In economic jargon this is referred to as a "career concern model" for the bureaucrat . Career concerns can be interpreted broadly. They could refer to employment prospects in the private sector, but also legacy, fame, recognition. Thus, this paper asks the following question: when is it in the interest of politicians to take advantage of the incentive structure that determines bureaucratic behavior and delegate certain tasks to independent bureaucratic agencies?

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[1]On solving time inconstistency problem by delegation see Rogoff (1985) for an original contribution and Persson and Tabellini (2002) for an overview of the literature

[2]See Alesina and Spear (1988) for a formal discussion of electoral incentives for second term Presidents.

We show that politicians want to delegate: 1) tasks that have negative net rents (rents extracted minus costs of performing the task); 2) task that do not bring about sufficient campaign contributions from special interests; 3) areas of policymaking that are especially risky, i.e. where much can go wrong, in a way that resembles the blame switching incentives pointed out by Fiorina (1977). On the contrary, politicians do not want to delegate purely redistributive tasks, because they are especially useful to build winning coalitions.

These results capture at least some aspects of actual government organizations. For a start, politicians are especially keen on holding on to policies which are extremely sensitive form a distributive point of, like most aspect of fiscal policy. Trade policy is especially prone to generate campaign contributions and in fact is very politicized. On the other hand, monetary policy has a risky nature (think at how economists disagree on its effects!) and in fact it is delegated to independent Central Banks often used as scapegoats when things do not turn out as well as hoped.

These criteria for delegation have little if anything to do with what "should" be delegate from a society's welfare maximization point of view. In Alesina and Tabellini (2004) we use the same framework of the present paper to give a normative answer to this question; that is we explore how a Constitution written behind a veil of ignorance would attributes tasks to elected politicians and bureaucrats. The present paper has a positive rather than normative focus and discusses the more realistic case in which elected politicians decide what to delegate and what to retain for themselves.

Our paper is related to several recent contributions that have investigated the role of career concerns rather than explicit contracts in motivating bureaucrats, such as Dewatripont, Jewitt and Tirole (1999a,b) and Dewatripont and Tirole (1999). Maskin and Tirole (2001) investigate the attribution of responsibilities between accountable and non accountable agents where the latter have intrinsic motivations, while the former seek to please their principals. Schultz (2003) focuses on the trade-off between ideological polarization and accountability. Besley and Gathak (2003) also study intrinsically motivated agents, and Besley and Coate (2003) contrast appointed and elected regulators of public utilities.

The paper is organized as follows. Section 2 describes the simplest case of our model and justifies its assumptions. Section 3 characterizes the relationship between the choice of delegation and electoral results in several cases. Section 4 focuses on purely redistributive policies. Sections 5 analyzes the role of risk in policymaking. The last section concludes.

2 The Model

With the term policymaker we indicate the agent that performs a certain task, (i.e. makes decisions in a certain policy area and implements such decisions) so the policymaker can be either the politician or the bureaucrat, depending on whether a task is delegated or not.

Suppose for simplicity that there are two tasks with outcomes y_1 and y_2. The utility function of the voters, who are all identical, is simply:

$$U(y_1, y_2) = y_1 + y_2 \tag{1}$$

We assume risk neutrality for now but we introduce risk aversions (i.e. curvature in the utility function) below. Each task requires costly effort (a) and ability (θ) from the policymaker in an additive manner:

$$y_i = \theta_i + a_i \qquad i = 1, 2 \tag{2}$$

The two task-specific abilities, (θ_1, θ_2), are independently distributed according to a normal distribution with mean $\bar{\theta}$ and variance σ_θ^2. The costs of effort are additively separable so that total costs are $(c_1 + c_2)$, where:

$$c_i = C(a_i), \qquad i = 1, 2 \tag{3}$$

with $C_a(a_i) > 0$ and $C_{aa}(a_i) > 0$. Thus the cost function is the same for both tasks and convex, meaning that marginal costs are increasing in effort.

We define an allocation of tasks between politicians and bureaucrats the specification of who does what. We first illustrate the model for a given allocation of tasks. Then we discuss the allocation choice by the incumbent politician.

For concreteness, suppose that task 2 has been delegated to the bureaucrat and task 1 is instead retained by the politician. This task allocation is known and understood by the voters. Each policymaker chooses effort in his assigned task, so as to maximize his reward net of the cost of effort:

$$R^J(a_i) - C(a_i)$$

where J refers to the policymaker's type, namely the bureaucrat or the politician. The rewards for the politician and the bureaucrat are different and are described in the two next subsections. The timing of events under this task allocation is as follows. First, both politician and bureaucrat choose effort in their respective tasks. Since there is no complementarity nor substitutability, there is no strategic interaction between

policymakers and whether they move simultaneously or in a sequence is irrelevant. Both policymaker types choose effort before knowing the realization of their own ability. Then performance is observed, utility is enjoyed by the voters and rewards are paid and elections take place.

The assumption that abilities are not observed by the policymaker before the task is implemented makes the analysis simpler, since it removes any informational asymmetry between principals and agents. We now describe the policymakers' behavior, starting with the bureaucrat.

2.1 The bureaucrat

We posit that bureaucrats are motivated by the goal of appearing competent in fulfilling the tasks assigned to their organization. Specifically, we model bureaucratic behavior according to the career-concerns framework of Holmstrom (1999). [3] This means assuming that bureaucrats are concerned with the perception of their ability θ_2 in the eyes of those who may then promote them or offer them alternative job opportunities in the private sector. More generally, the career concern mat also incorporate a desire for legacy, recognition, and fame.

Specifically, given that the bureaucrat has been assigned task 2 and that his performance y_2 is publicly observed, we assume that the bureaucrat's reward is (the suffix B stands for Bureaucrat):

$$R^B(a_2) = \alpha \bar{E}(E(\theta_2 \mid y_2)) \tag{4}$$

where α is the market value of talent, namely how much talent is rewarded, and $\bar{E}$ denotes unconditional expectations while E denotes expectations of θ_2 conditional on the observation of y_2. In words, the reward of the bureaucrat is proportional to the conditional expectation of his ability by outside observers (the term $E(\theta_2 \mid y_2)$), evaluated before knowing the random determinants of performance, y_2 (hence the unconditional expectations $\bar{E}$ operator).

This formulation implies that: the market's evaluation of the bureaucrat's talent is formed looking at his performance, y_2; for instance, for a Central Banker this would be maintaining price stability. Once again, one should interpret this reward for talent very broadly. A central banker may know that he will retire at the end of his term, but he still cares about going down in history as successful banker.

Using (2), we can rewrite (4) as follows

$$R^B(a_2) = \alpha \bar{E}(E(\theta_2/a_2 + \theta_2) = \alpha \bar{E}(a_2 - a_2^e + \theta_2) \tag{5}$$

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[3]See also the more recent and comprehensive analysis by Dewatripont and Tirole (1999a and b).

where a_2^e is the public anticipation of a_2.

Equilibrium behavior of the bureaucrat is obtained as follows. First, compute the first order condition with respect to effort, a_2, taking the expected level of effort a_2^e as given. Then, impose the rational expectation equilibrium requirement, that $a_2^e = a_2$.[4] The result is:

$$\alpha = C_a(a_2^B) \tag{6}$$

where a_2^B indicates the equilibrium effort of the bureaucrat. Clearly the higher is α the larger is the effort put in by the bureaucrat. Keeping this simple result in mind, we normalize $\alpha = 1$.

2.2 The politician

Next, turn to the politician. His goal is to be reelected. We do not allow any career concerns for the politician, he only cares about reelection.[5] The timing of events is the same as for the bureaucrat. In the eyes of the voters, the politician is responsible only for performing task 1 since they are aware of the task allocation, namely who does what.

Voters re-elect the politician if his performance in task 1 does not fall below a given threshold W. Normalizing to 1 the value of holding office, we can write the reward function for the politician as (the suffix P stands for Politician):

$$R^P(a) = \Pr(y_1 \geq W) \tag{7}$$

In words, the reward of the politicians is the value of holding office (1) multi plied by the probability of winning namely the probability that the voters are sufficiently happy with the observed result of policy making as to reappoint the incumbent.

Now we need to determine the voters' threshold, W. We impose rationality of the voters, so that they expect that the alternative to reelecting the incumbent is to get another one with average talent, who in equilibrium will put the same amount of effort as the current one. In fact every period is identical and the politician's effort choice is made before he observes his talent.[6] It follows that:

$$W = \bar{\theta} + a_1^e \tag{8}$$

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[4]Taking a_2^e as given when the optimal level of effort is chosen, and then imposing the equilibrium condition $a_2 = a_2^e$, implies that the public's expectation of effort is consistent with what the bureaucrat finds it optimal to do.

[5]This assumption can be relaxed by assuming that the politicians care about reelection and career concerns. Conceptually the extension is completely straightforward, but it clutters algebra and notation. See Alesina and Tabellini (2004) for some results along this line in a different context..

[6]Note that the model could be easily generalized to several periods, if the politician's ability today is a signal of his ability tomorrow but some random element of

Like the bureaucrat, the politician chooses effort before observing his talent, taking the voters' expectations as given. With a normal distribution for θ, equilibrium effort by the politician, a_1^P, is defined implicitly by the first order condition:

$$n(\bar{\theta}) = C_a(a_1^P) \tag{9}$$

where $n(\bar{\theta}) = 1/\sigma_\theta\sqrt{2\pi}$ is the density of the normal distribution of θ evaluated at its mean. In general we do not know whether the policymaker or the bureaucrat puts more effort.

Finally, note that the higher is the variance of ability, the lower is the left hand side of this expression and the lower is the effort exerted by the politician. A larger variance of ability dilutes the incentive of the politician. This result will be exploited in the next section to derive some implications about the task allocation preferred by the politician.

2.3   Discussion and interpretation

It is important to pause to discuss how these strawmen of "politicians" and "bureaucrats" relate to real world figures. Probably the most compelling example of a "bureaucrat" as modelled here is a Central Banker. His incentives to fulfill his task are mostly driven by the desire to appear competent, although even a Central Banker occasionally may bend to the electoral needs of a "politician".[7] Like our "bureaucrat", a Central Banker sets policy without political interferences and his tasks are set by a clear mandate to keep inflation low. An American President is instead the quintessential example of a politician, seeking reelection for himself in his first term and for his party in his second.

In reality these distinctions may not be so clear cut. In fact, bureaucrats in charge of important agencies may be preparing a leap into politics, so they may worry about their popularity and not only their competence per se. On the contrary, politicians may look ahead to a career in the private sector; for instance a second term President may certainly look at his party fortune but also at his legacy which can be very closely approximated by perception of talent. While these caveats point to a large gray area and intermediate cases between our "politician" and our "bureaucrat", it is useful as a first step to clearly identify how career concerns and electoral incentives lead to different behavior depending on the nature of the policy in question.

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ability is present every period so that it can never be fully learnt in advance. A widely studied case in the political business ccycle literature is that of a MA (1) process for abiity. Persson and Tabellini (2000) discuss the implications of this political model more extensively.

[7]The case of Arthur Miller in 1972 is an illustration, but very few would argue that Alan Greenspan is motivated primarily by the desire to please a President.

Another important observation is on the interpretation of the costs of effort. The way the model is written, they can be thought of costs of working more or less hard, shorter or longer hours. But they can easily be reinterpreted in a rent extraction model; i.e. more rents extracted by the politician would imply less utility for the voters. Specifically, one could rewrite the policy outcome as $y_i = \theta_i - r_i$ where subscript i indicates the two tasks and r are the rents extracted by the policymaker. Then, instead of the costs of effort, the policymaker would have a strictly concave and increasing utility over rents, say $V(r)$. This alternative notation would deliver the same results. So every time we write "more effort" we could rewrite it as "less rents" etc. More generally one could have both costs of effort and utility of rents, which would be the most general case but also the most cumbersome notationally. While we continue using the "costs" notation, the reader should keep in mind the more general interpretation.

Finally, note that the bureaucrat is restricted to perform the task assigned to him. He cannot choose a different task. This assumption is realistic and reasonable for several reasons. First, not performing the assigned task may reflect negatively on the perception of the bureaucrat; a Central Banker ignoring inflation to focus on writing treaties on foreign policy would not receive high marks, regardless of how brilliant his theories are. Second, bureaucrats are not chosen at random. Somebody chosen to be a Central Banker will have a predisposition to be good in financial matters, and therefore will choose to signal his abilities in those matters.

3   The choice of delegation

Now we can address the question of whether and when the politician chooses to delegate. Remember that by "delegation" we mean appointing a really independent bureaucrat who has decision power over a policy area. The timing is as follows: first the elected politician chooses the allocation of tasks. Then the policymaker in charge chooses effort under the same timing described above (i.e., first effort is chosen, then ability is determined, finally performance is observed and rewards are paid). For simplicity, and without loss of generality, we assume that the politician faces a binary choice: either he delegates task 2 to an independent bureaucrat, or he keeps it for himself; task 1 is instead restricted to always remain with the politician.

The voters' behavior is a crucial determinant of the delegation choice. This in turn depends on what the voters know. We assume throughout that voters observe the task allocation (i.e. they know who does what) and fully understand its implications (alternative assumptions are dis-

cussed below). Thus, the delegation choice is equivalent to a choice amongst rational equilibria, a choice made by the politician. In other words when making a delegation decision the politician can compute which equilibrium will be associated with one choice or the other. With forward looking voters, we also need to specify whether the politician's choice about allocation of tasks is expected to remain in place only in the current period, or also in the future. In line with the observation that bureaucratic institutions can be changed through ordinary legislation, we assume no commitment: the task allocation in place today could be changed after the election. Thus, an equilibrium allocation of tasks is defined as one that meets two requirements: first, it is optimal for the incumbent politician, given the voters' expectation of the allocation of tasks after the elections and given how policies are chosen under each allocative scheme; second, the voters' expectations about future task allocations are rational and fulfilled in equilibrium.

3.1 Delegation and electoral results

Remember that voters care only about the bottom line (i.e their own utility) and (at least for now) they are risk neutral. Under these assumptions section 1 of the appendix proves that:

Proposition 1 *If voters are risk neutral, then in equilibrium the probability of reelecting the incumbent politician is always 1/2, irrespective of task allocation. Hence, the politician chooses the task allocation that minimizes his equilibrium costs - or more generally, that maximizes the equilibrium net rents from being in office.*

Proposition 1 makes clear that electoral concerns do not drive the delegation choice with risk neutral voters. The reason is that voters condition re-election on policy performance, but not on the choice of task allocation per se. This in turn follows from the assumption that voters are rational and forward looking and understand the implications of alternative allocation choices, while they are imperfectly informed about the policymaker's ability in carrying out his policy tasks. In other words, voters compare today's performance to a reservation utility which is what voters expect to get from the opponent, taking into account the task allocation that the opponent would choose once in office.

Intuitively, suppose that a politician delegates even though the voters would be better off without delegation; why would they not throw out the incumbent? The reason is that they know that next period the challenger in office would make the same decision about delegation, thus not reelecting the incumbent does not buy a better delegation decision.

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The relevant concern of voters is whether or not their vote will give them a better policy for tomorrow.

Given that the probability of re-election is always 1/2 irrespective of the delegation arrangement, the only criteria governing the choice of delegation by the politician concern the costs of effort (or more generally the rents associated with each task). Specifically, if performing task 2 according to the voters' expectations is, on net, costly for the politician, then he prefers to delegate it. If instead retaining control of task 2 allows the politician to grab political rents in equilibrium (net of the cost of performing the task), then he prefers to retain it under his control.

This general insight (that tasks entailing costly effort are delegated away, while tasks entailing rent extraction are retained) can be further refined on the basis of more specific details. First, it is possible to show that the politician has generally weaker incentives to please the voters if he retains two tasks rather than with a single one. Thus, equilibrium effort by the politician in each task is lower (rents are higher) if he retains two tasks. The intuitive reason is that the politician is less accountable if he holds both tasks: with two tasks there is a "bundling" problem, and voters cannot punish poor performance in only one of the two tasks. Since ex-ante the politician is uncertain about his abilities in both tasks, his incentives to please the voters are weaker than if he has control of only one task. To put it another way, with two tasks the politician faces more uncertainty about whether or not his random abilities will be enought to please the voters. And as noted in the previous section, more uncertainty dilutes the politicians' incentives - see the discussion after equation (9). This creates a general bias against delegation: for instance, the politician may refrain to delegate task 2, even if it is costly to perform, so as to get away with less effort (or more rents) in task 1.[8]

Second, this bias against delegation is stronger if the two tasks require similar abilites. Specifically, suppose that, if the politician retains both tasks, the random abilities that determine his performance, θ_1 and θ_2, are positively correlated. Then uncertainty about re-election prospects is larger, the more so the greater is the correlation between these two random variables. More uncertainty dilutes the politicians' incentives, and this increases his willingness to retain both tasks. Thus, coeteris paribus the politician is more willing to retain a bundle of similar tasks, such as foreign policy and foreign aid, or immigration policy and security, while he is more likely to delegate tasks that require very different sorts

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[8]When the politician retains both tasks, the optimality condition for effort in task i can still be written as in (9), for $i = 1, 2$, except that now the density $n(.)$ on the left hand side of (9) refers to the distribution of $\theta_1 + \theta_2$, evaluated at his mean. Hence, $n(2\bar{\theta}) = 1/(2\sigma_\theta\sqrt{\pi}) < 1/(\sigma_\theta\sqrt{2\pi}) = n(\bar{\theta})$

of skills from the core tasks that he retains.[9]

Third, in his choice of whether or not to delegate, the politician will also pay attention to the presence of *unobserved* positive or negative externalities between tasks. Specifically, suppose that performance in task 2 is also affected by effort devoted in task 1, as follows:

$$y_2 = \theta_2 + a_2 + \gamma a_1$$

where $\gamma > 0$ (< 0) denotes the presence of a positive (negative) externality. If the politician retains both tasks, then his choice of effort in task 1 will reflect the presence of the externality. Accordingly, effort in task 1 will be greater with a positive externality ($\gamma > 0$), smaller with a negative externality ($\gamma < 0$).[10] Delegation induces the politician to neglect the externality (positive or negative), since his re-election will now depend on his perfromance in task 1 only. This in turn implies that the politician is more willing to delegate task 2 in the presence of positive externalities ($\gamma > 0$), and less likely to delegate it in the presence of negative externalities ($\gamma < 0$). Intuitivey, positive externalities increase equilibrium effort, and this is precisely what the politician dislikes.

All these results point in the same direction. When the choice of delegation is made by opportunistic politicians, there is nothing that insures that the outcome will be socially optimal. On the contrary, politicians will choose arrangements that wekan their incentives and reduce their accountability - exactly the opposite of what would be socially optimal. The implications of Proposition 1 are striking: if the choice of task allocation does not influence the election outcome, then voters' welfare is not a relevant determinant of this choice. Politicians will delegate tasks that require attention and costly effort, while they will retain tasks that allow them to grab political rents. The issue of what is in the voters' interests simply does not enter the political calculus of costs and benefits.

Alternative assumptions would deliver different results relative to Proposition 1. In particular, if voters were uninformed about task allocation, or if institution design also signalled the politician's ability, then the result in Proposition 1 need not hold. But the assumption that voters only hold politicians responsible for the tasks that they have retained, and adapt their expectations to what politicians in the opposition would

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[9]If tasks 1 and 2 require correlated abilities, then the density $n(.)$ on the left hand side of (9) evaluated at the mean is $n(2\bar{\theta}) = 1/[2\sigma_\theta \sqrt{\pi(1+\rho)}]$, where ρ is the correlation coeficient. Hence, a larger ρ reduces the density and weakens incentives.

[10]This result follows easily from adapting the politician's optimization problem discribed in the previous section to this richer set up. A formal proof is available upon request.

deliver (i.e. to what is "politically feasible") seems reasonable to us.[11] Note that in the extreme case in which politicians can always and perfectly claim praise when things work out well and deflect criticisms to bureaucrats when things do not, they would delegate everything and simply pick what to claim responsibility for. Some of this indeed happens, and we return to this below; but clearly this is not the arrangement we observe in practice because there is a limit on what voters can be made believe; and in that case it is not clear who would want to be a bureaucrat!

4   Redistribution

Is the politician more likely to retain under his control policies that entail redistribution among voters, or policies with no redistributive implications? To answer this question, we now consider a purely redistributive policy, "cake splitting". Consider three voters indexed by J, the minimum number required to make the problem interesting. One of the two policy tasks, say task 2, delivers a "cake" that can be divided between the three voters:

$$y_2 = \theta_2 + a_2 = \sum_{J=1}^{3} c^J \tag{10}$$

where c^J is the share allocated to voter J. The other policy task, task 1, is still described as before and entails no redistribution. Thus, the overall utility function for voter J is $U(y_1, c^J) = y_1 + c^J$ for $J = 1, 2, 3$. To simplify the analysis, we constraint the politician to delegate to a bureaucrat one of the two tasks. But the politician himself chooses which task to delegate, whether the redistributive task or the task with no redistribution. As before, voters know and understand who dose what and hold the politician accountable only for the task under his control.

If the politician retains control of the simple policy task, then the analysis is similar to that discussed above in section 2. In equilibrium he is reelected with probability 1/2, and puts effort in his task according to (9) above. Redistribution is then carried out by the bureaucrat.

Suppose instead that the politician chooses to retain control of the redistributive task, and delegates the simple (non-redistributive) task to

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[11]Different results would also apply under a different voting behavior. For instance, in Ferejohn (1986) model of moral hazard, voters coordinate on an optimal voting strategy and punish the incumbent for choices contrary to their interest. Voters' contol is limited by the incentive constraint that the incumbent must prefer to be reelected and please the voters, rather than grab as much rents as possible and forego reelection. Applying that voting strategy here would give the voters some (but not full) control over the constitution.

the bureaucrat. Since the politician only needs to please a majority to win re-election, he gives $y/2$ to two voters and zero to the third one. Hence, his reward is:

$$R^P(a) = \Pr ob(y/2 \geq W) \tag{11}$$

where W is the reservation utility of individual voters. Implicit in (11) is the assumption that voters expect that the incumbent, if re-elected, will maintain the same redistribution observed today - i.e. he will split the cake in half between the voters who re-elect him. With forward looking and rational voters, W equals the average expected utility they can get if the opponent is elected.

In order to decide how to vote, the voters need to compare the redistributive scheme of the incumbent versus that of the challenger. One reasonable assumption is that the incumbent's redistributive preferences are more well know to the voters than those of the challenger. Having been in office already, the incumbent has had the possibility of building some credible coalitions. On the contrary, the challenger has not had such opportunity and he can only at most make promises, which are not necessarily credible[12]. One simple way of capturing this asymmetry between challenger and incumbent is that while the latter is credibly committed to a redistributive coalition, the former is not. In this case the voters have "flat" expectations about the redistributive scheme of the challengers. Therefore we can assume that if the challenger wins, we have that $W = \left(\bar{\theta} - a^e\right)/3$, namely all the voters have a reservation utility equal to getting $1/3$ of the "pie", which is what they expect to get from the challenger.

Going through the usual steps, of maximizing with respect to effort for given expectations and then imposing rational expectations, in equilibrium the politician's optimality condition implies:

$$n\left(\frac{2\bar{\theta} - a^P}{3}\right) = C_a(a^P) \tag{12}$$

where $n(z)$ denotes the normal density evaluated at point z. By comparing (12) with (9), we see that if the politician retains control of redistribution, he can get away with less equilibrium effort. The reason is that here he only needs to please two voters out of three. He can thus reduce effort, and still please two voters with the portion of the cake taken away from the minority.[13]

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[12]See Alesina (1988) for a discussion of credibility of campaign promises.

[13]This result is similar to that obtained in Ferejohn (1986) and Persson and Tabellini (2000). But since here voters are forward looking, we rule out the Bertrand competition among voters that instead features in the backward looking voting equilibrium of Ferejohn (1986).

Note that the asymmetry of expectations between challenger and incumbent creates an incumbency advantage and dilutes the politician's incentives: the voters are more willing to reappoint the incumbent even if he is incompetent, because they are sure they can benefit from his redistributive scheme. Here we assumed a very stark asymmetry: no uncertainty at all about how the incumbent will redistribute, and maximal uncertainty about the opponent. But the nature of the results would be preserved with less stark assumptions, as long as voters are more uncertain about the redistributive policies of the opponent compared to those of the incumbent.[14]

These considerations capture the phenomenon of "entrenched incumbents". Even though they may not be that good for the collectivity, they keep being reelected because they formed a solid block of support. From a model of this kind one may get a formalization of the benefits of term limits. We can summarize the above discussion in the following:

Proposition 2 *The politician always retains control of the redistributive task*

The result squares well with what we observe. Unlike monetary policy or aspects of regulatory policies, where bureaucratic delegation is often exploited, fiscal policy is always under the direct control of political representatives. While both monetary policy and regulatory policy entail redistribution, fiscal policy is eminently much more redistributive than any other policy task, and for the reasons illustrated above politicians find it expedient to retain it under their direct control.

Note that, from the point of view of optimal policymaking, several of the arguments in favor of delegation of monetary policy to an independent bureaucrat (the Central Banker) apply to fiscal policy as well (see Blinder 1997 for instance). Fiscal policy if full of problems of commitment, probably even more so than monteray policy. While monetary policy is delegated, and often this delegation is rationalized precisely for a need of commitment, the same argument is not made for fiscal policy. Our model explains why fiscal delegation is much more rare than monetary delegation.

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[14]Indeed, if the voters were certain to be included in the winning coalition by the opponent, their reservation utility would be $W = (\overline{\theta} + a^e)/2$. In this case the effort of the incumbent would coincide with (12) and there would be no dilution of effort due to redistribution. Drazen and Eslava (2004) derive this feature, that voters expect the incumbent's reditributive policies to continue while they are more uncertain about the opponent's redistribution, as an equilibrium result.

4.1 Special interests

Some policies, such as trade policy, touch the interests of small but organised groups with policy preferences in conflict with those of the vast majority of the voters. Criteria of political expediency here are somewhat different, because the reward to the politician in this case entails gifts or campaign conributions, rather than consensus building with voters at large. Suppose for simplicity that the lobby group is sufficiently small so as to be ignored in the vote counting of elections. Therefore if the vote counting were the only consideration, the group would be ignored. But with campaign contributions or gifts, the lobby group may allow the politicians to increase his chances of reelection by buying time on the media and the like. In our model this could be modelled with the assumption that larger campaign contributions reduce the reservation utility of voters, allowing the politician to allocate effort towards the task preferred by the organised interest without compromising his chances of re-election.[15]

Does the politician want to delegate away these kind of policies? The answer is ambiguous, and depends on the bargaining power of the lobby vs the politician. If the lobby has all the bargaining power (for instance because there are no or few other competing lobbies in that policy area), then the politician has little to gain in retaining control of those policies, since any surplus would be approriated by the lobby. In this case, he is willing to delegate the task to an independent bureaucrat. If instead the poliymaker in charge has bargaining power against the lobby, then delegation is less likely, since the politician can extract rents or other benefits from the organised lobby. The general prediction here, therefore, is that we are are likely to see delegation of policies towards special interest when the lobby is very strong, and instead we are likely to see political control when the organised interests fight against each other to obtain policy favors. Trade policy is a good example of a policy area that is often very politicized (i.e. not delegated), because it can generate massive campaign contribution from competing industries that demand protection. Regulation of a single industry, instead, is more likely to give rise to bureaucratic delegation, since here the special interests do not fight each other but all demand the same policy, and thus are more likely to have strong bargaining power against the policymaker in charge.

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[15]Alesina and Tabellini (2004) study this case from a normative perspective, asking what is the socially optimal arrangement in the presence of organised interest that can bribe both policymaker types (bureaucrats or politicians), but can only offer campaign contributions to politicians.

5 Risk

We now investigate whether the politician is more keen to delegate "risky" or "safe" tasks. The former is one in which the outcome is determined not only by talent and effort deterministically but also by random elements, force of nature, luck, etc. In order to make this issue interesting we need to have risk averse voters, otherwise risk would be irrelevant for them. Therefore now we assume that the utility function of the voters is concave:

$$u = u(y_1) + u(y_2)$$

The utility function is separable for simplicity and the function $u(.)$ is increasing and strictly concave. Task 1 is "safe" and its outcome is determined as before by talent and effort only: $y_1 = \theta_1 + a_1$. Task 2 is "risky", in that performance (and thus voters' utility) also depends on a random exogenous component:

$$y_2 = \theta_2 + a_2 + \varepsilon; \tag{13}$$

where ε is random variable with mean zero and variance σ_ε; voters only observe y_1 and y_2, but do not observe ε.

Suppose that the politician retains the safe task and delegates the risky one. His ability θ is then fully revealed to the voters when they observe y_1. At the election, the voters thus anticipate that re-electing the incumbent gives them utility $u(\theta + a^e)$. Voting for the unknown opponent, instead, gives the voters an expected utility of $Eu(\theta + a^e)$, where the expectations operator is over the random variable θ. The equilibrium probability of re-appointment is thus:

$$\Pr\left[u(\theta + a^e) \geq Eu(\theta + a^e)\right] \tag{14}$$

where now the probability refers to the random variable θ (since the incumbent still ignores his own ability when setting policy and when choosing the task allocation). The probability in (14) is clearly above $1/2$, because of concavity of $u(.)$, the more so the greater is the uncertainty over θ and the more concave is the utility function.[16] In other words, when voters are risk averse, the incumbent enjoys an electoral advantage.[17] The reason is that the voters know more about the incumbent than about the opponent, and this makes them more reluctant to switch. But the size of the incumbency advantage depends on which tasks are retained by the politician.

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[16]This can be seen by noting that $\Pr\left[u(\theta + a^e) \geq u(\bar{\theta} + a^e)\right] = 1/2$, and that $Eu(\theta + a^e) < u(\bar{\theta} + a^e)$ by strict concavity of $u(.)$.

[17]This result is related to Shepsle (1972).

Specifically, suppose that the politician delegates the safe task and retains the risky one. Now, the voters can no longer infer the incumbent ability from their observation of y_2. Reappointing the incumbent thus gives the voters an expected utility of $E(u(\theta + a^e) \mid \theta + \varepsilon)$, where the expectations operator refers to the expectation over θ, conditional upon observing $\theta + \varepsilon$. The expected utility of voting for the opponent, instead, is unchanged (by the assumption that there is no commitment and after the election the politician retains the safe task for himself). Hence, the equilibrium probability of reappointment is:

$$\Pr\left[E(u(\theta + a^e) \mid \theta + \varepsilon) \geq Eu(\theta + a^e)\right] \tag{15}$$

where now the probability refers to the random variable $\theta_2 + \varepsilon$. By strict concavity of $u(.)$, and since the unconditional mean of ε is 0, we have that $u(\theta + a^e) > E(u(\theta + a^e) \mid \theta + \varepsilon)$ for all values of θ. Thus, the probability in (15) is strictly smaller than that in (14) - i.e. the incumbency advantage is smaller if the politician retains the risky task rather than the safe one.

We cannot conclude from this comparison that the politician prefers to retain the safe task for himself, however. The reason is that equilibrium effort is generally higher under the safe task: since the politician faces less uncertainty, he finds it optimal to put more effort into the safe task than in the risky one.

The idea is that, with imperfect monitoring, equilibrium effort is lower since voters are less sure of how much the final outcome can be explained by effort, ability or luck. On the other hand, when voters can perfectly disentangle effort and ability (since there is no luck involved) the politician has to put in more effort to be reelected[18].

We summarize the foregoing discussion in the following:

Proposition 3 *The choice between the safe and the risky task entails a trade-off between votes and rents (or effort). By keeping the safe task and delegating the risky one, the politician increases his incumbency advantage but decreases equilibrium rents (increases equilibrium effort).*

Thus, voters' risk aversion makes the politician more willing to delegate risky tasks. Intuitively, the politician is aware that risk averse voters punish bad luck more harshly than they reward good luck. He thus prefers to leave this risk to the bureaucrat. In some sense, the bureaucrat acts as a "scapegoat" for the politician, as suggested by Fiorina (1977), or to be more precise as a risk taker for the politician. This incentive is tempered by the opposite considerations concerning rents (or

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[18]See Alesina and Tabellini (2004) for a discussion of how the politician's incentives are diluted in the presence of imperfect monitoring.

effort), however, since more risky tasks are also associated with greater rents.

This line of analysis could be extended to analyze two related issues. First, sometimes scapegoats or risk takers for politicians can be welfare improving, since they take the blame for "unpopular" but needed policies. In Europe, national politicians often publicly blame bureaucrats in the European Commission that tie their hands, but in private they sometimes welcome these constraints and may even suggest to the Commission how to formulate its recommendations. A similar role may be served by other international bureaucracies, such as the IMF, when it prescribes so called "unpopular" policies to macroeconomically unstable countries (Vreeland 2003).

Second, this result is also relevant for other institutional choices besides delegation, and in particular for the design of more or less transparent procedures for policy formation. Transparency of public policy is an important dimension of institutions and it is ultimately a choice variable. Politicians can make a policy process more or less transparent and in this choice, they are likely to face a trade-off similar to that summarized in Proposition 3. More transparency has the benefit of increasing the incumbency advantage, because the voters are better able to assess the qualities of the incumbent, while they know less about the opponent. But more transparency is also likely to reduce equilibrium rents, because the punishment for rent extraction is more severe. Depending on which incentives are likely to prevail, politicians will choose more or less transparent procedures. An interesting application of this idea is to the budget process. In many countries the government budget is very non transparent and this is considered a "problem" from the point of view of optimality of institutions. But the degree of budget transparency is entirely endogenous and it is the result of politicians' strategic choices. In fact the government budget is the primary source of rents broadly defined for politicians. Otherwise there would be no reason not to simplify the budget documents and the budget process.[19]

6 Conclusions

There are several "good" (i.e. socially optimal) reasons why politicians may want to delegate activities and decisional power to bureaucrats. In practice, politicians do delegate, but in many cases not for the "right" reasons and so they do not delegate the "right things". The design of in-

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[19]See Alesina and Perotti (1999) for a survey of the literature on budget institution and of transparency. Alesina and Cukierman (1991) discuss a different model in which also the degree of transparency can be chosen endogenously by politicians who would not always choose the maximum level of this variable.

stitutions with reference to delegation is geared toward maximizing rents at the lowest risk for the incumbent politician. This motivation leads politicians to retain under political control policy tools that are useful to build winning coalitions or to generate campaign contributions, such as trade policy or much of fiscal policy. It also means that politicians might want to delegate tasks that expose them to risk, with fewer of the above advantages, such as monetary policy. But this "risk shielding" is possible only if bureaucratic delegation is complete, so that the blame for policy failure lies with the independent agency and not the politician.

In our view the right question is not really whether in practice there is too much or too little delegation, but whether the structure of delegation, i.e. what is delegated and what not is, close or far from what is socially optimal. In this paper we have suggested several reasons why the structure of bureaucratic arangements that we observe in the real world is likely to be very different from the social optimum.

Appendix

Proof of Proposition 1

Consider four cases: delegation vs no-delegation today, given that the voters expect no-delegation after the elections; and delegation vs no-delegation today, given that voters expect delegation after the elections.

Suppose that the voters expect that, after the election, the politician will retain both tasks. Consider each of the two possible constitutional arrangements for the current period. Under bureaucratic delegation (i.e.. the politician is in charge of task 1 while the bureaucrat is in charge of task 2), the probability of reappointment is: $Pr(y_1 \geq W)$ (since the ability of the incumbent politician in the second task is unknown, it cannot influence the election outcome). If voters are rational and fully understand the institutions in place, then their reservation utility is: $W = \bar{\theta} + a^e$. The equilibrium is then exactly as in section 2 above. In particular, the probability of reappointment is: $Pr(\theta_1 + a_1^P \geq \bar{\theta} + a_1^e) = 1/2$. If instead the politician keeps the second task for himself, and given that the voters understand it, the probability of reappointment is: $Pr(y_1 + y_2 \geq W) = Pr(\theta_1 + \theta_2 \geq W - a_1 - a_2)$, where the reservation utility is now given by: $W = 2\bar{\theta} + a_1^e + a_2^e$. In equilibrium (i.e., with $a_i^P = a_i^e$, $i = 1, 2$), the probability of reappointment is thus: $Pr(\theta_1 + \theta_2 \geq 2\bar{\theta}) = 1/2$.

Now suppose that the voters expect that, after the election, the politician will delegate task 2 and only retain task 1. Here, the relevant reservation threshold imposed by rational voters is: $W = \bar{\theta} + a_1^e$, since voters know that task 2 will not be controlled by the politician after the elections. Hence, the equilibrium probability of reappointment is $Pr(y_1 \geq W) = Pr(\theta_1 \geq \bar{\theta}) = 1/2$, irrespective of whether the politician delegates or not before the elections.[20]

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[20]Note that we have implicitly assumed that voters separately observe y_1 and y_2; but this does not matter. If this was not the case, and in the case of no-delegation voters only observed $y_1 + y_2$, then the equilibrium probability of reappointment under no-delegation would be $Pr(\frac{\theta_1 + \theta_2}{2} \geq \bar{\theta})$, which is still equal to 1/2.

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