Policy Decay and Political Competition

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Decay

- Technological, demographic, and social change is inexorable.
- Over time, the *fit* of policy to its environment worsens.
- We refer to this as *policy decay*.
- Akin to entropy in physical systems.

Examples:
- Anti-trust policy of tech industry.
- Transport: horses → automobiles → autonomous cars
- Media: Radio → television → Internet.
- Communication: Letters → phone → Fax → Internet.
- Copyright law in age of "YouTube".
- Retail: "Mom-and-pop" stores → Big-Box retailers → Amazon.
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- Decay also afflicts contracts, organizational form, culture, etc.
- But today is about policy decay ...
Decay gives rise to two strategic incentives.
Policy Decay & Political Competition

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**Incentive #1** Decay provides leverage.

- Decay causes inefficiency and this requires a legislative fix
- The need for legislation provides an opportunity.
- Legislators can use agenda power for ideological gain.
Policy Decay & Political Competition

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**Donald J. Trump** @realDonaldTrump · Jul 18
As I have always said, *let ObamaCare fail* and then come together and do a great healthcare plan. Stay tuned!
Policy Decay & Political Competition II

Incentive #2 Decay provides an opportunity for obstruction.
Incentive #2  Decay provides an opportunity for *obstruction*.

- What happens if legislation is not passed & the decay remains?
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- What happens if legislation is not passed & the decay remains?

- One view: “As Mitch McConnell has bluntly explained, persuadable voters do not pay close attention to policy details. If they see leaders in both parties getting along, they will assume things are going well, and—this is the crucial detail—they will consequently reward the party in power. If they see a nasty partisan fight, they will assume Washington is failing, and reward the opposition.

  *To ask the opposing party to compromise with the majority party is to ask it to undermine its own political interest.*” Jonathan Chait, 2019.
Incentive #2  Decay provides an opportunity for obstruction.

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- Strategy in action: “We’re going to do everything — and I mean everything we can do — to kill it, stop it, slow it down, whatever we can.”  John Boehner (House Speaker) on Obama’s legislative agenda.
Far-Sighted Strategy
What We Do

- Develop a novel dynamic model of legislative policymaking with decay.
  - Policy has ideological and quality dimensions.
  - *Decay* arrives exogenously.
  - Policymaking via legislative bargaining with endogenous status quo.
  - Endogenous transitions of power.
What We Do

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1. The strategy of politics.
   - How to use leverage and when to obstruct.
2. Policy outcomes and policy dynamics.
3. What this means for gridlock and the power of agenda setting.
Related Literature

- “Dynamic Policymaking with Decay.” Callander and Martin (AJPS 2017)
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- Bargaining with an endogenous status quo.
  - Doesn’t allow for decay.
  - Focus is on ideological $R^n$ space & time-varying coalitions.
  - Imposes *exogenous* power transition rule (or no transitions).
  - Exceptions: Levy & Razin (JET 2013); Forand (JET 2014).
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- Repeated elections & candidate selection.
  - Single office holder. No opposition nor obstruction.
  - We study accountability based on ”the need to do something.”
A Model of Decay

- Policy has two dimensions: Ideology ($\mathbb{R}$) and Quality ($\mathbb{R}^{-}$).
  - Ideological space represents efficient frontier.

- Two players, $L$ and $R$.
  - Ideal points $(0, 0)$ and $(\pi, 0)$.
  - Standard spatial preferences (e.g., quasi-linear).
  - Purely policy motivated. Discount at rate $\delta$. 
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Time is discrete, $t = 1, 2, \ldots$.
- Dynamic linkage: Policy $(x_t, q_t)$ in period $t$ is status quo in $t + 1$. 
Policymaking Game

- **Timing:** In each period $t$ for status quo $(x_{t-1}, q_{t-1})$,

1. Decay $\lambda_t$ arrives according to $F_\lambda$.
2. Proposer, $P_t$, offers $(x^P, q^P)$, Receiver accepts or rejects.
3. If reject, policy decays to $(x_{t-1}, q_{t-1} - \lambda_t)$.
4. Next period Proposer determined by transition rule, $p(.)$. 

Transition: Proposer role transitions iff proposal rejected.

Power is maximally fragile.

Voters attribute failure to Proposer a la Mitch McConnell.

Baseline (no transitions) & extensions (if time).

Dynamic Romer-Rosenthal take-it-or-leave-it policy bargaining.

Policy & outcomes can be controlled precisely.

Decay can be removed costlessly and instantaneously.

Policy cannot be decay contingent.
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Legislative Bargaining Without Decay

- Policy leapfrogs into “gridlock” interval & stabilizes thereafter.
- Dynamic version of the model is uninteresting—nothing happens.
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If so much gridlock, what does Congress legislate about these days?
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If so much gridlock, what does Congress legislate about these days?

Our answer: Decay & the need for a legislative fix.
Benchmark: Fixed Agenda Control

- Fix $R$ as Proposer in every period – No transitions.
- Set status quo within the gridlock interval.
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Set status quo within the gridlock interval.
Property 1: Policy path always on efficient frontier. Speed depends on shape of (global) utility function. Off-path future threat points incorporated into deals today. No obstruction. No legislative gridlock in $[0, \pi]$.

Property 2: Proposer has strictly positive policy leverage. Policy path is strictly monotonic. ... until policy reaches his own ideal point at $\pi$. 

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Decay and Competition
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General model: Properties 1, 2, and 4 will fail (3 is attenuated but persists).
Transitions — Endogenous Agenda Control

Might it be better to not be the Proposer?

Where does this logic end?
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Where does this logic end?
Endogenous Transitions — Equilibrium

Property 1: The equilibrium path is statically inefficient.
- Policymakers cannot always implement an efficient deal.
- When deal is accepted it is on the efficient frontier ...
- Obstruction occurs in equilibrium ... albeit infrequently.
- Governments fall and power transitions.

Property 2: The Proposer’s policy leverage weakens and can reverse.
- In equilibrium policy can move *toward* the Receiver.
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To see why, accept the following premises (that turn out to be true):

- Premise 1: Being the Proposer is strictly valuable.
- Premise 2: Value function strictly decreases in distance from ideal point.
- Premise 3: Cost of decay today outweighs benefit of better leverage tomorrow.
Valuable Proposal Power

Proposer concedes on policy to retain power.
Proposal power valuable only on average.

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Through $L$’s Value Functions

$L$’s value function when Proposer or Receiver and set $R$ as Proposer.
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Through $L$’s Value Functions

$\lambda_1$

$\text{Proposer}$

$\text{Receiver}$

- $L$’s value function when Proposer or Receiver and set $R$ as Proposer.
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Decay in this region = Obstruction & Transfer of Power
Equilibrium Regions

Obstruction
Equilibrium Regions

Decay in this region = Obstruction & Transfer of Power

Decay in this region = Proposer Concedes
Equilibrium Regions

Decay in this region = Obstruction & Transfer of Power

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Decay in this region = Proposer has leverage
Equilibrium Regions

Obstruction

Preemptive Compromise

Proposer Has Leverage
Can Proposal Power be Negative?

The graph illustrates the relationship between the Proposer and the Receiver. The Proposer always has leverage, and it is valuable to be the Proposer.
Can Proposal Power be Negative?

Proposer always has leverage so it's valuable to be the Proposer.
Can Proposal Power be Negative?

The graph illustrates the relationship between the Proposer and Receiver. The Proposer always has leverage at point \( \lambda_1 \), making it valuable to be the Proposer.
Can Proposal Power be Negative?

Proposer always has leverage, so it's valuable to be the Proposer.
Can Proposal Power be Negative?

Proposer always has leverage over the receiver, so it's valuable to be the Proposer.
Proposer always has leverage ... so it’s valuable to be the Proposer.
Endogenous Transitions — Equilibrium Properties

**Property 1:** The equilibrium path is statically inefficient.

**Property 2:** The Proposer’s policy leverage weakens and can reverse.

- Proposer concedes on policy when decay is small.
- Government transitions when Proposer has no more policy to give.
- Proposer can’t commit not to exploit proposal power tomorrow.
- Power transitions when government weak on policy.

**Property 3:** The policy path is dynamically inefficient albeit attenuated.

Transition of power pushes policy back to the middle.

... but it is not Proposers each exerting leverage when in power.

Flipped dynamic: The Proposer concedes on policy until she falls, and then the new Proposer concedes back to her.

**Property 4:** Policy—and power—never stabilizes.

The equilibrium path has full support on $[0, \pi]$. 
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Equilibrium Numerically

- Solve equilibrium numerically:
  - One-period utility function:

\[
e.g., \quad u_L(x_t, q_t) = -\alpha_L x_t^2 + q_t, \quad u_R(x_t, q_t) = -\alpha_R (x_t - \pi)^2 + q_t
\]

- \( \pi = 1 \)
- \( F(\lambda) \) mixture of point mass at 0 with probability 0.01 and an exponential of mean 1.
- Discount rate \( \delta = 0.9 \).
Proposal Power

\[ v_L(x, 0, P) \text{ proposer} \]

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Probability of Decay on Path

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Density of Ideological Locations Visited

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Policy Flow: Slow Concessions & Dramatic Leverage

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The Life and Death of Government

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Extensions: Direct Office Benefit

- Add a non-policy benefit $b$ of office.
- Proposer gets $b + u(x, q)$. 
Extensions: Direct Office Benefit

- Add a non-policy benefit $b$ of office.
- Proposer gets $b + u(x, q)$.
- Expands the “decay on path” region, slightly.
- Expands the “Proposer concedes” region significantly.
- Policy outcomes more central, unimodal.
- At cost of additional decay.
Extensions: Imperfectly Attentive Voters

- Threshold $q$ required for turnover is $q < 0$.
- Voters don’t notice small decay.
Extensions: Imperfectly Attentive Voters

- Threshold $q$ required for turnover is $q < 0$.
- Voters don’t notice small decay.
- Substantially more decay experienced.
- Policy outcomes more polarized compared to base case.
- Though these effects are non-monotone.
Conclusion

- Decay drives legislative policymaking.
- Decay provides power to agenda setter, even with “gridlock interval.”
- Obstruction attenuates but does not eliminate agenda power.
- Threat of obstruction generates most power.
- Obstruction sometimes implemented & government turns over.
  - More likely when current policy is already favorable to the minority.
  - Correlation between ideological extremity & inefficiency / turnover.
  - Centripetal force on policy outcomes within the gridlock interval.

- General take-aways:
  - Decay is not ‘noise’ that washes out – games played around the trend.
  - Other applications of decay possible: e.g., contracts.