Remarks for "Information, Voting and the Quality of Governance", Public Panel Event to welcome Professor Abhijit Banerjee as Sanjaya Lall Visiting Professor

Vincent Crawford, Oxford, 19 May 2015

My panel colleagues have outlined theoretically rich, empirically grounded analyses of how electoral politics aggregates voters' dispersed information and creates the accountability needed to foster effective governance, a topic of vital importance worldwide.

My remarks will depart from Professor Banerjee's in focusing on modern electoral politics in the U.K. and the U.S., and on the theory of how the divergent interests of, and interacting agency relationships among, parties, candidates, the media, and voters constrain the communication and aggregation of information.

My main goal is to suggest an outline for a theoretically focused empirical and experimental research agenda in the developed world to complement my colleagues' work on governance, particularly Professor Banerjee's and his colleagues' enormously productive experimental agenda in the developing world.

How do U.K. and U.S. electoral politics differ from those of developing countries?

In the U.K. and the U.S., aggregation of voters' information about performance in the electoral process is no less important than in the developing world, but the landscape of politics is very different.

Voters' attention is as severely limited as in the developing world, and the information they need is no less multi-dimensional or costly to acquire, so deciding what to attend to is nontrivial.

But at least moderate literacy is close to universal, media coverage is all-pervasive, and there is no shortage of analysts telling voters how they should interpret the "facts".

Thus U.K. or U.S. politicians convicted or accused of crimes, or even seen to have vividly unappealing views, performance, or personality flaws, seldom remain as viable candidates; and are often forced by their parties to resign before standing for reelection.

As a result objectively verifiable, relevant facts about surviving politicians are comparatively rare, and are usually distinguished by features whose assessment has a subjective component, and can therefore vary across voters along the political spectrum.

How can we model how elections aggregate voters' information about the quality of governance?

"Practical men who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back"—Keynes, *The General Theory*

Many people's intuitions about how elections aggregate voters' information seem to be based on an unexamined analogy between perfectly competitive markets and a "free market of ideas" thought to have similarly efficient information-aggregation properties.

Such an analogy might explain the 2010 majority Supreme Court opinion in Citizens United v. Federal Election Commission (http://en.wikipedia.org/wiki/Citizens_United_v._FEC), in which the fine legal minds of Kennedy-Roberts-Alito-Scalia-Thomas argued that the First Amendment prohibited the government from restricting political expenditures by a nonprofit corporation (and since then to for-profit corporations, labor unions and other associations), flooding the American political landscape with dollars long before the polar icecaps melt.

To simplify, I will conflate candidates and their parties, and black-box how outcomes in constituencies determine the choice of national leader, instead imagining that candidates seek to influence a national "swing" that determines the probability of getting elected. (How outcomes in constituencies determine the national leader poses serious additional problems, e.g. for models developed for the U.S. but recently applied to the U.K., with its multiple parties and inability to separate votes for a local M.P. and party's national leader.)

The grain of truth in the unexamined analogy may lie in Anthony Downs's *An Economic Theory of Democracy* http://en.wikipedia.org/wiki/An_Economic_Theory_of_Democracy.

Downs outlines a one-dimensional (left-right) Hotelling-style model of political competition http://en.wikipedia.org/wiki/Hotelling%27s_law, which suggests that candidates/parties' platforms converge to the position favored by the median voter on the left-right spectrum.

One can think of the left-right spectrum as reflecting either exogenous differences in voters' preferences, or (as I will) voters' different information about what is good for the country.

On the latter interpretation, I conjecture that one could elaborate Downs' message by letting platforms address multiple issues, with a single best way to please a voter at any given percentile (probably requires a global single-crossing property in voters' preferences).

Then there is still a well-defined median voter, and political competition can be still expected to enforce her/his favorite platform, hence obvious inefficiencies are avoided.

Feddersen and Pesendorfer (*Econometrica* 1997) give a modern view of this issue, which yields equally optimistic conclusions.

Plainly, these predictions fall far short of reality. E.g. parties/candidates have very weak commitments to their platforms, spin swamps substance in political discussions, there is as massive polarization among parties/candidates as among voters, and voters have widely differing interpretations of the same facts about candidates and platforms.

Explaining deviations from Downs via strategic models of communication

"…in all kinds of areas that are technical and hugely important to society there's roughly nobody who knows about them who doesn't have some set of deep interest in them. And that creates all kinds of questions of legitimacy and knowledge. So we don't really want legislation by the co-opted. But we also don't really want regulation by the ignorant. And there's hardly anybody who is both knowledgeable and un-co-opted."—Larry Summers http://larrysummers.com/commentary/speeches/brenton-woods-speech/

Imagine for the sake of argument a single voter communicating her/his views to a single candidate (or vice versa).

Distinguish two leading cases: verifiable and unverifiable direct communication.

Grossman (*Journal of Law and Economics* 1981) and Milgrom (*Bell Journal of Economics* 1981) study models of verifiable communication with one-dimensional private information ordered in people's preferences.

Verifiability makes it impossible to lie, but allows intentional vagueness.

Imagine an expert macroeconomist voter who knows the true effect of austerity on unemployment, communicating her/his views to a favored candidate who the expert knows thinks austerity is less damaging than the expert knows it is.

(Alternatively, imagine a candidate making a verbal but verifiable promise about her/his platform.)

The expert can send a single message of the form, "austerity will raise unemployment by at least x percentage points".

In Grossman and Milgrom's model, the expert will state the true x, and the candidate will believe her/him. For, the expert cannot get away with exaggerating; and understating x, which s/he can get away with, takes her/him further from the optimum.

(Similarly, in this case a candidate could verbally but credibly commit to a platform.)

Either way, full revelation is a very fragile result, which depends on a subtle game-theoretic argument and doesn't go through in any richer model.

Now consider the expert voter communicating her/his views to a favored candidate via unverifiable communication or “cheap talk”, which allows lying as well as vagueness.

Crawford and Sobel (*Econometrica* 1982) show that (unlike with costly signaling as in Spence *Quarterly Journal of Economics* 1973) the difference between the voter’s and the candidate’s preferences limits how much information can be conveyed in equilibrium.

Only if their preferences are identical can there be perfect transmission.

Otherwise equilibrium messages must involve intentional vagueness (“x is between y and z”, with the partition precisely determined in a given equilibrium).

The closer their preferences, the more precise equilibrium messages can be.

(This conclusion also does not generalize to more complex models, e.g. with multiple dimensions or senders, but I believe the basic insight survives.)

In the rational expectations of a given equilibrium, lying in the sense of systematic fooling is effectively impossible.

For models that allow lying, see Sobel (*Review of Economic Studies* 1985; though I believe that reputation effects are not very important here, lies are often successfully disguised and almost always forgotten after the current election) or Crawford (*American Economic Review* 2003). A fortiori, these models also preclude perfect communication via cheap talk.

Further relevant complications include the fact that political speech is mostly public, hence must be crafted for two or more audiences: natural allies, natural enemies, swing voters (e.g. Loury *Rationality and Society* 1994, Morris *Journal of Political Economy* 2001).

Also, candidates/parties are constrained by historical positions; hence messages are heard in a preexisting landscape of meanings and connotations, which is asymmetric across parties/candidates (e.g. “estate tax” versus “death tax”, “pro-life” versus “pro-choice”, “this is a bad issue for us”). They can choose which policy proposals to make and/or which existing issues to emphasize, but cannot convincingly mimic an opponent’s stance.

And messages can bundle dimensions, e.g. by appealing to the social identity of middle-class people to get them to favor policies that economically benefit only the rich. Attention is crucial here, and is not included in most existing models; but see Gabaix and Laibson (*American Economic Review* 2006) or Mullainathan, Schleifer, and Schwartzstein (*Quarterly Journal of Economics* 2008).

Further, parties/candidates can try to influence the perceptions of issues and candidates of voters with limited attention by informing, disinforming, and/or reframing (e.g. the “Swift-boating” of John Kerry, which helped George W. Bush defeat him in the 2004 election, despite the obvious asymmetry in their military records).

Fact-checking websites (e.g. the Obama campaigns’) help with this, but are no panacea.

Explaining deviations from Downs via strategic models of agency

One might also explain barriers to effective communication, even with a one-dimensional political spectrum and rational participants, by studying the agency relationships (interactions between people with gains from sharing information but imperfectly aligned goals) among candidates/parties, political consultants, billionaires, and voters.

Of particular interest here are the relationships between candidates/parties, donors, and consultants; and between candidates/parties, the media, and voters.

A consultant can make more money pandering to billionaire donors and their base in a single unsuccessful campaign than in a lifetime of helping less well-funded candidates win.

No candidate can ignore the media and its biases.

There is a developing literature on the role of media in political competition, e.g. Gentzkow and Shapiro's (*Journal of Political Economy* 2006) analysis of pandering to readership to achieve reputational gains; and Gentzkow and Shapiro's (*Econometrica* 2010) and Mullainathan et al.'s (*Quarterly Journal of Economics* 2008) analyses of pandering to increase demand among readers who wish to hear their own opinions endorsed.

Interestingly, even if media owners are motivated purely by profit not ideology, and there is free entry to the market for media, its effects do not appear to be politically neutral.