

Incentive Contracts for Politicians and Binding Election Promises: Reform Ideas for Democracy

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Abstract

Although they would yield social benefit, many political projects are not implemented in democracy. The ongoing debate on reforms around the world provides prominent examples: the reform of the European labor market or the reduction plans for greenhouse gases are cases in point. We suggest a number of improvements which would make liberal democracy more efficient without altering its founding values.

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1 Introduction

Although they are socially desirable, many political projects fail to materialize in democracies, usually due to the fact that their implementation, together with the expected beneficial return, takes longer than one period of office. Sometimes, in spite of swift implementation, voters only understand or observe the value of the beneficial return long after the next elections. The ongoing debate on reforms around the world provides prominent examples: reducing fiscal imbalances in many industrial countries, the reform of the European labor market (see Saint-Paul (2000)) or the reduction plans for greenhouse gases are cases in point (see IPCC (2001), Nordhaus (1991 and 2006), Fankhauser (1995), Stern (2006) and Tol (2006)).

We would like to present a set of ideas designed to improve the efficiency of liberal democracy without interfering with its foundations or with the values on which it rests. Our two key proposals are described in greater detail.¹

2 Incentives for Far-sighted Policy

The first proposal aims at increasing the incentives for far-sighted policy. In modern national economies, the time-span between the initiation of policy measures and their outcome is often very long, exceeding one election period. Tax reforms, reforms of the labor market, reduction of CO₂ emissions, as well as reforms of basic research funding to promote the development of new tech-

¹Formal models that capture some of our ideas are given in Gersbach (2005) and in the working papers of Gersbach and Kleinschmidt (2004), Gersbach and Liessem (2005), and Gersbach and Müller (2006).

nologies are well-known examples. To be reelected, politicians have to offer visible proof of their accomplishments before the next elections. Thus, they may lack incentive to tackle reforms which will only produce benefit after their period of office.

As the reelection mechanism does not foster the implementation of long-term projects, additional incentives could be created to promote them. In principle, the material and immaterial rewards for politicians could be dependent on how near they came to achieving self-set goals in their previous period of office. In our model, the rewards can either be granted in the next period in office or after retirement from office. If, for example, a politician pledges to reduce unemployment within six years, his salary (or pension) in the next term can be made dependent on his degree of success in reaching that goal.

Monetary contracts already are, or have been, used in some provinces in Canada. In the province of Ontario, for instance, the salary of each member of the Executive Council has been made dependent on the fiscal discipline in a particular period and on whether the budget balance is violated repeatedly. In Germany, the leader of the Liberal Party of Baden- Württemberg, one of the Federal States, suggested that the members of the cabinet should conclude a contract on the aims of the government, that would involve a loss of 10 to 30 percent of their salary if aims were not met.² This proposal has not been implemented yet.

²See Homburger (2005).

Immaterial rewards are equally conceivable. A politician honoring election promises could have his next period in office extended by one year, for example. As to politicians retiring from office, they might be granted a seat in a governmental advisory board of elder statesmen. Such incentives would ensure that election promises are kept even if they trigger long-term projects whose benefits only show in the long run. This, in turn, would enhance the voters' trust in election promises: they would know of these material and immaterial incentives and would be able to believe in the politicians' readiness to exert themselves for long-term projects. At the same time, these incentives would keep politicians from losing sight of desirable long-term policies in the welter of day-to-day business.

Democracies may also find it difficult to pursue policies which mainly benefit future generations. If the beneficiaries only form a minority today, politicians may refrain from pursuing such policies, as this would reduce their chances of being reelected. In such cases, rejection/support rewards (RSRs) may help. They work as follows: if an incumbent is rejected in his bid for reelection, but receives the majority of votes from the younger generation (individuals under 40, for instance), he is entitled to a special reward. Such a reward can be a pecuniary or non-pecuniary transfer in favor of the rejected politician. The idea is that RSRs should induce politicians to act on behalf of the young generation, even against the interests of the majority of the current electorate.

3 Certified Promises and Reelection Thresholds

The second proposal is to authorize certified election promises in the form of reelection thresholds. Under this proposal, politicians can set down their election promises in writing, so that these promises can be reviewed before the next elections. If politicians fail to honor their promises, they will not be allowed to run for reelection. An independent agency, determining whether and according to which parameters an election promise can be measured and reviewed, plays an essential role in such a procedure. The feasibility of a simple assessment whether a promise has been kept depends on two factors: first, the election promise has to be sufficiently well-defined and second, the information on which it rests has to be "hard" and influence-resistant enough. Election promises which can be reviewed that way would be certified and designated as such.

Once certified, election promises become "threshold contracts". The extent to which they have been honored is assessed before the next elections and if a politician has failed to meet his self-set threshold, he loses the right to run for reelection. If he has been successful, the politician can run for office in the customary way.

In various, well-known situations, threshold contracts could have been applied, for instance, when US-President George Bush Senior announced, "Read my lips: no new taxes". As he abandoned this major campaign promise after election, threshold contracts would not have allowed him to stand for reelection. Another, more recent example comes from Germany. In their election

campaign of the 1990s, both candidates for the office of Chancellor, Kohl and Schröder, pledged to reduce unemployment to a given percentage of the working population. Both promises would have qualified for review in the manner outlined above and both politicians failed to keep their promise. Had our review procedure been applied, they would have left office much sooner or, being forced to implement additional reforms, would have succeeded in reducing unemployment.

The advantages of certified election promises and the reelection thresholds they establish are obvious. Such certification procedures would boost the incentives to honor election promises. This kind of commitment would encourage, if not enforce, serious efforts to convert election promises into materialized projects. As a consequence, a larger number of socially desirable matters could be dealt with and a problem as urgent as unemployment in Europe, for instance, would have better chances of being resolved.

Whether and which type of certified election promises are offered would be left to competing politicians. This, in turn, would require from them a more scrupulous consideration of what political action can actually achieve. At the same time, our procedure would facilitate and improve communication between politicians and the public. Certified election promises would enhance the politicians' authenticity, as those unwilling to commit to certified promises would lose part of their credibility. The separation into more or less credible promises would not only improve exchanges between citizens and politicians, but would also strengthen the citizens' trust in institutions.

Commitment to certified election promises might also have disadvantages, as politicians might focus too exclusively on the realization of their certified promises while neglecting other areas. But as certified election promises would only be a threshold to candidacy which, once passed, leads to a normal election, this potential disadvantage would not be greater than it already is. One-sided political projects would be penalized on the next election day at the latest. For instance, a politician might lower unemployment by means of extensive, state-ordained job procurement measures involving an immense increase in the budget deficit, to overcome the reelection threshold. But due to the budget deficit he caused, this politician is unlikely to win the next elections. Another possible argument against our proposal, namely that external and/or unpredictable events might prevent politicians from achieving the goals they committed themselves to is only convincing at first sight. The essential asset of our procedure is the positive effect certified and binding election promises would have on the action taken by politicians, an effect which stays operative as long as politicians can decide (even partially) which actions they take.

Naturally, other reservations might be voiced, and stringent design is required, but current scientific perusal of this idea in the working papers does suggest that the advantages would outweigh the disadvantages. Certified election promises could be a new and promising instrument to enhance the efficiency of liberal democracies.

4 Outlook

These two suggestions indicate that modern liberal democracies can certainly afford to implement new instruments to improve the quality of political processes. Naturally, such an implementation, if done at all levels, would require changes in constitutional and legislative norms. It will be necessary to establish the simplest and most promising way of incentivizing politicians to undertake long-term reforms and to keep election promises, while keeping the administrative repercussions as slight as possible. Which is more, it would alter the course of political action radically. Ultimately, our suggestions indicate that the potential of democracy has not been exhausted yet, and that optimal democracy is not an utopia, but the aim scientists should be committed to.

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