A Model of Electoral Accountability and Union Secession under Supranational Policy Constraints

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Abstract

I propose a model of democratic accountability (à la Maskin and Tirole, 2004) and union secession under supranational policy constraints. I derive three broad categories of perfect Bayesian equilibria (PBEs), namely polarized, technocratic, and pandering equilibria, and show how the equilibrium reelection rule may change under different assumptions about the information structure, i.e., depending on whether voters are only able to observe policy outcomes, inputs, and/or outputs. I find that in contexts where governments are perceived to have little control over implemented policy and economic performance, i.e., in a "systemic" policy environment, voters do not look to outcomes but rather inputs in deciding whether to reelect a "responsive" (congruent) incumbent (i.e., "input legitimacy"). The observation of the incumbent's input in itself provides voters with information about the incumbent's type irrespective of policy outputs and outcomes. On the other hand, when the underlying policy environment is perceived to be "endemic," voters will reward

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"responsible"(competent) incumbents (i.e., "output legitimacy"). Therefore, voters will tend to focus on inputs in systemically constrained contexts and outcomes in more unconstrained policy environments. Accordingly, I derive mass and elite preferences for secession from the union based on priors and posteriors about the nature of the policy environment.

1 Introduction

The state of the economy has always been a pivotal issue in electoral campaigns. Political commentators, spin doctors and journalists tend to agree with James Carville former US president Bill Clinton's 1992 campaign strategist, and his slogan: "It's the economy, stupid [...that wins elections]." Political scientists have tried to put this claim to the test. Despite the diversity in political systems and contexts, a stubborn empirical pattern emerges: incumbents tend to get reelected in good economic times and voted out of office in bad economic times (Duch and Stevenson, 2008; Lewis-Beck and Paldam, 2000). In other words, positive economic evaluations help governments stay in office, whereas negative ones make it difficult for governments to stay in power. The economy, thus, became the exemplary paradigm of what is known as "retrospective" voting (Fiorina, 1981): voters form voting preferences based on economic outcomes, either based on their assessment of the incumbent government's overall macroeconomic record (*sociotropic* voting) or the impact of the incumbent's policies on their own personal economic well-being (*pocketbook* voting). The core premise of this literature remains, however, that the government held to account is assumed to have full control over those economic policy levers that matter for economic outcomes.[1]

Few elections have challenged this conventional wisdom more than the September 2015 election in Greece where the incumbent government of SYRIZA ended up winning in an easy landslide despite its highly costly and unsuccessful renegotiation of the existing bailout agreement and its eventual failure to reverse austerity. Globalization and political economy scholars argue that, in light of the gradual erosion of national economic sovereignty, economic voting is no longer an undisputed fact; it is actually much weaker than conventional wisdom tells us (Hellwig and Samuels, 2007). Although the literature suggests that economic lines of accountability become blurred and non-economic issues become more salient when governments operate under globalization-induced policy restrictions (Fernández-Albertos, 2006), one would be hard-pressed to make that argument in a country such as Greece mired in recession for the past seven years while it remains

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[1]According to the terminology we introduce in this paper, governments have been generally assumed to operate within an "endemic" policy environment.

subject to the harsh constraints of bailout conditionality. Therefore, Greece is a particularly interesting puzzle in that regard as it purportedly features a combination of high salience of economic issues as well as severe policy constraints.

Extensive research has argued that the economic performance affects individuals vote choices and government popularity (Fiorina, 1981; Key, 1966; Kinder and Kiewiet, 1981; Lewis-Beck, 1988; Nadeau and Lewis-Beck 2001, c.f. Fiorina et al, 2003; MacKuen, Erikson, and Stimson, 1992). Economic voting has traditionally been seen as one of the pillars of democratic accountability and most of the literature has focused on economic outcomes as the main indicator that voters look to in order to decide their vote, either in a "retrospective" or "prospective" and "sociotropic" or "pocketbook" fashion (Lewis-Beck and Tien 2001).

Building on this model, the literature has also studied the conditions that make the economic voting model hold and under which circumstances voters can take account economic outcomes more strongly into account to decide their vote (Powell and Whitten, 1993; Tilley and Hobolt, 2011; Hobolt et al, 2012). In this vein, a recent strand of the economic voting literature has considered the effects of globalization on democratic accountability (Kayser, 2007).

Globalization increases the exposure of countries to external factors over which domestic governments have no control. In addition, countries that join supranational arrangements like the EU or the EMU—or even regional trade agreements and financial lending programs—face new constraints over their domestic policy choices that limit what governments can promise and deliver. Examples include the EU's new fiscal rules, ECB monetary policy decisions affecting Eurozone economies, trade agreements shaping global supply chains and domestic industries, and IMF-imposed structural adjustment programs demanding austerity measures and economic reforms. In response, voters have exhibited input-oriented voting behavior, prioritizing leaders who pledge to challenge or renegotiate these constraints over those who emphasize managing economic outcomes within existing frameworks. This shift underscores the complex interplay between global economic forces, domestic policy autonomy, and democratic accountability.

As a consequence, it is expected that conventional economic voting will be less strong in those contexts. Hellwig and Samuels (2007) show that "exposure to the world economy

weakens connections between economic performance and support for political incumbent."
Fernández-Albertos (2006) argues that economic globalization blurs responsibility attribution and this makes voters put less weight on the information they observe in regard to the state of the economy; as a consequence, electoral behavior is less influenced by economic performance (see also Fernández-Albertos et al, 2013, or Alcañiz and Hellwig, 2011). The finding that the relation between economic outcomes and voting weakens in globalized contexts has been confirmed by other work such as Hellwig (2001, 2008).

The question that remains unanswered then is how do voters vote instead in these contexts, especially during times of economic crisis when the economy becomes voters' overarching concern. Playing up the role of non-economic factors undoubtedly seems counter-intuitive in these cases. If then the standard economic voting model does not work, what do voters take into account when supranational constraints make domestic governments less capable of controlling policy outcomes? How do voters replace this accountability gap and which logic of voting do they follow? I argue in this paper that voters move from *outcome-* to *input-* outcome voting. In contexts where countries are strongly dependent on international dynamics and external factors, voters often become aware of these constraints on their government's ability to deliver. Therefore, they will place a greater weight on politicians' actions. These actions provide information about the true traits of politician and what they would do if the supranational constraints were to be loosened.

The theoretical argument is mainly informational. In contrast to traditional models of economic voting, I assume that *ex ante* voters cannot identify the true source of policy formation and policy outcomes, may that be domestic or systemic. In other words, voters cannot gauge to what extent the incumbent can actually influence policy design and implementation and hence the degree to which she is responsible for economic outcomes. Therefore, the driving feature of our model is that *ex ante* voters cannot distinguish between a *systemic* and an *endemic* policy environment. As a result, voters' prior beliefs about the overall state of the world and which is the right policy will influence their decision on whether to reelect the incumbent or not.

My key finding is that, unlike traditional models of retrospective voting, voters may reward incumbents at the ballot in spite of negative economic outcomes simply because

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they have made an effort to overturn an unpopular policy mix and thereby shown that they can be trusted. To refine the argument even further, I show that voters who believe that domestic economic outcomes are mostly due to *systemic* factors (e.g., contagion effects, external conditionality programs, exogenous economic shocks, global capital flows, etc.) will care more about electing a *representative* (congruent) government ("by the people") that can be entrusted to represent and advocate for the people's interests ("input legitimacy"). On the other hand, those voters who think domestic economic outcomes are mostly due to *endemic* factors (e.g., poor economic management, weak policy implementation, time-inconsistency, political business cycles, corruption, etc.) will want to elect a *responsible* (competent or effective) government ("for the people") that can deliver economic growth and prosperity ("output legitimacy") (Scharpf, 1999). In other words, democratic accountability becomes more input-dependent in a systemic context and more outcome-dependent in an endemic context.

In what follows, I first draw a distinction between policy inputs, outputs, and outcomes and I purport that the linkages between them are determined by the slackness of the supranational policy constraints and the complexity of the policy environment. Then I outline a game-theoretic model of voting and electoral accountability under supranational policy constraints and derive the various equilibria, which I classify as either polarized, technocratic, or pandering. I find that in policy contexts where governments have little control over economic performance, voters do not look to *outcomes* but to observed *inputs* in deciding whether to reelect an incumbent government. That is especially so when it tries to regain control of domestic levers of economic policy by way of reversing an existing mix of policies and replacing it with one that better reflects popular preferences and beliefs. Moreover, I show that – irrespective of policy outputs and outcomes – the observation of the incumbent's inputs provides voters with information about the incumbent's true underlying characteristics. Finally, I discuss some of the comparative statics of the model and I conclude.

2 Inputs, Outputs, and Outcomes

The aim of this paper is to develop and test a different theory about voters' decision making in the presence of international constraints. The argument builds on Scharpf's (1999) classification of the sources of democratic legitimation, an approach that to our knowledge has so far not been sufficiently explored in the voting literature. Scharpf (1999) defines two types of democratic legitimacy: one based on *outcomes* and another one based on *inputs*. Traditional models of retrospective voting rely on outcomes as the basis of democratic accountability with the implicit assumption that those outcomes are a direct function of inputs. However, as globalization makes *outcomes* more detached from either what governments promise to do or even try to do (*inputs*) or the policies that they actually produce (*outputs*), citizens will often resort to assessing policy inputs themselves. This inherent tension of globalization, particularly relevant when countries join supranational organizations that formally delimit their governments' "room to maneuver", manifests itself in the widening spatio-temporal gap between capital markets and democratic politics. Globalization thus creates growing disparities between the sources of *input-* and *outcome-* based legitimacy and brings about increasing incompatibility between the functions of *responsible* government (*for* the people) and those of *representative* government (*by* the people) at the national level (Mair, 2009).[2]

Mair's (2009) distinction between *representative* and *responsible* government is generally moot in the context of traditional models of economic voting, since the incumbent is assumed to wield full control over economic policy and therefore its ability to deliver growth and prosperity is congruent with its willingness to represent the interests and preferences of the median voter. On the other hand, the Global Financial and the Eurozone Debt Crises and the related debate on austerity highlighted a wedge between the rhetoric and actions of responsible and representative government respectively. Especially in countries mired in recessionary spirals, what elites may perceive as being in the country's best interest is oftentimes not the popular option or what the people think is in their own self-

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[2]In the European context, Schmidt (2013) captures this nicely by pointing towards a precarious political imbalance: whereas *outcome*-based legitimacy has largely come to reside at the European level, which constitutes the main locus of "policy without politics", *input*-based legitimization still takes place primarily at the domestic level, where national democracies engage in "politics without policy".

interest. As a result of this incongruence between mainstream policies of globalization and the popular anti-globalization backlash, I argue that responsible governments may not be representative and vice versa.

This related trade-off between responsibility and representativeness has become even starker as a result of the widening gap between the policies of responsible and representative government brought about by the Global Financial Crisis and the Eurozone Debt Crisis. While people want governments to be both responsive (or congruent) and responsible (or else competent), globalization makes it increasingly difficult for them to satisfy both aims at once (Rodrik, 2011). Adhering to the inexorable policy constraints of economic and political integration makes national governments increasingly more likely to face a trade-off between responsibility, i.e., conforming to the dictates of economic orthodoxy, and *responsiveness*, i.e., pursuing policies that people actually desire. In fact, the recent surge in populism and nativism (Guiso et al., 2017; Rodrik, 2017) did not just appear out of nowhere; these phenomena had been heretofore kept dormant by the overlap between representative and responsible policies and the convergence of party platforms in the context of the post-WWII liberal democratic consensus. Effectively, new voting mechanisms have emerged in the context of increasing party-system polarization and the corresponding rise of populist parties that have given voice to hitherto "disenfranchised" social groups by offering them a wider range of inputs over and beyond the globalization-bound orthodox mix of policies.

In contexts where countries are strongly dependent on international dynamics and external factors, voters might have some uncertainty about what governments can truly deliver. When voters strongly believe that there are binding supranational constraints on what governments can deliver, they will tend to shift from assessing outcomes, which can no longer be directly attributed to incumbents, to placing greater emphasis on politicians' actions. These actions provide information about the true traits and types of those politicians, and what they would do if the supranational constraints were loosened. In other words, the more binding supranational constraints are on the national economy, the more we expect voters to move away from *outcome-* to *input-* oriented voting, from *outcome-* to *input-* based legitimacy, and from the use of elections as disciplining mechanisms assessing competence – i.e., hidden *actions* – to their use as screening devices over

congruence – i.e., hidden *types* – (Besley, 2006). On the whole, I argue that the trade-offs of globalization have been altering the nature of electoral accountability. Voters, in this context, may positively assess incumbents perceived as trustworthy and congruent even if outcomes under their leadership are bad. In that regard, all that negative outcomes do is signal to voters the policy environment in which they reside (systemic or endemic).

In order to further clarify the theoretical framework, I rely on a commonplace distinction between inputs, outputs, and outcomes as the essential ingredients of the policy formation process:

$$\textbf{Inputs} \xrightarrow[\textit{Congruence}]{\text{Policy design}} \textbf{Outputs} \xrightarrow[\textit{Competence}]{\text{Policy implementation}} \textbf{Outcomes}$$
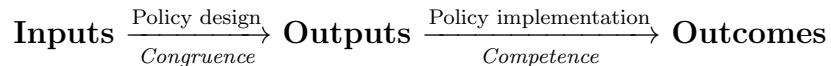
Policy *inputs* refer to actions (efforts), ideologies, policy platforms, political rhetoric, or else anything that politicians say or do at the pre- or post- electoral stage in order to get elected and influence policy design. Policy *outputs* on the other hand are legislative or executive acts, while policy *outcomes* may amount to either macroeconomic aggregates, such as unemployment levels, GDP growth, inequality, etc., or personal economic circumstances. The policy design stage converts inputs into outputs and the policy implementation stage maps outputs into outcomes. Voters have different sets of preferences over policy inputs and outputs, common (*sociotropic*) or personalized (*pocketbook*) experiences over outcomes, and distinct (prior) beliefs over the linkages between the three, i.e., the constraints affecting the policy design and policy implementation stages. As a result, I think of voting mechanisms as the interaction between policy preferences and beliefs over how constrained or not the policy formation process is.

On one hand, in the absence of globalization at the systemic level or in the context of a closed economy at the domestic level, the policy-formation process should be unaffected by external factors so that outputs stem directly from inputs and outcomes depend on the incumbent's competence in terms of implementing policy outputs. Therefore, we would expect voters to vote solely on the basis of outcomes (pure retrospective voting). On the other hand, the presence of supranational policy constraints and the emergence of globalization-induced economic volatility blur the processes of policy *design* – as per the "room to maneuver" thesis (Hellwig, 2016; Kosmidis, 2017; Mosley, 2005) – and policy *implementation* – as per the "clarity of responsibility" thesis (Duch and Stevenson,

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2008). Therefore, since with globalization inputs do not directly map into outputs and incumbents cannot always be held directly responsible for outcomes, divergent perceptions about the relationship between policy inputs, outputs, and outcomes – as conditioned by the nature of supranational constraints – will give shape to different voting mechanisms depending on the weight placed on either policy inputs or final outcomes.

When voters observe that supranational constraints sever the link between government *inputs* and *outcomes*, then they should be expected to move way from forming assessments based on the latter and put more weight on the former. Input-oriented voting thus places more emphasis on government responsiveness, democratic representativeness, and policy congruence with voter preferences, as opposed to outcome-based and results-driven modes of political assessment. Under this logic, incumbents gain people's trust based on what they appear to represent and what they do, not what they have already delivered. Therefore, input-oriented voting not only rewards incumbent effort more than outcome-oriented voting, but does even more so when policy outcomes are incongruent with government actions. In effect, knowledge about outcomes can help voters qualify their priors over the nature of the policy environment and the links between the different stages of the policy-formation process. Input-oriented voting is thus predicated on the posterior belief that both domestic policy outputs and outcomes are effectively due to systemic factors beyond the government's control. In other words, both the policy design and policy implementation stages are perceived as inherently constrained.

The combined observation of failed politician efforts and bad policy outcomes will tend to induce voters to exonerate the incumbent from blame. They are wont to do so as they will infer that the set of achievable policy outcomes is circumscribed by the externally imposed set of policy outputs (diffuse "clarity of responsibility"), which in turn is delimited by the government's constraining set of international commitments (limited "room to maneuver"). In effect, failed efforts will more clearly illuminate the difficulty of the task at hand, the inexorable nature of supranational constraints, as well as the contrast between the types of policies that the incumbent would implement in the absence of such constraints and the policy outputs they are actually forced to implement. Therefore, input-oriented voting entails an element of prospective assessment of politician types in terms of what they might do in the future if given the chance to flout the extant

constraints.

Input-oriented voting effectively amounts to the use of elections as screening mechanisms of adverse selection, rather than disciplining mechanisms of moral hazard (as in the case of traditional models of retrospective voting) or even simple mechanisms of democratic contestation over future policies (as in the case of models of pure prospective voting). If government actions are perceived as inconsequential, then elections become more about selecting the right (i.e., representative) type of politician, i.e., the one expected to perform the best in expectation after being elected (Fearon, 1999). This model is more consistent with elections as mandates and conceives the decision of voters then as a projection of future performance. This does not mean that the past actions of the incumbent are irrelevant. In the context of a highly constrained policy environment, input-oriented voters will care more about the input legitimacy of a responsive or congruent government ("by the people") that can be entrusted to represent their interests and give voice to their inherent desires and beliefs.

On the other hand, those who follow the results-based logic of outcome-oriented voting mechanisms primarily rely on the retrospective assessment of outcomes (output legitimacy). They are spurred on by the inherent belief that politicians are responsible for the implementation of policy outputs and that more generally human agency (competence) can only flourish within the free and voluntary environment of globalized markets and corresponding governance structures. These outcome-oriented voters come closest to the ideal-type of the retrospective voter who uses elections as a performance-based disciplining mechanism aimed at rewarding competent economic stewardship and responsible behavior and discouraging moral hazard in the form of poor management, inefficiency, and corruption. By the sheer logic of outcome- and agency- based voting mechanisms, such electoral behavior is informed by the prior belief in an endemic national policy environment, whereby national politicians continue to wield significant influence over policy implementation and, therefore, should be held responsible for economic outcomes.

My theoretical model effectively focuses on both the demand side of politics, in terms of voting mechanisms,[3] and the supply side in terms of the role of politicians and incumbent

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[3]My theoretical results on voting behavior in fact closely mirror Healy and Malhotra's (2013) framework and their models of voting.

behavior as mediating factors that trigger different voting mechanisms. Voting behavior in such a context will depend on beliefs and expectations about the policy environment and the actions of politicians. The model I propose shows how voting behavior and political agency are co-determined within a given policy environment as part of a framework of electoral accountability (Ashworth, 2012).

3   The Model

Following Maskin and Tirole (2004), I propose a model of democratic accountability under supranational policy constraints stemming from economic globalization and political integration. These may either amount to soft globalization pressures (stemming from diffusion and competition effects), hard "hyperglobalization" constraints, or even explicit supranational rules and centralized policies. In light of the motivating example, I assume that the stylized country is a member of an international union, such as the EU, with explicit policy rules. I first proceed to outline the basic economic environment of the benchmark model, then I derive the perfect Bayesian equilibrium, and finally I show how the equilibrium reelection rule may change under different assumptions about the information structure, i.e., depending on whether voters are only able to observe policy outcomes, policy outputs, and/or policy inputs. The full characterization of the equilibria can be found in the Appendix.

3.1   Basic structure of the benchmark model

There are four actors in our model: a (strategic) representative (median) voter i, a (strategic) elite (minority) voter j, a (strategic) incumbent government g, and a (non-strategic) supranational bureaucrat u.[4] As is typical in such models, there are two periods $t = 1, 2$: one before the election and one after. Second-period payoffs are discounted at a rate $\beta \in (0, 1)$. In this principal-agent framework of electoral accountability, the voter (principal) delegates the tasks of policy design and implementation to an elected first-period

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[4]This paper's focus on national politics and the domestic economic cycle allows me to hold the supranational policy environment as exogenous and, therefore, to consider the supranational actor as non-strategic for the purposes of our model.

incumbent (agent) up for reelection.[5] Elections may thus be viewed as performance-based contracts. The supranational bureaucrat, on the other hand, serves the interests of supranational (and domestic) elites or in our case an international union of countries, such as the EU.[6]

This stylized domestic electorate is effectively divided between two major constituencies: an inward-looking popular majority of size $\pi \in (\frac{1}{2}, 1)$ that is characterized by low levels of factor mobility and high levels of asset specificity, and an outward-looking elite minority of size $1 - \pi$ that is endowed with high transferable skills and is better integrated in global or regional value chains. In other words, I posit a dichotomous view of society as effectively comprising both the (unequivocal) *winners* and (potential) *losers* of globalization.

There are two policy programs (packages) $p_t \in \{0, 1\}$ to choose from in each period t. Let us suppose that $p_t = 0$ represents a program of fiscal austerity and monetary contraction, while $p_t = 1$ is one of (fiscal and monetary) expansion. Although these policy packages are effectively multidimensional, I choose to model this situation as a simple dichotomous choice. While this mostly done for reasons of analytical parsimony, it is not unreasonably to argue that in a globalized economy policy areas are correlated and constrained to such a degree that they often collapse to very few effective dimensions.

While the incumbent advocates for domestic economic policy p_t^g, the supranational bureaucrat u sets the overall policy framework p_t^u that applies to all the countries in the union (including country i), either in the form of a soft policy target or a hard policy constraint.[7] Policies prove to be socially optimal as long as they are in tune with the underlying economic state of the world (or relevant economic cycle) $s_t \in \{0, 1\}$.

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[5] On the question of whether to delegate policy tasks to bureaucrats or politicians and the ensuing distinction between electoral accountability and bureaucratic evaluation, see Alesina and Tabellini (2007, 2008).

[6] In other words, the supranational bureaucrat u is assumed to be a perfect agent for its own supranational principal and, therefore, we think of the two as the selfsame actor.

[7] Note that in reality there is a much wider range of supranational policy constraints (from simple policy recommendations and benchmarks to supranational directives and high-powered conditionality schemes) that vary in their slackness, i.e., the degree to which they bind. While it would be easy to model a continuum of such constraints by positing convex combinations of domestic and supranational policy or different constraint multipliers, my main results come through without having to further complicate the theoretical analysis.

I assume that the economic welfare of the popular majority is directly tied to the domestic economic cycle and the extent to which domestic policy is in tune with that cycle. Otherwise put, all majority voters (and hence the representative voter i) share the same preference ranking of the two policies, but do not know *ex ante* what that ranking is (Maskin and Tirole, 2004). From their point of view, optimal domestic policy $p_t = s_t$ is an independent Bernoulli draw, where $s_t = 1$ with probability $p \in \left(\frac{1}{2}, 1\right)$ and $s_t = 0$ with probability $1 - p$, i.e., *ex ante* the expansionary policy program is the popular choice in both periods $t = 1, 2$. A majority-preferred policy output $p_t = s_t$ yields a payoff of $U_t^i = 1$ for the representative (median) voter i of mass π, while suboptimal policies $p_t \neq s_t$ yield a payoff of zero.

I further assume that, because of a presumed disparity in the economic size of each political jurisdiction (country-level vs union-level), supranational economic cycles are longer than national ones, so that $s_1^u = s_2^u = s^u$, i.e., optimal supranational policy $p_1^u = p_2^u = p^u = s^u$ is the same across both time periods.[8] Since the economic well-being of domestic elites is directly linked to a globalized economic order of trade openness, unencumbered capital flows, and labor mobility, this would then imply the economic interests of domestic and supranational elites are perfectly aligned and primarily linked to the supranational economic cycle. Although domestic elites may also incur the short-term costs of a supranationally imposed policy of austerity, their overarching interests are inextricably tied to the long-term stability and prosperity of the union as purportedly reflected in the supranational bureaucrat's policy agenda. Therefore, a minority-preferred policy output $p_t = s^u$ yields a payoff of $U_t^j = 1$ for the elite (minority) voter j of mass $1 - \pi$, while suboptimal policies $p_t \neq s_u$ yield a payoff of zero.

Without loss of generality – and in line with the Greek motivating case –, let $p^u = 0$, i.e., let us assume that the overarching policy framework imposed by the supranational bureaucrat is one of austerity. Then, with probability $1-p$, the true underlying preferences of mass and elite voters will be perfectly aligned, while with probability $p \left(> \frac{1}{2}\right)$ they will be diametrically opposed.[9] An incumbent will exert effort at reversing the supranational

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[8]For reasons of analytical parsimony I posit that national and supranational cycles are uncorrelated, i.e., union member-states are subject to both symmetric and asymmetric economic shocks. Assuming correlated cycles would not alter the nature of our results.

[9]This type of formulation allows us to capture the idea that the process of globalization does not yield

policy framework of austerity whenever she pursues an expansionary policy agenda, i.e., $p_t^g = 1$.

I further distinguish between a *systemic* ($w = s$) and an *endemic* ($w = d$) policy environment. Under a systemic environment, the supranational policy constraint becomes fully binding, i.e., $p_t \leq p^u$, and thus the national government forgoes all policy sovereignty, while under an endemic environment, the incumbent has full discretion over policy implementation. i.e., $p_t = p_t^g$, and thus may be held fully responsible for any given policy outcome.[10] Then, in each period $t = 1, 2$ domestic policy output $p_t(p_t^g, p^u; w)$ as a function of domestic and supranational policy becomes equal to $p^u = 0$ for $w = s$ and p_t^g for $w = d$. Moreover, voters and politicians alike have a prior belief that $w = s$ with probability $q > 0$ and $w = d$ with probability $1 - q > 0$. Note that both the incumbent g and voter i can observe the supranational policy constraint p^u but not its slackness.

Ex ante, neither voters nor politicians know for sure what the majority-preferred policy s_t or the underlying policy environment w are. However, incumbents with access to a given pool of policy resources have the option of acquiring sufficient policy expertise at a cost $C > 0$ and thus gaining perfect knowledge over the domestic economic cycle s_t. Let $e_t^g(\cdot)$ denote the decision to gain such policy expertise in period t. If $e_t^g = 0$, then the period-t incumbent g shares the same priors $(p, 1 - p)$ over the period-specific domestic economic cycle as the representative voter i. It is entirely plausible to assume that the cost of expertise is sunk and that once one becomes a competent policy expert then one retains the capacity to discern any future swings in the economic cycle that may call for a shift in policy. Given that these types of actions are rarely observable or contractible, further on we will see how elections induce incumbents to act in the majority's best interest by gaining sufficient expertise and policy competence. This effectively captures

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a stark and immutable dichotomy between unequivocal winners and losers but instead a fluid economic environment of uncertainty with regard to one's true position within the global value chain (à la Rodrik and Fernández, 1991). Naturally, the political limits of globalization are tested when the temporal phases of the supranational and national economic cycles are such that there is a clear juxtaposition of interests and group identification between the pro- and anti- globalization constituencies (Acemoglu and Yared, 2010).

[10]For example, in my particular country of interest, Greece, proponents of the systemic theory attribute all of the country's economic woes to its membership in a hard currency union and the externally imposed austerity that comes with it, while supporters of the endemic theory point to domestic government failures, weakness of institutions, extensive economic mismanagement, and pervasive levels of corruption.

the *disciplining* function of elections in the face of *moral hazard* problems.

Finally, I assume that politicians are themselves members of the majority and minority groups but possess no particular traits that could reveal their hidden type. Thereby, I distinguish between two types of politicians: "congruent" types c who share the same underlying preference ranking as the majority voter i (captured by policy payoff U_t^i) and "non-congruent" types n whose interests are effectively tied to those of domestic and supranational supranational elites (captured by policy payoff U_t^j). In other words, a congruent type is like a *citizen*-candidate, while a non-congruent type is rather more like an *elite*-candidate.[11] *Ex ante*, incumbent g or challenger g' are congruent (with the majority group) with probability $\pi \in \left(\frac{1}{2}, 0\right)$ and non-congruent with probability $1 - \pi > 0$. This distinction between congruent and non-congruent types allows us to examine the *screening* function of elections in the context of *adverse selection* problems.[12] Moreover, in addition to their *intrinsic* policy motivation to implement the optimal policy of their respective voter constituency, both types get to enjoy *extrinsic* perks $E > 0$ when in office.

The timing of the game is as follows: first, nature picks the meta-state w and the union-level and country-level economic states, s^u and s_1 respectively. Then, the supranational bureaucrat u, assumed to be fully informed about the overall economic and political environment, sets optimal union-wide policy $p^u = s^u$, which remains the same throughout the two periods of the game and is common knowledge. Having observed p^u, the first-period incumbent g_1 first decides whether to acquire policy expertise ($e_1^g \in \{0, 1\}$) and then sets out its own domestic policy program p_1^g. Depending on the underlying political environment w, domestic policy output p_1 is implemented and policy payoffs materialize for voter groups i and j, and incumbent g. In the benchmark model I, I assume that voters remain rationally uniformed about policy decisions and only get to observe policy outcomes, i.e., payoffs of 0 or 1.[13] On that basis, majority (median) voter i decides whether

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[11]Although I adopt a citizen-candidate type of framework, I choose not to model the electoral entry decision, assuming instead that challengers are random picks from the pool of voters.

[12]See Besley (2006) for an extensive discussion of the latest generation of political agency and accountability models that combine moral hazard and adverse selection considerations.

[13]In subsequent extensions of the model, I discuss how additional pieces of information affect the voter's reelection strategy.

to reelect the incumbent, i.e., $r^i = 1$, or elect a challenger g' randomly picked from the same pool of voters, i.e., $r^i = 0$. Let $r^i : \mathcal{I} \longrightarrow [0,1]$ denote the majority (median) voter's reelection strategy at any election-time information set $\iota \in \mathcal{I}$ over (U_1^i, p_1, p_1^g). Then, the second-period elected incumbent chooses—unless she has done so already—whether to gain policy competence and knowledge over s_2 and subsequently seeks to implements her second-period government policy program p_2^g. Finally, payoffs materialize as a function of domestic policy, supranational policy, the underlying policy environment, and the second-period state of the economy.

3.2   Equilibrium analysis

I now proceed to characterize the perfect Bayesian equilibria (PBE) of this game. Working backwards, it is straightforward to determine what rational reelected incumbents g will do in the second period. Non-congruent types n will always adopt the supranational principal's policy framework p^u reflecting the interests of domestic elites. They will either remain rationally uninformed ($e_2^{n*} = 0$) or ignore any new information they may observe in those cases where they have gained expertise in the past (i.e., $e_1^{n*} = 1$). Blind implementation of their supranational principal's optimal policy is always their preferred action guaranteeing them a total payoff of $1 + E$.

On the other hand, congruent types c will seek to implement the socially optimal policy s_2 regardless of whether that will actually translate into the intended policy output p_2. As a result, expert congruent incumbents ($e_1^c = 1$) serving their second term in office will always seek to implement the optimal policy $p_2^{c*} = s_2$. Non-expert congruent incumbents who have been reelected will opt for the popular policy $p_2^{c*} = 1$, which *ex ante* has the best shot of being majority-preferred. In equilibrium, if such types have chosen not to gain any policy expertise in the first period despite the contemporaneous policy benefits and intertemporal reelection incentives, then clearly it would be strictly dominated for them to do so in the second period. Note that incentives to acquire policy expertise disappear in a systemic policy environment since the incumbent would not be able to influence policy outcomes anyway. Thus, the expected value of policy expertise is increasing in the perceived probability that the political environment is endemic and also in the prior

belief $(1-p)$ that the unpopular policy program may actually be the optimal one. Thus, the more technical and unfamiliar the policy context is, the stronger the incentives of congruent politicians to become competent (Landa and Le Bihan, 2018; Maskin and Tirole, 2004).

In light of the above endgame analysis, the representative voter will ideally want to elect an expert congruent type (first-best) or just any congruent type (second-best), since the absence of any form of electoral discipline in the second period allows non-congruent types to always opt for the elite-preferred policy $(p_2^{n*} = 0)$. If the majority voter i is sufficiently convinced that the incumbent is non-congruent, then i may instead vote for a challenger g', modeled as a random pick from the pool of voter types $(\pi, 1 - \pi)$. Depending on the complexity of policy choices p, the cost of expertise C, and her posterior belief over the overarching political environment w, if elected, a congruent challenger (c') may choose to gain policy expertise $\left(e_2^{c'} = 1\right)$ in order to unerringly implement the majority-preferred policy program $p_2^{c'} = s_2$. In formal terms, $e_2^{c'*} = 1$ *if, and only if,* $(1 - \tilde{q})(1 - p) \geq C$, where $\tilde{q}$ denotes the posterior belief over w. If that condition doesn't hold, the congruent challenger will instead just opt for the popular policy program $p_2^{c'*} = 1$.

On the other hand, in a perfect Bayesian equilibrium a non-congruent challenger will never choose to gain expertise $\left(e_2^{n'*} = 0\right)$ and will always seek to implement the supranational bureaucrat's policy framework $p^u = 0$. Of course, all this becomes moot *ex post* if the policy environment proves to be systemic (s) since neither type of incumbent would be able to alter the externally imposed policy agenda p^u. In that case, voters reap a policy payoff of 0 with probability p and 1 with probability $1 - p$. To sum up, the median voter's second-period utility of electing a random challenger becomes as follows:

$$
U_2^i(g') = \begin{cases} 1 - p & \text{, if } w = s \\ \pi + (1 - \pi)(1 - p) & \text{, if } w = d \text{ and } (1 - \tilde{q})(1 - p) \geq C \\ \pi p + (1 - \pi)(1 - p) & \text{, if } w = d \text{ and } (1 - \tilde{q})(1 - p) < C \end{cases}
$$

A complete characterization of the perfect Bayesian Nash equilibrium of this game will be as follows:[14]

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[14]Note that the minority voter j's equilibrium voting strategy is of no strategic interest as it has no bearing on the electoral outcome. For that reason I henceforth choose to drop the superscript i from $r(\cdot)$.

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Definition 1 *Let $\iota \in \mathcal{I}$ denote the information set of first-period observables. Then a perfect Bayesian equilibrium of this game can be fully characterized by the incumbent's sequentially rational first- and second-period policy implementation (expertise acquisition) and design (input) strategies $(e_1^{g*}, p_1^{g*}, e_2^{g*}(\iota), p_2^{g*}(\iota))$, where $g \in \{c, n\}$, the challenger's sequentially rational second-period policy implementation (expertise acquisition) and design (input) strategies $e_2^{g'*}(\iota), p_2^{g'*}(\iota)$, the median voter's sequentially rational reelection strategy $r^*(\iota)$, and a consistent set of beliefs over the first-period incumbent's type, the first- and second-period incumbents' level of expertise, and the overarching policy environment (w) using Bayes' rule.*

The first-period incumbent g may choose one of three strategies (e_1^{g*}, p_1^{g*}): (i) gain policy expertise and seek to implement the *ex post* majority-preferred policy program, i.e., $(1, s_1)$, which I refer to as the "technocratic" (or "pragmatic") strategy, (ii) remain uninformed and seek to implement the *ex ante* popular policy program, i.e., $(0, 1)$, which I refer to as the "pandering" strategy, and (iii) remain uninformed and seek to implement the minority-preferred policy program, i.e., $(0, 0)$, which I refer to as the "dissonant" strategy. It is trivial to show that the dissonant strategy is *ex ante* strictly dominated for congruent types. On the other hand, populism can be an optimal strategy favored by both congruent and non-congruent types as it may further their chances of reelection.[15] So, let $r : \mathcal{I} \to [0,1]$ denote the majority voter i's reelection rule (i.e., the probability that he votes for the incumbent), $e_1^g : (0, +\infty) \times (0, +\infty) \to [0,1]$ the probability that the incumbent $g = c, n$ chooses to gain expertise in period one and thus adopt a technocratic strategy $(1, s_1)$ for given $C > 0$ and $E > 0$, $\sigma_1^{pan} : (0, +\infty) \times (0, +\infty) \to [0,1]$ the probability that a non-congruent incumbent type adopts a pandering (or else a dissonant) strategy in the first period $(p_1^n = 1)$ conditional on remaining uninformed $(e_1^n = 0)$, and finally $e_2^{c'} : \mathcal{I} \to [0,1]$ the probability that a congruent challenger chooses to acquire expertise in the second period for any election-time information set $\iota \in \mathcal{I}$. As in most models of electoral accountability, the incumbent's optimal first-period strategy will be strategically co-determined together with the median voter's optimal reelection rule $r^*(\iota)$,

---

[15] Note that my conceptualization of populism in this context is effectively tantamount to the notion of pandering as adopted for elections by Canes-Wrone et al. (2001), Maskin and Tirole (2004), and Besley (2006).

where $\iota \in \mathcal{I}$ denotes the election-time information set of observables (cf., Gersbach and Liessem, 2008).

Based on the above analysis, I also seek to derive equilibrium measures of both *out-come*-oriented (*retrospective*) and *input*-oriented (*prospective*) voting. I do not consider these as either fixed rules or heuristics of voting behavior prescribed *ex ante* but rather as equilibrium strategies that arise in conjunction with the incumbent's equilibrium policy design and implementation strategies and voters' consistent set of beliefs. Thus, my *ex ante* measure of outcome-oriented (retrospective) voting amounts to the difference between the expected incumbent reelection probabilities under good and bad policy outcomes *all else equal*, i.e., $OCV = \underset{\iota^- \in \mathcal{I}^-}{E} [|r^* (U_1^i = 1; \iota^-) - r^* (U_1^i = 0; \iota^-)|]$, where ι^- denotes the information set over the other variables. Similarly, my *ex ante* measure of input-oriented (prospective) voting amounts to the difference between the expected incumbent reelection probabilities given different observed policy inputs *all else equal*, i.e., $IPV = \underset{\iota^- \in \mathcal{I}^-}{E} [|r^* (p_1^g = 1; \iota^-) - r^* (p_1^g = 0; \iota^-)|]$. In a similar vein, one may define an *ex ante* measure of output-oriented voting as $OPV = \underset{\iota^- \in \mathcal{I}^-}{E} [|r^* (p_1 = 1; \iota^-) - r^* (p_1 = 0; \iota^-)|]$.

In what follows, I characterize the different types of pure-strategy perfect Bayesian Nash equilibria that emerge in this context and describe the nature of the equilibrium reelection rule. In the final part of this section, I tease out some comparative static results. The full formal characterization of the PBEs can be found in the Appendix.

Polarized equilibria

I show that for low enough office rents E and high enough cost of expertise C, there always exist equilibria such that congruent first-period incumbents (c) follow pandering policy design and implementation strategies, i.e., $(e_1^{c*}, p_1^{c*}) = (0, 1)$, while non-congruent ones (n) follow dissonant strategies, i.e., $(e_1^{n*}, p_1^{n*}) = (0, 0)$. Hence, these are perfectly separating equilibria, where types follow diametrically opposed strategies both *ex ante* and *ex post*. The majority types always proffer a populist anti-austerity vision of the world while minority types unequivocally advocate an elitist pro-globalization platform.

In polarized equilibria with reelection, we would observe minimum levels of outcome-oriented voting and maximum levels of input-oriented voting (if the voter can observe

inputs) as captured by the *ex ante* equilibrium measures presented above.[16] Since congruent types will perfectly separate from non-congruent types, then median voters will always want to vote for whom they know for sure to be congruent by dint of exhibiting effort (albeit not backed up by any relevant expertise) to overturn the prevailing austerity framework. Therefore, in these types of equilibria, screening considerations of *adverse selection* dominate electoral discipline considerations of *moral hazard*.

Note, however, that for π high enough there are also some interesting (and somewhat counter-intuitive) polarized equilibria where the incumbent never gets reelected, i.e., $r^{i*} = 0$ for all $\iota \in \mathcal{I}$. This can be the case if posterior beliefs $\tilde{q}$ over the policy environment w are such that, if elected, a congruent challenger is expected to gain policy expertise and thus implement the ex-post majority-preferred policy program s_2 in the second period. In other words, the voter will be willing to gamble on a competent and congruent challenger by punishing both types of incumbents for not being competent. Such equilibria will exist as long voters do not have very strong pre-held opinions about policy, i.e., for p not too high. Otherwise, it would always be a strictly dominated strategy for the majority voter to reelect a non-congruent incumbent who is certain not to take the majority's interests into consideration in the second period.

Technocratic equilibria

For C low enough I also find so-called technocratic equilibria, defined as those where congruent incumbents follow technocratic strategies, i.e., $(e_1^{c*}, p_1^{c*}) = (1, s_1)$.[17] Non-congruent incumbent types may either pool (pure technocratic equilibria) or separate by following either dissonant (techno-dissonant equilibria) or pandering (techno-pandering equilibria) strategies depending on the value of E, i.e., the value of reelection. In other words, there is a range of pooling and separating perfect Bayesian equilibria (both *ex ante* and *ex post*).

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[16]Note that polarized equilibria are strict Nash equilibria from the majority voters' point of view, i.e., their optimal voting decisions are degenerate corner solutions. In other words, for C high enough, the median voter is strictly better off voting in favor or against the incumbent in all of its election-time information sets $\iota \in \mathcal{I}$.

[17]Note that there are no equilibria where only non-congruent types gain expertise since their office-oriented motivation to do so is always dominated in magnitude by the combined office- and policy-oriented motivation of congruent types.

Note that different types may pool *ex ante* by choosing the same technocratic strategy but may end up separating *ex post* by advocating different policy programs depending on their information about the domestic economic cycle, and *vice versa*. Voters can only tell whether similar policy platforms stem from (unobservable) policy expertise and informed deliberation on the basis of consistent beliefs formed in equilibrium.

Pooling technocratic equilibria will be characterized by maximum levels of retrospective voting and minimum levels of prospective voting (again with respect to the equilibrium measures derived above) since voters cannot distinguish between incumbent types but may instead choose outcome-based reelection strategies that incentivize all first-period incumbents to gain policy expertise. In other words, in these types of equilibria, electoral discipline considerations of *moral hazard* will tend to dominate screening considerations of *adverse selection*. In that regard, these are the polar opposites of the polarization equilibria presented above.[18]

Pure pandering equilibria

Finally, I also characterize a range of perfectly-pooling PBEs, whereby for C and E high enough both incumbent types adopt the same pandering (or else populist) strategy, i.e., $(e_1^{g*}, p_1^{g*}) = (0, 1)$ for both $g = c, n$. Therefore, pooling takes place both in terms of *ex ante* expertise acquisition and *ex post* policy design. Since representative voters cannot distinguish between types, they become indifferent between voting for the incumbent or the challenger in all election-time information sets $\iota \in \mathcal{I}$.[19]

This wide range of multiple non-strict equilibria makes for higher electoral volatility (and arguably lower polling precision). From the majority voter's point of view, these are unequivocally Pareto inferior equilibria since they yield no electoral benefits either in terms of *screening* or *disciplining* politicians. This is not necessarily the case for minority voters since a pandering non-congruent incumbent type has better chances of getting reelected and thus implementing the minority-favored agenda in the second period. Finally, the

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[18]In the case of separating technocratic equilibria, the discrepancy between outcome-oriented and input-oriented voting is not as clear-cut as majority voters look to strike a balance between moral hazard and adverse selection considerations.

[19]This proposition holds as long as C is high enough that a challenger will choose to remain uninformed regardless of her posterior beliefs over the policy environment w.

levels of outcome- and input-oriented voting will essentially depend on the information structure of the game.

Figure (3.2) maps out the various types of PBEs of the benchmark model for different values of $E > 0$ and $C > 0$.

Figure 1: Map of PBEs over (E, C) space
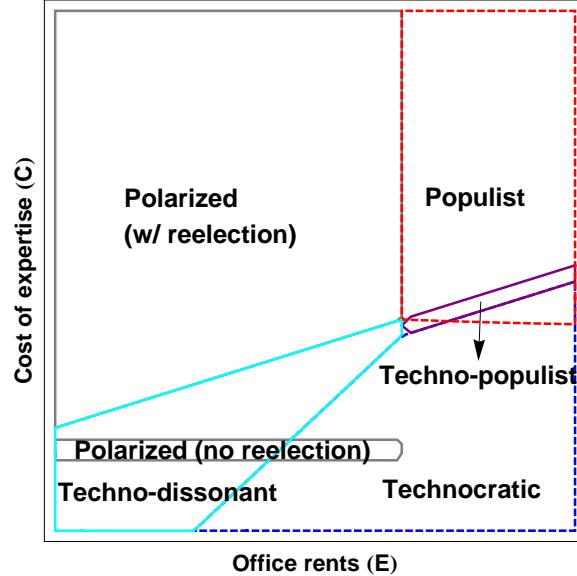
Notes: This graphs maps out the various types of PBEs of the benchmark model for different values of $E > 0$ and $C > 0$. Parameter values are set at $\pi = \frac{2}{3}$, $p = \frac{3}{4}$, $q = \frac{1}{2}$, and $\beta = \frac{1}{2}$.

3.3   Information structures

In what follows, I bestow upon voters different levels of election-time information and accordingly derive their optimal reelection strategy. I first assume that at the time of the election voters can only observe first-period policy *outcomes* (*payoffs*) (U_1^i) (model I), then policy *outcomes* together with policy *outputs* (U_1^i, p_1) (model II), subsequently policy *outcomes* together with incumbent *inputs* (U_1^i, p_1^g) (model III), and finally all three (outcomes, outputs, and inputs) at the same time (U_1^i, p_1, p_1^g) (model IV). I then seek

to compare optimal voter reelection (mixed) strategies under different levels of electoral information.

Moving from an environment of less to more observable information (from model I to IV) amounts to a gradual refinement of election-time information sets $\iota = (U_1^i, p_1, p_1^g) \in \mathcal{I}$ in the following way:

$$\mathcal{I}^I = (0,0,0), (0{,}0,1), (0{,}1,1)|(1,0,0), (1{,}0,1), (1{,}1,1)$$

$$\mathcal{I}^{II} = (0,0,0), (0{,}0,1)|(0{,}1,1)|(1,0,0), (1{,}0,1)|(1{,}1,1)$$

$$\mathcal{I}^{III} = (0,0,0)|(0{,}0,1), (0{,}1,1)|(1,0,0)|(1{,}0,1), (1{,}1,1)$$

$$\mathcal{I}^{IV} = (0,0,0)|(0{,}0,1)|(0{,}1,1)|(1,0,0)|(1{,}0,1)|(1{,}1,1)$$

$$w = \quad s,d \;\vdots\; s \;\vdots\; d \;\vdots\; s,d \;\vdots\; s \;\vdots\; d$$

So, under model I, voters have no way of inferring whether the underlying policy environment is *systemic* or *endemic*; under model II, voters can tell with certainty that the environment is endemic *if, and only if,* an "alternative" expansionary program is actually implemented; under model III, observed inputs are not informative enough on their own in terms of distinguishing between states; and, finally, under model IV, the combination of observed inputs and policy outputs allows voters to infer with certainty if the environment is either *systemic* or *endemic* as long as the incumbent tries to change the prevailing policy framework of austerity. If g is successful in doing so, then voters know for sure that $w = d$; if not, they can infer that $w = s$. Therefore, effort to implement an alternative program on the part of the incumbent is *ex ante* a necessary but not sufficient condition for voters to be able to discern with certainty the slackness of supranational policy constraints. For voters to become convinced that an externally imposed program of austerity cannot be amended unilaterally, they need to observe a failed attempt to do so. Otherwise, they would not be able to tell whether the incumbent *could not* or just *would not* try another policy program. This will turn out to be the core theoretical premise that can explain the puzzling outcome of the September 2015 Greek election.

3.4 Discussion of the results

The four variations of our model outlined above effectively differ with regard to the composition of election-time information sets. Increasingly more refined information allows voters to form more precise posteriors over the policy environment at the time of the election. In the context of the Greek case as referred to earlier, let us assume that we operate under a pandering type of equilibrium and that the true underlying political configuration corresponds to the $(0, 0, 1)$ information set node (i.e., negative economic outcome, austerity policy output, and exhibited effort for change). Then, under model IV, the observation of an anti-austerity input ($p_1^g = 1$) together with an austerity policy output ($p_1 = 0$) and a negative policy outcome ($U_1^i = 0$) reinforces voters' belief in a heavily constraint policy environment even more and, therefore, induces them to apply input-oriented voting strategies. When the posterior $\tilde{q}$ is high, then in equilibrium voters would rather keep an incumbent in office whom they consider as a more trustworthy representative of their interests. In such a context, the popular demand for input legitimacy takes precedence over that for output legitimacy. In other words,

Proposition 1 *In a recessionary economic environment with negative policy outcomes the observation of incumbent effort to reverse the status quo policy and status quo policy outputs will reinforce voters' posterior beliefs in a systemic policy environment, prompt higher levels of input-oriented voting, and thereby enhance the incumbent's reelection prospects.*

Whenever the majority voter's posterior beliefs formed at the election-time information set are skewed enough towards a systemic policy environment, then he will apply more input-oriented (prospective) voting strategies rewarding observed (or inferred) effort to reverse the *status quo* (policy *inputs*). Note, however, that here I am making an equilibrium argument. Since in a systemic policy environment policy expertise has no effect on policy *outputs*, then majority voters would rather keep a congruent incumbent in office as only that type may have a chance of making a change for the better in the future if given that "window of opportunity" (i.e., for small enough perturbations in the probability that the environment may actually be endemic). Non-congruent incumbent

types would never find it in their interest to do so in the endgame. Otherwise, when the majority voter forms the equilibrium belief that the incumbent has sufficient control over the design and implementation of economic policy, then he will vote on the basis of the incumbent's record in office (policy *outcomes*).

In terms of comparative statics, the formal analysis suggests that when voters have strong enough prior beliefs in a systemic policy environment (i.e., high q), and sufficient confidence in the desirability of policy change (i.e., high p), then they will tend to vote on the basis of inputs by rewarding effort and populist rhetoric (as defined above). In such an environment, the expected value of expertise and pragmatic policy-making will be lower and, therefore, voters will put more emphasis on separating congruent from non-congruent incumbent types in order to keep alive the prospect of propitious policy change in the future. In other words, when q is high, *adverse selection* considerations take precedence over *moral hazard* concerns since the marginal effect of using high-powered reelection incentives in order to induce pragmatic expert-based policy-making is rather low. This is an environment were voters basically care more about input legitimacy since they know that the incumbent most likely has very little leverage over economic outcomes. In fact, when the incumbent appears to exert effort in order to change an undesirable policy output (such as austerity), then voters will reward her at the ballot even more so as they become further convinced *ex post* that the national economy operates under binding supranational policy constraints within a systemic policy environment.

On the other hand, when voters have strong enough prior beliefs in an endemic policy environment (i.e., low q) and when the policy issues at hand are rather complex and involved (i.e., low p), then voters will place a higher premium on policy competence and expertise and, therefore, will vote retrospectively by holding incumbents accountable for actual policy outcomes (as defined above). In other words, the voter's reelection strategy will be primarily shaped my moral hazard considerations with the main goal of inducing incumbents to pursue a pragmatic and informed (i.e., technocratic) policy-making strategy. This comes of course at the expense of suboptimal sorting between "good" and "bad" types. This is an environment were voters basically care more about output legitimacy since they know that in all likelihood an informed incumbent can actually make a difference for the better (full policy sovereignty) and, therefore, cannot hide behind soft

non-binding policy constraints.

Proposition 2 *In a globalization-constrained policy environment and under a pandering equilibrium one would expect a combination of input- and outcome- oriented voting strategies. Voters who hold strong prior beliefs in a systemic policy environment will put more weight on issues of adverse selection, congruence, and trustworthiness, thereby applying more input-oriented (prospective) reelection strategies. Voters who hold strong prior beliefs in an endemic policy environment will put more weight on issues of moral hazard, competence, and expertise, thereby applying more outcome-oriented (retrospective) reelection strategies.*

4   Concluding remarks

This paper has derived different voting and accountability mechanisms within a policy environment subject to supranational constraints. Effort to pursue an alternative policy program against the dictates of the supranational principal has been shown to increase the reelection chances of incumbents even if it ends up producing negative policy outcomes. These results show the limitations of traditional economic voting models that assume that governments have full capacity to deliver economic results. When this assumption is relaxed, outcome-based accountability may be replaced by input-based accountability when voters move to a more prospective voting logic in which they reward congruent politicians.

In essence, the analysis underscores the complexity of voter decision-making in environments characterized by supranational constraints. It reveals a nuanced interplay between voters' perceptions of policy sovereignty, incumbent agency, and the efficacy of policy interventions. As globalization continues to reshape the dynamics of governance, understanding these intricate relationships becomes paramount for both scholars and policymakers. Moving forward, research in this area could further explore the role of information asymmetries, institutional design, and communication strategies in shaping voter preferences and electoral outcomes. By unpacking these dynamics, we can develop more robust theories of political accountability and governance effectiveness in an increasingly

interconnected world.

Appendix

In this Appendix I will be solving for the Perfect Bayesian Equilibria (PBE) of the various models I-IV by deriving the majority (median) voter i's optimal reelection rule $r^*(\cdot)$, the incumbent g's optimal first-period strategy (e_1^{g*}, p_1^{g*}), where $g \in \{c, n\}$, and the congruent challenger's optimal second-period expertise strategy $e_2^{c'*} \in \{0, 1\}$. We have shown earlier that, since policy expertise is not observable, it would be strictly dominated for any incumbent-type to incur the cost of information acquisition and not to use it. Moreover, first-period congruent types would never adopt a dissonant strategy $(e_1^g, p_1^g) = (0, 0)$ as this would be *ex ante* strictly dominated both in terms of expected policy payoffs and reelection probabilities. Furthermore, in equilibrium second-period non-congruent challengers would never seek to acquire expertise as they have no reelection incentive to satisfy the masses and will always want to implement a policy congruent with elite interests. Therefore, PBE second-period strategies are such that (incumbent or challenger) non-congruent types will always seek to implement the elite-preferred policy, i.e., $p_2^{n*} = s^u = 0$ for both g and g', reelected congruent incumbents who did not acquire any expertise in the first period have no reason to do so in the second thus sticking to their pandering strategy, i.e., $p_2^{c*} = 1$ *if, and only if, $e_1^{c*} = 0$,* and finally reelected congruent incumbents who acquired expertise in the first period will stick to their technocratic strategy as we assume that the cost C is sunk, i.e., $p_2^{c*} = s_2$ *if, and only if, $(e_1^{c*}, p_1^{c*}) = (1, s_1)$.*

In what follows, therefore, it would suffice to fully characterize the PBEs of the game by deriving the incentive-compatibility conditions for the set of strategies $(r^*(\iota), e_1^{c*}(\cdot), e_1^{n*}(\cdot),$ $\sigma_1^{pan*}(\cdot), e_2^{c'*}(\iota))$ at all election-time information sets $\iota \in \mathcal{I}$. We start with the benchmark model I where only policy outcomes (payoffs) $\mathbf{U_1^{i,j}} \in \{0, 1\}$ are observable at the end of the first period.

Model I with observable policy outcomes

I first derive the majority voter i's expected utility differential from voting for the incumbent as well as the second-period elected challenger's expertise decision at both information sets $\iota = 0, 1$. First, let the observed policy payoff be zero, i.e., $U_1^i = 0$, which implies that the information set is $\{(0,0,0), (0,0,1), (0,1,1)\}$. Then voter i will reelect the incumbent g *if, and only if,*

$$EU_2^i(g; 0) \geq EU_2^i(g'; 0)$$

$$\pi(1-p)(1-q)(1-e_1^c)[(1-\pi)(2p-1) - \pi(1-p)e_2^{c'}(0)] \geq$$

$$\pi(1-\pi)(1-q)(1-e_1^n)[p(1-\sigma_1^{pan}) + (1-p)\sigma_1^{pan}][p - (1-p)(1-e_2^{c'}(0))] \quad (A.1)$$

The elected second-period challenger will choose to acquire policy expertise in this information set, i.e., $e_2^{c'*}(0) = 1$, based on her updated posterior beliefs $\tilde{q}(\iota)$ about the underlying policy $w = s, d$, *if, and only if,*

$$EU_2^{c'}(e_2^{c'} = 1; 0) \geq EU_2^{c'}(e_2^{c'} = 0; 0)$$

$$(1-p)(1-\tilde{q}(0)) \geq C$$

$$\frac{(1-p)(1-q)[\pi(1-p)(1-e_1^c) + (1-\pi)(1-e_1^n)(p(1-\sigma_1^{pan}) + (1-p)\sigma_1^{pan})]}{pq + [\pi(1-p)(1-e_1^c) + (1-\pi)(1-e_1^n)(p(1-\sigma_1^{pan}) + (1-p)\sigma_1^{pan})](1-q)} \geq C \quad (A.2)$$

Now, let the observed policy payoff be one, i.e., $U_1^i = 1$, which implies that the information set is $\{(1,0,0), (1,0,1), (1,1,1)\}$. Then voter i will reelect the incumbent g *if, and only if,*

$$EU_2^i(g; 1) \geq EU_2^i(g'; 1)$$

$$\pi(1-q)e_1^c[(1-\pi)p - \pi(1-p)(1-e_2^{c'}(1))]$$

$$+\pi p(1-q)(1-e_1^c)[(1-\pi)(2p-1) - \pi(1-p)e_2^{c'}(1)] \geq$$

$$\pi(1-\pi)(1-q)[e_1^n + (1-e_1^n)((1-p)(1-\sigma_1^{pan}) + p\sigma_1^{pan})][p - (1-p)(1-e_2^{c'}(1))] \quad (A.3)$$

The elected second-period challenger will choose to acquire policy expertise in this information set, i.e., $e_2^{c'*}(1) = 1$, based on her updated posterior beliefs $\tilde{q}(\iota)$ about the

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underlying policy $w = s, d$, *if, and only if,*

$$EU_2^{c'}(e_2^{c'} = 1; 1) \geq EU_2^{c'}(e_2^{c'} = 0; 1)$$

$$(1 - p)(1 - \tilde{q}(1)) \geq C$$

$$\frac{(1-p)(1-q)[\pi(e_1^c+p(1-e_1^c))+(1-\pi)(e_1^n+(1-e_1^n)((1-p)(1-\sigma_1^{pan})+p\sigma_1^{pan}))]}{(1-p)q+[\pi(e_1^c+p(1-e_1^c))+(1-\pi)(e_1^n+(1-e_1^n)((1-p)(1-\sigma_1^{pan})+p\sigma_1^{pan}))](1-q)} \geq C \qquad (A.4)$$

What is left is to derive the incentive compatibility conditions for both congruent (c) and non-congruent (n) first-period incumbent (g) types. First-period congruent types (c) will choose to gain expertise at a cost C *if, and only if,*

$$EU_1^c(e_1^c = 1) \geq EU_1^c(e_1^c = 0)$$

$$\beta(1 - p)(1 - q)[(2 - \pi)p + \pi(1 - p)(1 - e_2^{c'}(1)) + E]r(1)$$

$$-\beta(1 - p)(1 - q)[(1 - \pi)(2p - 1) - \pi(1 - p)e_2^{c'}(0) + E]r(0)$$

$$+(1 - p)(1 - q) + \beta\pi(1 - p)^2(1 - q)(e_2^{c'}(1) - e_2^{c'}(0)) \geq C \qquad (A.5)$$

First-period non-congruent types (n) will choose to gain expertise at a cost C over a dissonant strategy *if, and only if,*

$$EU_1^n(e_1^n = 1) \geq EU_1^n(e_1^c = 0, p_1^n = 0)$$

$$\beta p(1 - q)[\pi(1 - (1 - p)e_2^{c'}(1)) + E]r(1)$$

$$-\beta p(1 - q)[\pi(1 - (1 - p)e_2^{c'}(0)) + E]r(0)$$

$$-p(1 - q) + \beta\pi p(1 - p)(1 - q)(e_2^{c'}(1) - e_2^{c'}(0)) \geq C \qquad (A.6)$$

First-period non-congruent types (n) will choose to gain expertise at a cost C over a

pandering strategy *if, and only if,*

$$EU_1^n(e_1^n = 1) \geq EU_1^n(e_1^n = 0, p_1^n = 1)$$
$$\beta(1-p)(1-q)[\pi(1-(1-p)e_2^{c'}(1)) + E]r(1)$$
$$-\beta(1-p)(1-q)[\pi(1-(1-p)e_2^{c'}(0)) + E]r(0)$$
$$+(1-p)(1-q) + \beta\pi(1-p)^2(1-q)(e_2^{c'}(1) - e_2^{c'}(0)) \geq C \qquad \text{(A.7)}$$

Finally, first-period non-congruent types (n) will choose a pandering over a dissonant strategy *if, and only if,*

$$EU_1^n(e_1^n = 0 \& p_1^n = 1) \geq EU_1^n(e_1^n = 0, p_1^n = 0)$$
$$\beta(2p-1)[\pi(1-(1-p)e_2^{c'}(1)) + E]r(1)$$
$$-\beta(2p-1)[\pi(1-(1-p)e_2^{c'}(0)) + E]r(0)$$
$$+\beta\pi(1-p)(2p-1)(e_2^{c'}(1) - e_2^{c'}(0)) \geq 1 \qquad \text{(A.8)}$$

I now proceed to characterize the various types of equilibria.

Polarized equilibria

Polarized equilibria are *perfectly separating PBEs* (both *ex ante* and *ex post*) such that neither first-period type seeks to gain any policy expertise and each will push for her preferred policy agenda policy agenda, i.e., $e_1^{c*} = 0$, $e_1^{n*} = 0$, and $\sigma_1^{pan*} = 0$. So congruent types will always advocate for the popular policy agenda $p_1^{c*} = 1$ and non-congruent types will always advocate for the elite-preferred policy agenda $p_1^{n*} = 0$. I find two types of polarization equilibria: (i) one where the incumbent gets reelected as long as the policy payoff is one and (ii) one where the incumbent never gets reelected no matter what.

(i) <u>Polarized equilibria with reelection</u> are such that $r^*(0) = 0$, $r^*(1) = 1$, and $e_2^{c'*}(0) = e_2^{c'*}(1) = 0$. In other words, if incumbents are lucky enough to get a positive payoff in the first period, then they will get reelected, and polarization carries through into the second period. Since voters do not expect congruent challengers to be incentivized enough to

gain expertise, then their focus will be on choosing the right type instead of providing incentives for good behavior. Therefore, they will end up rewarding good performance because they perceive it as a signal that the incumbent is more likely to be congruent. In formal terms, we need strict inequality condition (A.3) to hold and weak inequality conditions (A.1), (A.2), (A.4), (A.5), (A.6), and (A.8) not to hold. After solving for this system of inequalities, one can show that reelection polarization equilibria exist *if, and only if,*

$$E < \frac{1 - \beta\pi(2p - 1)}{\beta(2p - 1)} \text{ and } C > (1 - p)(1 - q)[1 + \beta((2 - \pi)p + \pi(1 - p) + E)]$$

(ii) <u>Polarized equilibria without reelection</u> are such that $r^*(0) = 0$, $r^*(1) = 0$, $e_2^{c'*}(0) = 0$, and $e_2^{c'*}(1) = 1$. In other words, the voter will be willing to gamble on a competent and congruent challenger by punishing both types of incumbents for not being competent. In formal terms, we need weak inequality condition (A.4) to hold and weak inequality conditions (A.1), (A.3), (A.2), (A.5), (A.6), and (A.8) not to hold. After solving for this system of inequalities, one can show that reelection polarization equilibria exist *if, and only if,*

$$\pi > \max\{\tfrac{1}{2}, \tfrac{3p-2}{2p-1}\} \text{ and } E < \tfrac{1-\beta\pi(2p-1)}{\beta(2p-1)} \text{ and } C > (1 - p)(1 - q)[1 + \beta\pi(1 - p)] \text{ and}$$
$$C > (1 - p)(1 - q)\tfrac{\pi(1-p)+(1-\pi)p}{pq+(\pi(1-p)+(1-\pi)p)(1-q)} \text{ and}$$
$$C \le (1 - p)(1 - q)\tfrac{\pi p+(1-\pi)(1-p)}{(1-p)q+((1-\pi)(1-p)+\pi p)(1-q)}$$

Technocratic equilibria

Technocratic equilibria are such that the congruent incumbent type always chooses to acquire policy expertise in the first period. I distinguish between *ex ante* perfectly pooling and separating equilibria depending on the strategy of non-congruent types.

(i) <u>Pure technocratic equilibria</u>: these are *ex ante perfectly pooling equilibria* where both congruent and non-congruent types acquire policy expertise in the first period, i.e., $e_1^{c*} =$

$e_1^{n*} = 1$. In other words, reelection incentives are strong enough such that both types will advocate for the revealed majority-preferred policy $p_1^{g*} = s_1$. Note of course that their policy input strategies (p_1^{g*}) may separate *ex post* depending on what domestic economic state of the world (s_1) they observe.

In formal terms, we need weak inequality conditions (A.5) and (A.6) to hold. After solving for this system of inequalities, one can show that pure technocratic equilibria exist *if, and only if,*

$$0 < C \leq \max\{0, \min\{(1-p)(1-q)[1 + \beta(\pi + E)], p(1-q)[-1 + \beta(\pi + E)]\}\}$$

Note that for $C > \frac{(1-p)(1-q)}{(1-p)q+(1-q)}$, then conditions (A.2) and (A.4) do not hold, i.e., $e_2^{c'*}(0) = e_2^{c'*}(1) = 0$, condition (A.3) holds with strict inequality, i.e., $r^*(1) = 1$, and condition (A.1) holds with equality, i.e., $r^*(0) \in [0,1]$. For $0 < C \leq \frac{(1-p)(1-q)}{(1-p)q+(1-q)}$, then strict equality condition (A.4) holds and condition (A.2) does not hold, i.e., $e_2^{c'*}(0) = 0$ and $e_2^{c'*}(1) = 1$, and both conditions (A.3) and (A.1) hold with equality, i.e., $r^*(0), r^*(1) \in [0,1]$. In the latter case, the voter is indifferent between reelecting the incumbent or not regardless of the observed outcome since both both types adopt a technocratic strategy and congruent challengers will also do the same.

(ii) <u>Techno-pandering equilibria</u>: these are *ex ante perfectly separating equilibria* where only congruent types acquire policy expertise in the first period, i.e., $e_1^{c*} = 1$, and non-congruent types pursue a pandering strategy, i.e., $e_1^{n*} = 0$, and $\sigma_1^{pan*} = 1$. In other words, the cost of expertise acquisition is not low enough to induce non-congruent types to adopt a technocratic strategy; however, the perks from office (E) are high enough that they will seek to pander to the majority and forgo dissonant policy benefits in order to get re-elected. Note of course that the policy input strategies of the two incumbent types (p_1^{g*}) may in fact pool *ex post* if the majority-preferred policy is actually the optimal policy, i.e., $s_1 = 1$.

In formal terms, we need weak inequality conditions (A.5) and (A.8) to hold and strict inequality condition (A.7) not to hold. After solving for this system of inequalities, one

can show that techno-pandering equilibria exist *if, and only if,*

$$E \geq \frac{1-\beta\pi(2p-1)}{\beta(2p-1)} \text{ and}$$

$$(1-p)(1-q)[1+\beta(\pi+E)] \leq C \leq (1-p)(1-q)[1+\beta((2-\pi)p+\pi(1-p)+E)]$$

Note that for $C > \frac{(1-p)(1-q)(\pi+(1-\pi)p)}{(1-p)q+(\pi+(1-\pi)p)(1-q)}$, then conditions (A.2) and (A.4) do not hold, i.e., $e_2^{c'*}(0) = e_2^{c'*}(1) = 0$, condition (A.3) holds with strict inequality, i.e., $r^*(1) = 1$, and condition (A.1) does not hold, i.e., $r^*(0) = 0$. For $C \frac{(1-p)(1-q)(\pi+(1-\pi)p)}{(1-p)q+(\pi+(1-\pi)p)(1-q)}$, then strict inequality condition (A.4) holds, i.e., $e_2^{c'*}(1) = 1$, condition (A.2) does not hold, i.e., $e_2^{c'*}(0) = 0$, condition (A.3) holds with strict equality, i.e., $r^*(1) = 1$, and condition (A.1) does not hold, i.e., $r^*(0) = 0$. In both cases, therefore, the voter will reward good outcomes and punish bad ones both in order to incentivize expertise acquisition and also because he knows that it is congruent types who were more likely to achieve a good outcome.

(iii) <u>Techno-dissonant equilibria</u>: these are *ex ante perfectly separating equilibria* where only congruent types acquire policy expertise in the first period, i.e., $e_1^{c*} = 1$, and non-congruent types pursue a dissonant strategy, i.e., $e_1^{n*} = 0$, and $\sigma_1^{pan*} = 0$. In other words, the cost of expertise acquisition is not low enough to induce non-congruent types to adopt a technocratic strategy; moreover, the perks from office (E) are not high enough to convince them to forgo the policy benefits of aligning themselves with the supranational elites. Note of course that the policy input strategies of the two incumbent types (p_1^{g*}) may in fact pool *ex post* if the elite-preferred policy is actually the optimal policy, i.e., $s_1 = 0$.

In formal terms, we need weak inequality condition (A.5) to hold and strict inequality conditions (A.6) and (A.8) not to hold. After solving for this system of inequalities, one can show that techno-dissonant equilibria exist *if, and only if,*

$$E \leq \frac{1-\beta\pi(2p-1)}{\beta(2p-1)} \text{ and}$$

$$\max\{p(1-q)[-1+\beta(\pi+E)], \frac{(1-\pi)p(1-p)(1-q)}{pq+(1-\pi)p(1-q)}\} \leq$$

$$C \leq (1-p)(1-q)[1+\beta((2-\pi)p+\pi(1-p)+E)]$$

or

$$E \leq \frac{1 - \beta\pi(2p-1)p}{\beta(2p-1)} \text{ and}$$

$$\max\{0, \min\{p(1-q)[-1 + \beta(\pi + E)], \tfrac{(1-\pi)p(1-p)(1-q)}{pq+(1-\pi)p(1-q)}\}\} \leq C < \tfrac{(1-\pi)p(1-p)(1-q)}{pq+(1-\pi)p(1-q)}$$

Note that for $C > \frac{(1-p)(1-q)(\pi+(1-\pi)(1-p))}{(1-p)q+(\pi+(1-\pi)(1-p))(1-q)}$, then conditions (A.2) and (A.4) do not hold, i.e., $e_2^{c'*}(0) = e_2^{c'*}(1) = 0$, condition (A.3) holds with strict equality, i.e., $r^*(1) = 1$, and condition (A.1) does not hold, i.e., $r^*(0) = 0$. For $C \in \left(\frac{(1-\pi)p(1-p)(1-q)}{pq+(1-\pi)p(1-q)}, \frac{(1-p)(1-q)(\pi+(1-\pi)(1-p))}{(1-p)q+(\pi+(1-\pi)(1-p))(1-q)} \right]$, then strict inequality condition (A.4) holds, i.e., $e_2^{c'*}(1) = 1$, condition (A.2) does not hold, i.e., $e_2^{c'*}(0) = 0$, condition (A.3) holds with strict equality, i.e., $r^*(1) = 1$, and condition (A.1) does not hold, i.e., $r^*(0) = 0$. Finally, for $C \leq \frac{(1-\pi)p(1-p)(1-q)}{pq+(1-\pi)p(1-q)}$, then strict inequality conditions (A.4) and (A.2) hold, i.e., $e_2^{c'*}(0) = e_2^{c'*}(1) = 1$, condition (A.3) holds with strict equality, i.e., $r^*(1) = 1$, and condition (A.1) does not hold, i.e., $r^*(0) = 0$. In both cases, therefore, the voter will reward good outcomes and punish bad ones both in order to incentivize expertise acquisition and also because he know that it is congruent types who were more likely to achieve a good outcome.

Pure pandering equilibria

Pure pandering equilibria are *ex ante* and *ex post* perfectly pooling equilibria where both incumbent types choose not to acquire expertise but instead to pander to the majority voter by advocating the *ex ante* popular policy, i.e., $p_1^{g*} = 1, g = c, n$. In formal terms, we have $e_1^{c*} = e_1^{n*} = 0$ and $\sigma_1^{pan*} = 1$. In other words, the cost of expertise acquisition is not low enough to induce congruent types to adopt a technocratic strategy, while the perks from office (E) are high enough that non-congruent types will also seek to pander to the majority and forgo dissonant policy benefits in order to get reelected.

For such PBEs to exist, we need weak inequality condition (A.8) to hold and strict inequality conditions (A.5) and (A.7) not to hold. After solving for this system of in-

equalities, one can show that pure pandering equilibria exist *if, and only if,*

$$E \geq \frac{1-\beta\pi(2p-1)}{\beta(2p-1)} \text{ and}$$
$$C \geq \max\{\frac{2p(1-p)(1-q)(1+E)}{(2p-1)(\pi+E)}, \frac{p(1-p)(1-q)}{(1-p)q+p(1-q)}\}$$

Note that within this particular equilibrium space conditions (A.2) and (A.4) do not hold, i.e., $e_2^{c'*}(0) = e_2^{c'*}(1) = 0$ and conditions (A.1) and (A.3) hold with equality, i.e., $r^*(0), r^*(1) \in [0, 1]$. Therefore, since both types of incumbents pool on the same pandering strategy and congruent challengers never choose to gain expertise in the second period, voters will be indifferent between electing the incumbent and the challenger and hence will mix their reelection strategies subject to the politicians' incentive compatibility conditions outlined above.

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