Governing Through Division

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Introduction

- Political parties are not monolithic: they consist of diverse factions
- Traditional view: factions obstruct policy-making and weaken party effectiveness (Rohde, 1991; Cox and McCubbins, 1994)
- Common wisdom: voters should prefer unified, strong parties that can implement reforms effectively
- Yet, could factional constraints sometimes benefit voters?

Introduction

- When party in government is divided, opposing factions can obstruct policy-making
- Voters value government effectiveness, often penalizing parties perceived as divided (Greene and Haber, 2015; Lehrer et al, 2024)
- By successfully implementing reforms, party leaders may be able to project strength

Reforming to Showcase Strength

Research Questions

1. How do factions affect policy-making?
2. Can factions improve voter welfare?

Preview of the Model

Electoral accountability: Incumbent party's leader chooses whether to implement a reform or not, knowing whether reform is needed

- Factions can steer the electoral reform in their direction: when factions dissent, policy-making is less effective

Voter unsure about what is best, *and* about Incumbent's strength

- Crucially, reform reveals how strong party leader is
- If no reform, no direct learning

Re-elect or replace with challenger

Central Trade-Off

Policy has two effects on Incumbent's payoff:

1. Welfare: Incumbent wants to implement the optimal policy
2. Information: policy-making influences voter learning

Key Trade-off:
Implementing the optimal policy, vs implementing policies that maximize retention chances by appearing strong

Main Takeaway (1): Over-Reform to Show Strength

We find that strong incumbents can behave worse than weak ones (i.e., implement the wrong policy)

Why? In equilibrium,

- Voter punishes inaction (more likely from factionalized party)
- If Incumbent is weak, it implements the correct reform
- If instead Incumbent is strong (i.e., *ex-ante more efficient*), it implements reforms when not needed, to **signal strength** to voter $\rightarrow$ over-reform

Main Takeaway (2): Factions can be Good

Competing effects of factionalization on voter welfare. A strong Incumbent (i.e., low-factionalized party):

- better implements reforms, when it is necessary to do so, **but**
- has the incentive to over-reform $\rightarrow$ less likely to maintain the status quo when needed

Main Takeaway (2): Factions can be Good

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Welfare can be increasing (and non-monotonic) in factionalization

Related Literature

1. **Institutional frictions and constraints** (Tsebelis, 2002; Prat, 2005; Ashworth & Bueno De Mesquita, 2014; Fehrler and Hughes, 2018)

   → our paper: constraints beneficial even with unbiased, competent politicians (similarly to Fox and Jordan, 2011)

2. **Agency models**
   - Uncertainty over bias (Acemoglu et al., 2013; Kartik and Van Weelden, 2019; Merzoni and Trombetta, 2022)
   - Uncertainty over competence (Canes-Wrone et al., 2001; Ashworth and Shotts, 2010; Fox and Stephenson, 2011)

   → only the competent politician misbehaves (no bias)

3. **Over-production of laws/reforms** (Dewan and Hortala-Vallve, 2017; Prato and Wolton, 2018; Gratton et al., 2021)

   → novel channel: party internal division

Baseline Model

Players and Actions

Two-period game

Players: incumbent I, challenger C and representative voter V

State of the world: $\omega_t \in \{0, 1\}$

- If $\omega_t = 1$, it is optimal to implement a reform in t
- If $\omega_t = 0$, it is optimal to keep the status quo

I chooses whether to implement reform ($x_t = 1$) or not ($x_t = 0$)

V chooses whether to reelect or not

Policy-Making

Implemented policy in period t is

$$\tilde{x}_t = \phi_I x_t + (1 - \phi_I)0,$$

where $\phi_I \in \{\phi_L, \phi_H\}$ measures I's 'flexibility' $(0 < \phi_L < \phi_H < 1)$

- Microfoundation: party internally divided, and faction (with bliss point at 0) can sabotage policy decision
- ϕ_H refers to a strong Incumbent (and, a weak faction)

Information

The Incumbent knows everything

The Voter has prior beliefs:

- $\Pr(\omega_t = 1) = \pi$
- $\Pr(\phi_I = \phi_H) = \gamma = \Pr(\phi_C = \phi_H)$

Payoffs

Voter:

$$u_t^v = -(\tilde{x}_t - \omega_t)^2$$

Incumbent party:

$$u_t^p = \begin{cases} -(\tilde{x}_t - \omega_t)^2 + R & \text{if in power} \\ 0 & \text{otherwise} \end{cases}$$

Assumption

$R > \pi(1 - \phi_L)^2$.

Timing

In the first period:

1. I chooses x_1
2. V observes $\tilde{x}_1$ and votes. NB: $\tilde{x}_1 = \phi_I$ perfectly reveals the type of the incumbent
3. Electoral outcome

In the second period:

1. I chooses x_2
2. Electoral outcome

Solution concept: (pure strategy) PBE

Analysis

Voter Problem

Second-period officeholder always matches the state $\rightarrow$ Voter faces selection problem: wants to re-elect Incumbent if strong (ϕ_H)

Re-elects I if and only if

$$\Pr(\phi_I = \phi_H | \tilde{x}_1) \geq \gamma$$

Note that when $x_1 = 1$ voter retention rule ($\rho(\tilde{x})$) is trivial:

- $\tilde{x}_1 = \phi_H \rightarrow$ re-elect: $\rho(\phi_H) = 1$
- $\tilde{x}_1 = \phi_L \rightarrow$ oust: $\rho(\phi_L) = 0$

Weak Incumbent

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   - If $\rho(0) = 1$, then both types must be pooling on always matching the state $\Rightarrow x_1 = 1$

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   - If $\rho(0) = 0$, then weak incumbent never re-elected $\Rightarrow x_1 = 1$

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Will the Incumbent 'over-reform' in equilibrium?

Over-Reform Equilibrium

Proposition

There exists an 'over-reform' equilibrium where
(i) $\sigma_{H,0} = 0$ *and* $\sigma_{I,\omega} = 1$ *otherwise,*
(ii) $\rho(0) = 0$,
if and only if $R \geq (1+\pi)\phi_H^2 - 2\pi\phi_H + \pi$. *The equilibrium is unique for sufficiently high values of* R.

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Intuition:

- $\rho(0) = 0$: Incumbent not re-elected if $\tilde{x}_1 = 0$
- If rents from office big enough $\rightarrow$ over-reform when $\omega_1 = 0$

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- strong incumbent matches when $\omega_1 = 0$ if rents small enough

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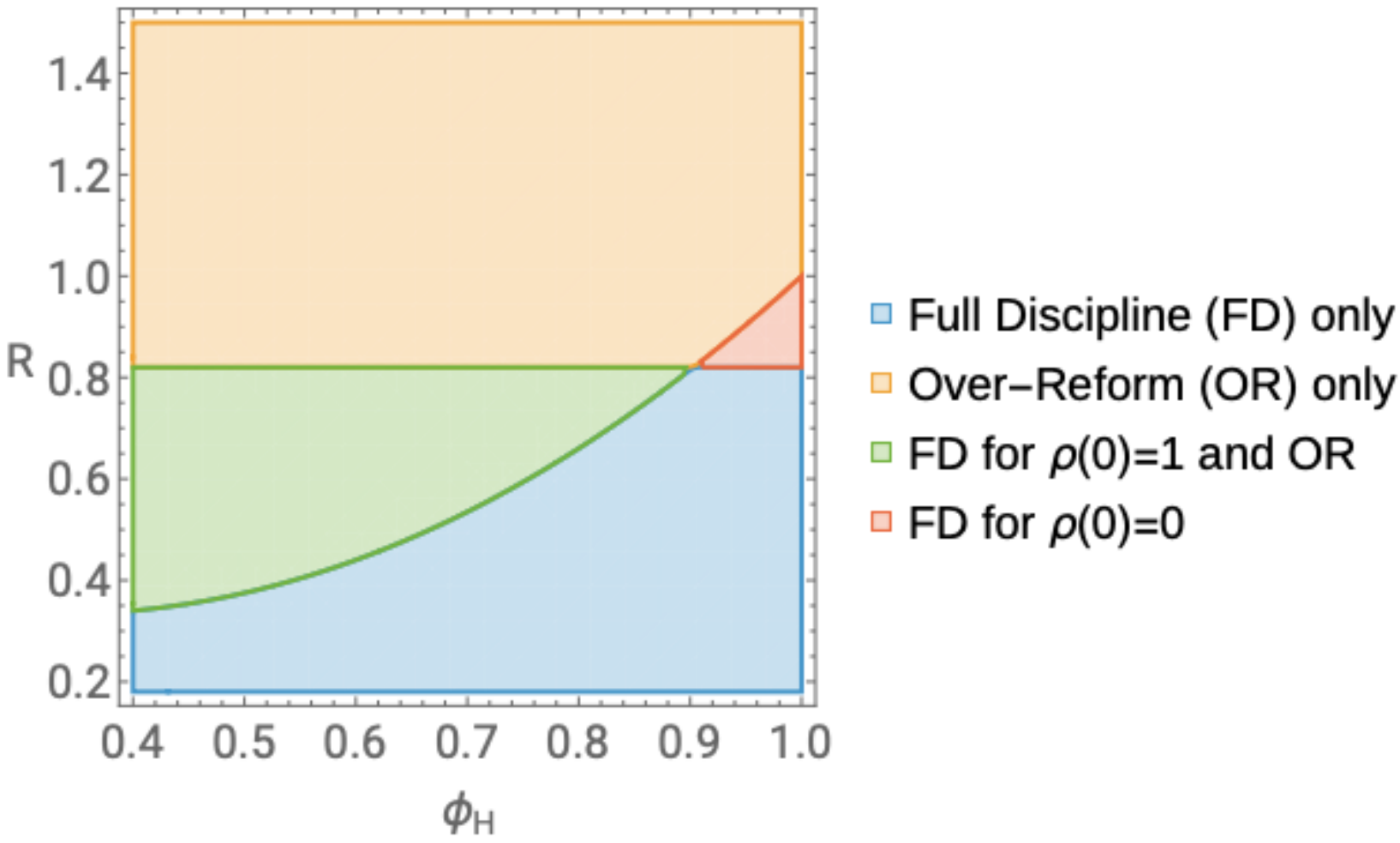
Equilibria: Illustration



Welfare Analysis

Are Factions Good or Bad for the Voter?

γ: prior probability of the Incumbent being strong

- $\gamma \downarrow \Rightarrow$ factionalization $\uparrow$
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Are Factions Good or Bad for the Voter?

γ: prior probability of the Incumbent being strong

- $\gamma \downarrow \Rightarrow$ factionalization $\uparrow$
- Is low γ good for Voter?

Never, in the Full-Discipline equilibrium. Why?

- Both types always implement the correct reform
- $\gamma \downarrow$ (factionalization $\uparrow$): strong Incumbent less likely $\Rightarrow$ reform implementation more inefficient

Yet, not so straightforward in the Over-Reform equilibrium

Factions and Voter Welfare

Two channels:

1. **Direct effect** on implementation:
   - Strong Incumbent implements reforms more effectively
   - But over-reforms when $\omega_1 = 0$ to signal strength
2. **Retention effect** for second period ▸ Retention:
   - Strong Incumbent always gets re-elected
   - Value of retention depends on quality of replacement

Proposition

In the Over-Reform equilibrium, Welfare (W) can be increasing or decreasing in γ.

Non-Monotonicity in Voter Welfare

As γ increases (less factionalization):

1. Implementation trade-off:
   - \+ Better implementation of needed reforms
   - \- More over-reform by strong incumbents
2. Retention trade-off:
   - \+ Current incumbent more likely to be strong
   - \- But replacement also more likely to be strong

Key mechanism:

- low γ: Retention benefit dominates (strong leader rare to find)
- high γ: Over-reform cost dominates (easy to replace leader)

Cross-Equilibria Comparison

Can Over-Reform equilibrium be better than Full-Discipline?

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Proposition

W is higher in Over-Reform equilibrium than in Full-Discipline equilibrium if $\pi\left[(1-\phi_L)^2-(1-\phi_H)^2\right] > \phi_H^2$ and γ suff low.

Intuition:

- Strong Incumbent implements costly reform today (ϕ_H^2)
- re-elected $\rightarrow$ guarantees higher payoff tomorrow
- low $\gamma \rightarrow$ few strong replacements in Full-Discipline equilibrium

Microfoundation

Endogenous Factional Dissent

Key Question: Can we microfound our reduced-form parameter ϕ_I?

Approach:

- Make faction's dissent decision endogenous ($d_t \in \{0, 1\}$)
- Show dissent emerges in equilibrium
- Verify over-reform incentives remain

Main Result: ▸ Microfoundation

- Factions choose to dissent in both equilibria
- Strong leaders may still over-reform to signal strength

Equilibrium with Strategic Dissent

Second Period:

- Both types of Incumbent always match the state
- Factions always dissent for policy gain

First Period:

Weak faction (faces strong leader):

- I's type revealed through implementation $\rightarrow$ always re-elected
- Gains policy advantage without electoral cost

Strong faction:

- Cannot prevent electoral loss
- At least minimizes policy loss

Conclusion

Wrapping Up

Accountability model where party in government is divided

We show that strong party leaders may implement unnecessary reforms to signal their strength

Implications for institutional design:

- Stronger internal opposition might be optimal
- Pure efficiency in implementation isn't always best

Moving Forward

Do voters reward leaders more for implementing reforms when they face internal opposition?

Survey experiment:

- Control: No information about response to opposition
- T1 (Strong Leader): Opposition ignored, original reform maintained
- T2 (Weak Leader): Opposition succeeds, reform modified

Key Measurements:

- Electoral support for incumbent
- Perceived leader competence

Thank You!

Appendix

Retention Benefit

Policy cost dominates ($\partial W/\partial \gamma < 0$) iff

$$\underbrace{(3-2\gamma)}_{\text{Retention benefit}} \quad \underbrace{\pi\left[(1-\phi_L)^2-(1-\phi_H)^2\right]}_{\text{Implementation benefit}} < \quad \underbrace{(1-\pi)\phi_H^2}_{\text{Over-reform cost}}$$

Retention benefit multiplies gain from better reform implementation tomorrow

Microfoundation: Endogenous Factional Dissent

Party Leader: implement reform ($x_t = 1$) or not $x_t = 0$

Faction: dissent ($d_t = 1$) or not ($d_t = 0$)

- If $d_1 = 1 \rightarrow \tilde{x}_1 = \phi_I x_1$
- if $d_1 = 0 \rightarrow \tilde{x}_1 = x_1$

Strong faction ($\phi_I = \phi_L$) $\rightarrow$ more effective dissent: $\phi_H > \phi_L$

$\Pr(\phi_I = \phi_H) = \gamma$

Factions' Payoff

Faction:

$$u_t^F = \beta R - (\tilde{x}_t + \omega_t)^2$$

with $\beta \in (0, 1/2)$

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Leader:

$$u_t^L = (1 - \beta)R - (\omega_t - \tilde{x}_t)^2$$

Timing

In the first period:

1. Reform choice: x_1
2. Dissent choice: d_1
3. Voter observes $\tilde{x}_1$
4. Voter updates on γ: $\hat{\gamma}$

In the second period:

1. Reform choice: x_2
2. Dissent choice: d_2
3. Electoral outcome

Robustness of Over-Reform Equilibrium

Baseline: exogenous ϕ_I. Here: Faction always dissents

Aim of analysis: find conditions s.t. both types of factions dissent $\forall\omega$, and the strong senior faction chooses $x_1 = 1$ if $\omega_1 = 0$

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Second period: always dissent, always match the state

First period:

- weak faction: get re-elected and policy advantage $\rightarrow d_1 = 1$
- strong faction: cannot pretend to be weak $\rightarrow d_1 = 1$ (at least policy advantage)