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The right type of legislator: A theory of taxation and representation[☆]

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ABSTRACT

We develop a theory of taxation and the distribution of government spending in a citizen-candidate model of legislatures. Individuals are heterogeneous in two dimensions: productive ability in the private sector and negotiating ability in politics. When these are positively correlated, rich voters always prefer a rich legislator, but poor voters face a trade-off. A rich legislator will secure more pork for the district, but will also prefer lower taxation than the poor voter. Our theory organizes a number of stylized facts across countries about taxation and redistribution, parties, and class representation in legislatures. We demonstrate that spending does not necessarily increase when the number of legislators increases, as the standard common-pool intuition suggests, and that many policies aimed at increasing descriptive representation may have the opposite effect.

1. Introduction

The determination of economic policies, such as tax regimes, is of central importance to economic inquiry. In seminal models of distributive politics, legislators are viewed as independent actors mainly interested in directing public funds to their district at the expense of the general population (Tullock, 1959; Weingast, 1979; Weingast et al., 1981). Legislators' desire to bring "pork" to their districts results in a *common pool problem*, leading to higher spending, and thus, taxation. This mechanism is a fundamental component of the way the existing theoretical literature has modeled fiscal policy outcomes in representative democracies.

The main drawback of this approach is that it is at odds with what is seen across developed countries. In particular, the U.S. has relatively low taxes even though successfully delivering pork is an important part of a legislator's job. In contrast, European countries, such as the U.K., Italy, and Germany, have higher taxes despite the fact that legislators largely do not compete for pork.[1] Further, the literature investigating the empirical relation between the severity of the common pool problem (measured by the size of the legislature) and the size of government is inconclusive, with a number of papers finding a negative relationship.[2]

In this paper, we reconcile the common pool logic with the above stylized facts, and generate a number of additional testable predictions. We do so by introducing the abilities and personal preferences of legislators into the model. Specifically, we combine workhorse models with a simple assumption: individuals who are more successful in the private sector will tend to be more successful, as legislators, at directing

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[1] U.S. taxes at all levels of government equaled 26% of GDP in 2015. This number is well below the 36% for the U.K., 37% for Germany, and 43% for Italy. See, for example, taxpolicycenter.org/briefing-book/how-do-us-taxes-compare-internationally. Hix and Noury (2016) analyzes roll-call voting data from 16 legislatures and shows that voting behavior follows government-opposition interests, rather than individual members' or parties' policy positions, and concludes that "voting in most legislatures is more like Westminster than Washington." As there is little competition for pork in the U.K., this suggests very little competition for pork in European legislatures.

[2] For a review of the theoretical and empirical literature on the so-called "Law of 1/n" see Primo and Snyder (2008). Pettersson-Lidbom (2012) is one of the cleanest tests, and finds a negative relationship between spending and the number of legislators.

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resources back to their district. This assumption can be summarized simply as: whatever gets one ahead in the private sector—for example, connections, hard work, charisma—is also useful, on average, in negotiating resources for one's district. We refer to these skills, as a group, as *negotiating skills*. This is in contrast to recent work—reviewed in Section 1.2—that has largely abandoned the common pool mechanism, and instead argues that cross-countries differences in tax regimes are the result of differences in the political system, the electoral rule, or culture.

Our results are useful for organizing a number of stylized facts about differences in taxation, redistribution, and representation across developed countries. Our model and assumption together imply that the rich will be over-represented in all legislatures. It further suggests that the U.S. will have wealthier legislators, lower taxes, and parties that are less differentiated on the size of government than Western European countries. Moreover, our findings are consistent with the fact that, in the U.S., individual legislators will be popular in their districts, while the legislature itself is quite unpopular. Additionally, our model can be used to derive implications about descriptive representation, in particular, that women will be more under-represented in the U.S. than in Western Europe.

1.1. Theoretical argument

Before delineating the specifics of our model, it is worth discussing, in broad conceptual terms, how our central assumption leads to the predictions above. In contrast with standard models, which assume every legislator has equal ability to bring pork back to his district, we allow for heterogeneity in that skill.[3] This may create a trade-off for voters: they may prefer someone they think is more able to bring pork to their district over someone who perfectly shares their preferences. If these abilities are correlated with particular preferences, this will naturally lead to over-representation of these preferences in the legislature and policy. The specific assumption we consider seems quite natural: the ability to generate private sector value (income) and public sector value (pork) are correlated, and thus also correlated with preferences for low taxes (to protect their high incomes). This will lead to an over-representation of low-tax preferences in legislatures, even if the correlation in abilities is imperfect (Section 4.1), or if the correlation does not actually exist, but voters perceive that it does (Section 5.1).

Our instantiation of the above logic allows for redistribution both between the rich and the poor, and between legislative districts. Citizen voting follows standard median-voter logic (Downs, 1957; Hotelling, 1929; Meltzer and Richard, 1981). Once elected, legislators participate in a two-stage budgeting process where they first vote on taxes using majority rule, and then negotiate over the distribution of the budget (Chari et al., 1997; Persson et al., 1997). Because we assume legislators are citizen candidates, their actions in office follow their own preferences.[4] Citizens are one of two types: rich or poor. Our central assumption is that the rich have relatively high negotiating skills, and the poor have relatively low negotiating skills.

The main trade-off that our model highlights is simple and robust: a district's legislator, as one of many in the legislature, has little impact on broad policies, such as the tax rate, but a relatively large impact on the transfers that the district receives. Knowing this, even the median voter of a poor district will ignore a candidate's preferences over redistribution and focus on his negotiating skills, that is, a rich candidate's superior ability to direct transfers to his district. A more subtle intuition comes from seeing the game that voters play as a prisoner's dilemma: all poor voters voting for poor legislators would make all poor voters better off. However, it is strictly dominant for an individual poor voter to choose a successful—that is, rich—legislator.

This model yields a striking result: when securing resources for one's district is important, then, in equilibrium, every district votes for candidates who are successful in the private sector—that is, rich. This occurs even though those candidates prefer lower taxes—which they actualize—than voters, and despite the fact that everyone elects equally effective negotiators, so the spending in all districts is equal.

The equilibrium exhibits three patterns of representation. When ability to direct funds to a legislator's own district does not matter at all—say through budgeting procedures that make it impossible to target funding—then every district elects a legislator who is the same type as its median voter, and the tax rate is effectively set by the median voter of the median district. We call this a *representative equilibrium*. If, instead, ability to direct funds matters just a little, many districts with poor median voters will elect rich legislators. However, poor legislators will still form a minimal winning coalition in the legislature. Those that vote for rich legislators will know, in equilibrium, that they will not cause the legislature to tip to a rich majority, and hence will choose a rich legislator for his superior negotiating abilities. The legislative majority, composed of poor legislators, knows that rich legislators will get more than an equal share of tax revenues, and will shade down the tax rate to reduce the expropriation from their districts. We call such equilibria *somewhat representative*. Finally, when the ability to direct funds to a legislator's own district is important, then the unique equilibrium will be for every district to elect a rich legislator. This *unrepresentative equilibrium* occurs due to the logic laid out above.

1.2. Literature

A large literature argues that tax regimes are largely explained by voting systems and rules, in particular by differences between plurality rule and proportional representation (see Persson and Tabellini, 2000, for a review). While these explanations capture important aspects of variation in tax regimes for countries with markedly different rules, they are less compelling for countries that are relatively more similar, such as the U.S. and U.K., which both elect legislators through plurality rule. We instead focus on how differences in opportunities for distributional spending affects the preferences of those elected, and thus, policy.

Our paper contributes to a literature examining heterogeneity in political skills and its potential effect on redistributive policies. Following Stokes's (1963) influential critique of the Downsian model, this literature tries to understand the causes and consequences the "ability" of politicians. Theory papers in this tradition tend to assume that the ability of a politician is a draw from a distribution (for example, Groseclose, 2001), while empirical papers consider education or prior income as markers of quality (for example, Gagliarducci and Nannicini, 2013).[5] Instead, we consider a specific ability—the ability to negotiate resources for their district—and assume that this ability is correlated with private sector success.[6]

In our theory, we explicitly consider the interaction between different legislative districts, and how this alters voters' preferences over

[3] We follow the principal-agent literature in referring to legislators (agents) using masculine pronouns, and citizens (principals)—especially the median voter of a district—using feminine pronouns.

[4] This is implicit in the citizen-candidate framework of Osborne and Slivinski (1996) and Besley and Coate (1997), and can be relaxed. See Sections 4.3, 4.1, and 7. This is consistent with the selection model of Miller and Stokes (1963), especially as elucidated by Mansbridge (2009). A focus on candidate preferences is rationalizable: Fearon (1999) finds that voters are better off using elections to select types, rather than disciplining incumbents.

[5] Recent research has focused on identifying more direct measures of quality, see, for example Galasso et al. (2010), Volden and Wiseman (2014), and Dal Bo et al. (2017).

[6] Most papers in this literature focus on why poor quality politicians are elected, including Caselli and Morelli (2004), Messner and Polborn (2004), Mattozzi and Merlo (2008). Appendix B.2 compares results with a model where those that are successful in the private sector have a generic ability to improve the efficiency of policy.

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