Diemeier and Fong (QJE 2011)

Literature: Romer & Rosenthal (1978, 1979)
(See Sun-tak's 1st lecture)

⇒ { Power to propose
  Status quo
[Implication]

Extension: ① Baron & Farajohn (1989)
→ Banks & Duggan (2000, 2006)

② Endogeneously evolving default policy:

Baron (1996)

Berheim, Ragel & Rayo (2006)

Kalandrakis (2004, 2007)

etc. ...

Evidence ?

Smaller proposer power (than theoretically predicted)

Knight (2005): Congressional Data

Experiments?

DF: Single Persistent Agenda Setter

(Some empirical evidence on this...)

	Take-It-Or-Leave-It offer	Fixed SQ with Counter-offers	Endogenously Evolving S.Q.
Single, Persistent Proposer	Romer & Rosenthal (1978, 1979)		DF (2011, 2012) Duggan & Ma (2017)
Alternating Proposer		Baron & Ferejohn (1989)	(a lot)

What we do?
- persistent proposer
- passing a bill changes default (can come back again later)
- nobody want to propose anymore

EX: XPD is a persistent proposer, but still needs approval & coorporation of the bureaucracy.

Assumptions: Self-interest, risk neutral, no externality, no commitment, no long-term relationship.

Setup

$(1+2m)$ players

{ Player A: Setter
  $(2m)$ players: Voters

Discrete policy space

Default: $x_1, x_2, \cdots, x_t, \cdots$ (evolving)

Proposal: Setter
- proposes $y_t \neq x_t$ → vote
  - majority pass: $x_{t+1} = y_t$
  - majority reject: $x_{t+1} = x_t$
- pass

End Rule:

① Setter chooses "pass" in all subsequent rounds.

② Exogeneous termination with prob $(1-\delta)$

i.e. "δ" = chance of reconsideration

Romer & Rosenthal has $\delta = 0$,

DF has $\delta < 1$, but sufficiently large.

Equilibrium:

Tie-breaker: Vote against proposal only if worse-off. (Against S.Q.)

Stationary Markov Perfect Equilibrium

Pure Strategies

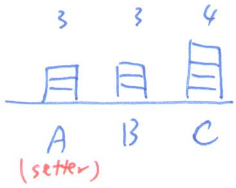
⇒ LR convergence of policy.

DF (QJE 2011) (continued)

Example: Divide π unit (decrete, indivisible)

$\pi = 10$:

$x_0 = (3, 3, 4)$



Instition 1: [R & R] reconsideration not allowed

Policy Outcome: $x^* = (7, 3, 0)$

Why? Buy cheaper voter B, give C zero.

Institution 2 [D & F] High prob. of reconsideration

Player B won't accept $x^* = (7, 3, 0)$!!

Why? With prob. $(1-\delta)$, Setter A can propose again with new SQ $(7, 3, 0)$.

$\Rightarrow$ Player A will propose $x^{**} = (10, 0, 0)$ & player C will accept (since SQ is 0).

To prevent this, player B rejects $(7, 3, 0)$.

So, what would be the proposal that will pass??

$x_1 = (4, 3, 3)$!

Why? If proposal gives C less, can exploit that later (& go down to $(10, 0, 0)$).

Suntak: What is the lower bound of δ to support this?

Ans: For any decrete π, we can get lower bound for δ. (depending on how coarse the policy space is.)

Results: $\exists$ pure-strategy Equilibrium, s.t.

1. B & C receive the same.
2. No reconsideration occurs.
3. A gets at least the default.

Implication: $\delta \to 0$ (less power of reconsideration) is worse for setter than $\delta \to 1$.

Note: Duggan & Ma (2017) use continuous policy space, & find the opposite.

MSE: $x_1 = (3, 7, 0)$ or $(3, 0, 7)$ (mixed)

Then, $x_2 = (10, 0, 0)$ is the end.

(B & C accepts x_1 since the is $(1-\delta)$ chance the game ends.)

Equilibrium "Selection":

Have a "procedural stage" to discuss the policy. If voters think MSE will be done, they will terminate

Example: 5-Player Case

$\pi = 10$, $x_0 = (1, 2, 3, 4, 5)$

Institution 1: [R & R] No reconsideration; $\delta = 0$

$x^* = (7, 1, 2, 0, 0)$

Institution 2: [D & F] $\delta \to 1$

$x^* = (4, 2, 2, 2, 0)$

Why? Setter A needs 2 votes. B & C allow A to exploit only 1 voter (since the 3 voters B, C, D can block further exploitation).