

Teams of Rivals: Learning in the Cabinet and its Shadow

Torun Dewan and Rafael Hortala-Vallve

Abstract

We explore electoral accountability in a model in which an incumbent team chooses between a "safe" option with a known payoff and a "reform" policy that yields higher or lower payoffs depending on whether the politician implementing it is competent or not. The first best outcome allows for learning about politicians' type, but is subject to the free-rider problem: if team members are moderately competent, on average, they prefer others to implement the reforms. A cabinet provides an institutional remedy by allowing politicians to obtain individual rents from office and making policy choice subject to unanimous consent. Although free riding is alleviated, outcomes with a cabinet are qualitatively similar to those in its absence. We relate this to a hold-up problem: politicians revealed as incompetent veto the implementation of reform. Surprisingly, the problem is most severe when such politicians can be removed from office. Electoral competition between rival teams, as in that between a cabinet and a shadow cabinet, restores learning; but at moderately high levels of competence, relative to the efficient benchmark, such competition leads to over-investment in risky reforms – "showcasing".