

# From Weber to Kafka: Political Instability and the Overproduction of Laws

Gabriele Graton, Luigi Guiso, Claudio Michelacci, and  
Massimo Morelli('21 AER)

Renjie Zhong, Siyuan Fan, Kunyan Wu, Jiahui Xiong

Renmin University of China

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# Outline

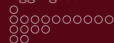
1 Introduction

2 Model

3 Aggregate Evidence

4 Micro Evidence

5 Conclusion



# Introduction

## 1 Introduction

- Background
- Main Findings
- Related Literature

## 2 Model

- Setup
- Analysis
- Discussions

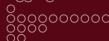
## 3 Aggregate Evidence

- Descriptive Statistics
- Quatitaive Evidence of the Equilibrium Feedbacks
- A Benchmark Comparison

## 4 Micro Evidence

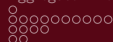
- Empirical Strategies
- Data
- Results

## 5 Conclusion



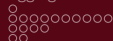
# Background

- A Weberian steady state: with efficient bureaucracy and few useless reforms
- A Kafkaesque steady state: with inefficient bureaucracy and many useless reforms



# Motivation

- Habsburg monarchy collapsed to a Kafkaesque state in 20th century from a model of Weberian efficiency in 19th century.
- Italy experienced a significant increase in the amount of poor-quality legislation and a decrease in bureaucratic efficiency.
- Why and how this transition happened?
- How political instability affects?



# Main Findings

## ■ Politicians:

1 Politicians maximize their reputation for being competent

2 A trade-off:

passing a reform signals competence, but once the reform is implemented, the politician's incompetence is revealed

## ■ Bureaucracy:

bureaucratic efficiency is hindered by the overloaded acts

## ■ Politician's incentive to propose low-quality reforms:

determined by political horizon and bureaucratic efficiency, which are affected by the political instability.



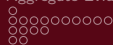
# Main Findings

- Through empirical analysis:
  - 1 The quantity of legislation increased
  - 2 The quality of legislation declined
  - 3 Politicians' political horizons shortened, leading their legislative incentives increase, which can give them a higher reputation
- First and Second Italian republics' transition:  
the end of the Cold War represents a shock

## Related Literature

- 1 the trade-off between delegating choices to bureaucrats or elected politicians:  
Maskin and Tirole (2004) and Alesina and Tabellini (2007, 2008)
- 2 the internal functioning of the bureaucracy:  
Prendergast (2007), Gailmard and Patty (2012)
- 3 the distortions caused by politicians' career concerns and long term consequences:  
Diermeier, Keane, and Merlo (2005); Bonfiglioli and Gancia (2013)
- 4 how the lack of civicness and trust in institutions causes more legislation:  
Aghion et al. (2010)





# Model

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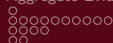
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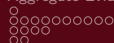
# Notations

- legislature:  $l = \{1, 2, \dots\}$
- politician:  $i \in \mathbb{Z}^+$
- 
- probability:  $\eta(\lambda_l, \alpha_l) \in [0, 1]$
- $\lambda_l$ : the length of legislature
- $\alpha_l$ : the level of bureaucratic efficiency



# Weberian and Kafkaesque State

- Weberian:  $\alpha(h_{l-1}) = \bar{\alpha}$ , if  $h_{l-1} \leq h^K$
- Kafkaesque:  $\alpha(h_{l-1}) = \bar{\alpha}$ , if  $h_{l-1} \leq h^K$
- $h^K$  is the Kafkaesque threshold of outstanding reforms beyond which bureaucratic efficiency collapses

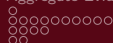


# Notations

- $\theta_{il} \in \{0, 1\}$ : quality of politician
- $\omega_{il} \in \{0, 1\}$ : quality of reform
- $\pi_l$ : publicly known prior probability of good politician
- $p_l$ : the probability of good reform for good politician
- $\rho_{il}$ : public belief (after the implementation)

Four possible events ( $e: \rho_{il}^e$ ):

- 1 y: the politician has passed a reform that is still outstanding
- 2 n: the politician has not passed a reform
- 3 b: a bad reform has been implemented
- 4 g: a good reform has been implemented



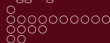
# Equilibrium

- $\sigma_{il}: \{0, 1\}^2 \rightarrow [0, 1](0/1)$
- unique symmetric equilibrium:
  - 1  $\forall i, \sigma_{il} = \sigma_l$
  - 2  $\sigma(\Omega_l) = \begin{cases} 0, & \text{if } 1 - \eta(\lambda_l, \alpha_l) < \underline{\rho}_l \\ p_l(1 - \frac{p_l(1-p_l)\eta(\lambda_l, \alpha_l)}{(1-\pi_l)(1-p_l\eta(\lambda_l, \alpha_l))}), & \text{otherwise} \end{cases}$   
 $(\underline{\rho}_l = \frac{\pi_l - \pi_l p_l}{1 - \pi_l p_l})$
- Trade-off: signalling competence v.s. disclosing incompetence
- Intuition: indifference between passing and not passing their reforms.



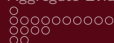
# Comparative Statics

- increasing disclosing incompetence risk:
  - 1 duration of the legislature ( $\lambda_l$ ): decreasing
  - 2 level of bureaucratic efficiency ( $\alpha_l$ ): decreasing
  - 3 probability of competence ( $\pi_l$ ): decreasing
- more pooling signalling:
  - 1 reform opportunities ( $p_l$ ): increasing



# Steady State

- Evolution:  $h_l = (1 - \eta(\lambda_l, \alpha_l))(h_{l-1} + \pi_l p_l + (1 - \pi_l)\sigma(\Omega_l))$
- $h^* = \frac{1 - \eta(\lambda_l, \alpha^*)}{\eta(\lambda_l, \alpha^*)} [\pi_l p_l + (1 - \pi_l)\sigma(\Omega_l)]$
- decreasing in  $\alpha^*$  and  $\lambda_l$ ?
- Intuition: Stock assumption matters!

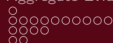


# Steady State

- Condition:  $1 - \eta(\lambda_l, \bar{\alpha}) \leq \rho_l$
- Weberian State  $\bar{\alpha}$ :  $\frac{1 - \eta(\lambda_l, \bar{\alpha})}{\eta(\lambda_l, \bar{\alpha})} \pi_l p_l \leq h^K$
- Kafkaesque State  $\underline{\alpha}$ :  

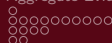
$$h_K = \frac{1 - \eta(\lambda_l, \underline{\alpha})}{\eta(\lambda_l, \underline{\alpha})} (\pi_l p_l + (1 - \pi_l) \sigma(\underline{\Omega})) > h^K$$





# Dynamic Transition

- Logic: more laws—lower bureaucratic efficiency—more reforms by incompetent politicians—even more laws
- Exogenous shock:
  - 1 premature end of reforms (a small  $\lambda_l$ )
  - 2 temporary increase in the reform opportunities (a large  $p_l$ )
  - 3 technocratic governments by highly competent politicians (a large share of competent politicians  $\pi_l$ )



# Dynamic Transition: Gresham's Law of Bureaucracy

## ■ Intuition:

both good and bad reforms will increase during unstable periods, nonetheless

⇒ the stock of outstanding good reforms increases above the Kafkaesque threshold

⇒ an inefficient bureaucracy emerges

⇒ incentivize incompetent politicians to pass reforms even after the shock has vanished.

## Gresham's Law of Bureaucracy

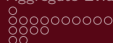
The relative supply of competent politicians  $\pi$  is increasing in the efficiency of the bureaucracy  $\alpha$ .

# Restoration: Laws Stock and Political Unstability

- ban reforms: reduce the workload of the bureaucracy and improve efficiency
- drop old reforms: in a process aimed at reducing the number of laws and simplifying the legal system
- more political checks and balances: increase gridlock and political stalemate
- no incentive to do so (the impulse to show competence)

## Insight

The evil of misleading reforms. <The best policy is no policy.>

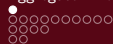


## Extension: Leaders

- The use of leaders: reform on the bureaucracy [internalize the effect of policy reforms]
- Problem1: the leaders who launch it may fail to reap its political benefits, for such reforms may require such a long period of political stability.
- Problem2: elected politicians and their leaders are likely to be incompetent in the Kafkaesque state.
- Outcome: either self-targeted revolution, or being revolutionized!

### Extension

central and local government < The executive impulse inspired by the tournament >



# Aggregate Evidence

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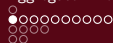
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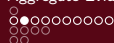
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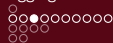
# Motivation

- a history of political instability in the Italian Republic before
- increase in political instability
  - ⇒ a structural break in the quantity and quality of laws
  - ⇒ decreasing quantity and quality of legislation and the efficiency of bureaucracy
- comparing the experience of Italy with that of German



# The Surge in Political Instability

- the Christian Democratic Party dominates and there exists a stable political atmosphere
- the collapse of the Soviet Union and the entire Communist bloc in 1989 brought instability:
  - the declining Communist Party and corruption scandals about the Christian Democratic Party
- consequent outcomes:
  - ⇒ Both individual politicians and governments faced shorter political horizons
  - ⇒ More MPs betrayed their former parties
  - ⇒ an increase in legislative activism and a deterioration in the quality of Italian laws.



# Descriptive Statistics

TABLE 1—COMPARING ITALY'S FIRST AND SECOND REPUBLICS

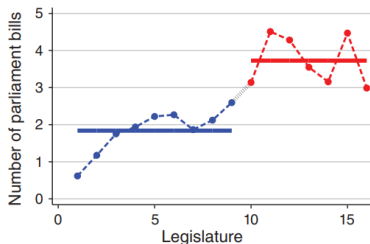
Variable	First Republic	Second Republic
<i>Political instability</i>		
Expected duration of MP's career, years	11.5	6.5
Percent of MPs betraying party	1.84	8.70
Percent of MPs switching party	6.40	13.90
Fragmentation of government coalition	0.35	0.61
Number of confidence votes per approved law	0.01	0.10
Number of technocratic governments	0	3
<i>Laws production</i>		
Number of pages per law	3.67	12.84
Bills per day (MPs)	1.84	3.73
Bills per day (total)	2.66	4.25
Words of legislation per quarter (thousands)	261.00	475.33
Share of standard laws	0.86	0.46
Share of executive orders	0.14	0.32
Share of delegated laws	0	0.22
<i>Laws quality</i>		
Length of sentences	198	241
Number of gerunds	0.46	1.91
Share of laws with preamble	0.37	0.68
Number of links to other laws	6.18	11.70
<i>Bureaucracy</i>		
ICRG index of bureaucratic efficiency	3.1	2.8
Citations of "bureaucracy" in the press	2.6	5.5

*Notes:* The sample period is 1948–2017. The Second Republic starts with the tenth legislature (1987–1992) except for the two measures of bureaucratic efficiency. *Percent of MPs betray-*



# An increase in legislative activism

Panel A. Number of bills per day by MPs



Panel B. Total number of bills per day

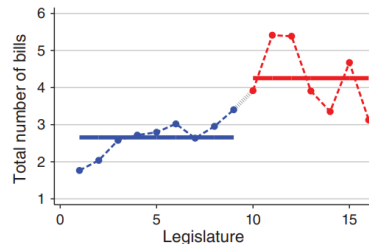
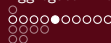
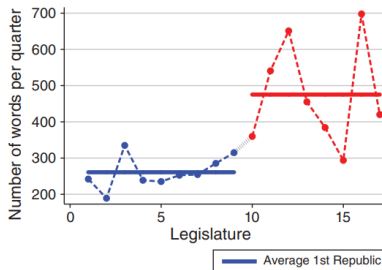


FIGURE 3. LEGISLATIVE ACTIVISM



# A deterioration in the quality of laws

Panel A. Number of words of law



Panel B. Average page length of laws

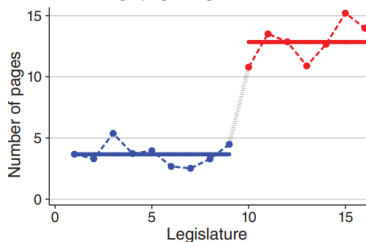
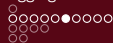


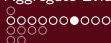
FIGURE 4. LEGISLATIVE PRODUCTION



# Legislative Distortions

## ■ governments:

- 1 have increasingly resorted to executive orders and delegated legislation
- 2 bundle together heterogeneous matters into the same law to minimize the risk of going under in parliamentary votes

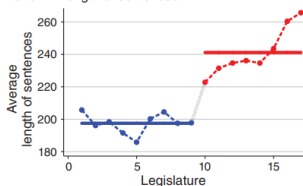


# Four Indicators Measuring the Quality of Laws

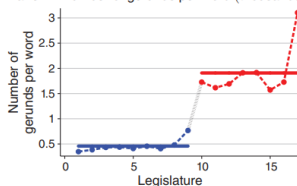
- the clarity of the law
  - 1 the average length of sentences in number of characters
  - 2 the number of gerunds per one thousand
- legal complexity and accessibility of the law to nonprofessionals.
  - 1 the presence of a preamble in the law per one thousand
  - 2 the number of references to other laws per one thousand words in the law

# Four Indicators Measuring the Quality of Laws

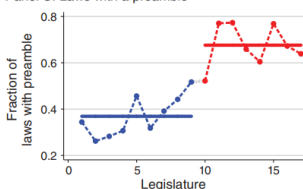
Panel A. Length of sentences



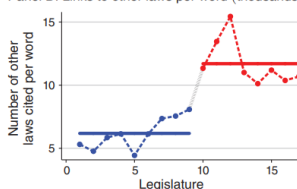
Panel B. Number of gerunds per word (thousands)



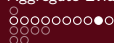
Panel C. Laws with a preamble



Panel D. Links to other laws per word (thousands)

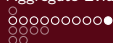


— Average 1st Republic — Average 2nd Republic



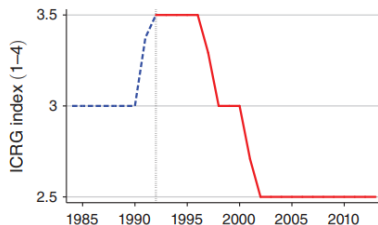
# Two Indicators Measuring the Bureaucracy Problem

- functioning: the ICRG index of quality of bureaucracy available only since 1984 from ICRG (2018)
- efficiency: the number of times the word “bureaucracy” appears in a month in the front page of the Italian leading daily newspaper Corriere della Sera

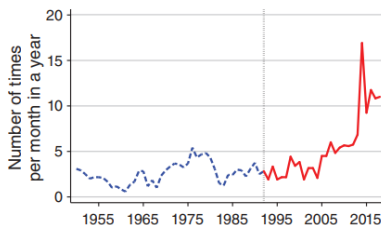


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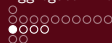
Panel A. ICRG index of quality of bureaucracy



Panel B. Word bureaucracy in the press



--- 1st Rep.    — 2nd Rep.

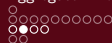


# Equilibrium Mechanism

## ■ Equilibrium Feedback:

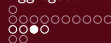
- 1 an initial increase in the amount of new legislation  
 ⇒ a reduction in bureaucratic efficiency  
 ⇒ a prolonged deterioration in the quality of new legislation
- 2 an initial increase in bureaucratic inefficiency  
 ⇒ an increase in the amount of new legislation and a  
 worsening of its quality





# Empirical Strategies

- a VAR containing four lags and seasonal dummies using quarterly data over the period 1946:I–2016:IV
- $X_t = [\text{Number of words of law}_t, \text{Quality of laws}_t, \text{Bureaucratic inefficiency}_t]$   
All variables are in logs
- *Number of words of law<sub>t</sub>* the sum of all words of laws passed by the Parliament in the quarter
- *Quality of laws<sub>t</sub>*: the principal component of our indicators for the quality of legislation multiplied by  $-1$
- *Bureaucratic inefficiency<sub>t</sub>*: the number of citations in the front page of Corriere della Sera
- $X_t = D(L)\epsilon_t$ , where  $D(L)$  has all its roots inside the unit circle and  $E(\epsilon_t \epsilon'_t) = \sum_{\epsilon}$
- The Wold innovations are a combination of a vector  $e$  of orthogonal structural shocks,  $E(ee') = I$ , which implies that  $\epsilon = Se$  with  $S$  having full rank



# Main Findings

- We identify a shock to the amount of legislation by imposing the restriction that, in the quarter of impact, the shock affects only the Number of words of law, which follows from the assumption (also made in the model) that bureaucratic efficiency is slow-moving.
  - 1 On impact the Number of words of law increases by around 35 percent.
  - 2 In the 8 years after the initial shock, the amount of legislation remains above normal level by around 5 percent.
  - 3 After the shock, the quality of laws worsens by around 5 percent per quarter.
  - 4 With some lags, bureaucratic inefficiency slowly builds up.
  - 5 Four years after the initial shock the frequency of the word bureaucracy in the press is permanently above its preshock level by 3 percent.



# Quatitative Evidence

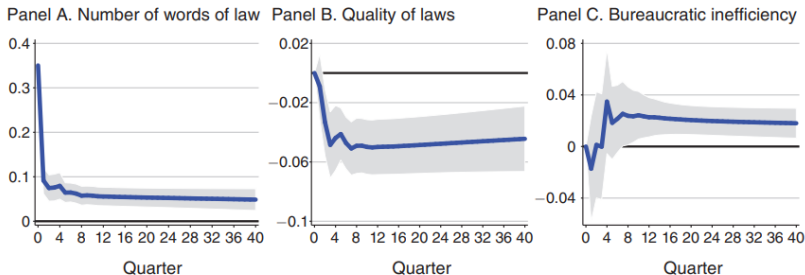


FIGURE 7. RESPONSE TO A ONE STANDARD DEVIATION INCREASE IN THE AMOUNT OF LEGISLATION

*Notes:* Impulse response to a one standard deviation increase in the *Number of words of law* issued in a quarter (panel A) on the *Quality of laws* (panel B) and *Bureaucratic inefficiency* (panel C). All variables are in logs. The VAR contains four lags and is estimated over the period 1946:I–2016:IV.

# Motivation

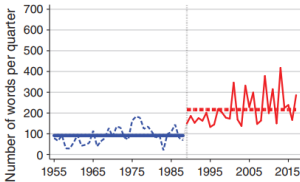
- The creation of the European Single Market in 1992 is probably one of the most relevant alternative culprits.
- It intensified the production of European legislation that all countries in the Union were asked to incorporate into their national legislation.
- Germany: directly affected by the fall of the Berlin Wall + exposed to the Single Market “shock” + stable political system ⇒ a natural reference comparison



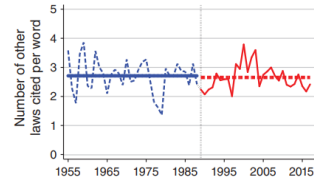
## A Benchmark Comparison

# A Benchmark Comparison

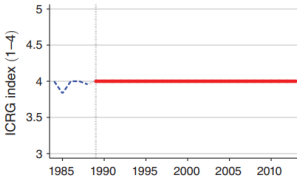
Panel A. Number of words of law



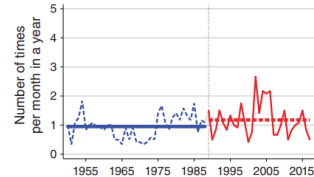
Panel B. Number of other laws cited



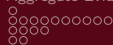
Panel C. Efficiency of bureaucracy



Panel D. Word bureaucracy in the press



--- Pre-unification    — After unification



# Micro Evidence

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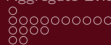
# Overview

## ■ Goal:

- 1 a shorter political horizon increases an incompetent politician's incentives to pass laws.
- 2 legislative activism has signaling value for MPs and test other predictions from Propositions 1 and 2.

## ■ Order:

- 1 Describe the empirical tests.
- 2 Discuss the data + the construction of variables.
- 3 Present the evidence.



# Tests

- 1. Signaling Assumption: legislative activism has signaling value to politicians.
- Event study methodology: the visibility of Italian politicians in the press increases upon introducing a new bill to the Parliament

$$(8) \quad CIT_{it} = \sum_{\tau=-30}^{30} \beta_{\tau} d_{it}^{\tau} + \varphi_i + \psi_t + \epsilon_{it},$$

where  $t$  is current time;  $d_{it}^{\tau}$  are event dummies, equal to one if the bill by MP  $i$  was first introduced at date  $t - \tau$  and zero otherwise;  $\varphi_i$  is an individual fixed effect for MP  $i$ ; and  $\psi_t$  are time dummies. The time dummies  $\psi_t$  control for common shocks to the likelihood that politicians appear in the press, and the individual dummies  $\varphi_i$  for the prominence of politician  $i$ . The coefficient  $\beta_0$  identifies the *signaling value* of legislative activism: by how much the visibility of MP  $i$  is enhanced by introducing a bill in the Parliament.



# Tests

- 2. Propositions 1 and 2 state that a shorter political horizon induces incompetent politicians to pass more laws.
- Test for whether the effects of a shorter political horizon differ for competent and incompetent politicians.

$$(9) \quad \sigma_{i\ell} = \gamma_0 + \gamma_1 INC_{i\ell} + \gamma_2 \lambda_\ell + \gamma_3 INC_{i\ell} \times \lambda_\ell + \psi_\ell + \gamma'_X X_{i\ell} + \epsilon_{i\ell},$$

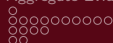
where  $\sigma_{i\ell}$  is a measure of the legislative activism by MP  $i$  in legislature  $\ell$ ;  $INC_{i\ell}$  is the dummy for whether MP  $i$  is incompetent;  $\lambda_\ell$  is a measure of the political horizon of politicians in legislature  $\ell$ , proxied by the expected duration of the legislature;  $\psi_\ell$  terms are a full set of legislature dummies;  $X_{i\ell}$  a vector of additional controls discussed in the next section; and  $\epsilon_{i\ell}$  is an error term. The parameter of interest is  $\gamma_3$ : it measures how the relative legislative activism of incompetent politicians changes when the political horizon of politicians  $\lambda_\ell$  increases. The model predicts  $\gamma_3 < 0$ : with a shorter political horizon, the incentives to produce laws are relatively stronger for incompetent than for competent politicians. Notice that  $INC_{i\ell}$  in (9) controls for the average activism of incompetent politicians across legislatures, while the legislature dummies  $\psi_\ell$  control for all common shocks to the legislative activism of politicians in the legislature, including the reasons for why the political horizon of politicians varies across legislatures.



# Tests

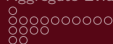
- 3. the reputation for competence of politician  $i$  at the end of legislature  $l$
- An incompetent politician's reputation is lower whenever the legislature is longer.

$$(10) \quad \rho_{il} = \zeta_0 + \zeta_1 INC_{il} + \zeta_2 \lambda_\ell + \zeta_3 INC_{il} \times \lambda_\ell + \psi_\ell + \zeta'_X X_{il} + \xi_{il}.$$



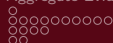
# Key Variables

- $CIT_{it}$  The number of citations of MP  $i$  in the press at time  $t$   
The number of times the full name of MP  $i$  appears in the front page of Corriere della Sera. Thirty days before and after the date when MP  $i$ 's bill was first discussed in Parliament.
- $\sigma_{il}$  the legislative activism of MP  $i$  in legislature  $l$ 
  - 1 the number of bills introduced by MP  $i$
  - 2 the number of these bills that were approved as laws
- $\lambda_l$  : the variation in the political horizon of politicians
  - 1  $\lambda_l = 1$ : if the legislature  $l$  completed its statutory five-year term
  - 2  $\lambda_l = 0$ : otherwise



# Control Variables

- Control variables  $X_{il}$ : demographic characteristics (age, number of children, dummies for gender, marital status, education attainment, and region of birth)
- a dummy for the House of Parliament, for whether MP  $i$  is a life senator, has previous parliamentary experience, has an appointment in a national or local party position, is a member of the European Parliament, is chair or secretary of any committee, is a committee member, is the deputy prime minister or a minister;
- another dummy variable: the (possibly time varying) political party of MP  $i$ , the fraction of time in the legislature during which the party of MP  $i$  is in the government coalition as well as the analogous fraction of time during which the party of MP  $i$  also expresses the prime minister.



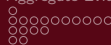
# Measuring INC

- Measure  $INC_{il}$ : the incompetence of MP  $i$
- Method: infer politicians' competence from their market earnings capacity
- Data: The earnings of MPs in each year during their term(s) as well as in the year before election.
- 2 ways:
  - 1 Mincerian wage regressions on total earnings, adding some controls  $Z_{it}$  and individual-MP fixed effects that are take as a measure of competence of the MP.
 
$$INC_{il} = 1 \text{ below the cross-sectional media}$$
  - 2 Mincerian wage regression without the MP fixed effects, but expand the list of individual controls  $Z_{it}$ , including gender and education attainment dummies. Taking the residuals from this regression and average them at the MP level.



# Measuring INC

- Robustness Test for INC
- the twenty-fifth percentile as the relevant threshold.
- GFE



# Validation

- Method 1: bills introduced by incompetent politicians are less likely to become law

TABLE 3—SUCCESSFUL BILLS AND POLITICIANS' QUALITY

	Politician's quality measure			
	Fixed effects < median (1)	Fixed effects < 25th pct (2)	Residual < median (3)	Residual < 25th pct (4)
Incompetent politician	−0.04 (0.00)	−0.07 (0.00)	−0.02 (0.00)	−0.04 (0.00)
Observations	3,613	3,613	3,613	3,613
Pseudo $R^2$	0.26	0.26	0.26	0.26

# Validation

## ■ Method 2: Quality of the laws originated by incompetent politicians

TABLE 4—INCOMPETENCE OF POLITICIANS AND QUALITY OF LAWS

	Average length of sentences (1)	Number of gerunds (2)	Law has a preamble (3)	Number of references to other laws (4)	First principal component (5)
Incompetent politician	10.99 (0.08)	0.001 (0.002)	0.19 (0.28)	0.02 (0.11)	−0.22 (0.01)
Observations	1,675	1,675	1,387	1,675	1,675
$R^2$	0.12	0.09	0.21	0.06	0.12

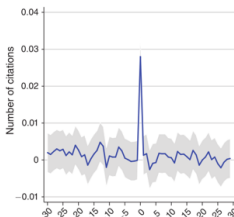


# Results

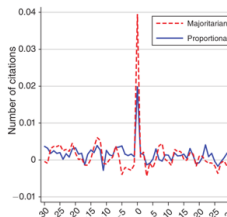
- on the day of first presentation of a bill, its main sponsor obtains a large and highly significant increase in the number of times her name appears in the press
- For different MP who are selected by different systems, the number of their names appear in the press are different.

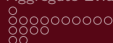
$$(8) \quad CIT_{it} = \sum_{\tau=-30}^{30} \beta_{\tau} d_{it}^{\tau} + \varphi_i + \psi_t + \epsilon_{it},$$

Panel A. Press citations of MP upon first reading of bill



Panel B. Press citations of MP, different systems





# Results

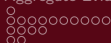
- $\sigma_{il}$  is measured using the number of bills.
- PROPOSITION 2: The probability that an incompetent politician passes her reform in legislature  $l$  decreases with the duration of the legislature  $\lambda_l$

$$(9) \quad \sigma_{il} = \gamma_0 + \gamma_1 INC_{il} + \gamma_2 \lambda_l + \gamma_3 INC_{il} \times \lambda_l + \psi_l + \gamma'_X X_{il} + \epsilon_{il}.$$

TABLE 5—THE EFFECT OF THE POLITICAL HORIZON: BILLS

	Quality measure	
	Fixed effect	Mean residuals
	(1)	(2)
Incompetent politician	−0.45 (0.44)	0.07 (0.86)
Incompetent politician × completed legislature	−1.33 (0.02)	−1.19 (0.03)
Observations	4,904	4,904
$R^2$	0.133	0.131

Notes: OLS estimates of the number of bills introduced by an MP on politician competence, measured using the fixed effect (column 1) or mean residuals (column 2) in Mincerian wage regressions. All regressions include the controls  $X_{il}$  specified in Table 3. Regressions compute robust standard errors, clustered at the MP level;  $p$ -values are shown in parentheses.



# Results

TABLE 6—ROBUSTNESS

	Quality measure								
	Fixed effect			Mean residuals			Group fixed effect		
	Incompetent fixed effects < 25th (1)	No outliers (2)	At least 1 bill (3)	Incompetent residual < 25th (4)	No outliers (5)	At least 1 bill (6)	GFE sample (7)	3-groups (8)	5-groups (9)
Incompetent politician	−0.23 (0.66)	−0.16 (0.68)	0.69 (0.38)	−0.45 (0.34)	−0.25 (0.41)	0.43 (0.45)	−0.56 (0.44)	1.47 (0.09)	0.31 (0.64)
Incompetent politician × completed legislature	−1.13 (0.05)	−1.07 (0.01)	−1.18 (0.11)	−1.00 (0.12)	−0.88 (0.02)	−1.31 (0.06)	−1.30 (0.04)	−2.67 (0.06)	−2.06 (0.02)
Observations	4,904	4,853	3,613	4,904	4,853	3,613	4,293	4,293	4,293
$R^2$	0.13	0.16	0.13	0.13	0.16	0.13	0.13	0.13	0.13

*Notes:* The dependent variable is the number of bills introduced by an MP. All regressions include the controls  $X_{it}$  specified in Table 3. In columns 1–3 and 7 competence is constructed using the fixed-effect measure; in columns 4–6 using mean residuals; in columns 8–9 using the GFE estimator by Bonhomme and Manresa (2015). Columns 1 and 4 identify incompetent politicians as those in the bottom quartile of the distribution. In column 8 incompetent politicians are those in the lowest income group (out of three groups); in column 9 are those in the bottom two income groups (out of five groups). In all other columns incompetent politicians are those with the competence measure (fixed effect or mean residual) below the median. Column 7 runs the same regression as in column 1 of Table 5 but on the sample used to estimate the GFE as in Bonhomme and Manresa (2015). Columns 2 and 5 drop observations with more than 54 bills (the ninety-ninth percentile of the distribution of number of bills proposed by MPs); columns 3 and 6 only consider MPs who presented at least one bill. All regressions include the controls specified in Table 3. Regressions compute robust standard errors, clustered at the MP level;  $p$ -values are shown in parentheses.

# Results

- $\sigma_{il}$  is measured using the number of laws sponsored by MPs
- A shortening in the political horizon of politicians increases the legislative activism of incompetent politicians

TABLE 7—THE EFFECT OF THE POLITICAL HORIZON: LAWS

	Quality measure			
	Fixed effects < median (1)	Fixed effects <25th pct (2)	Residual < median (3)	Residual < 25th pct (4)
Incompetent politician	0.03 (0.72)	0.04 (0.55)	0.00 (0.94)	0.03 (0.67)
Incompetent politician × completed legislature	−0.35 (0.01)	−0.35 (0.01)	−0.17 (0.20)	−0.47 (0.00)
Observations	3,613	3,613	3,613	3,613
$R^2$	0.17	0.17	0.17	0.17

Notes: OLS estimates of the number of laws sponsored by an MP on four alternative measures of quality. All regressions include the controls  $X_{it}$  specified in Table 3. Regressions compute robust standard errors, clustered at the MP level;  $p$ -values are shown in parentheses.

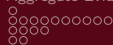
# Results

- incompetent politicians are significantly less likely to be reelected after completed legislatures

TABLE 8—REELECTION PROBABILITY

	Quality measure	
	Fixed effect	Mean residual
Incompetent politician	0.05 (0.09)	0.03 (0.26)
Incompetent politician × completed legislature	−0.08 (0.03)	−0.08 (0.03)
Observations	3,985	3,985
Pseudo $R^2$	0.07	0.07

*Notes:* Probit estimates of the marginal effect on reelection probabilities. Dependent variable is equal to one if the MP is reelected in the next legislature. Fixed-effect and mean residuals measures of MP competence are based on the median. Regressions are run on sample of MPs under 65 years of age, omitting life senators. All regressions include the controls  $X_{it}$  specified in Table 3. Regressions compute robust standard errors clustered at the MP level;  $p$ -values are shown in parentheses.



# Conclusion

## 1 Introduction

- Background
- Main Findings
- Related Literature

## 2 Model

- Setup
- Analysis
- Discussions

## 3 Aggregate Evidence

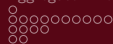
## ■ Descriptive Statistics

- Quatitaive Evidence of the Equilibrium Feedbacks
- A Benchmark Comparison

## 4 Micro Evidence

- Empirical Strategies
- Data
- Results

## 5 Conclusion



# Conclusion

- Political instability can cause excessive and low-quality legislation, thereby triggering a chain reaction eventually leading to a Kafkaesque economy.
- This logic can explain Italy's transition.
- The problem is not political competition but the short political horizon of politicians.