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**YARDSTICK COMPETITION AND POLITICAL AGENCY
PROBLEMS**

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Abstract

This paper analyzes the role of yardstick competition for improving political decisions. We examine how performance comparisons across jurisdictions affect the agency problem resulting from uncertainty about politicians (adverse selection) and their policies (moral hazard). We study two forms of inefficiency: the provision of wasteful project and the failure to provide useful project. We find a general neutrality result: yardstick competition does not affect the likelihood of fully efficient equilibria for any correlation (with a discontinuity at perfect correlation). We also find that yardstick competition has no effect on the likelihood of inefficient equilibria in which politicians refrain from implementing valuable projects. However, performance comparisons makes it less likely to have an equilibrium where bad politicians in both jurisdictions use wasteful projects as inefficient transfer forms.

Keywords: electoral accountability, Yardstick competition.

JEL Classification: D72, H20, H71.

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