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COMPETITION IN POLITICS

SUMMARY

The article illustrates the competition in politics which takes place in two parallel dimensions, i.e. during regular electoral campaigns and during the period of debating the final version of the legislation. One of the ways to the appropriate treatment of competition in politics is focusing research efforts on the analysis of political entrepreneurs behavior. It involves obtaining an advantage over players aiming to achieve identical objectives through the use of various instruments which exert influence on the preferences of political consumers as well as public decision of politicians and bureaucrats. The author argues that these behaviors are an adjustment to the conditions in which competition takes place on the political market. The methodology adopted in the study based on the hypothesis that individuals make public choices thus affecting the final outcome of the political process, and a direct relationship between the private cost and private benefit, which is a fundamental feature of the market selection, can be transferred to the analysis of public sphere.

Keywords: competition, political market, political entrepreneur

JEL Classification: D72, D78

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INTRODUCTION

Competition is inherent in the legal rules of the representative system. In the periodic elections to legislative bodies, elective politicians compete for electoral votes. Within the organizational structures of political parties, they compete for the support of their party leaders. Nominated by them public officials compete for the favor of their superiors. Lobbyists compete between one another for the favor of decision-makers in the distribution and re-distribution of public resources and, in a more general sense, for the power of political influence. Particular regions compete for the funds re-distributed from the central budget. In the institutional structures of the European Union, member states compete for the distribution of the EU budget.

As a result, the final shape of the economic policy of the democratically elected central, regional and local authorities today is the consequence of competition between political actors for social resources in the political market.

Over the past few years, the imperfections of competitive democracy mechanism have become apparent¹. They generate economic downturn, the increase in public debt in relation to the GDP, the progressive growth of the state bureaucracy, the rise in significance of industry pressure groups, declining participation rates of citizens in central and local governmental elections. These factors refer both to the countries with well-established democratic institutions and the countries characterized by a recently completed process of transformation².

Referring to the purely economic competition Friedrich Hayek wrote that it is essentially a dynamic process³. Therefore it should be considered in this manner. The adoption of the assumptions underlying the static analysis – characteristic of perfect competition models – does not allow to see its essential traits. One of the ways to the appropriate treatment of free market competition in the context of competitiveness, is focusing research efforts on the analysis of entrepreneurs' behavior⁴.

The aim of this article is an attempt to illustrate competition in politics in terms of lawful conduct of "political entrepreneurs". It involves obtaining

¹ I use the term "imperfections" aware that some theorists of social science use much more severe terms. "Persistent illness", "system errors" – is just one of a number of terms found in the literature.

² The degree of dominance of each factor is, of course, different.

³ F. Hayek, *The Importance of Competition* [in:] F. Hayek, *Individualism and Economic Order*, Znak, Krakow 1998, p. 107.

⁴ See, for example, A. Lipowski, *Model rywalizacji firm o wydatki nabywców*, „Ekonomista”, No. 3/2008.

an advantage over players aiming to achieve identical objectives through the use of various instruments which exert influence on the preferences of political consumers as well as public decision-makers. I will try to show that these behaviors are an adjustment to the conditions in which competition takes place on the political market.

The organization of the article reflects this objective. The competition on the political market takes place in two parallel dimensions, i.e. during regular electoral campaigns and during the period of debating the final version of the legislation drafts within sectional policies of administration offices. Therefore, in the first part of the article I discuss selected economic models describing competition in the elections⁵. In the second part, I present models reflecting the reality of competition in the period between the elections. Finally, I present findings resulting from the analysis.

1. COMPETITION IN THE ELECTION MARKET

The starting point in looking at the economic competitiveness of the election is a classic model of Anthony Downs⁶. It should be considered as the first attempt to take into account economic factors in the analysis of statistical choices made by the voters, in its relation to the behavior of other participants in the election race, i.e. political parties, pressure groups and the government⁷. A. Downs adopts the classic assumptions defining the system of representative democracy. In addition, he assumes that: (1) each of the actors in the political process acts rationally, which means that he takes only those actions

⁵ The methodology adopted in the study based on the hypothesis that: (1) individuals make public choices thus affecting the final outcome of the political process (methodological individualism); (2) a direct relationship between the private cost and private benefit, which is a fundamental feature of the market selection, can be transferred to the analysis of public choice sphere.

⁶ A. Downs, *An Economic Theory of Democracy*, Harper&Row, New York 1957; A. Downs, *An Economic Theory of Political Action in a Democracy*, „Journal of Political Economy”, Vol. 65, No. 2/1957, p. 135-150.

⁷ For further discussion, see eg T. Michalak, *Ekonomiczna teoria demokracji Anthony'ego Downsa*, [in:] J. Wilkin (ed.), *Teoria wyboru publicznego. Wstęp do ekonomicznej analizy polityki i funkcjonowania sceny publicznej*, SCHOLAR, Warszawa 2005, p. 69-86; M. Kalinowski, *Etyka konkurencji politycznej w świetle modelu Anthony'ego Downsa*, [in:] A.F. Bocian (ed.), *Globalizacja – Polityka – Etyka*, Wydawnictwo Uniwersytetu w Białymstoku, Białystok 2012; M.C. Mungger, R.F. Potthoff, M.M. Berger, *The Downsian Model Predicts Divergence*, „Journal of Theoretical Politics”, Vol. 12, No. 2/2000; B. Grofman, *Downs and Two-Party Convergence*, „Annual Review of Political Science”, Vol. 7/2004.

that are characterized by the advantage of final benefits over the final costs⁸, (2) all participants of the “political game” have full access to the sources of public information⁹. In the course of analyzing the conditions of democratic political scene, Downs is looking for answers to two key questions: What motives make statistical voters take a vote, taking into account the costs generated during a periodic electoral act? To what extent are the government decisions correlated with expectations stemming from potential voters?¹⁰.

The most important conclusion drawn from Downs’ model can be formulated as follows: the relationship between the main actors in the political process (appointed public officials, elective politicians, pressure groups, voters) is a comprehensive exchange of resources at their disposal. In this case, each of the participants makes decisions by assessing the likely behavior of other “players”¹¹. An important observation can be made: office administration and the opposition parties do not offer a program that fits their ideological foundation and constructive assessment of constantly changing economic, social and political conditions. Program proposals directly correspond to the expectations of the potential electorate. The stabilization of the public scene leads in the long run to the shift of the sentiments of most electorate towards the “centre”, the same refers to the programs of political parties.

⁸ In other words, a decision-maker evaluates the costs and benefits associated with his choices and takes decisions, which result for him in net benefit

⁹ A. Downs, *An Economic Theory Of Democracy*, *op. cit.*, p. 215.

¹⁰ The second of the mentioned questions is the seemingly obvious – especially from the perspective of contemporary research. Note, however, that until the mid-50s of the twentieth century there was a view among researchers that the decisions of the government, regarded as a derivative of the organization of political parties and their leaders’ decision to apply for the voters, are an expression of the ideological perspective of collective actors on the political conditioning. They are not a simple reflection of political, social and economic views of potential electorate. This view was challenged on scientific grounds only by theorists of the new political economy (NEP). A. Downs was then one of the pioneers of this movement. His works devoted to the economic theory of democracy paved the way for one of the main directions of NEP.

¹¹ Readiness of a statistical voter to participate in elections can be described by the equation:

$$P \cdot NDC + \geq C, \quad (1)$$

where:

P – the probability that this individual’s vote will affect the outcome of the majority rule election;

NDC – perceived net benefits of one candidate over another in the eyes of the individual;

D – the individual’s sense of civic duty;

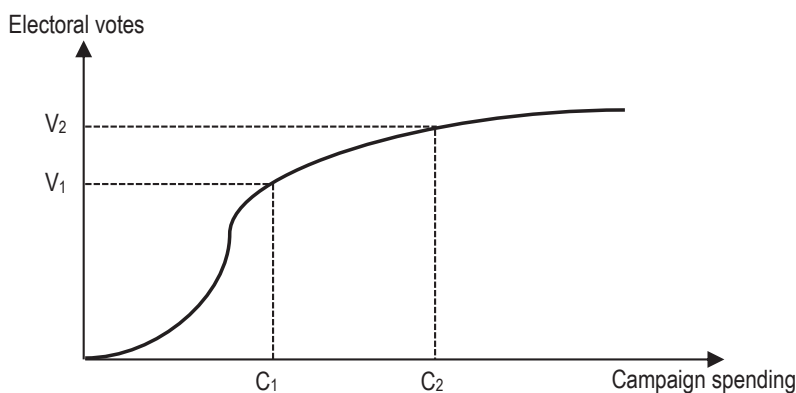
C – cost associated (at margin) with the act of voting, including opportunity costs of time spent, chance of inclement weather, and so on.

See M. J. Hinich, *Ideology and the theory of political choice*, The University of Michigan Press 1996, p. 40–41.

It could be said that this modelled behavior of political “sellers” in the reality of democratic system is most acceptable. Here, however, the problem appears. Downs notes that both the administration and the parties in opposition seek access channels to entities that exhibit a greater activity during regular legislative elections. From an economic point of view, Downs’s answer could only be one. Such entities co-create decision-making bodies which have received before, or acquire now established governmental benefices. The associations of these organizations have the resources, effectively blocking any withdrawal of previously granted privileges.

Summarizing this brief, out of necessity, overview of the Downs concept, let us answer the question that is at the heart of our interest: What does the model of the author contribute to the analysis of competition in politics? In my opinion, it is important that according to Downs the government is in constant relationship with the entities acquiring resources as a result of the political mechanism of distribution and re-distribution of social resources. As part of the ongoing process of state intervention in the economy, there is a gradual segmentation of the society and adaptation of political product to specific “political consumers”. They remain at the center of decision-makers’ interest, regardless of the political parties that currently hold a majority. The position of the median voter, for whose views the political parties compete, implies the presence of two or three „strong” political parties on stage. A number of smaller players remain on the margins of the political scene. A question arises in connection with this: Why do the new political players – on the assumption that by adopting the strategy of dominant players, they would create a program attractive for centrist voters – face a barrier to enter politics? To answer this question I will use picture 1.

Picture 1. The relationship between electoral support and financial contribution to the campaign



Source: D.C. Mueller, *Public Choice III*, Cambridge University Press, 2003, p. 483.

According to the Dennis C. Mueller's proposal, campaign expenses function takes the shape of the letter S. This means that from zero to C_1 campaign spending are highly productive – the number of electoral votes obtained increases more than proportionally. After crossing the expenditure level C_1 , it grows less than proportionally. Greater financial resources of the candidate's election team, contribute to the intensification of media promotion of his person. In the first phase it results in an increase in interest in the promoted person. This may translate for the acquisition of additional electoral votes. Referring to a simple comparison of marketing, we can say that this is the phase of the promotion of a candidate. However, at a very high level of expenditure C_2 , a continual rise does not lead to a significant increase of new electoral votes. This is because of "saturation" of voters with a politician's profile. The target voters are already familiar with the person, so acquiring next support is virtually impossible¹².

A rational politician will spend all available funds for the campaign to the point C_2 where final profit from additional votes is equal to zero. D.C. Mueller notes that the close relationship between the funds and the electoral votes rewards politicians who exercise – or exercised before – public offices¹³. Assuming that they are known in the political arena, the starting point of the election campaign (expenditure) is located to the right of point 0. At the start of the race they gain electoral advantage over newly created participants on the supply side of the election market¹⁴. It is expressed in financial expenses for the campaign, which in the case of new candidates must be much higher¹⁵.

¹² Dependence of electoral support on campaign funds shown here, is confirmed in Kevin Grier's the study on elections to the Senate of the United States in the years 1978-1984. For more information see K. B. Grier, *Campaign Spending and Senate Elections 1978-1984*, „Public Choice”, No. 63/1989, p. 201-219.

¹³ According to calculations by Thomas Stratmann in the U.S. in 1990-2004, total expenditure incurred by candidates for the Senate and the House of Representatives during the election campaign increased by 64%. See T. Stratmann, *Some talk: Money in politics. A (partial) review of the literature*, „Public Choice”, Vol. 124, No. 1-2/2005

¹⁴ D.C. Mueller, *Public Choice III*, Cambridge University Press, 2003, p. 482.

¹⁵ Additionally, a well-known name of the candidate and his political "predictability" attracts significantly more campaign sponsors than a "new name" in politics. It can therefore be assumed that the advantage of the incumbent politician is multiplied.

2. INDUSTRY POLITICAL MARKET COMPETITION

As stated above, the campaign for legislative bodies can be treated as a field rivalry of elective politicians and political parties within programs, ideas, demands and promises for the target groups of voters. A periodic electoral act is the culmination of this kind of competition. From a practical point of view, it is the choice of decision-makers that will collectively implement specific profile of an economic policy. Its actual direction – represented in specific legislative proposals going into the agenda of the parliament – is defined in the period between elections. It is in the industry political markets where strategic decisions are made with regard to the policies pursued by the various ministries and departments.

The main difference between the election market and the industry political markets is due to the lack of public access to information about the process of interaction that takes place between political entrepreneurs and the Administration in industry markets. Of course, I do not just mean the institutional and legal barriers that are subject to regulations that define the public consultation of government programs, but strictly economic barriers. As a result, the impact of trade pressure groups increases¹⁶.

An economic analysis of the relationship between policy makers and pressure groups has resulted in a wide range of models that show the essence of these relations¹⁷. Generally speaking, they can be divided into three categories. The first one is constituted by models that explain the implemented profile of the government economic policy through the prism of transactions on the industry political markets¹⁸. The second group of models focuses on the social costs which are generated by public activity of pressure groups¹⁹. Models belonging to the third group are combined by an exchange factor. The authors use it to describe the relationship between the entities offering the sup-

¹⁶ We may say that it is directly proportional to the degree of statistical voters' knowledge. In a more general sense, it is the knowledge of the intricacies of the representative system. In a more detailed sense, it is the information on his share in the costs of support (subsidies, transfers) of certain entities in industry markets.

¹⁷ I refer in particular to works based on public choice theory.

¹⁸ The classic works devoted to the economic theory of regulation published in the 70s of the last century, George J. Stigler and Sam Peltzman. See G.J. Stigler, *The Theory of Economic Regulation*, „Bell Journal of Economics and Management Science”, Vol. 2/1971, p. 3–21; S. Peltzman, *Toward a More General Theory of Regulation*, NBER Working Paper Series - University of Chicago, , No. 133/1976.

¹⁹ Without a doubt, the most important contribution to the development of this line of research was an article by G. Tullock, *The Welfare Costs of Tariffs, Monopolies and Theft*, „Western Economics Journal”, Vol. 5/1967.

ply of public resources and the decision-making bodies that present demand for the offered goods. They are trying to identify the factors that determine the profile of political entrepreneurs. For the purpose of this paper, I will concentrate on the third group of models.

From an economic perspective, an exchange is the act of obtaining a rare product from another decision unit by offering something in return. Moving this model of an exchange defining to the sphere of public elections, it could be said that elective politicians offer an industry political markets a specific profile of economic policy expecting in return support at the ballot box and election funds. Nominated by them bureaucrats offer technical expertise, expecting job security on existing positions or advancement in the civil service structure.

In order to isolate the factors determining the behavior of entities competing on the industry markets, we need to make two additional assumptions that describe the conditions of that competition. Firstly, the political exchange should be treated as a process, rather than as a single event. This is because of the long-term impact of certain policy decisions. Secondly, on the particular public policy issue markets we are dealing with a strict division of political actors into beneficiaries and payers of specific economic policy²⁰. In other words, political competition does not begin with “zero”, which would mean – in a purely theoretical sense – a conceivable profile of the current government’s economic policy in terms of benefits and costs.

The researchers analyzing competition in election markets are looking for answers to two key questions: (1) How is the influence of pressure groups reflected in the decisions of a statistical politician? Statistical support for the policy of legislative issues can be described by the equation²¹:

$$V_{Ai} = \alpha I_C + \beta EI_C + \gamma I_A + \delta L + \mu_i, \quad (2)$$

where:

V_{Ai} – vote of representative on issue ;

I_C – vector measuring the ideological preferences of different legislative districts;

EI_C – vector that measures their economic interests;

²⁰ Adam Lipowski rightly notes that treating the currently implemented economic policy as a starting point for the assessment of competing proposals, and divides them into two opposite types: (1) increasing the level of support (transfers, subsidies) and limitations (taxes, regulations), (2) reducing the level of support and restrictions. A. Lipowski, *Polityka gospodarcza jako instrument marketingu politycznego*, „*Ekonomista*”, No. 6/2007, s. 896.

²¹ See D.C. Mueller, *op. cit.*, p. 492.

I_A – vector that measures representatives personal economic interests and ideology;
 L – vector that measures campaign contributions and possibility lobbying efforts of pressure groups.

(2) How do pressure groups allocate resources within the political competition? A utility function of a group can be described by the equation²²:

$$V_j = \varphi(s)W_j(p^A) + [1 - \varphi(s)]W_j(p^B) - C_j^A - C_j^B, \quad (3)$$

where:

$W_j(p)$ – number of members of interest group times the utility component of the representative one;

C_j^A – contribution of interest group j to party A ;

C_j^B – contribution of interest group j to party B .

The most important factor in the analysis of models simulating competition in selected areas of legislation is the asymmetry of information between the exchange parties. The awareness of this fact has led Susan Lohman to the treatment of pressure groups as providers of knowledge specific to the existing states of the world²³. In Lohman's model, information resources are distributed between heterogeneous pressure groups. Intentions towards the provision of information are determined by the final effect of access to strategic policy decisions. The main function of contribution is to strengthen the credibility accompanying the message. The closer the politician's preference from a given constituency and pressure groups, the less cost he has to bear for providing the information²⁴.

Lohman divides groups competing for access to politicians into two fractions: one wants to maintain the current status quo, the other requires change. The representatives of legislative bodies are under the influence of pressure groups as a provider of expertise, on the other hand having the social welfare in mind. According to Lohman, groups representing the most extreme positions bear the highest "access cost". Policy-makers choose groups with preferences, interests in the centrist positions that carry the least likelihood of any

²² In this case, we assume that: (1) the result of the implementation of a specific profile of sectional policy applies to everyone in the group, (2) members of pressure groups cooperate with each other, or do not show an inclination towards a free rider attitude. See G. M. Grossman, E. Helpman, *Electoral Competition and Special Interest Politics*, „Review of Economic Studies”, Vol. 63, No. 2/1996, p. 271.

²³ S. Lohman, *Information, Access and Contributions: A Signaling Model of Lobbying*, Graduate School of Business Research Paper, Stanford University, 1993.

²⁴ *Ibidem*, p. 4.

social discontent. They also try to favor groups expecting the policy design closest to the proposed by the administration. According to the author, the competition among pressure groups allows the Legislature to know a broad cross-section of the represented positions. If politicians need information resources as to which of the groups represent extreme positions, possible lobbying is a kind of siren. If a large number of pressure groups is actively involved in the process of exerting impact on the legislature, politicians receive specific signals to consider the modification of the existing sectional policy design.

Among abundant research, David Austen-Smith's work is noteworthy. Generally speaking, he suggests that the contributions to politicians serve to reduce uncertainty of undecided voters on the views of elective politicians²⁵. The author distinguishes two kinds of lobbying: information and influence²⁶. The information lobbying takes place when the information supplied by the pressure group estimates the probability of the impact of the decision makers on the economic and political sphere. The influence lobbying occurs when the information provided by lobbyists changes the position of the legislator or gives the group confidence of his vote in the matter. D. Austen-Smith argues that the competition of pressure groups in the electoral market is informative and the competition in industry markets is of an influence nature. According to Austen-Smith and John R. Wright's proposal, competition in industry markets determines the pressure group to carry out the exchange ratio with both decision-makers who are opposed to their postulates, and those supporting these postulates²⁷. Lobbying of the latter counteracts the influence exerted by the opposition pressure groups.

All competition models in the industry markets exhibit two slightly different attitudes of a decision-maker during a public election. I mean the attitude of a „rational ignorant” and a free rider.

The concept of rational ignorance was coined by Downs who came to the conclusion that on the basis of assumptions homo economicus, a thesis can be argued that in the case where the cost of obtaining private information resources outweigh the potential costs resulting from the collection, a statistical voter will not be interested in the participation in the election. It can be said that a rational voter's ignorance is directly proportional to the degree of bind-

²⁵ D. Austen-Smith, *Campaign contributions and access*, „American Political Science Review”, Vol. 89/1995. See also D. Austen-Smith, J.J. Feddersen, *Deliberation, Preference Uncertainty and Voting Rules*, „American Political Science Review”, Vol. 2/2006

²⁶ Lobbying in this case is understood as a unilateral transfer of information from a pressure group to members of the Administration at various levels of public management.

²⁷ Assuming ceteris paribus. See D. Austen-Smith, J.R. Wright, *Counteractive Lobbying*, „American Journal of Political Science”, No. 38/1994.

ing his income with purely economic decisions. At the same time it is important that these decisions concern him from the profit viewpoint²⁸. A free rider mental design is based on a conceivable nature of public resources received by beneficiaries of specific sectional policies²⁹. If a member of the group receives benefits through the action of the other players, not participating in the process of obtaining them, such a behavior is optimal for him. Free-rider behavior plays an important role in any collective actions being an essential challenge for leaders who want to overcome the reluctance of individual members of the group for political action.

Referring to the patterns of behavior of political actors, I wish to point out that this is a major factor, burning models of competition in the industry political market. The authors explain that rational ignorance is the reason for that the lack of interest of statistical voters in the current policy direction of the government³⁰. Free-rider behavior is explained by the impact strength and mobilization capabilities of individual pressure groups³¹.

In summary, the primary objective of the pressure groups in the political process is to ensure the realization of its members' interests. They have resources that are useful from the point of view of public decision-makers, i.e. a potential voice in support of its members, which could turn the tide in favor of the candidate/political party with aggregate information regarding the preferences of interest groups and financial resources useful in the campaign.

The choice from the available "channels" available to the legislature, is derived from the strength of the influence of individual members of a political pressure group. In the case of trade unions, there is a closer correlation between the candidate supported by the members of the union and his supporters, and the candidate's electoral chances. To a large extent, however, it depends on the regional or local labor union leaders. Their ability to mobilize

²⁸ Of course, various government decisions affect all voters with varying degrees of directness. On the other hand, the degree of this varies depending on the area of operations of the administration. However, with a high degree of probability we can assume that a statistical voter will have a much stronger incentive to information on the sectors and industries from which he has direct source of private income. For example, the knowledge of an academic teacher of the decisions taken by the Ministry of Science and Higher Education is statistically greater than the knowledge of the subject presented by a farmer.

²⁹ A good example of this is the direct payments in agriculture.

³⁰ Pressure groups have less room for maneuver in cases where voters are well-informed. See eg A. Denzau, M. Munger, *Legislators and Interest Groups: How Unorganized Interests Get Represented*, „American Political Science Review”, No. 80/1986.

³¹ A classic work on the relationship between the size of the group and the behavior of individuals co-creating it, see M. Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups*, Cambridge, Massachusetts, 1971.

electoral interest groups is also important. In the case of business organizations, the voices of support for that policy can provide funding for the group, but it is always an indirect impact on the election results.

The politician who interacts with political entrepreneurs must always make a choice between alternatives: maximizing the probability of obtaining the electoral vote/maximizing election funds/maximizing “political relevance” for competing interest groups. The rational choice is, in fact, the constant search for a compromise between the demands of trade unions pressure groups and business organizations preferences. Their interests are often contradictory. On the other hand, increased competition between industry lobby groups diversifies potential sources of revenue for the leaders of political parties³².

CONCLUSION

The considerations presented in this article are based on a simple observation: competition in the political market is reflected in the final product of interaction of political actors, i.e. a specific shape of distribution and redistribution of social resources. This factor, in turn, has a significant impact on the process of growth or the economic downturn of the country. The correlation between the activities of the democratically elected governments of the individual markets and the industry is still something inherently obvious.

Competitive pressure in the free market works through the price mechanism. Competitive pressure in the political market works through election promises. Paradoxically, however, increasing their catalog does not necessarily translate into an increase of a politician’s share in the election market. In my opinion, a free-market assumption that the sale of products at lower prices increases the company’s market share – is not reflected in the political mechanisms. In fact, a periodic electoral act is only an indirect influence of the decision-maker on public decisions. During the implementation of the specific proposals, a voter ceases to be a partner for the Administration. His place is taken by professional leaders of pressure groups. By tying lasting relationships with decision-makers, they gain the possibility of real influence on economic policy.

Discussing some models imitating political competition, I wanted to point out that the political power of pressure groups stems not only from

³² Assuming that the contracts concluded in industry markets do not result in the outflow of the potential electorate of the party.

their own strategies and policies. It consists of equally rational political consumers' behavior. We come here to another paradox of modern democracy which can be summarized as follows: the behavior that on the basis of the application of economic instruments can be described as rational from the point of view of the political consumer, is irrational from the point of view of wider social groups.

The basic conclusion drawn from the analysis presented in this study can be summarized as follows: political entrepreneurs adjust their actions to the conditions in which political competition takes place. They reward entities, seek to maintain the status quo in the distribution and re-distribution of social resources. The competitive pressure on industry political markets imposes on policymakers such a political strategy.

In conclusion, let me make a more general remark. Despite significant achievements in the field of economic exploration of the conditions of the political process, at the forefront of the debate there is a macroeconomic discussion on the choices of tools for specific macro economy purposes. This means that the government and its agencies continue to be treated as a "benevolent despot", able to counteract economic crises. A shift of focus to the analysis of political choice of entrepreneurs at the micro level not only broadens the perspective of evaluating the actions of democratically elected representatives based on the state-market relation. First of all, it now seems a necessary condition for a constructive debate on the direction of research on the economic role of the state.

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