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Article

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THE ROLE OF POLITICAL PARTIES IN RENT-SEEKING SOCIETIES¹

PANU POUTVAARA²

Total government expenditure accounted for 32.2 (Latvia) to 52.4 (France) percent of GDP in EU countries in 2014, versus 33.2 percent in the United States and 39.3 percent in Japan (DICE Database 2015). An important part of this expenditure consists of income transfers, but governments also spend considerable resources on education, healthcare, senior care, and many other welfare services. More traditional public expenditure includes the military, police, and spending on infrastructure. An increasingly large share of these tasks is being outsourced. Politicians and civil servants are therefore often in a position to distribute lucrative contracts. Anti-corruption laws forbid selling these contracts, but there are legal ways of influencing decision-makers. Rent-seeking refers to activities in which a rent-seeker aims to obtain an economic rent by manipulating political or other decisions, rather than seeking profits from a socially productive activity. A classic example of rent-seeking would be road tolls, if these are collected without providing any real service, like road maintenance, in return. Similarly, lobbying for protective tariffs would be a form of rent-seeking.

Although politicians and civil servants are forbidden from selling contracts, they often distribute them among close acquaintances. Interested rent-seekers can thus gain an advantage from building favourable connections with decision-makers. Such connections, however, come with a cost in terms of time and effort on both sides. It follows that the decision-maker must be compensated for his or her time. The compensation can take various forms, from lunches and entertainment to participation in campaigns and fund-raising events, which will be promptly brought back to memory at the moment when rents are distributed. The rent-seeker may maximise

his or her chances of success by getting involved with multiple decision-makers. Miettinen and Poutvaara (2014) show that this results in rent dissipation due to time-consuming network formation. Therefore the impossibility of selling projects generating rents can cause excessive network formation.

Political parties can economise on the time costs of rent-seeking by restricting wasteful network formation. Considering that each politician can only belong to one party at a time and that the same party membership is often divided into subgroups, i.e. local party associations, party associations for students, pensioners, women, etc., it is crucial to analyse the extent to which parties play the role of gatekeepers, requiring that politicians only nominate members belonging to their subgroup. By doing so party members outside of this subgroup, or members of other parties altogether, have no incentive to lobby such a politician, as they will not be able to be nominated. Miettinen and Poutvaara (2015) analyse rent-seeking with political parties acting as gatekeepers. In their model, party leaders direct their politicians to nominate members from their own subgroups. As a result, rent-seeking can be reduced. The most straightforward example of such implementation would be that of one-member districts, wherein party politicians would be directed to nominate rent-seekers who belong to the same district.

Parties as gatekeepers

Political parties are powerful gatekeepers in representative democracies. In most countries, it is very difficult to be elected to an office without running as a party member. In the current United States Senate, there are only two independent members, and in the House of Representatives there are none. In the current German Bundestag, French Parliament and Italian Parliament all MPs belong to a political party. The British House of Commons currently has one independent MP. While it is somewhat more common to have independent politicians in municipal politics, party membership is still an important route to success. For a rent-seeker, the attractiveness of party membership depends on the value of the rents being distributed. The link between public sector



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jobs and party membership is particularly pronounced in Austria. In Austria, the political parties are well represented in the public administration, with many firms and organisations having traditionally double heads - one for the Social Democrats and one for the Conservatives. The strong politisation of the nominations has been associated with an exceptionally high level of party membership (Encyclopedia of Austria 2005).

How political parties save on membership costs

Miettinen and Poutvaara (2014) present a model in which agents cannot sell contracts that they are delegated to decide upon, due to anti-corruption laws. Even if rent-seekers are not allowed to pay for the spoils that decision-makers distribute, they can pay for access, in the hope of being remembered if a decision-maker has a chance to make a nomination. The higher the value of contracts and the higher the probability that a decision-maker is able to distribute spoils, the more a contract is worth. As decision-makers (from now on, decision-makers are referred to as politicians and rent-seekers as citizens, although the model is more general and also applies to a situation in which the decision-maker is not a politician) cannot commit to not spending time with other people, it is typically the case that each politician spends time with several citizens, and each citizen with several politicians. Figure 1 illustrates an equilibrium with four politicians and eight citizens, provided that rents are sufficiently valuable that each citizen finds it worth it to buy links to three politicians. It is assumed that the marginal costs of time spent in networking are increasing, which implies that if politicians are identical, they all have the same number of links (or one of two consecutive numbers of links between which they are indifferent). The same applies to rent-seekers. We highlight the links of one rent-seeker by red, to ease the comparison with the case with political parties below. An increase in the value of rents would result in more links being formed, thereby dissipating part of the rents. Similarly, the lower cost of networking would result in more links being built.

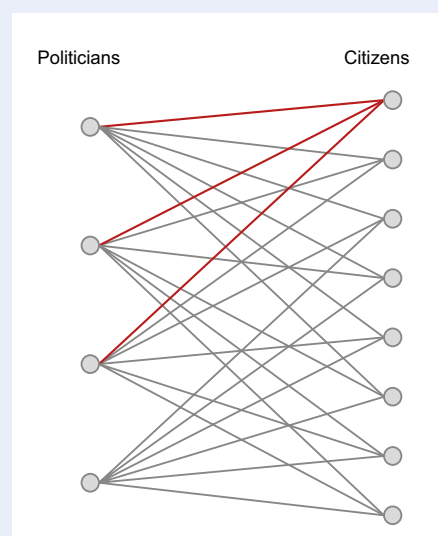
In Figure 1, there are in total 24 links. This is clearly inefficient, given the assumption that all citizens are equally good at carrying out the task under delegation. Miettinen and Poutvaara (2015) extend the model to allow for the role of political parties. In their set-up, party bosses first recruit politicians as party members. After that, they sell party membership to citizens who want to network with politicians. This means that party boss-

es act as gatekeepers between politicians and citizens. For simplicity's sake, Miettinen and Poutvaara (2015) assume that each party boss receives the right to design the network between politicians and citizens connected to the party, provided that the party bears the networking costs. Party bosses pay politicians to join the party, and charge citizens for their membership. Payments to politicians may take the form of parties paying for advertising, or perks benefiting politicians privately. Party bosses then find it optimal not to link to citizens directly, but only through politicians. Furthermore, political parties are also unable to commit to not taking new members. However, they can still economise on the networking costs by connecting each citizen to one politician. Figure 2 illustrates the resulting network structure. The link from one citizen to one politician is again denoted with red. The link between the politician to which this rent-seeker is connected and the party boss is denoted by a dashed red line, as this link serves two rent-seekers connected to the politician in question.

A crucial difference between rent-seeking with and without political parties is that political parties in Miettinen and Poutvaara (2015) are associated with a fixed network structure: each party member is linked to one politician, and each politician to one party leader. Further increases in the value of rents do not result in more links being acquired. As a result, the presence of

Figure 1

Rent-seeking networks without political parties



Source: The author.

political parties will probably lead to efficiency gains in circumstances in which the value of rents distributed is high (resulting in large dissipation by excessive network formation in the absence of parties), or when the linking costs are low. If the value of rents is low, then the level of networking would also tend to be low in the absence of political parties, and introducing parties need not improve efficiency. After all, parties also need to cover the linking costs between party leaders and politicians.

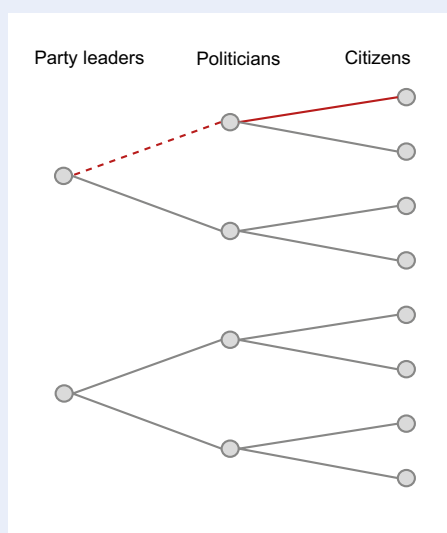
Miettinen and Poutvaara (2015) take as their starting point that there are anti-corruption laws that prevent political nominations from being sold. In their setting, there are still inefficiently many links, compared with a situation in which a politician would sell a project to one rent-seeker. Of course, there are important arguments in favour of forbidding the sale of nominations and rents, which are not captured in the model. For example, Miettinen and Poutvaara (2015) assume that there are no productivity differences between rent-seekers, and that the value of the spoil from the rent-seeker's perspective is exogenous. If there are productivity differences between rent-seekers, some amount of network formation may be efficient. There would then be a reason for politicians to connect with citizens, as a connection would be necessary in searching for the citizen most suited to the task. However, the main insight is unchanged, as politicians would still want to sell more connections

than would be optimally efficient. Therefore, efficiency can still be improved by political parties if they limit connections when rents are sufficiently high.

Another important simplification is that Miettinen and Poutvaara (2014, 2015) do not include the role played by ideological considerations. Because parties have a certain ideology, some politicians and citizens may join for purely ideological reasons. In order to account for ideology, a model would have to include ideologically heterogeneous citizens, and political parties would value different citizens to different extents. Parties may then need to choose between citizens who are more ideologically aligned and those who are willing to pay more for access. Additionally, there are differences in the ideological importance of the positions that political parties fill. Taking trade-offs and differences into account may help to explain why some positions, such as those of leading civil servants, are more often filled by party members with strong ideology, whereas others are not. Those without as much ideological importance can be used as rewards for contributors. For example, in the United States presidents have nominated important campaign fund-raisers as ambassadors, although they tend to select a small and calm destination country, in which the ambassador can be expected not to make a big difference. Supreme Court Justices, by contrast, are chosen based on both ideology and proven competence, with campaign contributions being of no interest, apart from potentially signaling the candidate's ideology.

Figure 2

Rent-seeking networks with political parties



Source: The author.

Of course, there is also a lot of rent-seeking that violates anti-corruption laws and in which political parties take part. Politicians can sell nominations or other favours, and rent-seekers can give outright bribes, instead of resorting only to legal methods of buying influence. Such direct bribes are well captured in classical rent-seeking literature, building on the classical contribution by Tullock (1967). It is also important to note that legal norms on what constitutes legal lobbying and what constitutes illegal bribing have changed over time and differ across countries. One person's lobbying is another's blatant bribing.

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