

Bonus, Holger

**Working Paper**

## The political party as a firm

Diskussionsbeiträge - Serie B, No. 20

**Provided in Cooperation with:**

Department of Economics, University of Konstanz

*Suggested Citation:* Bonus, Holger (1981) : The political party as a firm, Diskussionsbeiträge - Serie B, No. 20, Universität Konstanz, Fakultät für Wirtschaftswissenschaften und Statistik, Konstanz

This Version is available at:

<https://hdl.handle.net/10419/92512>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

FAKULTÄT FÜR  
WIRTSCHAFTSWISSENSCHAFTEN UND STATISTIK  
UNIVERSITÄT KONSTANZ

THE POLITICAL PARTY AS A FIRM

Holger Bonus

Serie B – Nr. 20

DISKUSSIONSBEITRÄGE

D-7750 Konstanz  
Postfach 5560

12. JULI 1982 wirtschaftswissenschaften  
Kiel

40 M. 389 *efo*

The Political Party As a Firm

Holger Bonus  
↳

Serie B - Nr. 20

August 1, 1981

28. SEP. 1992 Weltwirtschaft  
Kiel

Vorläufig und vertraulich

Nicht ohne schriftliche Zustimmung des Autors zitieren

Kommentare werden erbeten

Serie A: Volkswirtschaftliche Beiträge

Serie B: Finanzwissenschaftliche Arbeitspapiere

Serie C: Betriebswirtschaftliche Beiträge (in Vorbereitung)

## The Political Party As a Firm

Holger Bonus

August 1, 1981

### I.

In his now classical analysis, DOWNS (1957) viewed the political party as a team whose members agree on all their goals, not just on part of them. Each such party, then, acts entirely as though it were a single, rational person who is after the benefits that come with government offices. The Downsian party formulates policies in order to win elections, not the other way around: it has no interest in promoting a better society per se. Its ideology is but a means to attract voters; and the adopted ideology will be remodelled in due course whenever this will enhance the party's prospects of getting elected.

To be sure, DOWNS did occasionally allow for intraparty divergencies; and he also considered the possibility that ideological positions be upheld even though more votes could be attracted, in the short run, by abandoning such positions. But a Downsian party thus standing by its ideology does so for tactical reasons, not because it were to believe in it; and intraparty divergencies are strictly outside the Downsian framework. DOWNS had to step out of his model in order to allow for them; and in the end, he found that such allowance led "to no conclusions incompatible with those derived from the team view of parties" (p. 26). In the practical operation of politics, the Downsian party's appetite for power just keeps winning over its desire to implement ideological doctrines (p. 112).

The subsequent literature has basically followed these Downsian lines<sup>1)</sup>, and rarely debated the assumptions underlying them. This is quite strange because there is so much evidence to the contrary<sup>2)</sup>. For instance, the

---

1) See, e.g., MUELLER (1979), p. 98.

2) See HIRSCHMAN (1970, pp. 71-2), who points to the 1964 nomination of Sen. GOLDWATER as mainly due to the Republicans' few, but enthusiastic right-wing activists who managed to carry the convention. VAN DEN DOEL (1979, p. 112-3) argues that "such a mistake is immediately punished with an overwhelming defeat"; so the mistake will either be soon corrected, or otherwise a party so much clinging to ideology will disappear. Yet one may want to acknowledge first the very possibility of internal struggles leading to a party's downfall; and then to study whether or not such behavior will persist.

British Labour Party presently does not behave after all as a vote-maximizing rational person. Instead it risks to be torn apart rather than compromising on ideology. Nor is this an isolated example. West Germany's Social Democrats openly display violent ideological struggles on various issues these days (NATO's two-track policy, plans for constructing and siting of nuclear power plants, etc.). The party's left-wing protagonists lament on TV that party members cannot identify anymore with the policy of their own Chancellor Schmidt; and there is a serious risk that the party might even split, as it did once before in the past.

One could argue that these are rare exceptions with no relevance to the economic theory of politics. Yet what we observe amounts to self-paralyzation of the government in vital policy matters as a result of internal ideological disputes. Such a phenomenon certainly deserves the attention of political economists who tend to advise governments what to do, without giving much thought to the political leeway of the institution so advised. Obviously, political parties are not one-man affairs but multiperson organizations; and to understand properly the policies adopted, one must look into the way party members interact in the formulation of such policies.

Even worse, one cannot but suspect that party members are not generally led by rational considerations, but by emotions when they get hopelessly stuck in ideological quarrels which impair so badly their own party's standing. To appreciate the government's difficult task in such situations - and to be able to analyze and perhaps predict its decisions -, one may have to include political emotions in one's reasoning. Is it possible to do so in a disciplined manner? I pledge that it is.

## II.

It is striking to note the close resemblance of the Downsian political party to MARSHALL's representative firm. While individual firms would rise or fall; while some new producer might be struggling into business, and some other have acquired superiority over almost all its rivals - the representative firm was one of appropriate age, of fair success, which was managed with normal

ability, and which hence incurred the normal cost of producing a commodity, relatively to a given aggregate volume of production<sup>3)</sup>. To study the causes governing the supply side of markets, it would suffice to look at the representative firm - which was of course an abstraction. Whatever communication might occur among individuals within some given firm was collapsed into "normal" management abilities, "fair" success, and "appropriate" age. Thus the producer or firm became what is now called an economic agent, i.e., the locus of production decisions which are shaped by a choice criterion - to maximize profits -, by the production set, and by market conditions.

In this sense the Downsian political party is very much the logical counterpiece to the Marshallian firm, adapted to the specifics of political markets. Such a party is but an economic agent whose decisions are entirely shaped by his choice criterion - to get elected -, and by the limitations he must observe in order to draw sufficient support from the electorate, given the rules of modern democracy. Whatever the Downsian party chooses to do, it plainly mirrors the forces effective on the political market; and DOWNS' rationality postulate, applied to a party, just requires the agent to make efficient use of the possibilities which exist on such market. While in any given party "a hodgepodge of compromises" may well result from internal strains, DOWNS held that such peculiarities would cancel out in the average, and that to allow for them would distract from the typical problems facing any political party struggling for power.

### III.

Originating with COASE's (1937) paper, a new understanding of the firm as a social organization has since emerged in economics<sup>4)</sup>. COASE, who asked why firms exist at all, explicitly viewed the firm as a "system of relationships"; and it became later clear that efficient macrobehavior of such a system - its capacity to meet properly the challenges from its surrounding - cannot be taken for granted but depends itself on a subtle ecology of micromotives<sup>5)</sup>.

3) MARSHALL (1961), Vol. I, pp. 317-8, 342-3; and Vol. II, p. 346.

4) See also, among many others: ALCHIAN and DEMSETZ (1972), WILLIAMSON (1975), LEIBENSTEIN (1976).

5) SCHELLING (1971, 1978).

Let us now approach the political party in the same spirit. To do so, we must drop DOWNS' homogeneity assumption and replace his economic agent with an organization. Furthermore, we shall draw on BAILEY's (1980) social anthropology of politics to appreciate more fully the delicate economics of political organization.

According to BAILEY, two elements must be recognized that are both contained in actual relationships between leaders and followers within any given organization. One is the moral appeal which binds individuals to a common cause. Moral followers provide services without charge, "for love". To attract them, the organization must find a normative identity which will be symbolized by an ideology; and it will be in terms of the latter that moral followers get rewarded. - The second element is transactional. The members of a "faction" mean business. Their services are rendered to get material dividends; and they will flock around that leader who pays the biggest dividend.

In real organizations both elements are blended. Even the firm - whose purpose is entirely in business - cannot do without some normative identity. Of course it must pay its employees sufficiently well to keep them from deserting. But this is not enough. It must also provide a cause, an ideology of its own to keep its members spirited<sup>6)</sup>. A firm just paying off salaries will experience absenteeism, lack of innovative ideas, and even social disruption; and in the end it will lose its competitiveness, it will falter and eventually close down<sup>7)</sup>. The same applies, a fortiori, to the political party - a large firm engaged on the political market.

---

6) Some of the strongest micromotives within the firm are emotional and will not cancel out in the average. LEIBENSTEIN (1976, p. vii) points out that TOLSTOY's "spirit of the army" may be quite decisive for a firm's performance. One of the more powerful arguments in favor of applying co-determination to West Germany's industry is that this might help to build precisely such "spirit", which is very much an emotional phenomenon (BONUS 1981). The firm's "spirit" permits its employees to identify with a social organism which they feel is worthwhile to belong to; and this inspires their motivation for work, even if no financial remuneration is to be expected in return for the extra productivity. See CABLE and FITZROY (1980) for empirical evidence.

7) Note that "to make fast money" and to be successful in business may well be an ideology of its own - just so long as employees can identify with the firm, and feel that the firm's success is their own.

The able political leader will economize on both elements. In economic terms, ideologies provide the credit for moral groups<sup>8)</sup>. Moral followers may be likened to stockholders who need not insist on actual dividends as they feel that their capital is sunk in a blossoming venture. They extend a long-term credit at low rates of interest; but they do so only as long as they consider themselves "owners", i.e., as long as they can identify themselves with the cause put forward. This means that they may in fact prove "a millstone around the leader's neck"<sup>9)</sup> in that they stick to ideology and prevent the pragmatic manoeuvres required to be successful. Ideologies may themselves become "bankrupt"<sup>10)</sup> when they get ill-adapted to their environment, such that moral followers lose their faith. Then the credit is lost, and the moral group falls apart.

On the other hand, followers who are merely out for material rewards are quite flexible because they do not care for the cause as such. But they are also quite costly. Their "loans" must be serviced or re-negotiated very frequently<sup>11)</sup>. Transactional links must be established, and kept in repair, to each and every individual follower of this kind. "If one thinks of such a group as a machine then seven-eighths of its output are spent on its own maintenance and only a fraction remains for political activity<sup>12)</sup>. There are no economies of scale."<sup>13)</sup> Therefore, any sizable group cannot rely entirely on paying material dividends. To stay in business it must augment its transactional base of recruitment by a morality<sup>14)</sup>. The leader has two kinds of resources available to recruit and maintain his group, and he must find the proper mix of both, - "material and moral, that is, by rewards and by propagating an ideology, both of which, we concluded, can be visualized as the leader's credit-balance with his followers"<sup>15)</sup>.

---

8) BAILEY (1980), p. 44.

9) BAILEY (1980), p. 49.

10) BAILEY (1980), p. 44.

11) BAILEY (1980), p. 45.

12) Politicians must devote a huge part of their time keeping in close touch with their local party base. To the Downsian politician, that would be a sheer waste of time. Why, then, does it happen? Because real politicians must raise and maintain moral credit, and permanently renegotiate transactional links.

13) BAILEY (1980), p. 45 (footnote 12 added).

14) BAILEY (1980), p. 54.

15) BAILEY (1980), p. 60.

The political party as a firm, then, cannot move independently of those who provide its resources. It must pay attention to its "owners", i.e., those of its followers who get rewarded in terms of ideology and who will not permit the party to abandon - or even touch - the fundamental parts of its ideology. It must furthermore see to it that material dividends are kept flowing to its "creditors", i.e. those followers who are recruited on a transactional base<sup>16)</sup>. Both is required just to keep the party going; and both strongly impairs its ability to meet with due flexibility the political challenges posed through the outside world. The party is therefore not easily in a position to behave "rationally" in the sense that DOWNS employed in his portrait of the political party: it cannot in general make efficient use of the possibilities which exist on the political market. To an outside observer, it would then appear that the party's moves are often irrational; but when its internal economies are duly appreciated, it is seen that the constraints are just much more complex than DOWNS was assuming them to be.

#### IV.

What is conspicuously visible of a party's activities stems from its leading politicians. They will be seen on TV, they will command the headlines; and they are the ones who actually formulate policies. This has misled political economists to take them for the party itself.

If that were correct; if indeed the party consisted entirely of its leading politicians, then the Downsian framework would be quite appropriate. Each such professional had then to face just the electorate, and of course the candidates of competing parties. That would not leave much room for straying apart from Downsian rationality.

Yet that is not the way things work out in reality. It is the party's rank and file, its ordinary members who in general draw most of the vote, leaving but a margin to win for the candidate himself. The party could do not a move without its troupes, who wage all those exhausting campaigns during the elections, and who work the grassroots. And while the party does have some material rewards at its disposal - seats in the House it may win or government posts in case it comes to power -; such rewards are in extremely

---

16) Obviously many a party member will act in part as an "owner" and in part, a "creditor". In fact, that will be normal: the member will not by accident belong to a given party, but because he feels comfortable with its ideology; but he will also expect some occasional reward at least.

short supply. There is but a token left for the rank and file; and ordinary members know quite well that they will never qualify for the higher echelons who earn a living from following a career in politics<sup>17)</sup>. In other words, the party must draw heavily on the long-term credit of "owners" who are satisfied with moral rewards, but who must identify with the party's ideology in order to forward their services.

Thus the party cannot exist without an ideology. Every modification of its existing ideology poses a threat to its core; and so there can be no way of remodelling the party's ideology whenever this seems fit to please the electorate. When confronted with a choice, either to lose voters (and power) by sticking to its ideology, or else fall apart as its moral followers turn away and cancel the long-term moral credit on which the party depends, then it must choose the first. And it may even be perfectly rational for the party to accept a split-up if it can thereby save its moral credit with its more enthusiastic followers<sup>18)</sup>.

V.

We sum up. The political party is by no means a Downsian agent, but a "firm" active on the political market. Its resources are material rewards and ideology. The latter is indispensable to bind the rank and file to the party. The political party must provide a normative identity to its moral followers in order to stay in business; and its ideology is therefore much more than just a means to attract voters. It cannot easily be adapted to changing needs of the electorate. When its ideology comes into conflict with basic feelings of its own electorate, then the party faces an identity crisis and may well end up in a state of self-paralyzation.

---

17) Strictly speaking, we must distinguish three subgroups among party members. The first is the professional politician who would come pretty close to the Downsian agent, if he would not depend so crucially on his nomination as the party's local candidate. This is awarded through the second subgroup, the party activists, who do most of the work and dominate as delegates every party convention, but who cannot expect in the average to get nominated themselves. The third and largest subgroup is the "silent majority" who will not get involved too much with the party's activities. It is the activists who "voice" their disaffection, while the silent majority would rather resort to "exit" when feeling uncomfortable with the party's performance. Therefore the majority commands little influence within the party while the small subgroup of party activists, taken as a whole, exercises an enormous power.

18) Failure to acknowledge the emotional, or "moral" element of organizations may account for grave misconceptions of real-world phenomena. OLSON (1965), who rests entirely on the transactional element, cannot allow for large unions. But look at the West German unions who are both, very large and very powerful. How come? Because solidarity ties their members together - which is something very close to TOLSTOY's "spirit of the army".

R E F E R E N C E S

- ALCHIAN, Armen A. and DEMSETZ, Harold, "Production, Information Costs, and Economic Organization", American Economic Review 62 (1972), 777-795.
- BAILEY, F.G., Stratagems and Spoils. A Social Anthropology of Politics, Oxford 1980.
- BONUS, Holger, "Zur Transformation der Marktwirtschaft durch Sozialkomponente und Demokratisierung". In: ISSING, O. (Ed.), Zukunftsprobleme der sozialen Marktwirtschaft, Schriften des Vereins für Socialpolitik, N.F., Band 116, Berlin 1981, 233-53.
- CABLE, John R. and FITZROY, Felix R., "Productive Efficiency, Incentives and Employee Participation: Some Preliminary Results for West Germany", Kyklos 33 (1980), 100-121.
- COASE, R.H., "The Nature of the Firm", Economica 4 (1937), 386-405.
- DOWNS, Anthony, An Economic Theory of Democracy, New York 1957.
- HIRSCHMAN, Alber O., Exit, Voice and Loyalty, Cambridge/Mass. 1970.
- LEIBENSTEIN, Harvey, Beyond Economic Man, Cambridge/Mass. 1976.
- MARSHALL, Alfred, Principles of Economics, Ninth (Variorum) Edition, Vol. I (Text), Vol. II (Notes), London etc. 1961.
- MUELLER, Dennis C., Public Choice, Cambridge 1979.
- OLSON, Mancur, The Logic of Collective Action, Cambridge/Mass. 1965.
- SCHELLING, T.C., "On the Ecology of Micromotives", Public Interest 25 (1971), 61-98.
- SCHELLING, T.C., Micromotives and Macrobehavior, New York/London 1978.
- VAN DEN DOEL, Hans, Democracy and Welfare Economics, Cambridge 1979.
- WILLIAMSON, Oliver E., Markets and Hierarchies: Analysis and Antitrust Implications, New York/London 1975.