"An Organizational Theory of Political Parties" by Spencer Pantoja

Juan Dodyk

Harvard → WashU

The Paper

What do parties do as *organizations*?

- Parties are more than just a "nexus of (relational) contracts."
- Inspiration: property-rights theory of the firm (Grossman-Hart-Moore).
  - Firms allocate residual decision rights: who gets to decide what to do when something unexpected happens.
  - Residual decision rights in turn shape incentives for ex ante specific investments.

This paper:

- Parties allocate *information* in the hands of the leadership.
- Members give up information rents, but can achieve better collective outcomes. (Not always, though!)

Basic Mechanics of the Model

An agenda-setter (the lobbyist) knows the positions of the legislators with some uncertainty: $\theta_i \sim U[s_i^L - \sigma^L, s_i + \sigma^L]$, enough to know $\theta_{\pi_1} < \ldots < \theta_{\pi_n}$.

They can make a policy proposal x and buy votes as in Snyder (1991).

The proposer wants to move policy to the right. They need the votes of the q most right-wing legislators $\pi_p, \ldots, \pi_n$ $(p = n - q + 1)$.

The legislator θ_i accepts x for free iff $x \leqslant \theta_i$.
With a payment d_i they accept iff $x \leqslant \theta_i + d_i$.

With perfect information, the price of i's vote is $d_i = \max\{x - \theta_i, 0\}$. The problem of the proposer is to choose x to maximize

$$u_L = \beta x - \sum_{i=p}^{n} \max\{x - \theta_{\pi_i}, 0\}.$$

The solution is $x^{\mathrm{FB}} = \theta_{\pi_i}$ with $i = \lfloor \beta \rfloor + p - 1$.

Information Rent

With private information the proposer doesn't know how much to pay. Assuming the legislators $j \geqslant p$, $j \neq i$ vote in favor,

$$u_L = \beta x \Pr(\theta_i + d_i \geqslant x \mid s_i^L) - \sum_{j=p}^{n} d_j.$$

Assuming $\theta_{\pi_p} > 2\sigma^L$, $\beta > 2$ and $d_i \in [x - s_i^L - \sigma^L, x - s_i^L + \sigma^L]$ we have

$$\frac{\partial u_L}{\partial d_i} = \frac{\beta x}{2\sigma^L} - 1 > 0,$$

so the proposer plays safe and pays $d_i = x - s_i^L + \sigma^L$.

Thus, the proposer maximizes

$$u_L = \beta x - \sum_{i=p}^{n} \max\{x - s_{\pi_i}^L + \sigma^L, 0\},$$

which creates a distortion: $x^* = s_{\pi_i}^L - \sigma^L < \theta_{\pi_i} = x^{\mathrm{FB}}$.

Each legislator $i \geqslant p$ with $s_{\pi_i} \leqslant x + \sigma^L$ gets an **information rent** $\theta_{\pi_i} - (s_{\pi_i} - \sigma^L)$.

The Whip

The whip has better information than the proposer: $\theta_i \sim U[s_i^W - \sigma^W, s_i^W + \sigma^W]$ with $\sigma^W < \sigma^L$.

Therefore, the proposer may want to delegate agenda-setting, including a budget for buying votes, to the whip.

However, members of the party can disobey the whip and divide the money among themselves.

For the party to be effective, members needs to resist this temptation. Thus, **enough members of the party have to expect to benefit in the future**. That's the key insight.

Result. If the legislators that stand to lose are always the same, the party loses its power.

In some sense, the underlying preferences have to be sufficiently multidimensional.

A few things to think about

1. Obvious questions:

- Can the proposer do better without the whip by using a better mechanism?
  - Offering $d_i(\theta) = x(\theta) - s_i^L + \sigma^L$ is IC and IR, and gives legislators the information rent without distorting x.
- Can the whip "sell" their information to the proposer and extract the surplus?

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2. Substantive questions:

- One message is that parties work better when different legislators are "pivotal" across different issues.
- Parties in the U.S. have become "stronger" by some measures. But politics is more unidimensional?

An Earlier Organizational Theory?

Cox & McCubbins 1993 propose an organizational theory of the party:

- Without parties we can expect "long coalitions" (sustained by relational contracts) and inter-temporal multidimensional logrolls.
- But we would see an underprovision of "collective benefits" policies: positive-sum policies with diffuse benefits and strong opponents. (Example: Reagan's tax reform.)
- Parties solve this by providing:
  - a "party reputation" which pays off in elections,
  - and party leadership (the whip), who solves the "moral hazard in teams" problem by being the "residual claimant."

This is not an actual theory, but it has some elements.

How does this paper compare?

In Cox-McCubbins:

- the role of the whip is to provide incentives,
- party composition is exogenous (just a label).

In this paper:

- there is an external source of incentives. What the whip does is to centralize the allocation of information.
- we can ask which parties can "work," when the party could expand and when it should split.

Concluding Comments

New answer to an old question.

Methodologically innovative.

For me a big question is what we can do with this framework in terms of applications, and how to benchmark its implications vis-a-vis other theories.

You should read it when it's ready!