Policy-Development Monopolies: Adverse Consequences and Institutional Responses

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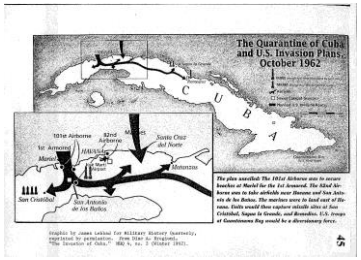
Policy Development in Cuban Missile Crisis

Quality



United Nations

Ideology

Key Features of Model

- Everyone values quality
- Disagreement about “ideology”
- Decisionmaker chooses policy, but relies on others to generate high-quality proposals
- Quality is policy-specific, can’t be transferred
- Agenda-setting power is <u>informal</u>
- <u>Not</u> a model of signaling or advice
  - Policy-developers typically exert effort to carefully craft detailed proposals that they actually hope will be adopted

Applications

- Lobbyists crafting policy proposals for legislatures, executives, or bureaucrats
  - U.S. Banks & financial regulation
  - Business elites in countries with limited government capacity
  - Orators in ancient Athens (Ober 1989)

- Executives crafting proposals for legislatures
  - Chilean president (Londregan 2000; Triossi, Valdivieso, and Villena 2014)
  - U.S. governors

- Bureaucrats crafting proposals for
  - Their superiors (elected, autocratic, appointed…)
  - Legislatures, e.g., proposals by MITI or EU Commission

Institutional Responses

1. Develop in-house capacity
2. Delegate to monopolist's opponents
3. Require approval of skeptical veto players
4. Foster competition

- Basic theme: make monopolist's life difficult

- For each of these responses, we
  - Develop a model
  - Apply to particular institutional contexts

Related Models

- Signaling
  - Crawford & Sobel 1982, Gilligan & Krehbiel 1987, and especially Dessein 2002 and Gailmard & Patty 2013
  - Different Assumptions: transferable vs. nontransferable
  - Different Conclusions: make life easier for expert vs. make life harder for expert

- Expertise and search (Callander 2008, 201x)

- Real authority (Aghion and Tirole 1997), not formal agenda setting (Romer & Rosenthal 1978)

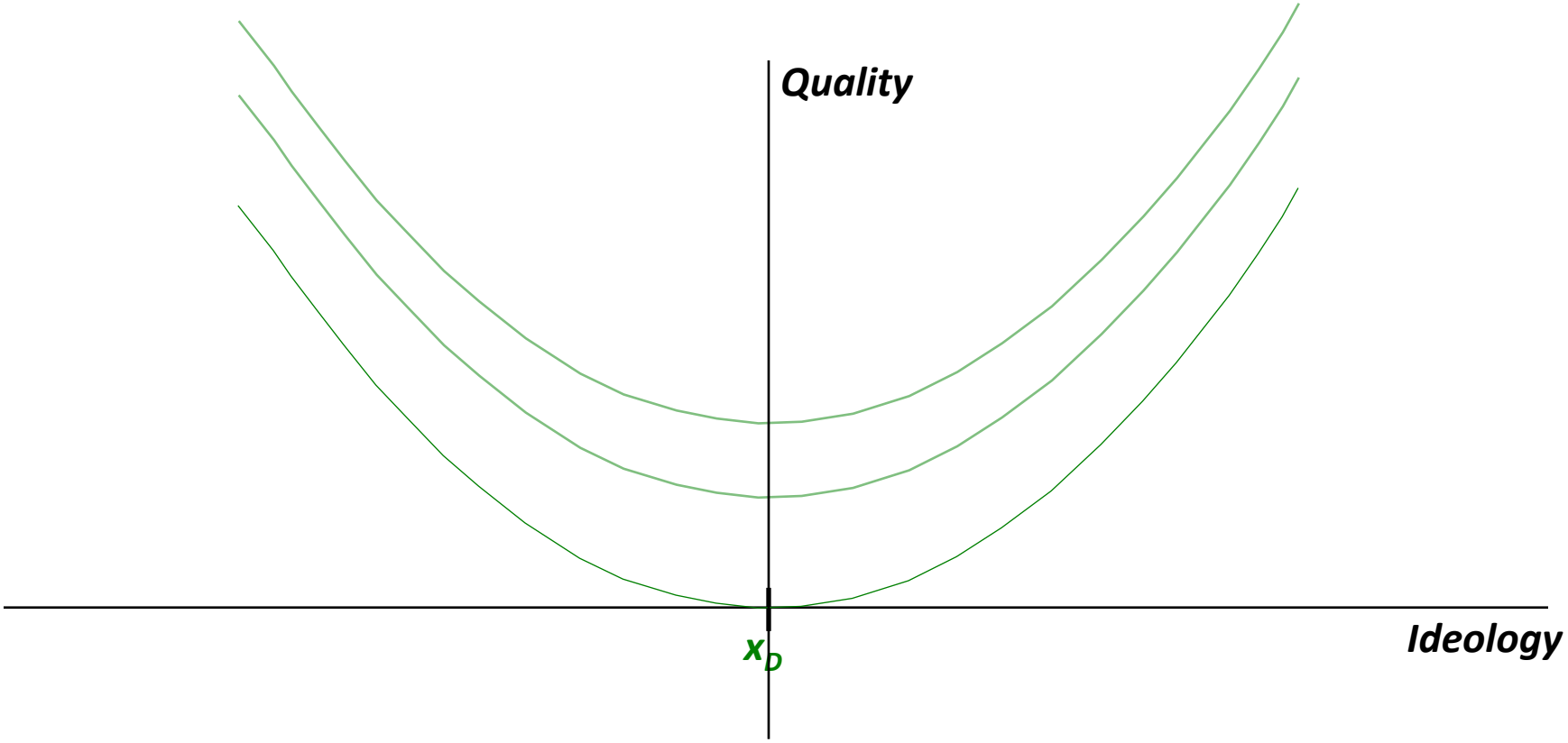
- Bureaucratic politics
  - Redundancy (Ting 2003)
  - Deck-stacking (Bendor, Taylor, & Van Gaalen 1987)

- Lobbying
  - Subsidy lobbying (Hall & Deardorff 2006)
  - Non-productive investments in vote-buying (Snyder 1991)

- Policy Development
  - Londregan (2000); Lax and Cameron (2007); Ting (2011); Hitt, Volden and Wiseman (2012); Hirsch and Shotts (2012, 2015); McCarty (2013)
    - Key difference: analysis of institutional solutions, including competition
  - Hirsch and Shotts (2015), Hirsch (2015): technical foundations

Baseline Model: Monopoly

- Two-dimensional policy $b = (y, q) \hat{\mathrm{I}} \; R^2$
  - y is ideology, q is quality
- Utility functions $U_i(b) = q - (x_i - y)^2$



Game

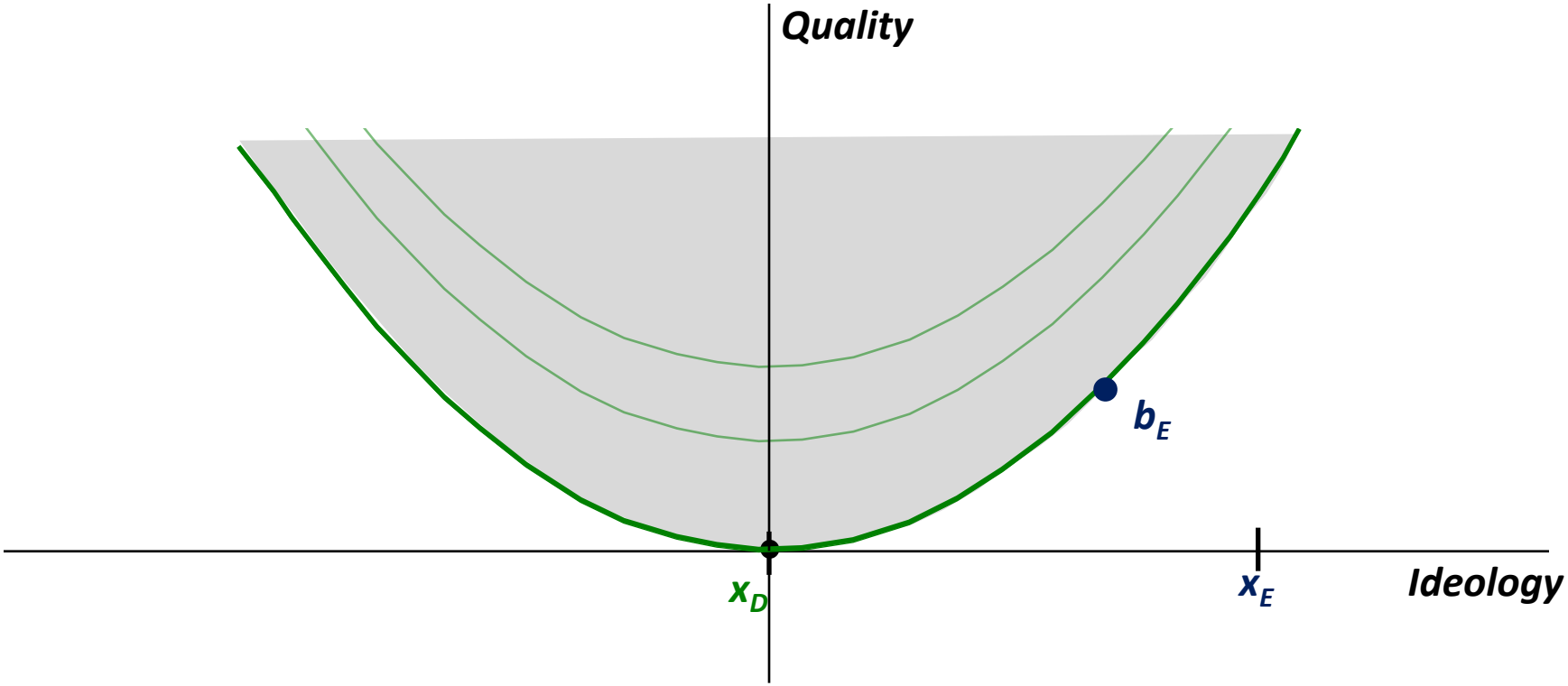
Decision maker (DM) has ideal ideology x_D=0

- Has low quality status quo or best-available option at his ideal point (0,0)

Sequence

- Policy-developer develops $b_E=(y_E, q_E)$ at cost $\alpha_E q_E$, where $\alpha_E>1$
- DM picks proposal or the status quo

Equilibrium: ideological proposal is b_E with enough quality to leave DM indifferent with (0,0). Ideological location chosen to balance marginal ideological gains & policy-development costs.



Adverse Consequences

- From Decisionmaker's perspective
  - Outcome pulled away from ideal point
  - Not much quality to compensate
  - ➔Don't get any benefit from policy-developer's efforts

- As with economic monopolies, the policy-developer…
  - Produces too little (quality)
  - Charges too high of a price (ideological concessions)

Interpretation

1. Costs could be convex – linear is cleaner

2. Often there isn't a true monopolist, because other actors can develop competing proposals
   - However, if their costs are extremely high, the model functions as if there is a monopolist

3. If the monopolist is a subordinate of the decision-maker they may present multiple options, only one of which is viable
   - Halperin's "Option B"

4. The monopolist may actually be a collusive oligopoly with generally-shared interests
   - Halperin on coalition formation
   - Business interest groups

Application: Japanese Bureaucratic Dominance

- Traditional perspective (Pempel 1974, 1987; Johnson 1982)
  - 75% of bureaucrats' bills adopted unamended by Diet
- Ramseyer & Rosenbluth (1989) claim bureaucracy is perfectly subservient
  - Spatial model
  - Diet can monitor bureaucracy, change policies if needed
- Key difference: policy development in our model
    - Important because of bureaucracy's vast resources

➔ Bureaucracy has informal agenda power, gets outcomes it likes while partially satisfying the Diet

Response 1: Internal Capacity

Sequence

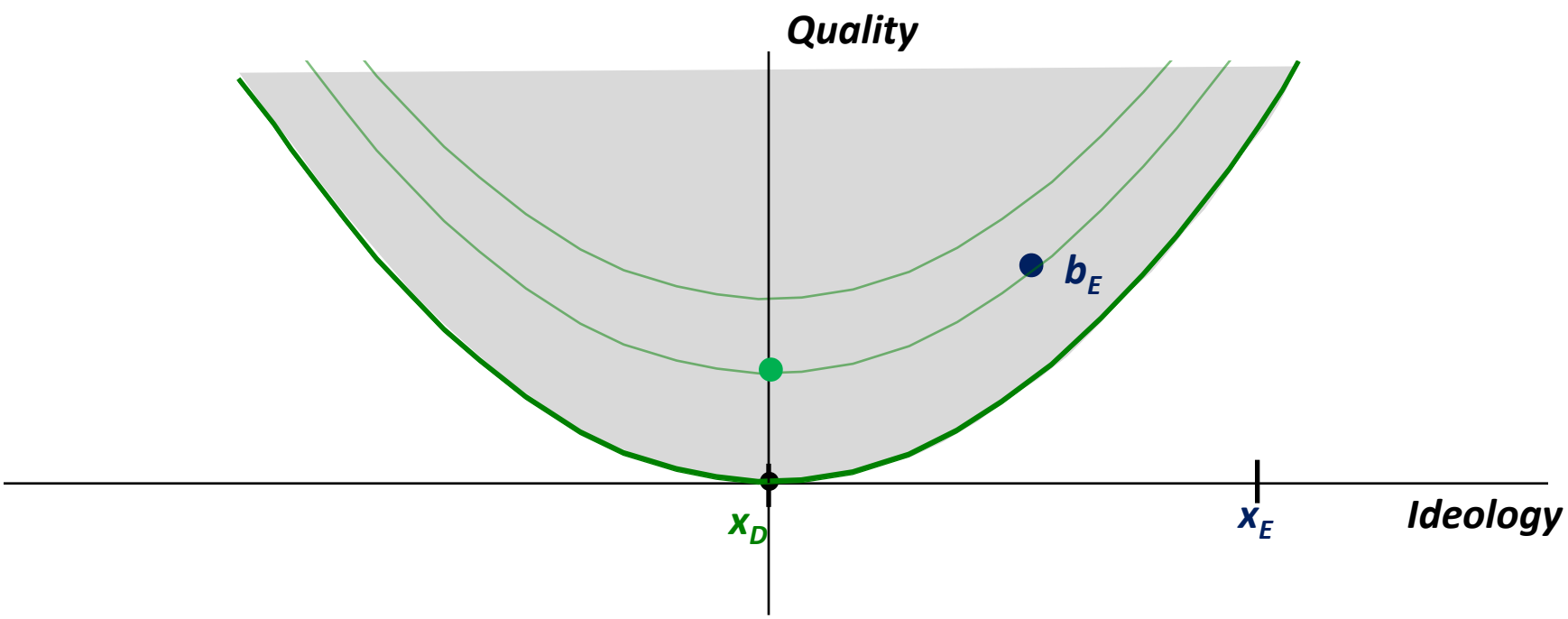
- Policy-developer crafts $b_E=(y_E, q_E)$ at cost $\alpha_E q_E$, where $\alpha_E > 1$
- DM picks proposal, status quo, or develops a policy at a location of her choosing

Decisionmaker cost of policy development

$c(q)$ where $c'>0$, $c''>0$, $c(0)=c'(0)=0$, $c'(q)>1$ for some $q>0$

Effect of In-House Capacity

- If DM develops policy, will do it at own ideal point
- DM willing to create quality up to point where c'(q)=1
- Policy-developer must beat this point
- DM benefits
- Policy-developer worse off



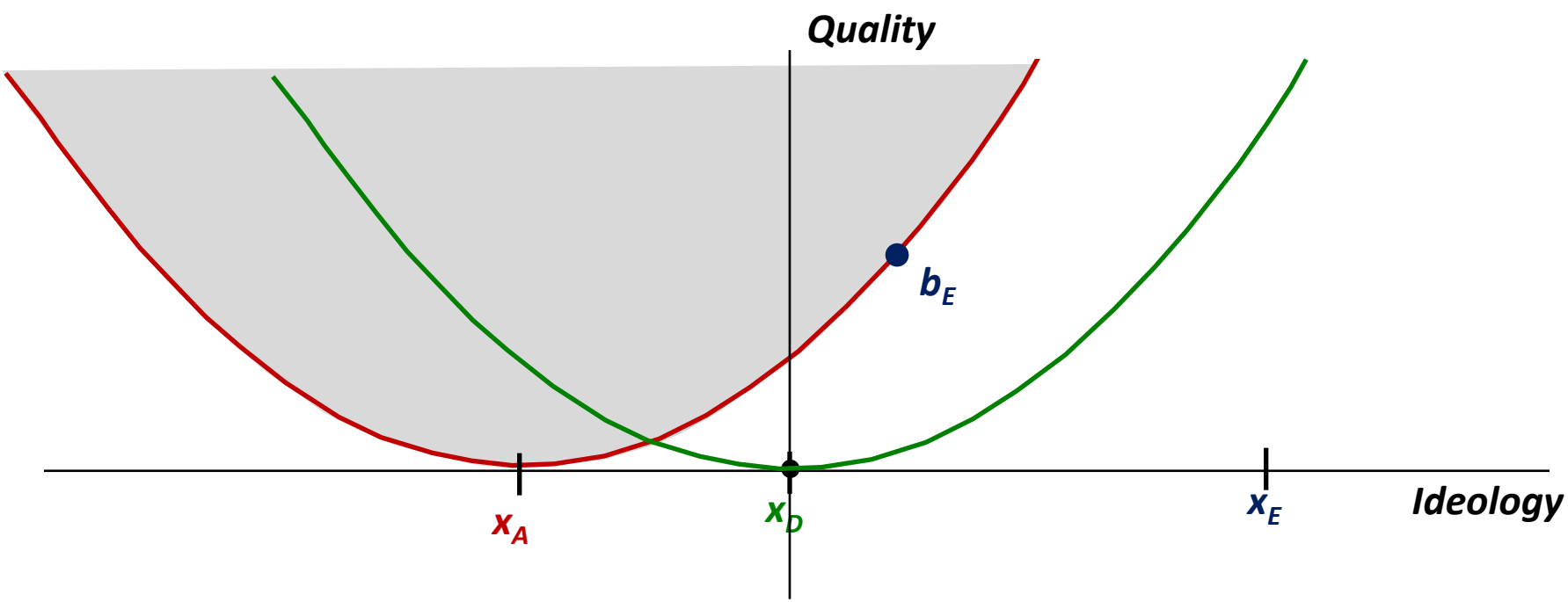
Application: Internal Capacity in State Legislatures

- Polsby (1993): term limits "strengthen the dependence of members on interest groups…because [they] create turbulence in congressional organization and reduce the number of experienced members having independent knowledge of policy"

- Term limits ➔ Less investment in internal capacity ➔ More power for external policy developers
  - Governors
  - Providers of "model legislation" (ALEC, etc)
  - Consistent with empirical findings (Moncrief and Thompson 2001, Carey et al 2006, Kousser 2006)

Response 2: Delegate to Monopolists's Opponents

- Assign the decision to someone at $x_A < 0$
- Effect: Policy developer crafts a policy that is higher-quality and closer to DM ideal point



Application: Delegation & Financial Regulation

- Optimally delegate to anti-industry skeptic

- Contrast with models in which a pro-industry regulator is good: Dessein (2002), Gailmard and Patty (2013), McCarty (2013)
  - Key difference: effect of policy-developer's effort on marginal expropriability of policy quality

- Interpretation: pro-industry regulators may be due to capture, not good public policy

Downsides of Delegation to Monopolist's Opponents

- Ideologues at extremes may not agree on "quality"

- Conflicts may be costly to the decisionmaker
  - Buford at EPA

- Can't finely tailor delegation for each decision. Decisionmaker is worse off if monopolist
  - Fails to develop a proposal for a particular decision
  - Is aligned with the delegee on an issue
  - ➔ Get stuck with delegee's ideal point, and 0 quality

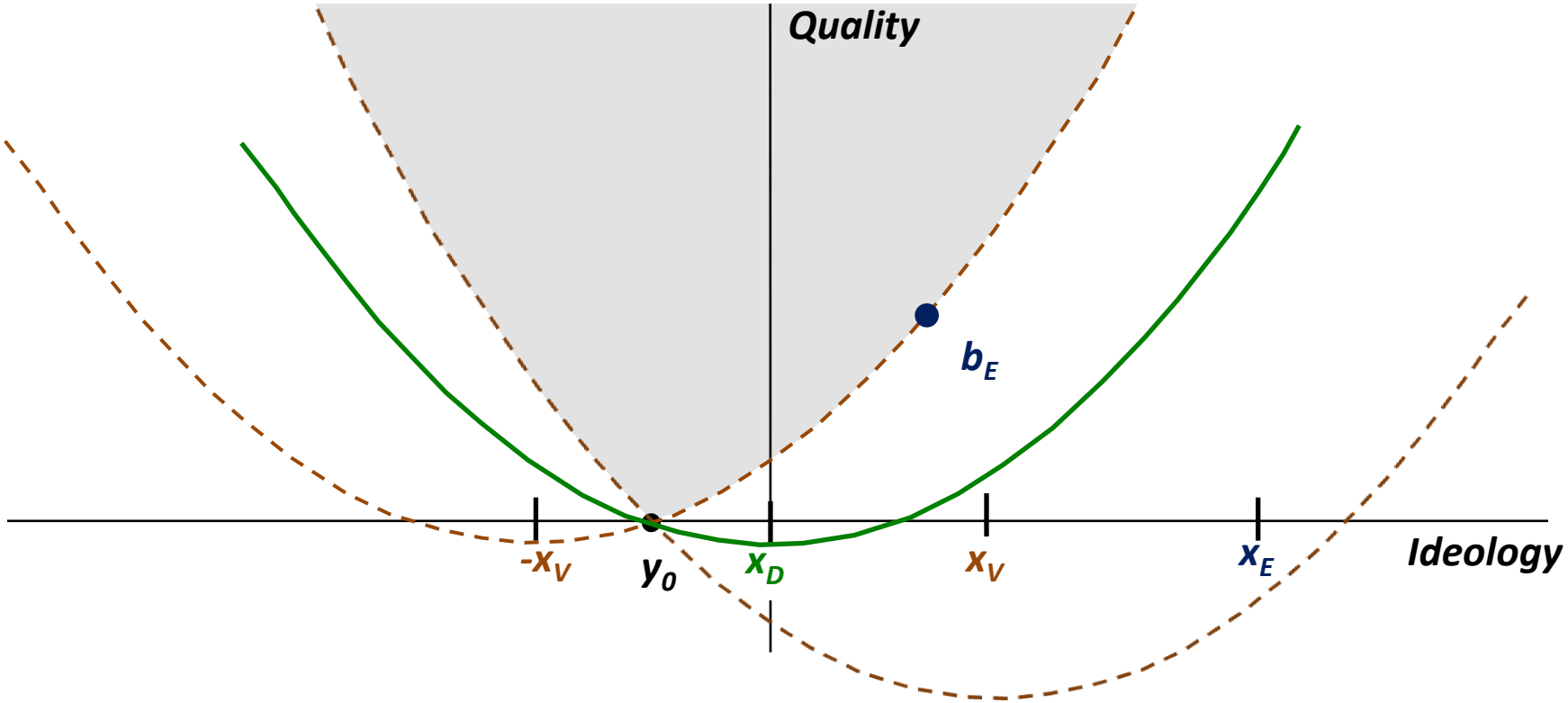
- Delegation may be infeasible

Extension: Decisionmaker Bargaining Power

- Our model: Entrepreneur has bargaining power (TIOLI offer)
  - Sensible, given that decisionmaker moves last when enacting policy
- Alternative: Decisionmaker can make TIOLI demand "develop policy (y,q) or else I will enact the best policy available to me besides your proposal".
  - Note: not subgame perfect, requires commitment by DM
- Baseline: DM extracts all benefits of policy development
- Internal capacity: DM never invests in capacity, because it reduces his bargaining leverage
  - Having capacity means he can threaten (0,q) where q>0 rather than (0,0).
- Delegation: DM delegates to a counterbalancing agent who makes TIOLI demand

Response 3: Add Veto Players

- Disperse authority, e.g., via institutional rules requiring supermajorities
- Policy must also gain support from people at $-x_V < 0$ and $x_V > 0$
- Effect: Policy developer dissatisfied with status quo crafts a policy that is higher-quality and closer to DM ideal point
- But if policy-development is impossible, DM is stuck with gridlocked policy



Application: Veto Players in E.U. Council of Ministers

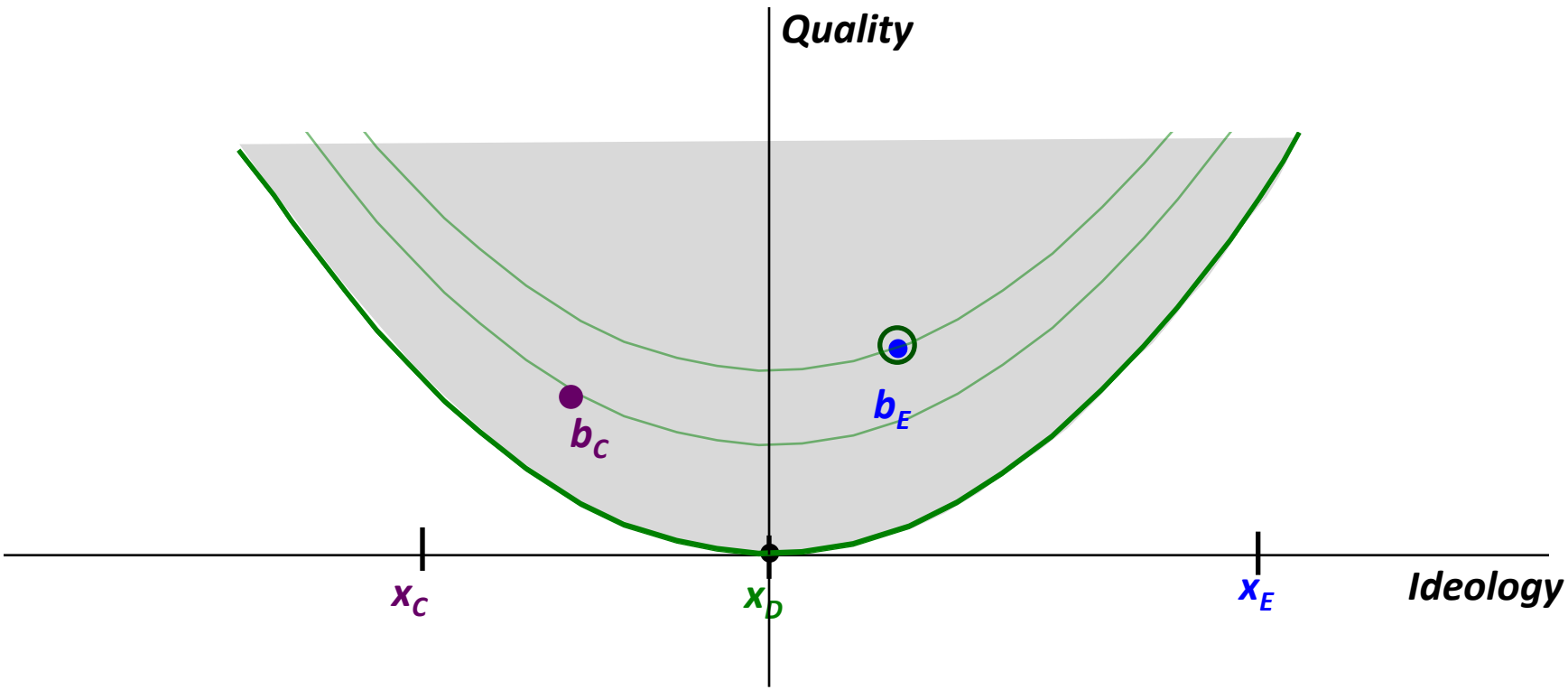
- Qualified Majority hurdle
- Observations
  - Key dimension: degree of integration
  - Commission more pro-integration than Council or Parliament
  - Commission has vast resources to craft policy, Council and (espeically) Parliament don't
  - Amendments are possible, though rare
- Implication: Commission isn't irrelevant (as in Crombez 2000, Crombez and Hix 2013)
  - Can sometimes achieve policy goals by producing high-quality proposals
  - Centrist members of Council can benefit

Response 4: Foster Competition

Two policy-motivated policy-developers x_C and x_E

Sequence

- Policy-developers simultaneously develop policies $b_i=(y_i, q_i)$ at cost $\alpha_i q_i$
- DM picks one or the status quo

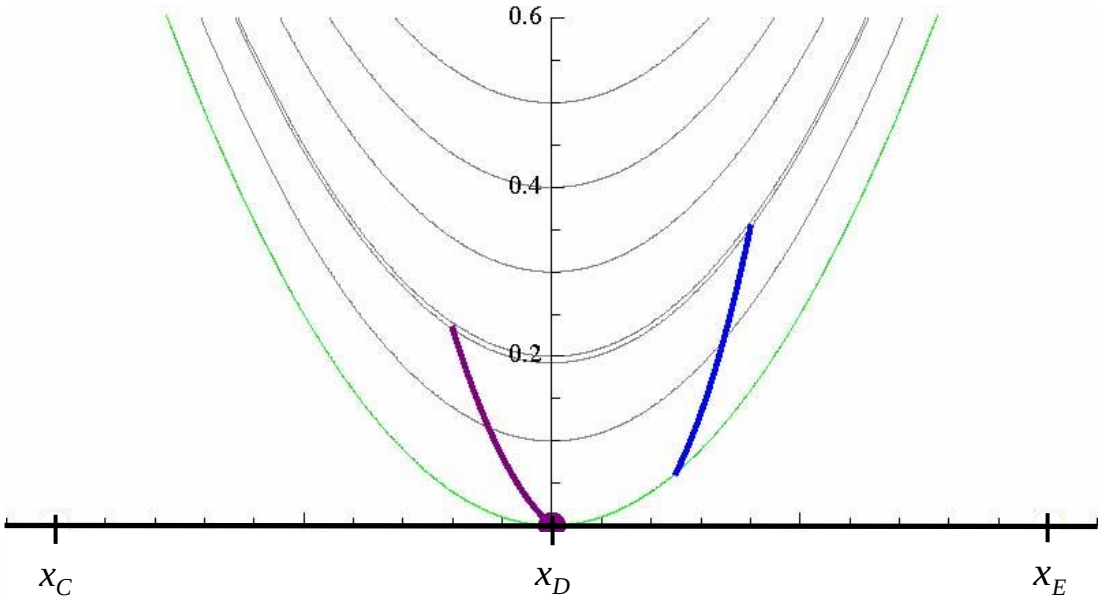


Notes on Model

- Simple setup, but complicated to analyze
  - All-pay contest with continuum of actions in two dimensions and endogenous nonlinear spillovers
  - For details
    - Symmetric Model: Hirsch & Shotts, “Competitive Policy Development” (2015)
    - Asymmetric Model: Hirsch “Policy Entrepreneurship with Asymmetric Competition” (2015 working paper)

- Can’t have pure strategy equilibrium
  - Unique mixed strategy equilibrium
  - Mix over utility (score) to offer to decisionmaker
  - Unlike 2-dimensional procurement auctions, optimal ideology-quality combination at a score depends on other player’s score cdf (due to all-pay structure)

Example: Equal extremism, left policy-developer faces higher costs



Implications

- Competition good for decisionmaker
  - Even with asymmetries (competitor not as effective as original entrepreneur)
  - Even if competitor sometimes sits out
- With symmetric entrepreneurs
  - More extreme entrepreneurs ➔ Higher DM utility
- Competition bad for original monopolist
  - Has to moderate proposals
  - Sometimes loses

Application: Administrative Rulemaking

- Two theoretical perspectives
  - Deck Stacking (McNollGast 1987, 1989)
  - Informational (Gilligan & Krehbiel 1989, Austen-Smith & Wright 1992, Krishna & Morgan 2001, Balla and Wright 2001)

- Two empirical patterns
  - Decisionmakers adopt rules for broad participation (APA)
    - Fits with Informational but not Deck Stacking theories
  - Interest groups don't facilitate participation by opponents
    - Fits with Deck Stacking, but not Informational theories

- Both patterns are consistent with our model

Monopolists Fighting Back

- All 4 institutional responses (in-house capacity, delegation to opponents, creation of hostile veto players, competition) are bad for monopolists' interests

- Examples of fighting back…
  - Club for Growth promotes term limits in state legislatures, to undermine professionalism
  - Business interests prohibiting competition and limiting in-house resources at the CPSC (McNollGast)
  - Raising costs of participation by setting up extensive judicial review procedures.
    - Big business will show up – they have an incentive and are organized
    - Big Labor will too
    - Consumers, taxpayers, the poor, etc…not as likely

Additional Questions

- Interaction between institutional responses
  - Competition always good for a single decisionmaker
  - Veto players can be good
  - But with veto players, competition can be bad
  - “Policy Entrepreneurship with Veto Players” (Hirsch & Shotts working paper)

- Sabotage

- Combination of all-pay and targeted components

Conclusion

- Policy development monopolies have bad effects (extract ideological rents)

- Institutional responses (making monopolist's life harder)
  - In-house capacity
  - Delegation to monopolist's opponents
  - Requiring approval of skeptical veto players
  - Fostering competition

- Applications
  - Cuban Missile Crisis
  - Japanese bureaucratic dominance
  - State legislatures and interest groups
  - Financial regulation
  - EU policymaking
  - Procedures for rulemaking

- Additional applications
  - Populism in developing countries (Delegation)
  - Programmatic parties and reduced corruption in developing countries (Benefits of competition by noncentrists)
  - New Deal (Competition)
  - Rhetorical competition in ancient Athens