

Electing A Stationary Bandit

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Why Do Firms “Nominate” Businessmen as Political Candidates?

- **Credibility problem**
 - politician cannot commit to providing favors to firm if elected
 - firm has little incentive to support a candidate, provided that he cannot make a credible promise
- **Special-interest politics**
 - usually lobby professional politicians ex post, provide campaign finance to professional politicians ex ante
 - even if lobbying ex-post is not too costly, it may be reasonable to nominate a candidate of its own

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The Setup

- **Model of elections**
 - Elected official (governor) chooses policy
- **Two firms**
 - have preferences over policy choices
 - nominate and support candidates
 - lobby elected official
- **Sub-game perfect equilibria**

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Four Stages

- **Nomination stage**
 - firms decide whether to nominate a businessman-candidate or support a politician
 - nominating own businessman is costly
- **Campaign stage**
 - firms decide on campaign spending
- **Election stage**
 - firms' employment matters
- **Lobbying stage**
 - elected candidate chooses policy
 - firms bribe the elected official
 - his own preferences may matter

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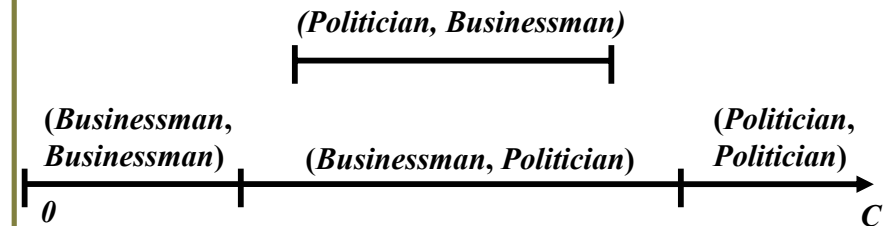
The Lobbying Stage

- There is a set \mathbf{S} of possible policy choices
 - firms have preferences over the choices, $U_1(\mathbf{s})$ and $U_2(\mathbf{s})$
 - firm 1 prefers \mathbf{s}^1 , firm 2 prefers \mathbf{s}^2 , politician prefers \mathbf{s}^P
- Each firm provides a menu $\mathbf{b}(\mathbf{s})$ for all \mathbf{s} in \mathbf{S}
- The governor maximizes $\mathbf{b}_1(\mathbf{s}) + \mathbf{b}_2(\mathbf{s}) + \mathbf{g}(\mathbf{s})$ over \mathbf{S}
- Truthful Nash Equilibria (Bernheim, Whinston, 1986)
 - suppose \mathbf{s}^1 is chosen
 - firm 1's equilibrium payoff is

$$U_1(\mathbf{s}^1) - [U_2(\mathbf{s}^2) - U_2(\mathbf{s}^1)] - [\mathbf{g}(\mathbf{s}^P) - \mathbf{g}(\mathbf{s}^1)]$$
 - for other stages this defines the willingness to pay and incentives to delegate a businessman

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Equilibria



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Comparative Statics

- Firm 1 is more likely to nominate businessman-candidates if
 - low cost of running own businessman
 - high industrial competition
 - if firm 2's preferred policy is very profitable for firm 2, while unprofitable for firm 1
 - own business is more valuable (under the preferred policy)
 - professional politician's preferences are hostile to those of firm 1
 - firm 1 has to compensate for this in the lobbying stage

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Example: Electing a Stationary Bandit

- Many firms, two policy choices
 - monopoly or competitive market
- If a professional politician is elected, she chooses competitive market
 - e.g., she cares about social welfare
- If the monopoly's candidate is elected, he maintains his firm's monopoly position
- Businessman has more campaign money, since monopoly generates more rents than all potential entrants combined
 - businessman more likely to win if there are many potential entrants, demand is inelastic, money more important

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Businessman-Candidates in Russia

- Political hold-up problem more likely in developing or transition economies
 - shorter time horizons
 - weak political institutions
- Russia
 - a command economy, 1917 – 1991
 - a democracy since 1991
 - a federal state with 89 regions, elected governors
- Many businessman-candidates
 - important to be the CEO
 - moderate industrial competition makes businessman candidates more likely

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Krasnoyarskii Krai

- Governor elections, 2002
 - interviews, political analytics, statistics
- Two large holding companies
 - *Norilskii Nickel* (non-ferrous metallurgy)
 - *Russian Aluminium*
- Two main candidates
 - Alexander Khloponin, CEO of *Norilskii Nickel*, was replaced as CEO by a major shareholder
 - Alexander Uss, speaker of the Assembly
- Stakes
 - tax burden, electricity prices

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Conclusion

- Firms delegate their CEOs to politics to solve the credibility problem
- Why not in the developed world?
 - enterprises relatively small
 - politicians have less discretion
 - institutions (and thus commitments) are stronger
- An alternative story
 - national firms hire local politicians to run business in regions

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