

# POLITICAL INSTITUTIONS AS SCREENING DEVICES

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## Abstract

*The role of private interests in shaping public policies is pervasive both in democratic and non-democratic settings, and the basic task of any political system is that of regulating the market for political influence and sifting out the demands to be satisfied. The paper assumes that collecting and processing information - the hidden information issue materializing the vertical dimension of politics - and selecting interests, the hidden action issue materializing its horizontal dimension, are always dealt with in terms of an ideological syntax (shared goals) and of an institutional architecture (who controls the selection, and how). In analyzing those components and their evolution, the paper discusses a number of biases of political screening and considers the main features of the democratic processes in that light. With the fall of information costs, ideology loses its relevance, while the growing competition of interests reduces the space for political collusion. In such a setting, pressure groups can influence policy making only by providing information. A more balanced weighting of opposed interests will eventually emphasize the quasi-judgmental nature of politics.*

## Non-technical Abstract

Daily news often gives the impression that pressure groups are the wood-worms generated by modern democracy. The emphasis on the informational value of their activities does not dispel the doubt that the promotion of special interests contradicts a basic tenet of modern democracy: the pursuit of general interest. Is that a failure of democracy? In order to avoid the pitfall of reading political history at its face value, we take for granted that both in democratic and non-democratic polities pressure lobbies represent the crucial nexus between the vertical dimension of political life - related to problems of information processing - and its horizontal dimension, dealing with the selection of interests worth protection.

If public action is set in motion, and always influenced, by interests strong enough to make themselves heard, the difficulty of distinguishing the balance of interests from the institutional context forces consideration of how the information is dealt with by those responsible for the selection. That implies a selection process, i.e. a specific solution to the problems which identify the market for political influence. To save on information costs a cheaper substitute is provided by an ideology which supplies terms of reference, weight and meaning in the classification of interests. Its role is twofold: in the short run, it helps to bring about people's compliance and to identify focal interests; in the long run, it molds the institutional evolution. Though the emphasis on ideologies is not new, they have to be seen in connection with the behaviors of those in charge of their application, identified by the institutional architecture. In the long run the evaluation of the outcomes redounds to an evaluation of the efficiency of the selection performed by different institutions, in terms of their impact on the welfare of the people who represent the passive yet eventually decisive side of the game. The approach should help to bring out an historical continuity of some interest and allows us to reinterpret a famous remark pronounced by Pareto, by considering history as a graveyard of crashed screening devices.

Within that framework, it becomes possible to single out a number of biases affecting screening within the combination of horizontal and vertical relationships, and in this way to assess continuity and novelty of what happens under the different arrangements of contemporary democracies. The fall of information costs and the parallel reduction of the role played by ideologies seem to suggest a latent tendency towards a judgementalization of politics.

## 1.- Continuity and novelty in political history<sup>1</sup>

Daily news, as well as research on public choice, often gives the impression that pressure groups are the wood-worms generated by modern democracy. The emphasis on the informational value of their activities does not dispel the doubt that the promotion of special interests contradicts a basic tenet of modern democracy: the pursuit of general interest. Is that a failure of democracy? The reply has to avoid the pitfall of reading political history at its face value, as discontinuities are more apparent than real and innovations occur within a continuity that can be appreciated *ex post*, when the reference points find the proper perspective. A significant, though radical, illustration is provided by Karl Popper, when he suggests re-reading the traditional normative search for political legitimacy, Who should rule? The question asked from Plato to Karl Marx, put in the more worldly Popperian words becomes: “how is the State to be constituted so that rulers causing too much harm can be dismissed without bloodshed and violence?”. If democracy loses some of its charm in the reply, it gains an indisputable point of merit. In a similar vein, this paper takes for granted that in all polities pressure lobbies represent the crucial nexus between the vertical dimension of politics - related to problems of information processing - and the horizontal dimension dealing with the selection of interests worth protection. It is in that framework that the assessment of new virtues and old vices of the democratic performance becomes possible.

We have to start by recollecting how public action is set in motion, and is always influenced, by interests strong enough to make themselves heard. The difficulty of considering the balance of interests separated from the institutional context forces consideration of how the information is dealt with by those responsible for the selection and then for the eventual outcomes. To save on very high information costs a cheaper substitute is provided by a shared ideology, assimilable to a syntax supplying terms of reference, weight and meaning in the classification of interests. The role of a shared ideology is twofold: in the short run, it helps to bring about people’s compliance because it is perceived as a set of implicit promises; in the long run, it molds the institutional evolution. The emphasis on ideologies is not new - see Douglas North’s (1981) hint at their role in controlling free-riding and its rediscovery by Melvin Hinich and Michael Munger (1994) -, but they have to be seen in connection with the behaviors of those in charge of their application. Once clarified the essential framework, it be-

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<sup>1</sup> The author is grateful to Kim Scharf for her comments on a preliminary version of this paper and to

comes possible to single out a number of biases affecting the identification of focal interests within the combination of horizontal and vertical relationships, and in this way to assess continuity and novelty of what happens under the different arrangements of contemporary representative democracies.

That approach should help to bring out an historical analytical continuity of some interest. Richard Musgrave has recently (1996) stressed the English, American and Scandinavian evolution from the *Service State*, aimed at correcting market failures, to the *Welfare State* designed to modify the market-determined distribution of resources. In mixing normative and positive considerations, he fails to notice the logical continuity between what he defines as the *Communal State* - not void of organicistic echoes with its distinction between the public and the private needs of its members - and the *Flawed State* infested by the self-serving behavior of its controlling agents. On the latter account, Musgrave mentions the Italian traditional concern with public action biased in favor of powerful interests: think of Vilfredo Pareto on the pursuit of minority interests and of Amilcare Puviani on fiscal illusion. Although we can read those authors as anticipating contemporary criticisms of democratic politics reduced to a battleground of rent-seekers, that anticipation is more descriptive than analytical<sup>2</sup>. We can obtain a better reconciliation if we accept the point - implicit in the sociological analysis of Pareto - that different regimes adopt the policies supported by some to the detriment of others. That implies a selection process, i.e. a specific solution to the problems of asymmetric information and signalling that feature what we can define as the market for political influence. The study of that process encompasses different political regimes and makes the interest groups the focus of the analysis. In the long run the evaluation of the outcomes redounds to an evaluation of the efficiency of the selection performed by different institutions, in terms of their impact on the welfare of the people who represent the passive yet eventually decisive side of the game, à la Popper.

The paper is arranged in the following way. Section 2 introduces the theme by underlining how the economic interpretation of public action considers it flawed from its very conceptual beginnings. Section 3 analyses two structural components of political screening de-

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Ron Wintrobe for useful discussion which helped to make some points clearer.

<sup>2</sup> Pareto and the other scholars working in his tradition dismissed the alleged novelty of a majority rule, denied any specifics to democracy and deemed different forms of government as mere facades for the continuity of the oligarchic power.

vices, the ideological syntax and the institutional architecture that provides its articulation. Section 4 identifies a number of flaws which affect the processing of information and the two following Sections consider more closely the democratic innovations in terms of electoral rules, proceduralizations of competition, and party organizations. Finally, the fall of information costs and the parallel reduction of the role played by ideologies are discussed in Section 7, where the tendency towards a judgementalization of politics is discussed.

## **2.- The Scylla and Charybdis of the public action**

Be it true or not that when an economist sees something working in practice she starts wondering whether it could work in theory, a case in point is certainly supplied by the analysis of collective action seen poised in mid air, weighed down with the sloth of free-riders and stirred up by the activism of strong interests. Leaving aside etiologic accounts - from Thomas Hobbes' pact between worried warring individuals ready for an unconditional surrender to the supply-oriented saga of rulers all too willing to oblige<sup>3</sup> -, economics invites reflection about the twin dangers which make the navigation of public action difficult. In a nutshell, we can say that because of individual free-riding, public action requires a measure of coercion; because of coercion, whoever is in control of that action is tempted to exploit it to his own advantage. It is the trade-off between the Scylla of free-riding and the Charybdis of the leaders' opportunism that makes the notion of a Flawed State not so much a deviation, as a kind of congenital setting: as soon as the control of free-riding allows the development of a collective action, that action becomes a tool in the hands of those powerful enough to control it.

The implication of that result - interest-groups belong to the genetic code of public action - does not change substantially if we follow the less dramatic reflection of a number of scholars (from Anthony Downs to North) on how information problems compel any government, whatever its nature and its scope, to rely on intermediaries to take the pulse of the people. That hidden information issue represents the *vertical dimension* of politics, whose *horizontal dimension* is provided by a hidden action issue involving the behaviors of the decision-makers. As it happens, the intermediaries - be they ruler's agents, sycophants, favor-buyers, pressure-groups or political parties - provide the information at a price, encashed in terms of influence over policy formation. An important issue faced by any polity is therefore that of

controlling the opportunism of those agents, an opportunism made easier by the discretion they enjoy and by the collusive exchanges they can arrange inside the horizontal sphere. It is the dialectic between those dimensions interpreting the demand and supply sides of politics that prevents its reduction to a mere recording of the economic interests of the better organized groups<sup>4</sup>.

The complexity of the market for political influence, with its information and monitoring problems, is interpreted by Albert Breton (1996) by dissecting the conventional Leviathan in its component bodies, the *policy suppliers* which incarnate public power: civil servants, judges, central and local authorities, the army, advisors and courtesans, high, middle and low officers, etc. All those *elected and nonelected* centers of power have to conquer consent and to impose repression in order to exercise their authority. The many ways through which the constituents of each center can call their consent back and forth - voting is just one of the many channels conveying peoples' reactions - are mediated by what Breton comprises under the label of *demand lobbies*. The policy suppliers respond to the interests of different combinations of citizens, while engaged in a reciprocal competition which helps to check each other's behavior (in a sort of reversed *divide and rule* pattern).

Within that framework, two sources of inefficiency can be distinguished, both related to an overgrowth of the horizontal, to the detriment of the vertical, dimension of politics. The first source occurs when an opportunity for collusion between centers of power and lobby managers is capable of generating rents that can be shared between them. When discussing this issue under rent-seeking, Breton (1996, pp. 65-66) stresses the information advantage that lobby leaders can use against the interests of their own members. The second source is of a broader scope, and it occurs when the centers of power are able to reduce their reciprocal competition and to shift the burden of their collusive agreements to the shoulders of the rest of society. That broader collusion can materialize thanks to stable and strong horizontal relationships. For an

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<sup>3</sup> The latest episode of which is the story of the bandit turned autocrat told by Martin McGuire and Mancur Olson (1996).

<sup>4</sup>As some authors have been tempted to do, from Mancur Olson to Gary Becker. Olson's emphasis on the positive relationship between group size and the relevance of the interest it pursues is neither necessary nor sufficient to qualify the evenness of the outcome. The fact that a strong lobby of physicians promoted and got approved a public health plan with a view to personal gains does not impinge upon the social value of that plan. Moreover, putting the thrust of the solution on large groups pursuing more encompassing interests represents a *petitio principii*, as public action itself is called exactly for that purpose.

illustration, consider a certain area of economic activity that falls under the control of a number of centers of power (a Ministry, a Parliamentary Committee and some local Governments), and assume that the political bargains are over the returns generated by the control of that “market”. We can distinguish between a “normal” level of returns and the additional, unnecessary returns yielded by a close control of that market. Some form of collusion is essential for the realization of such additional returns. When there are strong horizontal links - nurtured, say, by party organization or by any other device restricting competition -, it becomes possible to coordinate the actions of those centers in ways which allow harvesting those further returns, instead of engaging in a protracted competition which would drive the returns to their normal level. A second illustration is provided by the Corporatist State, defined by Michael Bruno and Jeffrey Sachs (1985) as “a mode of social organization in which functional groups rather than discrete individuals wield power and transact affairs”. Though appreciated in terms of macro-economic performance, a Corporatist setting is often plagued by collusion. Take the case of professional regulations, where privileges of various kinds (including those in terms of statutory definition of professional negligence) and a tight control of internal competition can nurture a collusive climate that is extremely hard to change, as we shall see later on.

For the moment, having identified the market for political influence and the role played by collusion, we have to discuss how the political institutions have evolved in handling the selection of the interests to be met.

### **3.- Structural features of the screening process**

Ordinary political activity comprises many competing demands, and when the decisions to be enforced are mutually incompatible, criteria to process the information and rules to reach decisions are needed. It is the combination of information processing and interest selection that here is referred to in terms of screening process, not in the conventional sense of sorting out the good from the bad, but in those of selecting those who receive benefits from those who do not<sup>5</sup>. When describing political institutions, North (1990, p.50) notes that they constitute *ex ante* agreements about cooperation among politicians. That horizontal emphasis captures an important operational feature, but it neglects the essential communicative role performed by ideology in keeping political coordination going (Randall Calvert, 1995). Therefore we submit

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<sup>5</sup> Midway between those two usages is the scheme adopted by Breton and Ronald Wintrobe (1992).

that the screening of interests occurs through two intertwined components: an ideological and an institutional one. The first - the language of politics - is related to a shared set of beliefs on the public interest and on values to be respected and promoted and the second encompasses the who and the how of managing its application.

The ideological component boils down to a set of implicit promises at times based on principles of ethical or religious nature, and at other times more definite in their contents with the inclusion of standards, up to the point of stating rights written down in a formal Constitution. To be precise, we should speak of an ideological syntax in order to stress its guiding role in ranking requests, supplying criteria of discrimination between acceptable and not acceptable goals, and establishing benchmarks which allow the evaluation of what has been decided, thus bounding the discretion of the decision-makers in more or less precise ways. The use of an ideological paradigm in the regulation of the market for influence has for a long time represented a substitute for information on both sides (think only of the trustful “they know better” that still can be heard today). Though traditionally considered outside the rational choice analysis, ideologies - however defined<sup>6</sup> - are attracting new attention<sup>7</sup>. For those who are inclined to deem all non-democratic regimes, of the present or of the past, as synonym of arbitrariness, the importance of participation in ideological syntax can appear questionable. But “no leadership is absolute” and no ruler has ever enjoyed a complete discretion in its choices, not only because of the economic logic of demand and supply but because of the mix of repression and loyalty any government has to adopt (Wintrobe, forthcoming). To respect that syntax and to take note of side effects and nonvoiced needs is in the interest of rational rulers in order to gain loyalty and to nurture in the subjects a feeling of moral obligation to comply<sup>8</sup>.

The presence of an ideological syntax can be seen as implicit in Max Weber’s notions of the charismatic and the traditional bases of political authority, as well as to the quest for a political legitimacy perceived as a warranty, if not as a covenant. Within the same reasoning, the combination of ideology and of institutional rules represents the backbone of the returning appeal to the “rule of law”, an appeal that in its early statements (Plato) could only refer to a

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<sup>6</sup> “A sense of what the good society should and can be like” (Musgrave, 1996); “an internally consistent set of propositions that make both proscriptive and prescriptive demands on human behavior. All ideologies have implications for ... where power appropriately resides” (Hinich and Munger, 1994).

<sup>7</sup> Calvert (1995) underlines how phenomena such as rhetoric, ritual, symbolic speech can help to transmit messages - though purely cheap talk - essential to the development of coordination.

<sup>8</sup> See the words used by Walter Bagehot, as quoted in Breton, 1996, p.125.



broad view of what a good society should be. The respect of criteria and rules represents some sort of constraint setting boundaries to the otherwise unconstrainable power of the decision-maker. The traditional confidence in the legitimate authorities was nurtured by a sharing of values felt in terms of a pledge that - besides allowing the reduction of the costs of information, uncertainty and communication - provided a benchmark restricting the space of their choices. Those authorities were identified by an institutional architecture<sup>9</sup> stating who had to process the information, and often how to apply the syntax and to select the interests. It could be an individual, a group, a bureaucracy, or a plurality of centers which have to agree in order to get the decision carried on<sup>10</sup>. Alternative political structures combine in different ways the internal distribution of the power of assessing information and taking decisions. Though a competitive struggle is somehow always present, we can observe the evolution from a hierarchical architecture to a polyarchic one (in Sah's and Stiglitz' terms), thanks to the growing proceduralization of the institutional setting: the rise of new social forces is often accompanied by new and more definite rules and by a sharper division of powers (remember Niccolò Machiavelli's remark that liberty can only flourish in divided republics)<sup>11</sup>.

All political engines (in Schumpeter's term) make use of ideology and structure, with a formal emphasis often inversely related to the most effective input. Controlling the ideological syntax has always been the most direct way of controlling the screening. Hence the need to cultivate the horizontal links in order to keep the relevant behaviors under control, and ideology represents a reunifying factor to check the behaviors of different authorities. Nobody has to display his or her power by direct intervention if it is influential enough to manipulate the ideological paradigm and to control the agenda, by allowing the emergence only of the expedient issues and by keeping annoying items off. Because of that manipulation, the real set of implicit promises can become very different from what it appears. It follows that many power struggles are fought in terms of interpreting and altering the paradigm, in ways that modern democracy has made much more speedy (though at the same ratifying the growing irrelevance of the ideologies: see below).

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<sup>9</sup> We use the term in the sense suggested by Raays Kumar Sah and Joseph Stiglitz (1986) in reference to the distribution of decision-making authority and ability of processing information.

<sup>10</sup> Remember, for example, the Parliament of Paris who registered the royal decrees in France before the Revolution.

<sup>11</sup> It could be submitted that a true political revolution occurs when both the ideological component and the ruling apparatus undergo a change.

In conclusion, with the ideological syntax, it is the set of more or less defined procedures which define, and therefore limit the autonomy of those in charge of taking decisions. Because of that, the evolution of the relative impact of those two inputs allows a better appreciation of the forces in action and what happens when they evolve at a different pace. Think of Pareto's disappointment on seeing the new political institutions dominated by the traditional syntax, or - conversely - of the very notion of lobby, contrived when the behaviors which had always accompanied public action appeared in conflict with the new syntax of an equal representation of interests. Such a research-study is beyond the scope of the paper, and we will confine ourselves to the identification of a number of biases that affect the screening procedures along the vertical dimension as they evolve from pre-democratic to democratic politics: the devices aiming at reducing political competition along the horizontal dimension will be discussed later on.

#### **4.- Flaws affecting the vertical dimension of politics**

A general feature of pre-democratic politics is that of fully recognizing sectional interests, up to the point of having the ideological paradigm built on them. Scholars of different backgrounds have underlined the evolution of group aggregation from "natural" links (kinship and neighborhood) to functional ones, based on trade, profession and otherwise defined interests. The legacy of those early links is still alive (when not nurtured by the media) in terms of the strong and special ties between a leader and "his" people which grant the leader the power of interpreting the paradigm and taking decisions. However, the double-edged nature of that deepening of consent deserves attention. The stronger the trust in the leader, the greater the opportunity for his opportunistic behaviors<sup>12</sup>. As the followers are trapped in a relationship that does not provide any easy alternative, we have a **loyalty trap** better illustrated shortly in connection with voting rules.

When the collective subjects entitled to representation were defined by the social structure itself, all interests accounted for were by definition "special" interests, and the only bearer of general interests was the sovereign, himself a former bearer of a special interest who had become "general" by defeating other special interests in a given territorial area, in the pe-

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<sup>12</sup> A by-product of the ideological paradigm is to give a price to what would be improperly granted (it helps to value the distance from what would have been proper to grant).

riod of time roughly coincident with the formation of the European national States (Pizzorno, 1981). But what has been the outcome of that “defeat”? The best organized interests - around dynastic, educational or professional lines: the nobility, the clergy, the city tradespeople - yielded to the absolute power of the kings by getting special protection in exchange and a substantial influence on the interpretation of the paradigm, on its administration and on its outcomes. It was implicit in the ideological syntax, however, that the ruler was in charge of the protection of the ordinary folk (in a kind of early accomplishment of the Director’s Law). It should be noted how that double-faced protection allowed the ruler to answer for other people’s respect of the privileged groups’ requests. On both accounts, that intermediate position - a kind of **pledge bias** - allowed the closeness between the business community and national state that featured the Mercantilism, with a wealth accruing more to the rulers and to the mercantile elites than to the people at large.

Remnants of that historical tradition can be still found in the **corporatist bias**. Following our previous reference, we can corroborate it by mentioning the case of the regulation of the Italian chemist’s shops, paradigmatic in revealing how the professional associations are ready to protect each other in a collusive web. In a special version of Parkinson’s law of bureaucratic expansion, the protective regulation of chemists’ interests has increased while their professional responsibility decreased due to the industrial production of drugs. Today not only is the chemist remunerated on a fixed percentage basis of the final price of the drugs (a price regulated itself), but the number of city shops is established by a body controlled by shop owners, a university degree is required to own (not to run!) a shop that, in due time, is bequeathed to the offspring with the title pending for years until one of the children gets the proper qualification. Some time back, a proposal for the elimination of those privileges in order to reduce the National Health bill was soon dropped by the government, notwithstanding its economic and (at face value) electoral advantages. Why? The only explanation can be traced back to the implicit threat that the proposal represented for all the other professional regulations.

It is a fact that the formal denial of association rights did not reduce the effective influence on policy-making exerted by special interests, as the institutional setting was still the old one. That led to what could be called the **pretended invisibility bias**, i.e. the voiced denial of any political pressure, still claimed in a number of democratic countries. The protection of the traditional interests became therefore latent, and brought about the formation of concealed

groups operating across party lines, which influenced the screening process through a shrewd management of the formal lines of power.

Finally, as the estates gradually lost power and were finally abolished by the liberal regime, the early democratic experience, characterized by the narrowness of suffrage and the denial of association rights, generated new problems and therefore the formation of new biases. Most interestingly, the new rules of political representation within the logic of the old paradigm, as well as of the traditional links, pushed the incumbent politicians to try to manufacture their own electorate, as shown the attempts to influence the composition of the constituencies for partisan purposes, thus inverting the logic of political representation. The presence of this **reverse democracy bias** is shown by the British experience of the rotten boroughs, by the American gerrymandering, and by the Italian electoral results merrily arranged by the Government appointed Prefects until the outbreak of the First World War. In the latter case, a number of reasons combined to make that bias worthwhile for both sides: the moderate Italian voters of the time expected that indication in order to avoid the risk of “wasting” their vote and of losing the contacts required by the loyalty links.

The geographical definition of the units of political representation has remained formally unchanged, though accompanied by the rhetoric of universal representation. Certainly better than any explicit aggregations according to functional or interest lines, that persistence is somehow puzzling and it is not easy to identify the bias that it could induce, especially if we take into account how such a quasi-random selection increases the transaction costs of interests in search of protection. Some authors distinguish geographical from electoral constituencies, by identifying the latter in terms either of pivotal subgroups of constituents (Sam Peltzman, 1984) or along functional or ideological lines, an occurrence made easier by proportional representation (invoked by John Stuart Mill for that purpose). On the other hand, the question whether all members of a constituency are weighted equally is handled by Susanne Lohman's (1995) elaboration of Down's passionate minorities: representatives do not react mechanically to the power in numbers, but take into account differential participation incentives.

## **5.- The rise and decline of political parties**

The liberal attempt to limit the political relationships to the direct ones between the individual and the State was soon overcome with the recognition that any group of people shar-

ing the same interest could get organized to promote that interest. Given the traditional ideological syntax, it took time before the new institutions were able to express new interests with the organization of mass political parties. Although representing a fraction of the population, those parties adopted broad platforms strongly oriented towards the future, and the pursuing of immediate, special interests was presented under a negative light<sup>13</sup>. The need of new ideologies to uphold the interests so far neglected implied the recognition of the bias of the former syntax. The multiplication of ideologies and their ensuing competition anticipated a decline soon to be speeded up by the fall of information costs. It is with representative institutions that a distinction of capacities was introduced, with an explicit identification of interests that modified the interaction between the ideology and the decision process, a modification far from settled.

For the moment, let us observe how that ideological competition brought about the need of new procedural and value-empty rules which gave substance to the notion of the rule of law. The evolution has been accompanied, first, by the constitutionalization and the extension of competition over range of institutional environments. The separation of powers, the independence and guarantees that protect many bodies, decentralisation (upward or downward) re-enforced the competitive push, providing each center of power with more capacities to control, influence and limit the choices of other centers. In addition, and this is the second innovation, the democratic state introduced special ties of an electoral nature that helped to steer the entire competitive dynamics towards the people's demands. However, the strengthening of the vertical dimension revealed new ways of shielding politicians from voters' control. A brief reflection on the logic of political representation will help the analysis of how collusion can creep back and influence the working of democratic institutions.

In order to reflect on the role of political parties, let us recall how the notion of political exchange - voting and other forms of political support in exchange for opinion representation<sup>14</sup> - poses three problems relative to the rational calculations of the participants: why are

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<sup>13</sup> The notion that special interests come to be satisfied at the expenses of more general ones (the lobby as "a group of persons who attempt to influence legislators on behalf of a particular interest") has been made clear by modern democracy, with its emphasis on the representation of general interests.

<sup>14</sup> Galeotti and Breton (1986) develop John Stuart Mill's remark that people vote so as to be able to count on the presence in that "Congress of opinions" which is the Parliament of their own "political opinion". We argued that rational citizens prefer to have their *opinions* represented, rather than their preferences, because opinions (a kind of personal interpretation of an ideology) provide a general orien-

people politically active? what does the exchange consist of? what are the guarantees that make it possible? Either when the main concern is with the choice of the government (the Schumpeterian approach) or with the representation of opinions (the Millian approach), the issue is how to guarantee both sides' performances and to protect their expectations against possible non-fulfillment: how to be sure that the candidate, once elected, will carry out what he promised over a period of time and on often unpredictable matters? and, vice versa, how can the representative be guaranteed against any fickleness on the part of the voters? The property rights that make the political exchange viable are provided by political parties, seen as an organization characterized by a temporal horizon that is much broader than that of single candidates and voters. By reducing the risks and the costs of political activity<sup>15</sup>, the vertical relationship of voter/representative, crucial for the vitality of the system, is encouraged. However, to carry out that vertical support function, a party uses an organizational structure based on horizontal relations which on one hand involve the cadres at various levels, and on the other involve the relationship between leaders, elected representatives and in general those chosen to occupy positions at the top of the various centers of power.

In doing what it is supposed to in the social division of work - represent opinions and influence public decisions -, a party can use various combinations of vertical and horizontal inputs<sup>16</sup>. If two extremes at once come to mind - a party which exists solely in function of the vertical relationship against a hierarchical party in which the leadership has a predominant role - there are institutional factors which tend to extol the role of the horizontal dimension. For example, with the broadening of state activity and of the complexity of the matters involved, the platforms become more articulate and intricate, thus expanding the discretion of the leadership in the choice of solutions to adopt, priorities to follow, compromises to accept, etc. We have therefore to consider the factors that generate a collusive environment favorable to lobby pressure through the weakening the vertical spur and the strengthening of the horizontal links.

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tation and a better guide in the debates leading to political decisions: they are more flexible and provide a better reference point for the assessment of politicians' behavior.

<sup>15</sup> The party has every interest in investing and protecting its reputation and avoiding short-term gains at the expense of long-term ones. Faced with a rational electorate, a party will on one hand be concerned to control the activities of those elected so guaranteeing continuity and coherence in the implementation of general positions in concrete measures and decisions. On the other hand, the party offers a vehicle for individual participation of a non-transitory nature (see Galeotti and Breton, 1986).

Consider, for example, the impact of *electoral rules*. As shown elsewhere (Galeotti, 1994), a proportional rule helps to generate what was previously identified as the loyalty trap, by reducing the possibility for swing voters to “punish” the incumbents<sup>17</sup>. Moreover, and contrarily to the market case, a large number of parties reduces electoral competition as the gain in terms of a better representation of opinion is offset by a lower substitution rate that locks the voters in their own preferred choices. In both cases the relationship of voters to representatives gets hardened, and that reduces the uncertainty about voters’ reactions and limits the working of competition. In such a world, an elected center of power can handle its internal competition in terms, say, of fake rotation of the internal appointments<sup>18</sup>. Consider a firm constantly needing an approval to produce and sell its products (e.g., drugs), a typical situation in which the opportunity for collusive exchanges may emerge. Assuming the stakes involved are large compared to the expected costs if discovered and the time horizon is long enough to make the “investment” profitable, the firm may have an obvious interest in trying to bribe who is in charge, say a minister, in exchange for favors of various kinds in a long-term relationship. In the ensuing bargain with incomplete information, the lack of enforceability of the terms of the agreement hampers a credible commitment to a sharing rule that involves future payoffs. If each transaction has to be stipulated separately, once the first transaction has been accomplished, the minister’s position becomes weaker because of the risk of a political scandal. That is why in time the minister’s “takings” would tend to fade away because of the increasing contractual power of the bribers who can blackmail him. In order to restore the climate of uncertainty and to reassert their contractual power, political parties resort to frequent Cabinet reshuffles associated with a quasi-permanent partisan control of key ministries. Along those lines the apparent instability induced by frequent Cabinet crises can be explained in countries adopting a proportional electoral rule.

Other voting rules, such as the-first-past-the-post one, score better in spurring legislators’ attention towards their constituencies, though they present other features able to protect

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<sup>16</sup> For example it can mobilize public opinion (by organizing debates, campaigns and protest meetings) or insert (or withdraw) a topic from the political agenda, ask for more power for parliamentary commissions, re-affirm the political nature of certain appointments etc.

<sup>17</sup> When votes are translated into seats, the different electoral systems can magnify or reduce the variations in votes with different effects on vertical bonds: for the same expected variations, the less proportional systems generate larger risks, thus prompting candidates to be more solicitous towards voters.

<sup>18</sup> What follows summarizes a point fully developed in Galeotti and Antonio Merlo, 1995.

the horizontal links. Apart from the high costs of entry for new parties, it is the length of incumbency that deserves attention. This phenomenon appears in many representative systems, especially in the US, where the tenure in office of Congressional members has increased by 50% in the first 60 years of this century (Gerard Scully, 1993) with a reelection rate of over 90% for fifteen of the last nineteen elections (Robert Reed and Eric Schansberg, 1992). We do not yet have satisfactory explanations for that lengthening (if due to the growth of the public budget, which would support one of our inferences above). However, when that longer tenure is associated with other sources of horizontal loyalty (as those described by David Coker and Mark Crain, 1994), the implications in terms of rent extraction deserve reflection, and we are back to North's remark about institutions supporting cooperation among politicians.

## **6.- Horizontal exchanges and pressure groups**

What are the institutions that enforce the allocation agreements among the decision-makers inside each center of power (the Parliament, the Congress, or other corporate decision-makers)? The question is a delicate one, because it is difficult to draw the line between the need for stable outcomes, in order to avoid abrupt policy twists and inconsistencies, and the traditional risk of conspiracy against the public. The previous discussion in terms of party influence reminds of Schumpeter's remark that "party and machine politicians ... constitute an attempt to regulate political competition exactly similar to the corresponding practices of a trade association". And are the risks of collusion lower when the property rights supporting the horizontal exchanges are provided by the Committee system in the US Congress (Barry Weingast and William Marshall, 1988) or by a permanent and nonpartisan bureaucracy in Parliamentary systems, as submitted by Breton (1996)? The recognition of that supporting function is not as neutral as it appears, since it could spill over and be used to protect collusive agreements leading to excessive returns. The suspicion is fully confirmed by the attention that powerful demand lobbies appear to pay to the activities of Congressional committees. Staying with the US evidence - though the same happens elsewhere<sup>19</sup>-, if campaign contributions do not seem to affect

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<sup>19</sup>For the Italian case, see Vincenzo Visco, 1991; it could be submitted that breaking the horizontal networks of power producing "unnecessary returns" has been the target of the recent prosecution undertaken by the Italian Courts.



the vertical relationships between voters and representatives<sup>20</sup>, things are different at the committee level. When Richard Hall and Frank Wayman (1990) conclude that “House members and interest group representatives are parties to an implicit cooperation agreement”, it not only confirms the presence of a horizontal exchange, but it shows that an efficient vertical framework does not represent sufficient protection<sup>21</sup>. How can that happen? Because in the Congress - as in any Legislature - “only a small fraction of the decisions that shape a bill ever go to a vote, either in committee or on the floor. The vast majority are made in authoring a legislative vehicle, formulating amendments, negotiating specific provisions or report language behind the scenes, developing legislative strategy, and in other activities that require substantial time, information, and energy on the part of member and staff” (Hall and Wayman, 1990, p.814). And that explains why it is the buying of politicians’ time and attention, as well as the number of lobbying contacts (John Wright, 1990), that is relevant in affecting decision-making. The effective neutrality of that apparently neutral supply of information depends on the competitiveness of the environment.

Still within the same logic, the apparent paradox of campaign contributions going to legislators already favorable to a group’s position disappear. True, there can be uncertainty about the distribution of preferences inside the lobbying group so that the opportunity of access is a prerequisite for later influence (David Austin-Smith, 1995), but in general contributions hallow relationships and convergence that are already present. Those results confirm how there are interests that tend to remain more prominent than others, both when the issue at stake evokes high salience in the geographical constituency and when it does not (Hall and Wayman, 1990). And here the occurrence of politicians’ opportunism (reverse-shirking in Breton’s recent language) becomes true, when a representative is able to exploit a loyal and imperfectly informed constituency. Bender and Lott (1996) are right in underlying that the efficiency of the screening performance of a political system cannot be limited to the study of how candidates solve the trade-off between serving voters and serving interest groups, as what is needed is a more general analysis of the efficiency of the political market as a whole, a theme that in this paper we tried to handle in its historical perspective. However much more specific research is required.

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<sup>20</sup> The efficiency of the US electoral market is confirmed in the review work of Bruce Bender and John Lott, 1996.

## **7.- Political information and the judgmental twist of politics**

Collective action is difficult to set in motion because of individual shirking, and somehow once there with its paraphernalia of centralized decision-making and coercion, it is difficult to constrain because of the opportunism of political leaders. Given that basic two-faceted problem of knowing demand and controlling supply, we approached the study of interests' influence by considering a political system in its structural role of sifting out which demands deserve satisfaction. If democracy is different in selecting the interests to protect, it is not because of the wishful notion of a government "of the people, by the people and through the people", but rather because of the efficiency of its screening performance. We sketched the ingredients of an analytical framework attempting to assess the virtues and limits of different screening regimes. As a general scheme, we submitted that the regulation of the market for political influence is performed through an ideological syntax and an institutional architecture, to reduce communication costs and appointees' shirking. The reduction of information costs and stronger competitive settings characterize the evolution of the screening devices, reducing the relevance of the ideological component and entrenching the rights of the different centers of power. If our frame captures a basic trend towards a reduction of the space for political collusion, two consequences should follow, related to the activities of pressure groups and to the evolution of the monitoring role played by citizens.

Defining pressure groups in terms of demand lobbies underlines their basic task of providing information, be it in terms of social mobilization, favor buying, ideological pressure or campaign contributions. The political impact of that vertical information depends on how the horizontal dimension is organized. When he who expresses the demand is in charge of the supply, there are no lobbies and providing information is tantamount to taking decisions. With a distinction of roles and improved competition, that information should reduce to its bare substance and should allow a more open and balanced confrontation of the interests<sup>22</sup>. Better levels of information and the statutory protection of competition should make explicit the confrontation among competing interests and reduce the relevance of the ideological component. After

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<sup>21</sup> The authors conclude the above sentence with the remark that "the constraints on member behavior and the rational calculations of group strategists limit the extent to which votes become the basis for exchange".

all, it is only in a world implicitly assumed to be devoid of any political ideology that George Stigler (1972) saw the elimination of unnecessary returns to the incumbents as the specific role of political competition. But, then, the role of citizens and the features of politics itself undergo a change.

That brings us to the second consideration concerning what can be interpreted as a judgmental twist of politics, a twist that expands the role of voters as political judges (thus different from any normative claim to give power to the judges through constitutional limits to political activities). Scattered contemporary evidence seems to support that inference, for example the testimonies and hearings before legislative committees and the comments appended to the statutes in order to put the measure in the context of the avowed interests of the various groups: in Sweden the “comments” of outside interests are attached to government’s bills, even when they contradict the bill’s purposes. The growing request to introduce independent Authorities dealing with matters traditionally left to political mediation - from consumers’ protection to the control of public bodies - can be interpreted as a search of a more technical and better informed balance of interests. And in that light an open registration of all lobby activities can only improve the working of the screening process.

The role of voters as judges, is not new in that Perikles remarked “if few of us are originators, we are all sound judges of a policy”<sup>23</sup>. People always had the last word in passing judgment of the eventual impact of political screening devices, and they of course can never be fooled in the *ex post* evaluation of what has been achieved by the chosen policies. In that sense, Popper’s point quoted at the beginning underlines how the cost of enacting a negative judgment qualifies different political regimes. The presence of that *ex post* assessment involving the entire population is a matter of historical evidence, and the apparent nature of popular quiescence represents the more or less founded bet of many would-be revolutionaries. Contemporary elections allow the politicians to anticipate citizens’ reactions, and it is easy to understand why politicians prefer to encourage a prospect voting that get citizens involved *ex ante* in the screening process. Voters oblige, but they keep their freedom to change their minds intact.

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<sup>22</sup> That recalls the proposal of John Galbraith (1990) turned novelist when he speaks of a Maeceneas funding any lobby ready to support the opposite position voiced by any actual lobby.

<sup>23</sup> S.Hornblower, *A Commentary on Thucydides*, Oxford, 1991, p.295.

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