The tyranny of the minority

Henrik Sigstad

May 27, 2016

I provide a model of electoral democracy and party formation in which inefficient clientelistic policies are implemented even when the rank and file members of the ruling party would prefer public goods provision. I show that neither minority rights nor intra-party democracy is a magic bullet in order to get rid of such clientelism. The only thing that really works is to make public goods provision more than two times as efficient as clientelism.

1 Introduction

Many new democracies are characterized by low levels of public goods provision. Instead of providing public goods, elected officials seem to be engaging in widespread clientelistic transfers to voters, while securing large amounts of rents for themselves. Surprisingly, parties pursuing such policies are often reelected with large majorities.[1]

This raises several puzzles. Why have not programmatic parties based on public goods provision emerged in new democracies as they did in the West? Why do voters keep voting for parties that provide relatively small and inefficient clientelistic transfers, low levels of public goods, and large amounts of rents to the party elite? In cases such as South Africa in which the ruling party is internally democratic a further puzzle is: Why does party members not elect a public goods party platform?

In this paper I develop a theory based on the Baron and Ferejohn, 1987 legislative bargaining model that tries to explain these puzzles. The key premise of the model is that electoral politics leads to strong incentives for a majoritarian party to form in order to exclude a minority and dominate political life. I assume that such a coalition forms, but that the process leading up to its formation is highly uncertain, meaning that any majority coalition is equally likely to form. The coalition is assumed to be kept together by the implemented policy and the fear of unleashing the uncertain process of coordinating on a new ruling coalition should anyone defect.

---

[1]See Walle, 1999 and Rakner and Walle, 2009 for a discussion in the case of African democracies.

As long as public goods are less than two times as efficient as clientelistic transfers, it is always cheaper for the majority party leader to satisfy the party members with clientelistic transfers. The reason is that public goods are non-excludable, whereas clientelistic transfers can be targeted only to party members. When this is the case, opposition members will receive no government services. The fear of ending up in such an opposition together with the uncertainty of the political process, means that defecting from the ruling party is very risky and make party members vulnerable to exploitation by the party elite. Thus, party leaders need only supply a relatively small amount of clientelistic transfers to the party members in order to keep them from defecting, leaving large rents for themselves. In particular, it turns out that the majority party rank and file will be worse off in the equilibrium policy than they would have been under the provision of public goods.

The fact that the majority party members are worse off in equilibrium than under public goods provision leads one to believe that intra-party democracy could lead to public goods being provided. In Section 3.4 I show that this intuition is flawed: Instead of leading to public goods, intra-party democracy leads to a favored faction within the party receiving higher levels of clientelistic transfers, and a minority faction still receiving the low transfers.

In Section 3.5 I show that minority rights in the sense of constitutional limits on how much the opposition can be exploited is not a magic bullet in order to get rid of clientelism either. It seem that the only thing that really works is to increase the relative efficiency of public goods versus clientelistic transfers above the magic threshold of 2.

2   Literature

This paper contributes to the literature on clientelism (see Stokes, Dunning, and Brusco, 2013; Hicken, 2011 for an overview). It is closely related in motivation to Padro-i-Miquel, 2007, which also explains the prevalence of large rents to leaders by the fear of ending up in the opposition if defecting. The key difference is that instead of assuming exogenously given coalitions I allow coalitions to be endogenously determined.[2]

It is also closely related to the literature on special interest politics. That majoritarian incentives can give rise to an over-supply of inefficient targeted goods has been recognized for a long time (Weingast, Shepsle, and Johnsen, 1981). My conclusion that public goods will be provided fully only if it is two times as efficient as particularistic transfers is shared with Lizzeri and Persico, 2001. The key difference is that Lizzeri and Persico, 2001 is a simultaneous move game with no pure Nash

---

[2]Another difference is the reason why clientelistic transfers are strictly positive in equilibrium: In my model the reason is that everyone has a small probability of ending up as the new elite should they defect, whereas in Padro-i-Miquel, 2007 the reason is that party members can enjoy a one-period "revolt payoff" from defecting.

equilibrium, whereas in my model a pure equilibrium is ensured by sequential play.

My model differs from most models of political parties (e.g. Eguia, 2011; Caillaud and Tirole, 2002) in that policies are assumed to be multi-dimensional rather than uni-dimensional. The theory is most closely related to the literature on legislative coalitions. In particular, the model is built upon the Baron and Ferejohn, 1987 legislative bargaining model. To my knowledge, I am the first to apply this model to think about electoral politics and party formation.[3] I extend the model by considering intra-party democracy and minority rights.

The existing formal literature on intra-party democracy has focused on the single-dimensional case (e.g. Pech, 2012), sometimes adding a second quality dimension (Caillaud and Tirole, 2002; Crutzen, Castanheira, and Sahuguet, 2010). I believe my model is the first to consider intra-party democracy under multi-dimensional "split the pie" politics.

The model also contributes to the small literature on factions (Persico, Pueblita, and Silverman, 2011; Mutlu-Eren, 2015; Dewan and Squintani, 2015).

3   Model

The baseline model is a version of Baron and Ferejohn, 1987 with the possibility of public goods provision.

3.1   Assumptions

Assume a society with $n = 2^k$ agents and a possibly infinite periods. In each period one agent is recognized uniformly at random as a party leader and proposes a policy platform. If $n/2$ or more joins the party, the policy is implemented and the game ends.[4] Otherwise a new period starts. A policy proposal is a vector $\{g, x_1, ..., x_n\}$ consisting of a level of public goods provision g and clientelistic transfers x_i to each agent which sums to a total budget of n:

$$\sum_{i=1}^{n} g + x_i = n$$

The payoff of player i is assumed to be

$$u_i = Ag + x_i$$

with $A > 1$. Thus, the clientelistic policy is inefficient, but has the advantage that it can be targeted to specific supporters. I assume no discounting and look at Markov Perfect Equilibria.

---

[3]Though see Francois, Rainer, and Trebbi, 2015 for an application to autocratic politics.

[4]The assumption that the party needs half of the votes instead of a simple majority is made to make the algebra look nicer.

3.2 Interpretation

The original Baron and Ferejohn, 1987 model was designed to think about legislative bargaining. In that case we can interpret the model literally: A legislative rule stipulates that a randomly chosen legislator should be chosen as the agenda setter. However, in electoral politics it is not immediately clear how to interpret such a model. The following story indicates what I have in mind.

1. There are strong incentives for a minimum winning coalition to form also under electoral politics. A minimum winning coalition can distribute as much benefits to its members as possible while still being able to win the election.

2. However, there are many possible minimum winning coalitions. Which one gets chosen is driven by historical idiosyncrasies that enables voters to coordinate on one coalition. Charismatic leaders is one source of such coordination.

3. Once enough individuals have coordinated around a leader, the leader can choose policies that ensures that the minimum winning coalition is maintained.

4. Defecting from the majority party is risky. For instance the opposition could try to promise a disaffected faction within the ruling party that they would be treated favorably if they defect and join forces with them. However, such a promise from the opposition is not credible. If the faction defects there will be a scramble among all the players to try to form a new majority party. Since no-one can predict the outcome of this scramble, the faction will be reluctant to defect out of fear of being left out of the next winning coalition.

3.3 Results

The following key result mirrors Proposition 1 in Baron, 1991 (all proofs in the Appendix):

Theorem 1. *If $A < 2$ there will be no public goods. The clientelistic transfers will be 0 to the opposition, 1 to majority party members, and $\frac{n}{2} + 1$ to the party leader.*

This equilibrium is both very unequal and inefficient. The leader is able to extract rents equal to more than half the entire budget, and everyone except the leader are worse off in the equilibrium policy than they would have been under public goods provision. To understand why this is possible, assume that we start in a situation in which all leaders supply only the public good ($g = 1$). This means that a party leader needs to promise her party members at least a payoff of A in order to avoid defections. However, as long as $A < 2$ the cheapest way of ensuring this is to promise them A in clientelistic transfers: To give A in clientelistic transfers to half the voters costs $A\frac{n}{2}$, whereas providing the public good costs n. Thus, all leaders providing the public good cannot be an equilibrium. If no leader would be expected to provide

any public good, it is enough to promise a clientelistic transfer of 1 to half the voters in order to ensure a majority support. The reason that 1 is enough is as follows: In equilibrium the outcome of defection is entirely unpredictable. A defector can end up as the new leader, but he might also end up in the opposition. In expectation he will just get the average payoff under clientelistic politics, which is 1. Thus, giving party members 1 in clientelistic transfers is enough to avoid defections.

It turns out that while $A < 2$ gives clientelism and extreme inequality, once $A > 2$ all parties switch to public goods provision and leader rents disappear completely:

Theorem 2. *If $A > 2$ the entire budget will be spent on the public good*

The intuition for this result is as follows: Under clientelistic policies a leader could extract rents by exploiting her party members' fear of ending up in the opposition should they defect from the party. However, as long as $A > 2$ it is always better for a leader to satisfy her party members by providing public goods. Since all other leaders would also want to provide the public good and the public good also benefits the opposition, the fear of ending up in the opposition vanishes. Thus the leader can no longer extract rents by exploiting her party members' fear of being excluded.

3.4 Intra-party democracy

It seems like the reason why there is no public goods provision when $A < 2$ is that the parties are authoritarian and the leader makes a take it or leave it offer to the members. Since all members of the majority party except the leader would have beeen better off under public goods provision than under the equilibrium policy it seems reasonable to believe that if we allow intra-party democracy the public good would be provided. However, in this section I show that this intuition is false.

In particular, let us assume that parties are governed democratically internally in the same way as the whole society. Instead of proposing a policy and making the members choose to join or not, the initial proposer just proposes to create a majority coalition. This majority coalition then elects a party leader at the party congress who determines the policy. We assume that factions can form within the party before the party congress, and that the faction formation game works in the same way as the party formation game. It has a possibly infinite number of periods, and in each period one party member is randomly recognized as a majority faction leader. The faction leader proposes a party platform. If a majority of the party members choose to join the faction, the faction leader is elected party leader, and the proposed policy becomes the party platform. If a party member is dissatisfied with the party platform he can choose to defect from the party and a new majority party forms at random. Otherwise, the party platform is implemented. The timing is thus

1. One agent is randomly recognized to propose a majority party of size $n/2$

2. A party member is randomly chosen to be the majority faction leader and proposes a policy

3. If a majority of the party members joins the faction, the faction leader becomes the party leader and the policy becomes the party platform

4. If not, a new faction leader is randomly recognized

5. Once a party platform is agreed upon, all party members decide whether to defect from the party or not

6. If anyone defects from the party, the coalition breaks down and the game goes back to 1

7. If not, the party platform is implemented

We denote by the *minority faction* the members of the majority party who are not members of the majority faction. The following result shows that under these assumptions the rents of the leader is reduced. However, when $A < 2$ there will still not be any public goods provided.

Theorem 3. *Under intra-party democracy and $A < 2$ there will be no public goods. The clientelistic transfers will be 0 to the opposition, 1 to the minority faction, 2 to the majority faction, and $\frac{n}{4} + 2$ to the party leader.*

Thus, intra-party democracy reduces the rents of the leader by about 50%. Instead of pocketing half of the budget, the party elite can now only pocket a quarter of the budget. However, it does not lead to public goods provision. Instead a favored faction within the party steals the agenda and uses its power to provide particularistic benefits to its members, leaving the minority faction no better off than under the authoritarian party. In the Appendix I show that introducing democracy at the faction level can reduce leader rents further, but still does not lead to the provision of public goods.

3.5 Minority rights

In the previous section intra-party democracy did not help to induce the provision of public goods. What about minority rights? It seems like being able to exclude half of the population drives the political usefulness of clientelism versus public goods provision. Thus maybe a constitutional provision that prohibits politicians from totally excluding minorities could help incentivize public goods provision? In particular, let us assume that *minority rights* means that policies that give anyone a lower payoff than h are not possible to propose. As the next theorem shows, however, minority rights does not give us more than what it does mechanically. Under minority rights, just enough public goods will be provided in order to satisfy the minority rights, and anything above that would be provided for by clientelistic spending:

Theorem 4. *Under autocratic parties, $A < 2$, and minority rights of h the amount spent on the public good is h/A. The rest of the budget is spent on clientelistic policies. The majority party members get a total payoff of $h + 1 - h/A$ and the payoff to the leader is*

$$\frac{n}{2}\left(1 - \frac{h}{A}\right) + h + 1 - \frac{h}{A}$$

4 Discussion

4.1 How to affect the relative efficiency of public goods?

It seems that the only way to get majoritarian institutions to deliver public goods is to increase the efficiency of public goods provision above the magic threshold of two times the efficiency of clientelism. How could this be achieved in practice? Some possible factors that could increase the relative efficiency of public goods provision are:

- A general wage increase (if it is more labor intensive to provide clientelistic transfers than public goods)

- Urbanization

- Laws prohibiting the most efficient ways to provide clientelistic benefits (e.g. meritocratic recruitment of civil servants)

- Information technology (if public goods provision is more IT intensive than clientelism)

The first two bullet points are consistent with modernization theory: Economic development could lead to the decline of clientelism and the rise of programmatic parties.

4.2 Why not local public goods?

As a theory of clientelism this model has a serious drawback: Clientelistic transfers often take the form of private goods such as public employment. However, if I had introduced local public goods that could be provided to a subset of the population in a way that is more efficient than private transfers, then the model would have predicted local public goods rather than private clientelistic transfers. Since providing local public goods like schools and roads is arguably more efficient than distributing public sector jobs to unqualified party members, this critique has bite. Thinking rigorously about this question is on my agenda for future research. However, for now I can suggest the following reasons as to why in practice private clientelistic transfers would be more useful for politicians than local public goods:

1. Locally elected politicians are usually in charge of providing local public goods. If localities are small, it might be difficult for local politicians to make sure that only half of the local voters benefit from a local public good.

2. In national parliamentary elections with single-member districts you would like to get half of the votes in a district. If districts are small, it might again be difficult to exclude half of the voters from enjoying a local public good.

3. The possibility of post-election migration means that you cannot entirely exclude any voter from benefiting from any local public good.

4. Many public goods are durable (e.g. schools and roads) and could be enjoyed even if the party that provided the goods are voted out of office. This means that local public goods would make party members less dependent on the party than for instance a public sector job.

4.3 Testable implications

Some testable predictions of the model are:

1. The leader of an autocratic (internally democratic) majority party should get rents equal to one half (one quarter) of the national budget

2. A majority of voters are reached by clientelistic spending

3. Political elites in bigger clientelistic countries receive more rents

4. In countries characterized by public goods provision the political elite receives no rents

5. Only public goods that are two times as efficient as clientelistic transfers are provided

Prediction 1 is immediately rejected. Future work will include to create a model with a more reasonable prediction of the distribution of rents among party members, maybe by modeling clientelistic parties as hierarchies. I also want to try to find (proxy) measures of the relative efficiency of public goods provision in order to test Prediction 5.

5 Conclusion

I have shown that as long as clientelistic transfers are more than half as efficient as public goods, majoritarian electoral democracy is likely to lead to no public goods and excessive rents to political elites. Intra-party democracy reduces the rents of the elite, but does not lead to public goods and leaves 3/4 of the population unaffected. Minority rights helps only mechanically.

Appendix

A.1 Intra-faction democracy

In Section 3.4 I showed how intra-party democracy affected equilibrium. Here I will show what happens if we allow for factions to be internally democratic as well. In particular assume that there are l levels of intra-party democracy in the following sense: Denote by a *level* 1 *faction* a majority party, a *level* 2 *faction* a majority faction, a *level* 3 *faction* a majority sub-faction and so on. Call it 1 *level of intra-party democracy* if there is intra-party elections, 2 *levels* if there is intra-faction elections, and so on. The game under l levels of intra-party democracy is assumed to proceed as follows:

1. A player is randomly chosen to propose a majority party

2. A member of the majority party is randomly chosen to propose a majority faction

3. ...

4. A member of the level $l-1$ faction is randomly chosen to propose a level l faction

5. The level l faction leader proposes a policy

6. If any of the faction l members defects the game goes back to 4

7. ...

8. If any of the majority faction members defects the game goes back to 2

9. If any of the majority party members defects the game goes back to 1

10. If no one defects the policy is implemented

Further levels of intra-party democracy reduces the rent of the leader more, but does not affect public goods provision or the payoff of the minority faction:

Theorem 5. *Under l levels of intra-party democracy and $A < 2$ there will be no public goods provided. The level i faction members not in the level $i+1$ faction gets i of the clientelistic good and the party leader gets $\frac{n}{2^{l+1}} + l + 1$.*

Proof. One can show that the continuation value of all members of the level i faction is the same at the beginning of the level $i+1$ faction formation game by the usual argument. Members of the level i faction not members of the level $i+1$ faction will defect if they receive less than this value. By the usual argument there will be no public goods provision when $A < 2$. Thus the opposition will receive 0. We proceed

by induction to show that the level j faction members not in the level $j+1$ faction must receive j. Assume the statement is true for $j \leq i$. Then the extra budget that is left for faction $i+1$ to bargain over (beyond the i they get from being a part of the level i faction) is

$$n - \frac{n}{2} - \frac{n}{4} - ... - \frac{n}{2^i} = \frac{n}{2^{i+1}}$$

Since this is equal to the size of the level $i+1$ faction this is on average 1 for each faction member. This implies that the continuation value at the beginning of the level $i+2$ faction formation game is $i+1$. Thus in order to not defect, all members of the level $i+1$ faction must get at least $i+1$. In equilibrium the policy proposer will thus optimally propose $i+1$ to the members of the level $i+1$ faction not in the level $i+2$ faction. The leader will get the remaining rents:

$$l + 1 + n - \frac{n}{2} - \frac{n}{4} - ... - \frac{n}{2^l} = \frac{n}{2^{l+1}} + l + 1$$

$\square$

A.2 Proofs

Proof of Theorem 1. Given Markov strategies, the expected continuation value for player i must be the same at the beginning of each period. Denote this value by v_i. If player i receives a proposal $x_i + Ag \geq v_i$ he will always accept. Let k be the identity of the party leader. The maximization problem of the party leader is then:

$$\max_{g, x_i} n - \sum_{i \neq k} (g + x_i)$$

subject to

$$|\{i | x_i + Ag \geq v_i\}| \geq n/2$$

Thus she would prefer to give $n/2 - 1$ agents just enough to be indifferent between defecting or not. Now, observe that everyone must have the same $v_i \equiv v$. To see this, assume that j has the lowest continuation value and $v_j < \sum_i v_i / n$. Then any leader will always propose j to be part of her party by offering $x_j + gA \geq v_j$. However, there is a probability $1/n$ that j will be chosen as the party leader in which he must get some $V_j > v_j$. Thus it must be true that

$$v_j \geq \frac{1}{n} V_j + \frac{n-1}{n} v_j$$

which implies $v_j \geq V_j$, a contradiction.

Thus, in order to create a majority party a leader must propose at least v to $n/2$ of the players. The cheapest way of ensuring this when $A < 2$ is to only provide the clientelistic good. With only the clientelistic good provided we must have $\sum_i v_i = n$.

10

Thus $v = 1$, and the optimal proposal is to propose $x_i = 1$ to $n/2 - 1$ agents, which leaves

$$n - \left(\frac{n}{2} - 1\right) = \frac{n}{2} + 1$$

in rents for the leader. □

Proof of Theorem 2. In order to create a majority party a leader must propose at least v to $n/2$ of the players. The cheapest way of ensuring this when $A > 2$ is to only provide the public good. Let V be the rent of the leader. We then must have

$$v = \frac{1}{n}V + \frac{n-1}{n}v \Rightarrow v = V$$

Thus there will be no additional rents for the leader, and all the budget will be spent on the public good. □

Proof of Theorem 3. As before in the beginning of each period, player i must have the same continuation value v_i. Party members will defect in stage 6 if the party platform gives them a payoff less than v_i. Thus a faction leader will never offer anyone in the party less than their v_i. Also, given Markov strategies, in the beginning of each faction formation period each member of the party will have the same continuation value $v_i^C \geq v_i$ where C denotes the majority coalition. In order to join the majority faction player i needs to get at least v_i^C. Thus the aim of the faction leader is to give half of the party members more than their v_i^C while giving all party members more than their v_i in the cheapest possible way.

The same argument as to why there will be no public goods provided when $A < 2$ still holds: For any policy which includes some public goods provision g, a faction leader can ensure the same level of payoff for each party member by exchanging the public good with clientelistic transfers of Ag to the party members. This is cheaper when $A < 2$.

Who will the faction leader want to include in the majority faction? The cheapest to include are the party members with the smallest $v_i^C - v_i$. To avoid a contradiciton (as in the proof of Theorem 1) this must mean that in equilibrium all party members must have the same $v_i^C - v_i \equiv w^C$. Since only the clientelistic good is provided and the opposition must get 0, we know that $\sum_{i \in C} v_i^C = n$ which implies

$$n - \sum_{i \in C} v_i = \frac{n}{2} w^C$$

The initial proposer in stage 1 would want to propose the coalition which gives her the highest v_i^C. This is the coalition with the highest w^C and thus the smallest $\sum_{i \in C} v_i$. Thus, the initial proposer will always include the players with the smallest v_i. As usual, to avoid a contradiction, it must then be true that all players have the same $v_i = 1$. This further gives $n - \frac{n}{2} = \frac{n}{2} w^C \Rightarrow w^C = 1$ and $v_i^C = 2$. The faction leader receives the rest:

$$n - 2\left(\frac{n}{4} - 1\right) - \frac{n}{4} = \frac{n}{4} + 2$$

11

□

Proof of Theorem 4. The cheapest way to provide h to everyone is to spend h/A on the public good. Thus all leaders will do this. Taking this choice as given, the game is isomorphic to a game with no minority rights, a total budget of $n - nh/A$, and utility $u_i = g + x_i + h$. When $A < 2$ we know from Theorem 1 that the equilibrium of this game is to provide clientelistic transfers of 0 to the opposition, $1 - h/A$ to party members and $\frac{n}{2}(1 - h/A) + 1 - h/A$ to the leader. Adding h to the payoffs gives the result. □

References

Baron, David P. (1991). "Majoritarian Incentives, Pork Barrel Programs, and Procedural Control". *American Journal of Political Science* 35.1, pp. 57–90.

Baron, David P. and John A. Ferejohn (1987). "Bargaining and Agenda Formation in Legislatures". *American Economic Review* 77.2, pp. 303–309.

Caillaud, Bernard and Jean Tirole (2002). "Parties as Political Intermediaries". *Quarterly Journal of Economics* 117.4, pp. 1453–1489.

Crutzen, Benoît S. Y., Micael Castanheira, and Nicolas Sahuguet (2010). "Party organization and electoral competition". *Journal of Law, Economics, and Organization* 26.2, pp. 212–242.

Dewan, Torun and Francesco Squintani (2015). "In Defense of Factions". *American Journal of Political Science.*

Eguia, Jon X. (2011). "Voting blocs, party discipline and party formation". *Games and Economic Behavior* 73.1, pp. 111–135.

Francois, Patrick, Ilia Rainer, and Francesco Trebbi (2015). "How Is Power Shared In Africa?" *Econometrica* 83.2, pp. 465–503.

Hicken, Allen (2011). "Clientelism". *Annual Review of Political Science* 14, pp. 289–310.

Lizzeri, Alessandro and Nicola Persico (2001). "The Provision of Public Goods under Alternative Electoral Incentives". *American Economic Review* 91.1, pp. 225–239.

Mutlu-Eren, Hande (2015). "Keeping the party together". *Public Choice* 164.1-2, pp. 117–133.

Padro-i-Miquel, Gerard (2007). "The Control of Politicians in Divided Societies: The Politics of Fear". *Review of Economic Studies* 74.4, pp. 1259–1274.

Pech, Gerald (2012). "Intra-party decision making, party formation, and moderation in multiparty systems". *Mathematical Social Sciences* 63.1, pp. 14–22.

Persico, Nicola, José C R Pueblita, and Dan Silverman (2011). "Factions and Political Competition". *Journal of Political Economy* 119.2, pp. 242–288.

Rakner, Lise and Nicolas van de Walle (2009). "Opposition Weakness in Africa". *Journal of Democracy* 20.3, pp. 108–121.

Stokes, Susan C, Thad Dunning, and Valeria Brusco (2013). *Brokers, Voters, and Clientelism*. Cambridge University Press.

Walle, Nicolas van de (1999). "Economic Reform in a Democratizing Africa". *Comparative Politics* 32.1, pp. 21–41.

Weingast, Barry R, Kenneth a Shepsle, and Christopher Johnsen (1981). "The Political-Economy of Benefits and Costs: a Neoclassical Approach to Distributive Politics". *Journal of Political Economy* 89.4, pp. 642–664.