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Power brokers: Middlemen in legislative bargaining

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Abstract

We study a model of decentralized legislative bargaining over public decisions with transfers. We establish the emergence of middlemen in legislative bargaining as a robust equilibrium phenomenon. We show that legislative intermediation can impact policy outcomes, and can be inefficient. To fulfill this role, the middleman's policy preferences and bargaining position must be such that its role of intermediary is credible. But the political middleman must also directly benefit from policy change. The results highlight fundamental differences between the role of intermediaries in politics and exchange economies.
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1. Introduction

Most significant public policy choices are decided in legislatures and other collective bodies. From health care reform to national defense or regulation of economic activity, enacting new policies requires mutual understanding among committee members with different political views. It also requires, more often than not, a variety of compromises and political exchanges among these legislators.

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The use of transfers to secure legislative support in legislatures around the world is widely documented. This is standard operating procedure in multiparty presidential democracies, where small regional or ethnic parties often act as brokers of political deals that require the support of a national coalition. But it is also a common feature in the US Congress. In the passage of the *fiscal cliff* law, for instance, the use of special interest tax breaks was so pervasive that "the law designed to reduce the deficit added $74 billion in spending through changes in the tax law."[1]

This process of legislative bargaining has two readily observable characteristics. First, political exchanges are rarely struck publicly and simultaneously at the time when a proposal is up for a vote. Instead, compromises among members of a legislative coalition are typically made in backroom deals, in a process of *decentralized* and *sequential* bargaining.

Second, whenever there are more than two legislative blocks, this process of decentralized bargaining leads naturally to the emergence of legislative intermediaries. This was fundamental, for example, in the privatization of Argentina's national gas and oil company (YPF) in 1991, when then Governor of Santa Cruz and later President of Argentina Nestor Kirchner brokered a deal that guaranteed the support of the coalition of oil producing provinces in the Senate.[2] The same is true in the US when some issues divide Democrats and Republicans into more than two homogeneous blocks, as was the case during the realignment of the South. In fact, the most notable example of a political broker in American politics is that of Senate Majority leader (then President) Lyndon Johnson (1955–61). As Caro (2002) points out, "From the time he became Majority Leader, Johnson began using talk on the floor as a smoke screen for the maneuvering that was taking place in the cloakrooms, ... as a method of stalling the Senate to give him time to work out his deals."

Our goal in this paper is to study the dynamics of decentralized legislative bargaining: how private agreements among parties affect subsequent negotiations and policy outcomes, and how parties' conjectures of future negotiations affect agreements in the first place. In particular, we seek to explain the emergence and role of legislative intermediaries. These actors are often crucial in decentralized bargaining, but mostly ignored in the bargaining literature. Can some legislative actors enable political deals by putting together two parties that would not negotiate directly with one another? What do these power brokers bring to the table?

We address these questions within a simple model of decentralized legislative bargaining, which bridges traditional legislative bargaining models with models of a competitive market for votes.

To capture the sequential and decentralized nature of bargaining that we observe in political deals, we depart from centralized bargaining models in the Baron and Ferejohn (1989) tradition. Because in these models a proposer makes an offer to all members of a coalition simultaneously, intermediaries are ruled out by fiat. We also depart from the prevailing approach to study decentralized buying and selling of votes in a committee, which assumes a competitive market for votes (Philipson and Snyder, 1996; Casella et al., 2012). In these models committee members have the opportunity to buy and sell votes at posted prices, also acting simultaneously. Instead, we assume that parties are matched in bilateral negotiations, and can offer to buy or sell their votes to one another at a price they negotiate, while being forward looking about the implications of their trades on subsequent negotiations and policy outcomes.

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[1] CBS Evening News, January 2, 2013; *'Fiscal cliff' bill had some hidden pork*. The "Fiscal cliff" law refers to the "American Taxpayer Relief Act" of 2012.

[2] See https://dl.dropboxusercontent.com/u/954402/YPFKirchner.pdf.

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