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## Local Company Politics: A Proposal

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# Local Company Politics: A Proposal

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## Abstract

Corrupt politicians, and poor government more generally, are commonly viewed as a primary barrier to economic progress. The roots to these problems run deep in many political systems across the developing world, and attempts at reform have rarely found much success. To combat this impasse, we suggest a radical new approach to local politics that, instead of proposing reforms to the electoral process, focuses on the political actors that might enter into this process. Specifically, we suggest that private firms be allowed to compete in elections to hold public office. That is, a corporate entity (e.g., Ernst and Young), rather than an individual representative of the firm, would be permitted to contest a local election. We argue that this is feasible: sufficient economic incentives could be put in place to induce firms to run for office, particularly if company officeholders prove to be competent in revenue collection. More importantly, we claim that there are many channels through which company politics should improve government, from breaking up entrenched old boys' networks to leveraging a company's existing organizational expertise. Private firms have realized efficiency and performance gains in areas such as infrastructure and many bureaucratic functions; we argue that the private sector can also attain results in politics, the most public of all realms.

Ask a random person on the street in the developing world about what is holding up economic progress, and the answer you will hear over and over is “corruption.” Popular perception as well as much academic research holds that corrupt politicians, and more generally bad and incompetent ones, are a primary impediment to development. There are fewer immediate responses to the question of *why* the politicians are no good. The most plausible answers rely on “misgovernance-trap” reasoning: politicians are corrupt and/or incompetent because they do not get paid enough, and because enforcement and accountability are weak. These of course are self-reinforcing: official tax revenues that might finance higher salaries or improve monitoring are low because the tax collection authority is poorly administered, and corrupt or inept leaders can hardly be expected to push for better enforcement of clean behavior. Further, simply ensuring clean and democratic elections may do little to escape from this trap—it does the electorate little good to express their preferences if none of the options are worthwhile.

These are deep and systemic problems, and a powerful catalyst may be needed to jolt the system towards a cleaner and more accountable norm of governing. In the spirit of shaking up the status quo, we suggest a radical new approach to local politics that, instead of focusing on reforming the electoral *process*, focuses on the political actors that might enter into this process. Specifically, we suggest that private firms be allowed to run in elections to hold public office. For centuries, governments have allowed private entry into areas such as infrastructure and many bureaucratic functions, very often leading to efficiency gains and less hamstrung operations. We argue that the private sector may also be a useful vehicle for bringing about reform in politics, the most public of all realms.

## A proposal: Company politics

How might private companies enter politics? Specifically, a *corporate entity*, rather than an individual representative of the firm, would be permitted to contest an election. Thus, Ernst and Young (not a senior partner in the firm) could be a candidate in the Mexico City mayoral race. This company could be a local firm, a multinational, or possibly an alliance among firms of different types.

Once elected, a company would have the same portfolio of responsibilities as an individual politician. With the power to hire and fire, to collect taxes, and to remunerate employees, the company’s representative could put in a top management team and provide incentives for existing employees to get their jobs done effectively. Just as with any new management team brought in to cure an ailing enterprise, a shake-up in the operation’s mentality could bring in efficiency gains without turning over much of the workforce.

Companies that choose to run for office would certainly not be a replacement for extant political organizations, but rather an additional set of competitors for public office. The ballot options for a particular race could include a politician running as an independent, a politician representing a political party, a local company, a non-profit, and an international company. Through elections, voters would decide who—or what—they wanted in charge of their local governments. Different organizational forms might be desirable under different circumstances.

We also wish to be clear on what we do *not* propose by allowing private entry into politics. Most importantly, the proposed application is to local rather than national politics. As a practical matter, it is unlikely that a national government would be willing to allow the entry of a new competitor into its own market; in fact the reforms we propose would require the cooperation of a national government committed to rooting out corruption and improving local leadership. Further, there are potential dangers, both pragmatic and perceptual, to allowing corporations to rewrite the laws of the land; we have in mind increased competition for managerial (rather than legislative) positions.

Why would a private firm run for office? The same motivation that drives corporations to enter into any other activity: profit. This requires that the office provide sufficient return to induce competition, so higher salaries or incentive payment schemes are also a vital component to the overall proposal. It is also possible that the costs of entry and running a local government might not be that high. Private firms can leverage democratic institutions like a free press to publicize their achievements and provide client feedback, or legislative bodies to lay out a business mandate and set performance targets. We return to this critical public finance question below.

The reasons to support the case for company politics do not hinge on the profit motive per se: NGOs and others could certainly post candidates in the system we envision (though the profit motive has been remarkably successful, by most accounts, in generating efficiencies in infrastructure provision worldwide). In fact, to the extent that the majority of voters in some places are suspicious of private firms, non-profits, motivated by the desire to serve local populations subject to the constraint of breaking even, may be the most effective new entrants into the political arena.

## Benefits from company politics

*Reputation.* The primary basis on which voters have to judge candidates is on past performance. The performance record of a firm is potentially far deeper and broader than any individual candidate, or even traditional political parties (*depth*

of reputation). After all, many firms have been around for decades and have operated in a variety of countries. This leads to a deeper “stock” of reputation capital that could be leveraged in local government.

Further, in many cases the firm may have a reputation for efficiency and integrity to uphold in other domains (*breadth* of reputation). A firm may already be active in producing a variety of products, and damage to reputation in one product market could very likely damage the firm’s reputation in other product markets. Thus firms producing multiple products face stronger incentives to develop and maintain strong reputations. As a result, companies with strong reputations in other realms could leverage this status in entering political markets.

What types of firms could best achieve this? This naturally raises the question of what types of firms would elect to enter politics.

*Industrial complementarities.* The effective administration of government requires skills in monitoring, auditing, marketing, and bureaucratic management. These skills form the basic competencies of a range of industries whose firms would be natural candidates for entering political office. Accounting firms have obvious skills in monitoring and auditing and, particularly in light of the recent spate of scandals, have strong incentives to uphold their reputations for honesty. Firms that already handle outsourced bureaucratic functions, such as the Crown Agents, present another possibility. One could even imagine effective political parties incorporating for-profit subsidiaries to bring their model of government to “politically under-serviced” regions. This is not so different from the Singapore government’s recent attempt to build a clone of itself just outside the city Suzhou in China (although this project is not widely viewed as a success story).

*Bonding to international law.* Multinational firms are bound by many laws of their home countries. Crucially, OECD-based firms are bound by the OECD anti-corruption convention that would prevent the company and its representatives from paying bribes or otherwise behaving corruptly in seeking or administering political office. In addition to decreasing the supply of corruption by making it harder for companies in local government to act corruptly, this bonding to anti-corruption laws may also affect the demand for corruption: voters could commit to rooting out corruption by electing entities that can credibly commit to govern cleanly.

These legal ties can sidestep local judiciaries that are too weak or corrupt to enforce domestic law. Moreover, even if local constituents were not well-versed in international law, Western human rights groups could ensure that companies would be taken to court for any violations of the relevant anti-corruption laws.

*Breaking up the old boys' network.* Beyond legal constraints on “relational politics,” the entry of outside forces into local politics could serve to break up local allegiances that, while not necessarily illegal, result in job assignments based on connections rather than competence. Local governments have sundry domains in which existing networks and owed favors can lead to misappropriated resources, from bureaucratic functions like dealing with labor organizations to the assignment of contracts to private businesses.

Company politics may also serve to break up socially damaging *quid pro quos* between the local and national governments that share an allegiance to the same political party. Political aspirations and/or party loyalty often lead local politicians to make decisions that help the party’s electoral prospects at the national level (for example, increasing local employment at election time) but are disconnected from local needs.

The idea of bringing more business into government does raise a particular set of concerns in economies already dominated by “relational capitalism”: would the new system only reinforce a system of preferential access of well-connected firms once they were themselves running the government? Paradoxically, we actually believe that our proposal may be *most* effective in such circumstances, as these would be precisely the locales where outside entry would most shake up the status quo. In areas where business-government linkages are deeply entrenched and voters are frustrated, an international firm could be a very attractive option. Likewise, in a locale where elites appear to have “sold out” to foreign interests, a national firm headquartered in the capital might provide a desired counterweight. Further, it is likely that the election of private firms would also be accompanied by increased scrutiny. Journalists and other watchdog agencies would be on the lookout for contracts or decisions that involved some conflict of interest, and would be better able to monitor such conflicts: consider the close scrutiny of any US government contract with Halliburton or the business dealings of Prime Minister Thaksin Shinawatra of Thailand.

*Effect on existing political elite.* Private firms need not ever attain public office—the threat of such turnover may be sufficient to induce better behavior on the part of political incumbents. Outside pressure could improve the honesty and efficiency of government functioning, regardless of who is in power. Further, to the extent that entry increases the scale and scope of political competition, many models of democratic institutions would predict a closer tailoring of policies to voter preferences.

Less obviously, the entry of private firms into politics could shift the policy platforms and impact the political landscape in ways that could change the eventual winner. These effects are difficult to predict and may cause shifts in the balance of power that have ambiguous welfare consequences. For example, if

private firms mostly enter with laissez-faire economic agendas (though it is far from clear that this would be the case), such entry could split the votes of the full set of candidates with “right-wing” policies, shifting power to the left. Depending on one’s ideology, this may be viewed as a positive or negative development.

While changes in the political leaning of the eventual winner may occur as a result of opening up the electoral race to corporate entities, we believe that changes in this dimension are less important than they once were. Mayoral races in the United States, for example, are increasingly over competence rather than left or right political policies. Governing cities is now more about potholes than populism. Constituents in poor developing countries deserve the luxury of electing local leaders based on their competence and not on promises of patronage.

### Are we ready for company politics?

Is the idea of company politics crazy, or perhaps worse, irrelevant? Perhaps citizens in developing countries would never cede their political sphere to private-sector actors. Or perhaps the system we propose is no different from the current party-based system that prevails in many democracies. Some of the benefits described above do indeed apply to a party system, and we might then expect some similar effects from simply raising salaries.

There are conceptual and practical reasons to believe that company politics are not simply political parties in other clothing. Some of the key advantages we describe—reputation, bonding, and economies of scope—are specific to the system we propose. Further, the policy of increasing salaries has been tried and, Singapore’s general economic success notwithstanding, the perception is that very often we end up with the same equally incompetent and corrupt (but now somewhat richer) politicians.

There is also an important public finance question that accompanies this proposed reform: how will higher recompense be financed? The “salary” offered for city management would surely have to be increased by an order of magnitude, and it is fair to be suspicious of any suggestion of a free lunch. But this proposal does not require the enormous leap of faith required to buy into, say, supply side economics’ Laffer curve. With private sector competition in local government, there are direct implications for honest revenue collection from the resulting improvements in governance. First, there may be a *direct* revenue generation effect of company politics through the improved collection of municipal taxes. There are important precedents that strongly support this view: since the outsourcing of customs has often led to record revenue generation, one could imagine that the management fee required to induce private firms to enter into politics could be more than covered by more efficient tax collection. Second, and

most important from a distributional standpoint, preventing an hour's worth of embezzlement from the public treasury of a mid-sized city could finance some reasonable fraction of the management fee we propose. Thus a privatized local government would be financed not only by taxes, but by the corrupt politicians and businessmen whose entrenchment is stifling political and economic development in the first place.

Finally, we suggest that this funding may be built into the design of a possible new voting mechanism that would accompany our proposed reforms. Companies could advertise a set of policies as well as the management fee to implement it: in other words, competition could be on both price and policies. We recognize that this has the usual pitfalls of such contract bidding; for example, companies with the lowest bids may be those that expect to collect their fees in the form of bribes once in office. These concerns need to be weighed against the costs of remaining in a traditional system mired in its own set of problems.

Would corporations in politics undermine democracy? True democracy goes deeper than contested elections, especially elections contested by equally bad politicians. It includes the political and financial well-being of individuals, a free press, and the ability of voters to have their preferences enacted through a political forum. By introducing more options, more credibility, and greater accountability into the political arena, political competition from private firms will work to achieve these ends.

There are obviously many rules and minutiae that must be worked out for any particular implementation of our proposal: developing constraints on campaign finance, establishing the form and terms of compensation (e.g., incentive pay versus fixed fee), and defining limits on related party transactions. To some extent—as with any privatization—the devil is in the details. But we believe the underlying logic contains powerful, and novel, forces that could clean up local government.

## Conclusion

Local political systems in much of the developing world are seriously broken. While success stories exist, they seem to result from the chance appearance of great leaders, as in the Mockus and Peñalosa administrations in Bogota and the Rama administration in Tirana, rather than from any systemic reform. It would seem that a drastic solution is needed. The proposal of company politics is one far-reaching solution that extends the familiar ideas of free entry and private management into the political sphere.

We note finally, that in order for company politics to move from proposal to implementation, a bold national policymaker would need to put our plan into practice in a demonstration site. It is only then that we may understand whether

the benefits of reform that we theorize here would materialize in reality. We hope that this proposal will bring our ideas to the attention of national policymakers with the courage to undertake such reforms with a seriousness and resolve that gives this new approach to government a legitimate chance for success.