

Strategy Beyond Markets

Session 1: Political Analysis & Obamacare

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Public Affairs Institute 2018
Laguna Beach, CA

Session Outline

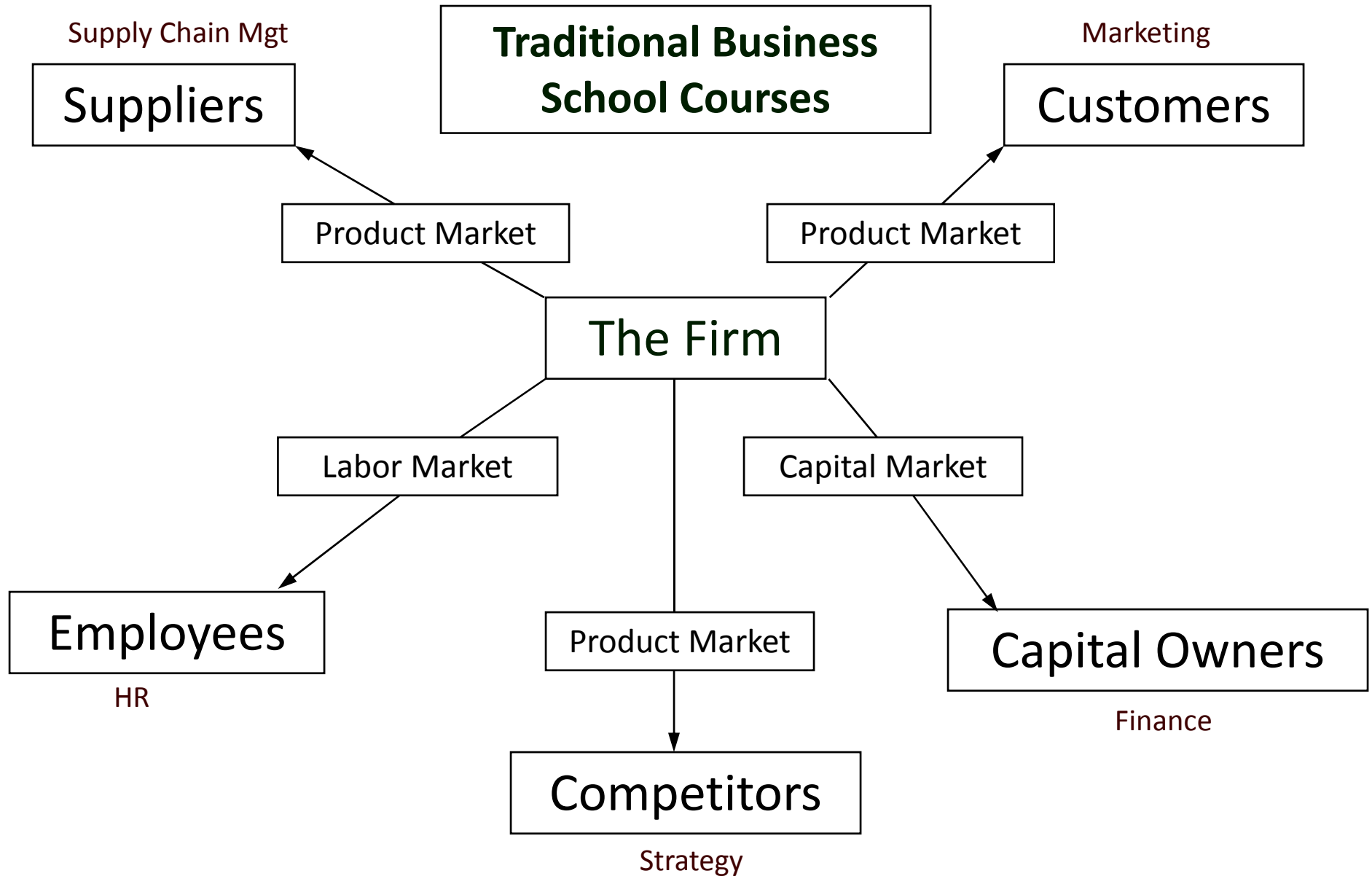
- Overview of Strategy Beyond Markets
- Framework: 4I's
- Applied political analysis: use tools from game theory and political science to analyze health care reform
 - Interest groups
 - Policymaking institutions
 - Politicians' incentives

What is Strategy Beyond Markets?

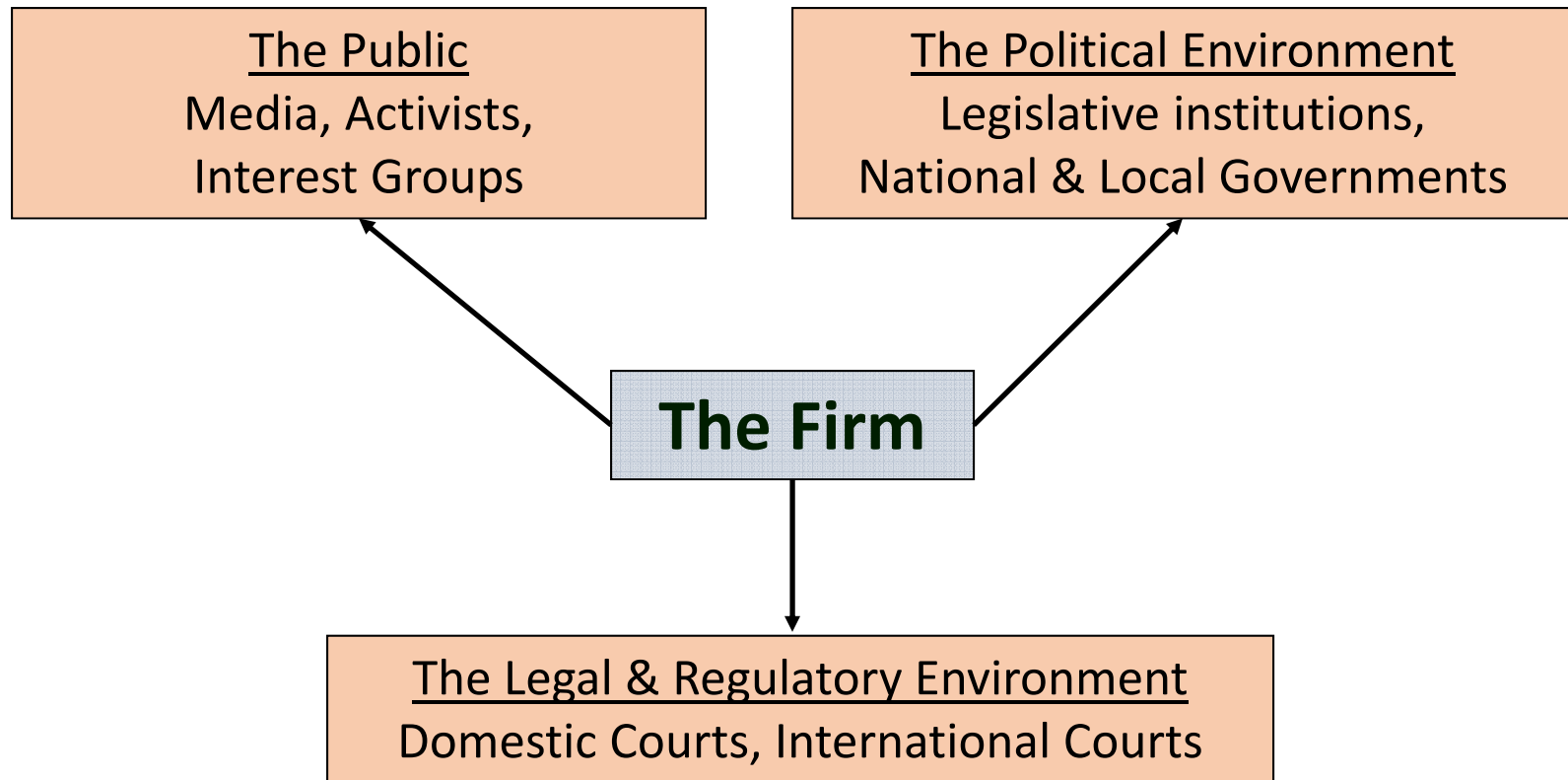
Core MBA class at Stanford since 1980s. More recently: Executive Education sessions, including focused 1-week program since 2016.



The Market Environment



The Nonmarket Environment



Fundamental Features

Coercive power (exchange not voluntary)

Coin of the realm is political power, not money

Motivation

Market failures, profits, and nonmarket issues are tightly related

Perfectly competitive markets → not much profit

Market failures (monopoly, oligopoly, externalities, information asymmetry, rents)

→ profit opportunities

Market failures

→ activists, media, etc. involved

→ governments involved

- both to correct market failures...and to *create* them

Motivation (continued)

Nonmarket issues regularly affect the performance of companies...

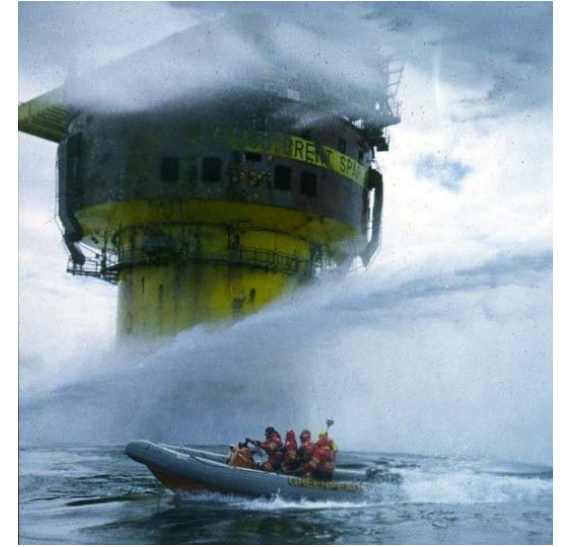
...particularly those that are successful
(either large or growing)

Strategy Beyond Markets

- Requires case-specific knowledge...
...and frameworks for exploring consequences of strategic options
- Topics and Cases
 - Political Analysis: Health Care Reform
 - Regulation and Self-Regulation: Autonomous Vehicles

The 4 I's

- A categorization scheme for nonmarket analysis
- Issues
 - Concerns of an external constituency
- Interests
 - People or groups that care about company's behavior
 - May be motivated by economic, political, or moral concerns
- Institutions
 - Collective choice arenas where conflict may be resolved
 - Often this means GOVERNMENTS
- Information
 - Claims about consequences of policies or actions



Pluralism: Analyze Politics Based on Interests

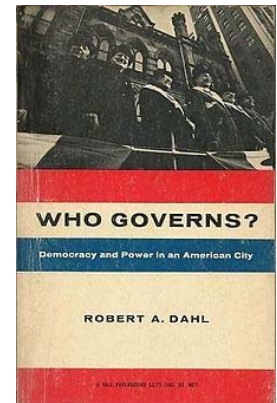
Pluralist analysis differs from how we frequently discuss or debate public policy....

Public Policy Perspective

- Efficiency
 - Aggregate welfare
- Public policy analysis
 - What is in the “public interest?”
- Normative analysis
 - What ought to be?

Pluralist Perspective

- Distribution
 - Who gets what?
- Interest group analysis
 - Who wins among competing interests?
- Positive analysis
 - What is?



Interest Groups in Health Care Reform

- At the time that legislation was drafted (early to mid 2009)
- What groups were powerful?
- What groups had a major stake in the outcome but were not very powerful?

Collective Action Dilemmas

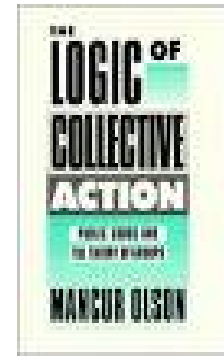
• Definition

- When someone contributes, it increases the aggregate well being of people in the group...
- ...but, from a selfish perspective, each group member is better off not contributing

Context	Group	Contribution
Prisoners' dilemma	2 players in the game	Don't rat on the other player
Citizen activism	People supporting a policy	Send letter to elected official
Corporate lobbying	Companies supporting a policy	Lobby government officials
Doping in sports	Athletes in a sport	Don't use PEDs
Global warming	All people in world	Reduce my emissions

Distributive Politics & Strategy

- Step 1: List all groups of people on each side of the issue
- Step 2: For each of these groups, characterize
 - Their demand for the policy
 - Substitutes, i.e., other options
 - Importance to group as a whole
 - Importance to each member of group (per capita)
 - Their ability to supply collective action
 - Size of group (# of people)
 - Coverage (geographical & electoral)
 - Political resources (votes, \$, connections)
 - Cost of organizing them



➔ Based these factors, predict group's expected impact

➔ Use to identify coalition partners

- This is what Obama Administration did in 2009, including by adapting policy

Politicians' Incentives & Policymaking Institutions

- Health care reform was an unusual policy issue
 - Heavyweight interest groups on both sides
 - Public, which initially was inattentive, became extremely engaged
- How did increased public engagement in early 2010 affect politicians' incentives?
- What members of Congress were crucial for shaping legislation and determining whether it would be passed? Why?

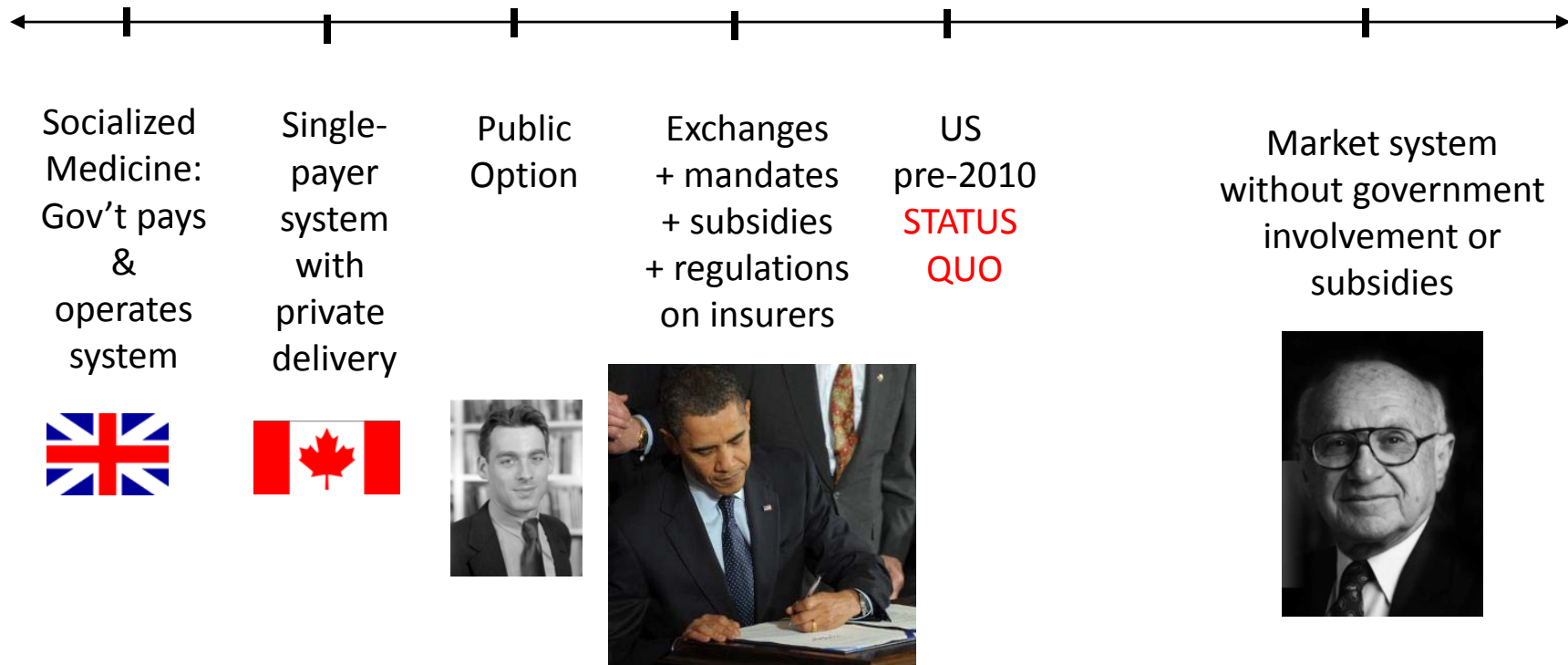
In-Class “Legislature”

- 3 members
- Majority rule
- Need 3 volunteers

Median Voter Theorem

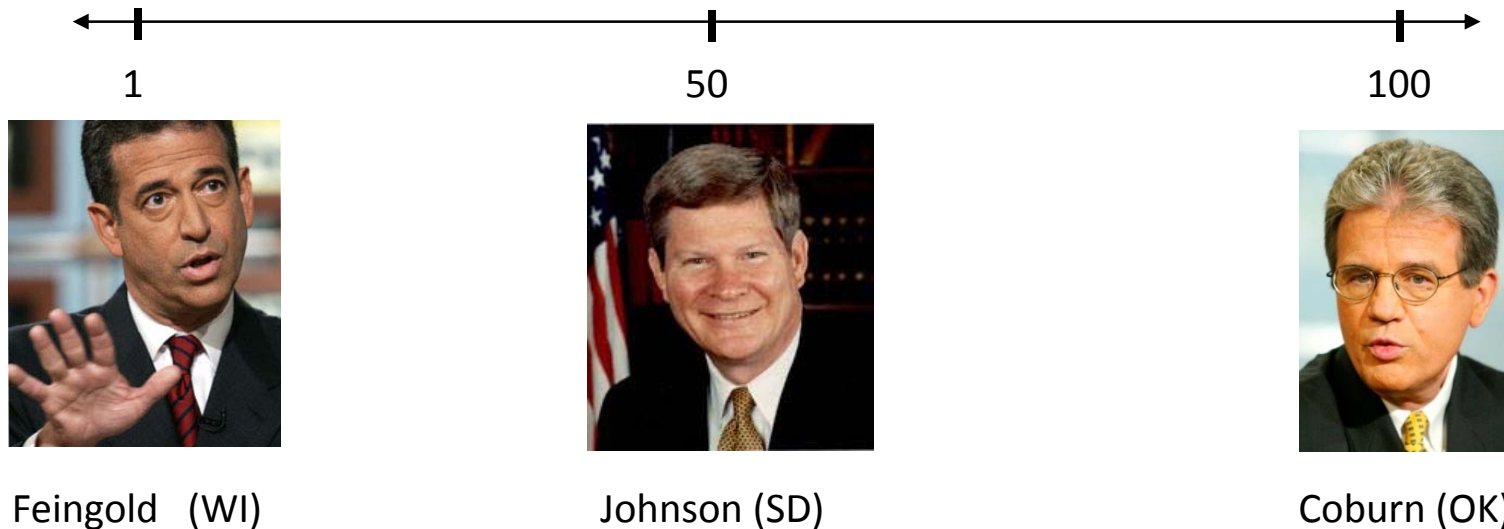
- One-dimension policy space
- Single-peaked preferences
- Majority voting (odd number of voters)
- Open amendment procedure
- Implication: The policy outcome is that most preferred by *the median voter*

Health Care Policies

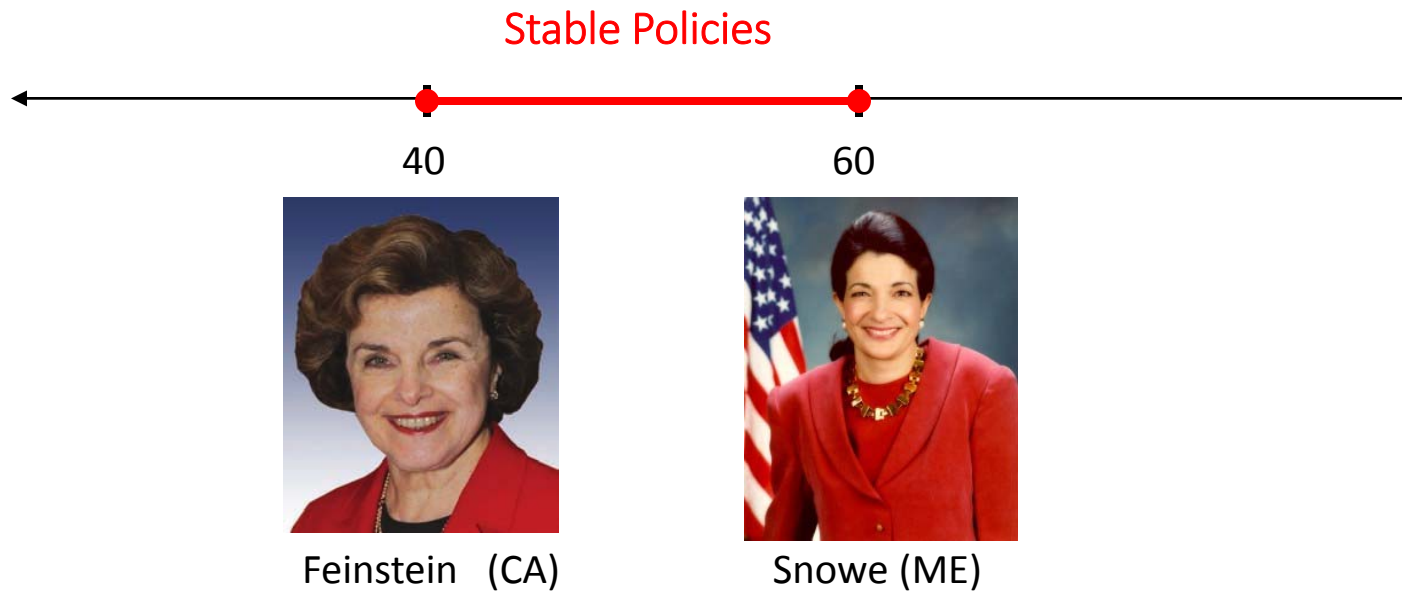


Complexities I: Senate Filibuster

- Unlimited “debate”
- 60 votes for cloture to end “debate”
- Effect: more policies stable
- Put Senators on a line, from 1 (liberal) to 100 (conservative)



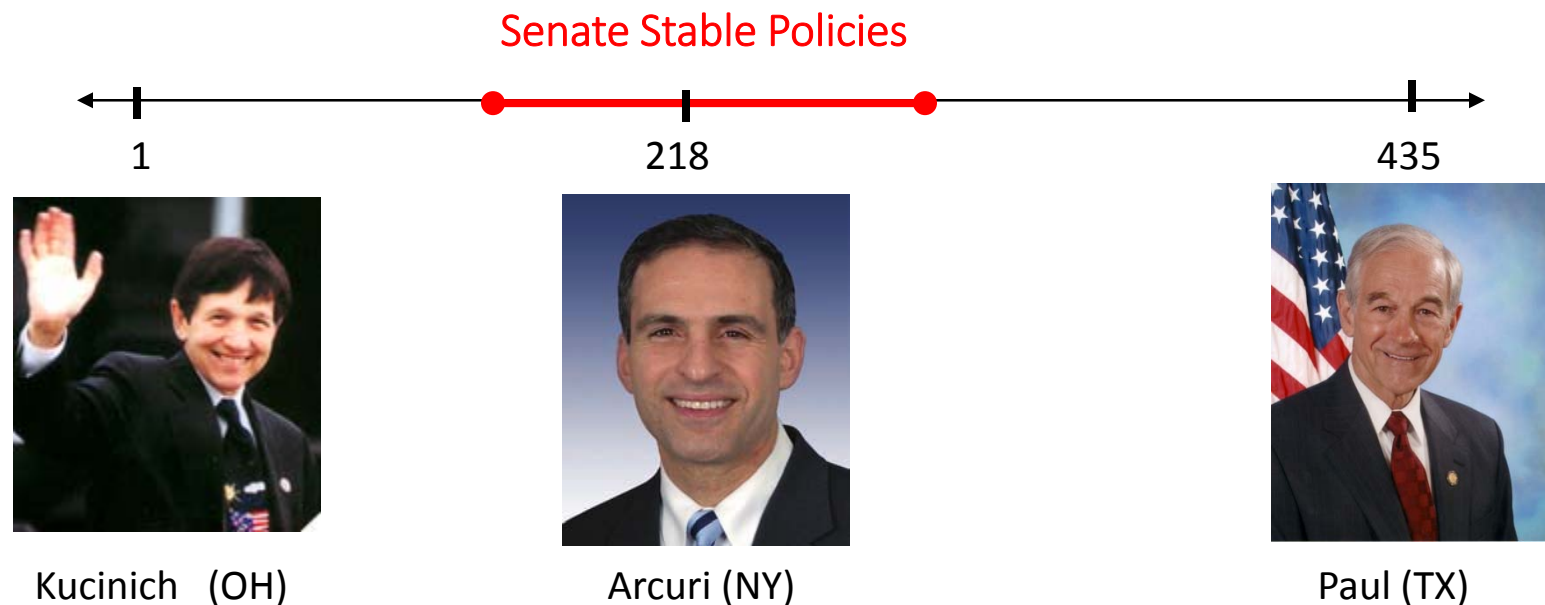
Complexities I: Filibuster (Continued)



Important exception for this case: budget reconciliation, which only requires a bare majority, but only can be used for a limited range of policy changes

Complexities II: Bicameralism

- Need majority of House too



➔ Bicameralism didn't affect set of stable policies in 2010

Complexities III: Presidential Veto

Congress Stable Policies



(was 9th most liberal Senator)

Override requires 2/3 of House and 2/3 of Senate

“Veto Pivot” = more liberal of {145th most liberal Representative, 33rd most liberal Senator}

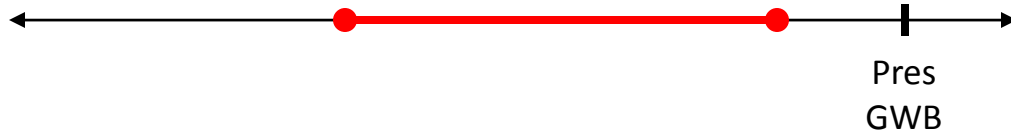
Stable Policies



Sen. Cantwell (WA)

Policy Dynamics

Stable Policies
2007-8
aggregated across
all issues



Stable Policies
2008-9
(with election effects)



Based on Woon. 2009. "Change We Can Believe In? Using Political Science to Predict Policy Change"

In US politics, gridlock is common, even with unified government!

Important note: The theory (as specified here) does NOT tell us what policy will be enacted, only that change is possible

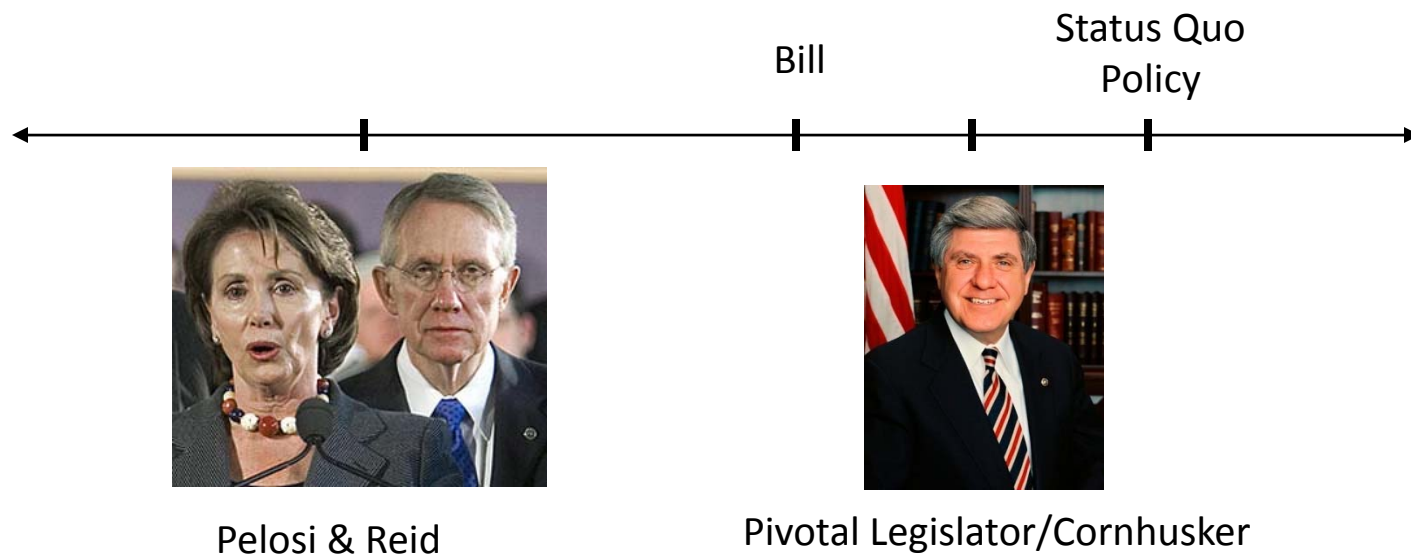
Key question: What policies can be enacted? How do you ensure that the one that is enacted best serves your interests?

Strategies

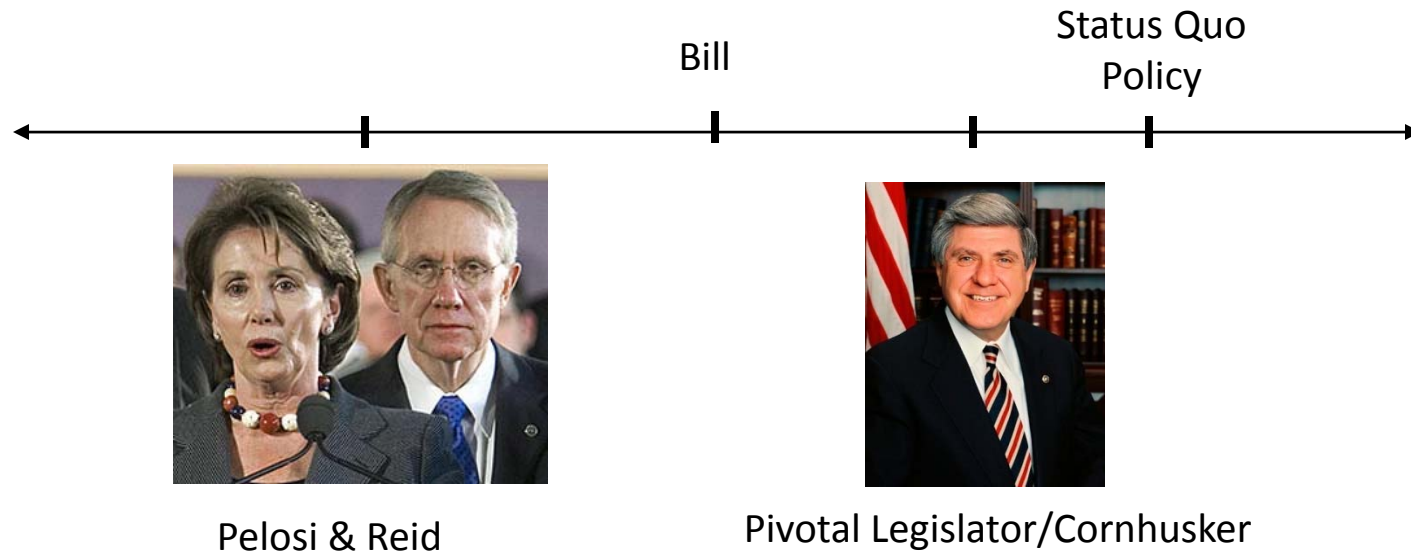
- Agenda-Setting
- Lobbying and “Vote Buying”
- Changing legislators’ minds or incentives

Strategy I: Agenda-Setting

- Power of majority party to determine what bills will be voted on
- “Closed rule”, i.e., an up or down vote
- Example. Assume symmetric preferences



Strategy II: Lobbying to “Buy Votes”

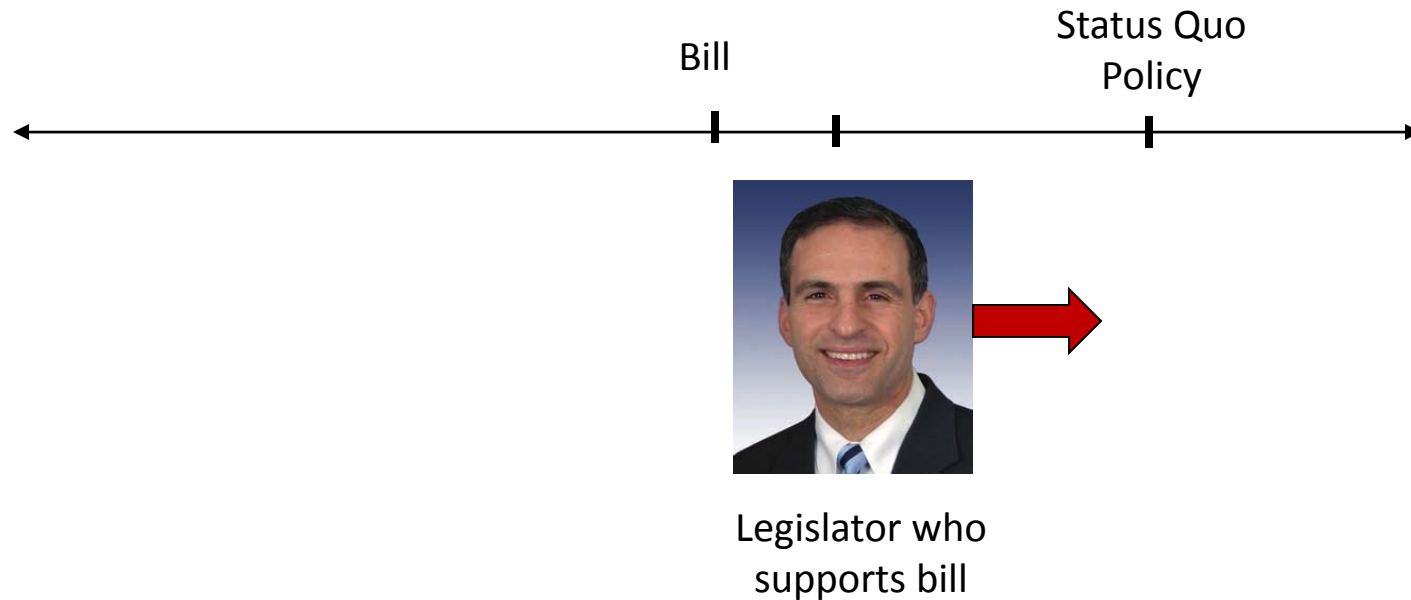


- If bill is sufficiently liberal so that pivotal legislators prefer status quo, what can supporters of the bill do?
- Who exactly should the supporters, and opponents, of bill target?

Implementation of “Vote Buying”

- Cornhusker kickback
- Change elements of bill that the person cares a lot about, e.g., abortion restrictions
- Promise policy changes on other issues
 - e.g., “Pork” (projects in a legislator’s district)
- Campaign contributions
 - From interest groups
 - From political parties
- Promise electoral support and rallies

Strategy III: Changing Minds



- Arcuri (D-NY) voted yes in November, No in March
- How can you accomplish this?
- Move the legislator's ideal point or their perception of the Bill
 - Public Opinion! (Chamber of Commerce poll in Arcuri's district reported 28% in favor, and 55% opposed)

Politicians' Incentives

A politician's voting behavior is determined by a combination of:

- Personal policy objectives / preferences
- Re-election incentives

To influence personal preferences

- Informational lobbying: Unlikely to work late in the game on a well-trodden issue

To influence electoral incentives by increasing salience

- Identify politicians whose positions are out of step with their districts
- Increase awareness of issue among voters who disagree with their elected representative

To influence electoral incentives by influencing voters' opinions about the policy

- Identify politicians whose districts have "fence sitting" voters on the issue
- Target ads to influence those voters

Note: in 2010, public opposed reform, so opponents could work via either salience or voters' opinions. Proponents of reform needed to focus on changing opinions.

Why did Republican Repeal Fail in 2017?

- Interests & coalition formation
 - In contrast to Obama, did not line up groups in support of proposal
- Institutions
 - Lacked cloture-proof supermajority
 - Had to operate via budget reconciliation (limited their options for changes)
- Politicians' incentives
 - Public opinion has shifted strongly in favor of Obamacare
 - Established programs difficult to undo
 - Ineffective executive leadership: inattentiveness plus occasional threats

Takeaways from Health Care Reform

- Institutions matter (a lot)
 - Focus attention on agenda setters and pivot points
- To influence politicians, need to understand their incentives
 - Also true of regulators, bureaucrats, rulemaking agencies
- Different political forces at different stages of the process
 - Passage of high-profile legislation gets the most attention
 - This is where influence is most difficult
 - Need to activate latent public opinion
 - Design of legislation and (later) implementation gets less public attention
 - Interest group politics
 - Need to know your allies and coalition partners