

Tournaments in Politics

Elections and the Theory of Rank-Order Tournaments

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VERY PRELIMINARY VERSION

Abstract

The theory of tournaments has been successfully applied to a wide range of economic problems but not to political economics. Yet, elections look very much like a contests where voters have to compare the candidates according to an ordinal ranking. We therefore make use of tournament models to analyse elections. The main difference between tournaments in a firm and election tournaments is a systematic asymmetry between the contestants: whereas the voters have plenty of information about the incumbent, they hardly know anything about the challenger. Unlike most models of political accountability which model the challenger as a standard, we focus on the specific role of the challenger and model him as a random draw with a given expected value and a variance. Consequently the ordinal ranking of the candidates contains plenty of noise, what weakens the incumbent's incentives to exert effort. After the description of the basic model, several extension of the tournament theme in politics, especially sabotage and selection, are explored.

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1 Introduction

It is puzzling how little Political Economics refers to the literature on tournaments: neither in the standard textbooks by Persson & Tabellini (2000) and Mueller (2003) nor in the newly published volume by Besley (2006) nor in any paper of the field we know, the concept of tournaments is explicitly applied to explain politics.¹ Yet, if one takes a politician's salary plus the ego-rent from holding office (such as public attention, information rents etc.) as the prize to be won, most elections of executive as well as legislative politicians look very much like tournaments. Indeed the agency problem in politics and in a firm have many common features, above all, the question how the principal - the electorate - can provide the agent - the politician - with incentives for good performance. Moreover, the problems firms encounter when promoting their employees are especially severe in politics: the output of an individual agent is difficult to measure, and common shocks, such as economic cycles or the legislation of a higher jurisdiction, affect all candidates.

The crux, of course, lies with information about the agents' performance. In politics candidates are rarely comparable because the challenger does not have the opportunity to perform in the same environment as the incumbent: they are, as it were, never in the same "firm" and therefore horizontal competition - as suggested in tournaments - does rarely take place in elections. The incumbent's performance can only be evaluated against a challenger's expected output. Therefore, in most models of political accountability, the challenger is treated as a black box with no chance to send any credible signal. The election rule then breaks down to a cut-off rule or a standard, which only depends on a realized state of the world and the expectations about the average candidate. In these models elections have the singular purpose to punish moral hazard.²

Yet, this approach does not tell the whole story because it neglects that the opponent's talent and expected action do influence the equilibrium outcome. Even if there is only little information about the challenger, this information will enter the principal's decision making process and hence influence the agents' actions. By analyzing elections as tournaments we release the challenger from the black box and acknowledge that the principals are able to compare the challenger's noisy signal to the performance of the incumbent. The rationale for this approach is very intuitive: on election day

¹We would be glad to hear from anyone who knows different. To our knowledge Comparative Performance Evaluation enter the field of political economics only through yardstick competition and rent-seeking games. Several articles, such as O'Keefe, Viscusi & Zeckhauser (1984) mention the application to politics but do not pursue this track specifically.

²For an overview on this modeling approach see Persson & Tabellini 2000 and Fearon 1999.

the voters do not vote according to a standard but by comparing the information and expectation they hold about different candidates. We therefore suggest Comparative Performance Evaluation (CPE) or tournaments to be the proper tool to analyze elections.

In firms, as Lazear & Rosen (1981) have shown, tournaments can have the same incentive effects as piece-rate payment, especially when output is difficult to measure and moral hazard is a serious problem. Most importantly common shocks can be filtered out. This makes tournaments even more relevant in politics: Because piece-rate payment of politicians is hardly an option, Comparative Performance Evaluation (CPE) is the only possible evaluation scheme. Thus, we have to ask how the quality of politics can benefit from stiffer political competition and the incentive mechanism of tournaments.

The aim of this paper is to make tournament models beneficial to explain politics. We begin by translating the original tournament model by Rosen & Lazear (1981) into a model of retrospective voting. Then some extensions and applications of the literature, such as sabotage and elimination tournament are discussed. Of special interest is the application to federalism. From a normative point of view, ways to improve politics are explored, that is, how political institutions can benefit from the incentives of tournaments. We suggest that an open market for politicians induces horizontal competition what substantially reduces moral hazard.

2 The Blessing of Competition

The following reasoning introduces tournaments into politics: Each term the electorate (the principal) organizes a tournament, whose winner is promoted to hold the respective office during the following term, earning a wage and other benefits. Only the prospect of winning the next tournament provides the incumbent with incentives to exert effort. On election day the median voter chooses among several (in general two) candidates according to an ordinal ranking. There is very little information about the challenger, but the crucial assumption is that the incumbent is not confronted with a black box but with a real opponent. The simplest way to model this is to assume that he is random draw with a given expectation of action. Consequently the ordinal ranking of the candidates contains plenty of noise. This in turn affects the incentives of the incumbent during the whole term because of the uncertainty about the future challenger.

In the original tournament model of Lazear & Rosen (1981), two risk neutral agent $i = 1, 2$ provide a single output y , say a public policy or public good (which equal the electorate's utility) according to the additive technology

$$y_i = a_i + \bar{\theta}_i + \varepsilon_i$$

where a_i stands for effort and ε_i is a random component or noise. For now $\bar{\theta}_i$, the agents' i time invariant characteristic or talent, is assumed to be common knowledge. Effort a_i is produced at strictly convex, increasing and identical cost $C(a)$. Following Alesina & Tabellini (2004), this effort can also be thought of in terms of fewer extraction of private rents. The noise ε_i is normally distributed with mean zero, that is $\varepsilon_i = N \sim (0, \sigma_\varepsilon^2)$ and i.i.d. Two homogenous players $i = 1, 2$ compete for the winner's price R_1 , whereas the loser gets R_2 . Following the standard model of Lazear & Rosen player 1 wants to solve

$$\max_{a_1} P(R_1 - R_2) - C(a_1)$$

where the probability of winning P is given as

$$P = \text{prob}(y_1 > y_2) = \text{prob}(a_1 - a_2 + \bar{\theta}_1 - \bar{\theta}_2 > \varepsilon_2 - \varepsilon_1)$$

For now we assume both agents to be of equal talent, $\bar{\theta}_1 = \bar{\theta}_2$, therefore drops out of the model. The maximization problem then simplifies to $G(a_1 - a_2)R - C(a)$ where $G()$ is the cumulative distribution function of $(\varepsilon_2 - \varepsilon_1)$, and $g()$ its density function. The game is played as a symmetric Nash-Game and we assume an interior solution³. Because ε_i is normally distributed and player 1 correctly anticipates a_2 (and consequently sets $a_1 = a_2$ and $g(0)$) the standard result by Lazear & Rosen (1981) is

$$C'(a) = (R_1 - R_2) \frac{1}{2\sigma_\varepsilon\sqrt{\pi}}$$

In this basic setup the agents will provide high effort if the prize is high and noise is small. If we consider a fraction of the error term ε_i as common shock the latter drops out of the rank-order comparison and noise is further reduced.

The important modification in order to apply this model to political election is to distinguish between the incumbent and the challenger. Whereas, the incumbent's talent is still common knowledge ($\bar{\theta}_1$), the challenger's talent is assumed to be a random variable, which is normally distributed with mean $\bar{\theta}_2$ and variance $\sigma_{\theta_2}^2$. Therefore the incumbent's talent can be perfectly observed whereas the challenger's one contains a lot of noise. Note that we are only interested in the difference in variance, here between 0 and $\sigma_{\theta_2}^2$, and that players are (only) ex ante identical. Similar, the incumbent's talent could be as well a random variable where $\sigma_{\theta_1}^2 < \sigma_{\theta_2}^2$. Furthermore,

³We discuss the implication of corner solutions and its important implications for politics below.

uncertainty about the challenger's talent has the same effect as imprecise monitoring (O'Keeffe, Viscusi & Zeckhauser 1984). In political elections the loser gets usually nothing, whereas the winner gets R . We still assume $\bar{\theta}_1 = \bar{\theta}_2$ but now the additional noise changes the result into

$$C'(a) = R \frac{1}{\sqrt{\sigma_{\theta_2}^2 + 2\sigma_\varepsilon^2 \sqrt{2\pi}}}. \quad (1)$$

Again in equilibrium, the incumbent exerts the same effort as it is expected by challenger and the ex ante probability of winning is $\frac{1}{2}$. This is almost the same result as in Alesina & Tabellini (2004). However, whereas their result is due to the incumbent's random ability confronted with a given standard in presence of career concerns (formally, the standard is $W = \bar{\theta}_2 + a_2^e$, where a_2^e stands for expected effort) our results follows from the additional noise of the challenger in the tournament setting. Taking a similar standard as reelection rule for the tournament setup (with known ability of the incumbent) would yield

$$C'(a) = R \frac{1}{\sqrt{\sigma_\varepsilon^2 \sqrt{2\pi}}}. \quad (2)$$

Comparing this results illustrates the main features of tournaments in politics: The challenger is as important as the incumbent and one of the main inefficiencies of politics is the asymmetry in observability between the two. It is important to realize that in elections the incumbents optimizes against a commonly expected effort, which is the same as a manager playing against a market over which he has no influence (see: Rosen & Lazear 1981). In the setup of Alesina & Tabellini (2004) better observability of the challenger is no issue, because nothing is more efficient than a standard according to the expectations $W = \bar{\theta}_2 + a_2^e$.

A preliminary interpretation already yields some interesting insights: As the principal knows very little about the challenger's talent, the incumbent can exploit this uncertainty to extract rents. Moreover, because in today's political elections the candidates almost never perform in the same environment, the voters can not filter out common shocks. The voters as the tournament designers have therefore several possibilities to boost the agents' incentives: they may advance the challenger's observability (smaller σ_θ^2), enhance contest in the same environment (parts of σ_ε^2 drop out) or increase the prize R .

How do our results meet the existing literature? The main insights of this approach is that the observability of the potential challenger truly matters. There has been substantial empirical research on the role of transparency in politics, most recently and thoroughly by James Alt (2005). Yet, most studies follow the earlier introduced modeling approach by stressing

the transparency of the incumbent government, whereas the potential challengers are treated as a black box. Only in yardstick competition, other constituencies are allowed for Comparative Performance Evaluation (CPE), and there the empirical evidence is rather promising (e.g. Besley & Case 1995). A tournament model of elections, similarly, stresses the importance of performance comparability. Better observability of the challenger improves the incumbent's incentives: it eases the voters' ability to rank candidates in a way, which simply outpaces any small institutional adjustment to increase observability of the incumbent.

3 The Dark Side of Competition: Sabotage

As Lazear (1989) first indicated, there is also a dark side of tournaments: they not only boosts constructive performance but also sabotage. Looking at the anecdotal evidence from elections around the world it is very reasonable to include destructive actions into a model of political contest. This is usually done by assuming that the agents output y_i not only depends on a choice of effort, but also on sabotage s_j inflicted by the opponent. That is, $y_i = f(a_i, s_j) + \bar{\theta}_i + \varepsilon_i$ and in the most simple form $f(a_i, s_j) = a_i - s_j$. The cost functions are $C(a)$ and $C(s)$. In a tournament of homogenous agents but asymmetric observability, the challenger finally has an opportunity to influence the outcome and the incumbent has to solve

$$\begin{aligned} & \max_{a_i, s_i} P(a_1, s_1; a_2, s_2) * R - C(a_i) - C(s_i) \\ & \max_{a_i, s_i} [\text{prob}(a_1 - s_2 + \bar{\theta}_1 - (a_2 - s_1)) > \varepsilon_2 - \varepsilon_1 + \theta_2] * R - C(a_1) - C(s_1) \end{aligned}$$

Again in a symmetric equilibrium player 1 provides the same effort as his challenger. Furthermore, player 1 has to counter the expected sabotage by player 2. By using the properties of the normal distribution the marginal costs of effort can be expressed as a function of the prize R and the variances of the random variables:

$$\begin{aligned} C'(a_1) &= R \frac{1}{\sqrt{\sigma_\theta^2 + 2\sigma_\varepsilon^2} \sqrt{2\pi}} \\ C'(s_1) &= R \frac{1}{\sqrt{\sigma_\theta^2 + 2\sigma_\varepsilon^2} \sqrt{2\pi}} \end{aligned} \tag{3}$$

If σ_θ^2 decreases, effort reacts as before, that is, it increases, but so does sabotage. The same is true for every increase of the prize R . Thus, the dark side of stiffer competition has to be taken into account. Sabotage in politics

should not come as a surprise considering the recent election campaigns in the United States or in Germany. Because sabotage is only innate to contracts based on Comparative Performance Evaluation (CPE), its mere existence suggests the existence of tournaments in politics.

Of special interest is how better observability of the challenger affects the agents' choice of sabotage. Assuming a general cost function of the form $C(a_i, s_i) = \frac{a_i^2}{c_a} + \frac{s_i^2}{c_s}$, where c represent the weight of the cost, the agents try to minimize aggregate costs by substituting one action for the other. The principal in turn prefers productive effort to destructive sabotage. If increasing transparency of political contest facilitates detection of sabotage and therefore its punishment, sabotage becomes relatively more costly because of additional expenses to conceal. As a result, agents will substitute productive effort for destructive sabotage and the the effect of better observability is ambiguous.

Some additional implications of sabotage occur in uneven contests (see below). Ishida (2006) shows that in a slightly dynamic setting with asymmetric information, sabotage is especially beneficial for low ability candidates because effort is complementary to talent. A slightly different twist offers Münster (2004). Sabotage is especially harmful when there are more than two agents of unequal ability because the most talented candidates will be the one which get most heavily sabotaged. Consequently sabotage equalizes promotion chances but at the same time it deters the most able candidates from entering the contest.

4 Heterogenous Candidates and Selection

Political economics traditionally states two interpretation of elections: on the one hand elections have the capacity to punish moral hazard, on the other hand they select the most talented agent into the office. For equally talented contestant in a static setup - as shown earlier - the latter is irrelevant. Allowing for heterogenous candidates where the challenger's ability is a random variable (as we did when applying the tournament model to politics), however, introduces selection and thus a additional twist to the election process (for a comparison of the two approaches see Fearon 1999).

To begin we describe the incentive effect of tournaments if agents are heterogenous. Already Lazear & Rosen (1981) showed that if contestants know both, their own and the opponent's talent, even tournaments are most efficient. That is, equilibrium effort is the highest if contestants are of equal ability and have the same ex ante probability of winning. In our framework (without sabotage) we assume $\bar{\theta}_1 > \bar{\theta}_2$ and let $\Delta\theta$ be $\bar{\theta}_1 - \bar{\theta}_2$ ⁴. Consequently

⁴Lazear & Rosen (1981) as many others model heterogenous agents with different marginal cost $C'_1(a) > C'_2(a)$.

the density function is given as $g(\Delta\theta)$ and equilibrium effort decreases compared to (1).

The application of tournaments to politics therefore stresses that for the provision of incentives, the quality of the opposition is as important as the quality of the government. Moreover, following Lazear & Rosen (1981) the inefficiency resulting from heterogenous agents could be tackled by introducing a handicap for the front-runner.

Even if the incentive effect of heterogeneity is rather dodgy, the selection effect is promising: the more talented contestant will win with a probability greater than $\frac{1}{2}$. Therefore, in a multi period tournament the mean ability of the incumbent is higher than expected ability of the challenger, who is always drawn from the original sample. To see the effect we sketch a slightly dynamic extension of the original model. In the first term, two candidates are drawn from the same sample. They compete against each other and the winner is promoted to the second round. Note, that in the first round none of the candidates is the incumbent. In the second round the first round winner competes against a new challenger which is again drawn from the original sample. In such a setup the voters censors the distribution of the randomly realized ability in the first round, and thus the expected ability of the second round incumbents shifts upwards. Scott Ashworth (2002) describes this selection effect as the source of the incumbency advantage.

In term of incentives, the matching of an incumbent with an ex ante unselected challenger results in a heterogenous and therefore less efficient tournament. This inefficiency is inherent to most political systems as the challenger is always drawn from the same uncensored pool of candidates. Consequently the voters loose from their inability to seed outside candidates with similar expected talent in even tournaments (Ashworth 2002). The universally observed incumbency advantage indicates the significance of the phenomena. One solution would be - as mentioned above - to handicap the incumbent. In term of the selection, however, handicapping would then disable the voters to choose the more talented candidates. Therefore, the trade-off between incentives and selection can not be solved in this setup.

There is additional trouble with the incumbency advantage. O’Keeffe, Viscusis & Zeckhauser (1984) showed that unfair and uneven contests provide strong incentives for the disadvantaged contestant to shirk and collect the bottom prize. In today’s politics the incumbency advantage systematically leads to unfair contest and therefore advances the danger of a low effort equilibrium.

To understand the implications of tournaments in politics, such zero effort equilibria are very essential because they comprise the danger of long lasting low-effort equilibria. Note, that even in politics the bottom prize is most likely 0, a candidates who shirks and collects the bottom prize does not end up with nothing because in our interpretation small or zero effort equals high extraction of private rents.

Such a danger to global incentives can also derive from a too small difference between the winning and the losing prize. It is easy to see its significance in politics: If the reward for winning an office is very small, it might pay off to collect the bottom prize. The same might happen if there is too little noise, that is contests need a certain amount of randomness in order to provide global incentives⁵, especially if a high-effort equilibrium is already endangered, for example by excessive prizes or unfair contests. It is difficult to imagine a situation in politics where monitoring precision of politicians would be too perfect and provoke a low effort equilibrium. However, if the contestants are rather long living parties than individual candidates, things are different. Then voters might indeed have very good knowledge about what to expect from their agents. Consequently they might choose to exert zero effort. Moreover, such low-effort equilibrium would very likely hold over a longer period because voters expect both parties to be corrupt and can not effectively reward good performance, whereas the parties happily collect the private rents.

Closely connected to this property of tournaments is the possibility of collusion among agents because the rank-order of contestants is the same if they exert effort or shirk. Again the danger of collusion is especially apparent for long-living parties because they can coordinate their effort over a longer period, alternately collecting the winning prize.

5 Interpretation

In essence, modern democracy is based on tournaments to provide incentives and select the most able candidates, but their institutional design can neither exploit the incentive nor the selection property of tournaments. Furthermore it neglects the possibility of sabotage.

The most apparent shortcoming is the principals inability to monitor the challenger and consequently to exclude common shocks because candidates never perform in the same environment. Moreover, the principals can hardly adjust the winning prize and they can almost never attract additional candidates by offering a loser's prize. Yet, generally, elections enable the selection of more able candidates, though such gain comes usually at the price of low incentives.

To keep incentives high the pairing of candidates has to be even. A prominent example, for how the institutional setup provokes uneven contests, is the universally observed incumbency advantage. Winning an election is a strong signal and ultimately shifts expectations about the ability. However, if the winner gets later paired with a challenger drawn from the

⁵These properties are discussed in most articles on tournaments, most thoroughly in O'Keefe, Viscusis & Zeckhauser (1984).

original pool, voters expect an uneven contest and incentives get blurred. The problem is that high ability candidates can neither be paired with a high ability outsider, nor can they move to an outside constituency to meet one.

Not surprisingly though, the tournament literature spend some effort to find mechanisms, which avoid the inefficiency from uneven contest by controlling entry into tournaments. With particular regard to research tournaments, Fullerton & McAfee 1999, for example, propose a special "contestant selection auction" by introducing a interim prize for the highest bidding candidates before the actual contest starts. Even this particular mechanism has little application in politics, it shows how sensible tournaments react to different selections processes and how careful they need to be designed. In today's politics, however, the lack of comparable information about candidates, leaves the selection to the internal screening capacity of the political parties. Moreover, during the election campaign not performance related information, such as beauty and charisma, often get an important dimension along which voters choose a politician⁶.

The question is whether a clever institutional design can mitigate problems of tournaments in politics. Today, there are mainly two institutional frameworks with potential: In most western countries different scales of federalism provide the institutional environment, whereas for the promotion of managers in firms - the original application for rank-order tournaments - the pressure and incentives of the labour market provides the institutional setup.

Federalism:

In a federalist state we would expect to observe some of the predictions of the model. Because the principals can observe a challenger who is active on lower governmental level, we would expect politicians to perform considerably better than in a centralized state. Moreover, as lower level constituencies confront the same central government and legislation, and most probably belong to the same economic region, common shocks drop out of the observation. Therefore, as long as there is a higher office, candidates on the lower level will always perform partially for their promotion to a higher level and their expected revenue includes future possible prizes.

In a federalist state the institutional selection process of politicians can be described as an elimination tournament a la Rosen (1986). The primary purpose of such a tournament design is to select the most talented candidates to the final round, while keeping incentives high. Whereas in the basic model, better than average candidates dissolve incentives, they now have the opportunity to enter the next stage, where they again meet an opponent of similar talent. The best agents survive in paired comparison until the final

⁶On the role of beauty in politics see Berggren, Jordahl & Poutvaara (2006).

stage. As suggested by Cooter (2002), elections can then be interpreted as filters who select the most talented agents into the final round. Since the value of the game is larger for stronger players, they will exert higher effort, whereas the weaker ones underperform and seek private rents.

Rosen (1986) furthermore shows for elimination tournaments that prizes have to increase throughout the game in order to maintain incentives. Of particular importance is the top-ranking prize - the highest office - which has to be substantially higher than the second prize. Thanks to the extra weight of the final stage's prize, contestants behave throughout the tournament as if they are in a game of infinite length. Therefore, if there is a hierarchy of political institutions where similar selection processes "seeds" the candidates in even contest, the selection as well as the incentives goal of the principal can be satisfied.

Still, sabotage might be a serious problem. For some anecdotal evidence, we can basically turn to any federal state, most prominently Germany or the United States, where ambitious regional Governors constantly sabotage the Federal Government, even they are from the same party. Whereas the Federal Government can hardly deter all potential candidates, the Governors have only one target, the current central government. In Germany, for example, this is one of the decisive features of the political system, because the regional "Ministerpräsidenten" have a comparably strong position due to the second chamber, the "Bundesrat". The incumbent typically react to this problem by trying to promote the potential saboteurs to the higher government level as Ministers.

An Open Market for Politicians:

There are, however, obvious reasons why federalism does not exploit the full incentive effects of tournaments. The possibility to observe the challenger's performance is still very limited because horizontal competition is hardly possible. In the managerial labor market as well as in politics it is easier to compare the contestants' performance if they fulfill similar tasks. In politics, however, outside agents who have performed on a similar governmental level in another constituency, are usually excluded. That is, non-residents or and non-citizens, are not allowed to run for political offices. As a result, there is still a considerable difference in observability between the incumbent and the challenger. Moreover, there are at most three different governmental level, which provide only very limited possibility to select candidates in efficient tournament. All the horizontal differences between constituencies of the same level, such as towns and cities of different size and prominence can not be exploited.

Eichenberger (1999, 2003) therefore proposed to open up the political market for non-residents and thus facilitate competition among politicians in order to seed candidates. The advantages of such a institutional reform can be traced in the tournament model: the challenger's observability would

substantially increase, whereas external shocks, such as the overall economic development or the decisions of a higher governmental level could be filtered out. Thus open political market work more effectively, as it is one of the properties of a market in general.

The main advantage of using a market mechanism in order to seed contestants into tournaments, would be to exploit the reputation externalities of tournaments. While trying to win the prize in a tournament, candidates reveal information from which the principal as well as any an outsider can learn about the agent's talent. This information is the only base, on which the principal can achieve efficient seeding of candidates. Seeding by a market which updated its believes about the candidates talent allows a combination of the highly nonlinear incentives of tournaments with the linear incentive of the market. We would therefore expect that such an institutional arrangement would substantially stabilize politics, especially by preventing low-effort equilibria.

The candidates, in turn, make their effort decision not anymore singularly in order to win the tournament, but also to make the market believe the politician is talented. This will provide them with seedings in higher endowed tournaments. Such implicit incentives derive from talent uncertainty in the labor market, as shown in the ingenious article by Holmström (1999). Therefore, in a market environment, the uncertainty inherent to politics, could suddenly turn into positive incentives⁷.

Similar to the findings of Rosen (1986) for elimination tournaments, performance is controlled by the value of the game. In a market environment, the multiple alternatives as well as the longer time horizon will substantially increase this value for all agents. This is especially good news for the lower government level as it can exploit the incentives provided by a higher level and therefore pay lower salaries⁸. Moreover, similar to the horizon extending effect described by Rosen (1986), this reputation externality will make the agents perform as if they had no final term. In today's politics, in turn, there mostly only one promotion path along the federal institutions and candidates who once loose an election, almost never run again.

Moreover, knowing about the incentive effects of tournaments, the prize R should well be adjusted, away from the low monopsonist- to a market wage.⁹ Today the principals can pay comparable poor salaries to politicians because of the lack of multiple constituencies competing for the best candidates. Yet, considering the incentive effects of tournaments, this will also

⁷The interaction of explicit and implicit incentives is not yet perfectly understood. Meyer & Vickers 1997 find that if the agents ability is uncorrelated, Comparative Performance Evaluation always improves incentives.

⁸A similar argument can be found in Koch & Peyrache (2005) for agents with career concerns.

⁹Because of the exclusion of outsiders, a constituency can be described as an monopsonistic employer of politicians.

increase the politicians' rent-seeking because they trade implicit for explicit compensation. In tournaments, only the high prize R will attract the most competent agents.¹⁰

Another characteristic of open political markets is how they deter sabotage by at least three mechanisms. Firstly, in an open market sabotage becomes more expensive for the contestants because of the increasing number of potential opponents, and there are always new contestants entering the race when some old ones are eliminated. Secondly, the sabotage of one agent benefits all the contestants. Thus, the larger the number of contestants the more sabotage becomes a public good. As Konrad (2000) showed, there might be even an equilibrium with zero sabotage due to this positive externality. Finally, it is more difficult i.e. costly to sabotage a contestant in another jurisdiction. Thus, Chen (2005) proposed a model of the managerial labor market, where external recruitment reduces sabotage. The crucial assumption is that it is more expensive and therefore less effective to attack an outsider than an insider. Yet, external recruitment is not considered to be altogether better, but the threat of an external contestant reduces the marginal return to sabotage.

¹⁰Yet this does not imply that the politicians' salaries have to necessarily rocket like the managers' salaries. Firstly, often the latter do not represent the market wage, but the lack of control by the principal. Secondly, in an open market for politicians - except for the highest office - there is always a higher prize to win as outside option, which enhances reputational incentives.

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