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The economics of politics: politicians, firms and patronage

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Abstract

Since its huge development after the II world war, the italian economy has always showed a large public sector intervention respect to the total national economic activity. After the privatization wave in the 1990s, the state owned machinery has begun to fall, with the public sector loss of the political control of large fraction of the economy. Nevertheless parties, which ultimately control state owned enterprises (SOEs), continued to retain the political control of italian newly privatized firms (NPFs), with minority stakes and rules like "golden share", and through the appointment of politicians in these private-public firms boards of directors. In Italy one of the most discussed aspect of SOEs, and private-public enterprises (PPEs), is indeed the appointment, in their boards of directors, of ex members of parliament and politicians in general.

This research thesis, after presenting a review of the literature, aims to quantitatively assess the dimension of this phenomenon, and to describe a possible related theoretical agency model, in a political economy framework. In doing this I try to consider the usage of patronage in a dynamical exchange between parties and party members elected in parliament. The research, then, argues for patronage as a political instrument in an economic model, using the appointments as an exit strategy for loyal party members. It invites political economy considerations, and highlights the importance of legislative iniziatives aimed to discipline patronage opportunities in Italy.

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Introduction

Over the last decade, political clientelism in developing countries has become one of the most studied topics not only in political science but also in economics. Economists pay specific attention to this phenomenon and its dynamics because, most of the time, it could do great harm to the economic performance of a country, and to its efficiency in applying economic policies. For instance, institutional economics, focusing on understanding the role of institutions in shaping economic behavior, claims that the economy cannot be separated from the political and social system within which it is embedded. Therefore clientelist dynamics are analyzed in order to better understand, and possibly improve, public interventions. More recently, political economy scholars arouse their interest in the relationships between individuals and society, and between markets and the state, using a diverse set of tools and methods largely drawn from economics. Nowadays, political economy interest consists in providing a broader framework to understand complex national and international issues. Its field of interest encompasses several areas of study, including the politics of economic relations, domestic political and economic issues and the comparative study of political and economic systems.[1]

As many analysis by political economists have revealed, in actual government decision making there is often a tension between economic and political objectives. An effective policy implementation, for example, certainly requires competent employees in bureaucratic offices. Nevertheless, the rationale governing the allocation of human resources in bureaucracies, and public firms boards of directors, may follow inefficient political *directives*, sacrificing efficiency for political goals. The mechanisms regulating employees selection and promotion partially explain "state capacity", namely the state ability to implement effective policies.[2] Also, societies with limited state capacity tend to be those that invest relatively little in public goods and do not adopt policies that redistribute resources to the poor. Indeed, a possible source

[1] https://www.britannica.com/topic/political-economy.

[2] See Besley and Persson (2010).

of a bad economic policy implementation is the pressure to redistribute *jobs for the boys*.[3] While most of the research on clientelism has focused on the exchange of goods for votes (*vote buying*), relatively little has been done to understand how the exchange of jobs for political support (*patronage*) works. Furthermore, at my best knowledge, the topic has probably been overlooked by scholars with respect to developed countries. In this thesis I specifically refer to patronage as a sub-type of clientelism, in which the good that is exchanged between patron and client is a public sector job. Party patronage is then defined in this research as the power of a party to appoint people to positions in public and semi-public life.[4]

In a country where the public sector represents a fundamental actor of the economy, the patronage phenomenon has surely huge consequences in terms of state performance and development. Considerable academic and popular criticism has been directed at the way public administration has been organized and how it actually operates. Many claim that public sector lacks the incentives for an effective performance and that there is a disturbing lack of accountability (Horn, 1995). Yet, political appointment of public officials is a common practice in virtually every democracy. Ruling political parties fill most senior positions, such as heads of department and state secretaries, with party affiliates. This practice remains uncontroversial, and publicly acceptable, as long as there is no deeper politicization of public bodies, which systematically uses political affiliation as the prime selection criterion for employment. In other words, only if the scope of patronage becomes too large and systemic it would pose problems to the democratic, and economic, functioning of the state. If the merits of candidates are not the main criterion for their selection, public and semi-public bodies become dominated by patronage, which can be associated with less efficient and effective outcomes of public service provision (Kleibrink, 2015).

Nowadays party leaders have plentiful access to state resources. In particular I would mention two political reform processes that have contributed to the emergence of a patronage positions proliferation: decentralization and privatization. Decentralization reforms create many new opportunities for appointing people in state institutions at subnational levels of government. In Italy, and elsewhere, political elites and parties have transformed public sector positions, at the regional and local level, into patronage resources. The politicization of the public sector has spread and is deeply linked to the decisions and discussions on decentralization reforms. Indeed, self-government and regional autonomy do not automatically result in better government.

[3] Wording used by Grindle (2012).

[4] Following Kopecky et al. (2008)

Rather, they have an impact on the incentive structure, both in the periphery and in the centre, in terms of the distribution of critical resources. This entails potential virtues and vices, the opportunity of a better government as well as the risk of a bad administration. More specifically, patronage resources at the regional level are closely related to the decision to adopt decentralization reforms. Elites in the centre are more likely to support regional autonomy and decentralization reforms if they open up opportunities to dispense patronage to their affiliates and partisans in the regional bodies, gaining new powers.[5] In Italy, the sub-national levels of government are the institutional arenas where patronage as a reward tool is most common. In particular, subnational party divisions have been able to exploit the opportunities offered by the implementation of decentralisation through the creation of new administrative bodies, whose increased organisational flexibility has facilitated party control. The rise of municipal/regional companies in the semi-public sector has provoked the expansion of networks of patronage at this level of government (Di Mascio et alia, 2010).

Moreover, despite European Commission solicited privatizing state owned enterprises (SOEs) and modernizing public administration by making it more effective and efficient, political elites have been hesitant to complete the process of privatization and administrative reform. Indeed, this delay[6] is most probably affected by veto strategies and partisan politics. It is also probable that they have been afraid of the implicated large job losses and the consequent risk of social dissatisfaction. Furthermore, privatization has always been seen as a tool to depoliticize public sector: from this point of view the slowness of the process could be partially explained by the parties fear of losing their political influence over SOEs. Indeed, in the privatization process the political class, especially in Italy, has retained for itself large influence powers trough many technical tools like, for example, golden shares. Specifically, to date, directors and members of executive and supervisory bodies still have political affiliation and are politically appointed. As I will show, even members of parliament (MPs) compare in the board of directors of partially privatized firms and private-public enterprises (PPEs).

Nevertheless, it seems to me appropriate reminding that party patronage is theoretically distinct from two related phenomena, namely clientelism (a form of representation based on selective release of public resources – contracts, subsidies, pork barrel legislation – in order to secure electoral support), and corruption (illegal use of public resources for private gains). Patronage most of the time is largely legal. An important aspect to consider

[5] See on this, for the italian case, Panebianco (1988) and Di Mascio et alia (2010).

[6] See on this, among others, Bortolotti and Pinotti (2008).

is also the motivation of political parties to provide patronage. In literature three main driving forces have been identified. Rewarding MPs' political loyalty is the prime reason for parties to influence public sector employment. A second rationale is the control over policy making. Lastly, patronage is used by party leaders to strengthen party discipline and reduce internal splits, given that discord is thought to weaken parties on election day.
Party patronage is then the key mechanism to "colonise" the state apparatus; large parts of the literature concentrate solely on the state administration as the central domain for patronage. Yet researchers should not neglect other parts of the public sector. We should not forget that patronage constitutes the "power of a party to appoint people to positions in public and semi-public spheres". It is very important to also include quasi-governmental organizations and other state-controlled institutions and companies whose significance is on the rise (Spirova et al., 2007), both at national and local level. Furthermore, even if the share of public ownership in SOEs is mostly around or below 50 per cent, this still provides ample opportunities for political parties to appoint their affiliates to senior positions, because the government has a say in executive positions, also when it is a minority shareholder. It is important then to include also companies where the state or the local government unit are minority shareholders.

Patronage contracts are implicit or explicit agreements between those that get (or expect to get) a patronage job (the client) and those that get (or expect to get) political support in return (the patron). The term refers both to the provision of political support in expectation of getting a job and to the provision of support after getting the job, and it is a type of clientelistic exchange only available to those in government. Since "patronage involves large rewards (a steady and secure income), it is exchanged not for a single vote but for a broader electoral support" (Stokes, 2009). Patronage has been found in countries all over the world, from Italy (Chubb, 1981, 1982; Golden, 2003), Greece (Papakostas, 2001; Pappas, 2009), and the United Sates (Banfield and Wilson, 1963; Folke et al., 2011; Johnston, 1979; Wolfinger, 1972) to Bulgaria, Hungary and the Czech Republic (Kopecký and Spirova, 2011), Argentina (Calvo and Murillo, 2004, 2012; Calvo and Ujhelyi, 2012; Kemahlioglu, 2006, 2011; Remmer, 2007; Scherlis, 2009), Nigeria (Bratton, 2008), and Ghana and South Africa (Kopecký, 2011). It is not only a widespread phenomenon about which we know very little, but, more importantly, it is an issue which has significant economic and political consequences. It is easy to see how the distribution of public sector jobs with political motivations could affect the quality of public administration and generate economic inefficiencies. Since in patronage contracts the criteria for selecting new employees is their willingness, or capacity, to deliver political services instead of their skills for the job, education or merit, there is no mechanism to prevent unqualified citizens from getting hired, leading to poor public administration. When the partisan bias in hiring does affect the quality of the administration, economic resources end up being wasted. If the employees hired are unqualified for the job, with the same number of employees, the output, in terms of production, is lower than it would have been in the case with qualified individuals. Moreover, if political appointees devote part of their working hours to the provision of political services, less time is devoted to ordinary day-to-day working tasks. Also, if the reason for hiring is to obtain political support, the size of the public administration can expand beyond the needs of the administration itself to instead reflect the political needs of the patron (Kemahlioglu, 2006). In other words, patronage systems, in which incumbent parties "earn political rents" from employment relationships, could create "an incentive to provide more employment than the efficient level" (Baland and Robinson, 2007). Spending on patronage, in turn, leads to the under-provision of public goods; when public money is used for political gain, less is available for public goods (Lizzeri and Persico, 2001; Magaloni et al., 2007; Persson and Tabellini, 1999). Moreover, empirical studies have shown that professional bureaucracies in which hires, promotions, and dismissals are insulated from electoral politics are associated with economic growth (Evans and Rauch, 1999), poverty reduction (Henderson et al., 2003), less corruption (Dahlström et al., 2012; Rauch and Evans, 2000), investment in infrastructure (Rauch, 1995), and higher bureaucratic performance (Rauch and Evans, 2000). Note, however, that in some cases the level of public employment is "not chosen only from the point of view of productive efficiency," but as a redistributive device to transfer income from the middle class to more disadvantaged citizens (Alesina et al., 2000).

In spite of this, some scholars have argued that a complete insulation of the bureaucracy from politicians is not necessarily a desirable scenario. For instance, far from the idea of patronage generating inefficiencies, Müller (2007) has argued that patronage can be used to increase policy-making capacity: "(b)y planting their trustees in the administration and the public sector more generally, political parties can make their policies better informed and smooth their implementation." From the principal-agent perspective, often used to study bureaucracies in the developed world, one of the main problems in the relationship between politicians (principals) and bureaucrats (agents) is how to make sure that the politician can delegate responsibility to the bureaucrat, still obtaining his preferred outcome. Patronage appointments are a possible solution to this problem, with this full freedom to appoint supporters increasing considerably the likelihood that the interests of the bureaucrat mirror those of the politician. In this line, Grindle

(2012) has argued that in some Latin American cases "the patronage systems encouraged the responsiveness of bureaucratic actors to executive policy leadership." Although these arguments could apply, mainly to the behavior of the high public officials who determine policy implementation, the idea of who writes is that patronage in general tends to hamper an efficient functioning of the public sector. Moreover, the use of any state resource for electoral competition provides an unfair advantage to the incumbent party. In this sense, patronage has much in common with the targeted manipulation of public programs and pork-barrel spending. In all three of these cases the electoral playing field is skewed in favor of the incumbent party. Elections may still be competitive, but with the political use of state resources by the incumbent party to finance political workers, elections are less fair for the non-incumbent parties. This, in turn, generates perverse incentives among politicians. If politicians' success in the polls strongly depends on the political services provided by public employees, they have "little reason to care about the formulation of policies, the construction of programmatic parties, and practices of accountability" (Schaffer, 2007).

Understanding how patronage works is also important because it likely is a prerequisite for many other forms of clientelism and corruption. In the words of Piattoni (2001) clientelism "implies" patronage: bureaucrats have control over a wealth of resources that can be used for political and/or personal gain. Having "friends" appointed to certain positions, politicians will often find it easy to get patronage employees to do them a "favor" and to provide resources required for clientelistic exchanges (Muller, 2007), as well as for personal and political corruption. Similarly, Kopecky et al. (2008) argue that patronage is the "necessary condition" for the emergence of vote buying, pork barrel, and corruption.

The rest of the dissertation is organized as follows. In chapter one I provide a review of the related literature, spanning from economic research to political science works. In this section many of the ideas presented above are traceable. In the second chapter I perform an empirical analysis of the patronage phenomenon in Italy. Using data on italian parliamentarians I try to relate legislators appointments in PPEs boards of directors to political variables, also trying to suggest the presence of the so called *spoils system*. In the last chapter I formalize a theoretical model about the issue, basing it upon the main results of the empirical part of my work.

Chapter 1

Literature Review

1.1 Introduction

Established democracies, organized according to the principles of free market and private property, still today present the state as a fundamental actor of several sectors of the economy. This state of play continues even after the recent years large state owned enterprises (SOEs) divestment. Indeed, the public sector continues to own large shares in many utilities, such as gas and water supply, rail transport, airlines and so forth. Actually, it has been theoretically suggested by Sappington and Stiglitz (1987) that under conditions of perfect competition, and without informational problems, ownership should not matter. The original arguments in favor of public ownership were justified as a solution to the lack of the above conditions, and to market failures, like externalities and natural monopolies. SOEs were created as a direct instrument to channel investments in priority sectors as perceived by the policy makers, to implement full employment policies and to promote a balanced regional development. Nevertheless, by the 1970s, the performance of SOEs came under increasing scrutiny due to inefficiency, mismanagement, corruption and political interference. Privatization of SOEs has been viewed as a policy instrument for reducing the impact of political factors on economic performance, as pointed out by Vickers and Yarrow (1991), but the real outcome have not met these expectations.

The dominant trend in literature advances political interference in SOEs and newly privatized firms (NPFs) operations as a negative influence on output targets,[1] as stated among others by Boubakri et al. (2008), Menozzi and Van-

[1] Moreover, Chaney et al. (2011) show how politically connected firms disclose lower quality accounting information.

noni (2012) and Carretta et al. (2012). Also, there is a consensus about how residual government ownership is an effective channel of redistribution for political dividends. Private-public enterprises (PPEs), or mixed firms, would tend to answer to political masters instead of market rationales, as pointed out by Clarke and Cull (2002), Cragg and Dyck (2003) and Boubakri et al. (2011). Indeed, politicians would forfeit important means of generating political support privatizing public firms, losing the possibility to provide public employment and/or lucrative contracts to their supporters, like remarked by Shleifer and Vishny (1994). I assume that this enduring role of the public sector in PPEs could be an asset for party usage of *resource patronage*,[2] where patronage represents the power of a political party to appoint its (ex) members to a mixed firm board of directors. In addition, PPEs might still be subject to the political costs of government interference because governments, and then ruling parties, often control these firms by means of special arrangements, such as golden shares, that leverage their voting powers, as stated by Bortolotti and Faccio (2009). Boubakri et al. (2008) examine a sample of major strategic industries located in 39 countries and report that governments not only continued to remain as shareholder, but also appointed politicians to key positions in PPEs. Indeed, also anecdotal evidence suggests that, even if the firms are fully privatized, governments often maintain the control on these firms, particularly through political connection - i.e., appointing politicians or loyal bureaucrats in key positions within the firms - especially in countries without a strong regulation regarding conflict of interests and career incompatibilities. Predicting a negative effect of public ownership on firm-level performance, the *political economy view* posits that politicians running mixed firms (and their coalitions) will use these firms for direct political gain.[3] In particular, given that party leaders have plentiful access to state resources and that factionalism is thought to weaken parties at the polls, it would be odd if party leaders were unable to strengthen party discipline and reduce internal splits through patronage appointments to PPEs boards of directors. Specifically in Italy, the weakness of public bureaucracies, the interventionist tradition of the state in the economy, and the necessity of maintaining a precarious consensus, thus gave relevance to patronage as a crucial resource in the italian pattern of democratic consolidation (Di Mascio, 2012).

The logic of patronage in Europe is mainly guided by a desire to allow party governors to control the processes of policy design and, in addition, by

[2]See Di Mascio (2011).

[3]See, among others, Chong and De Silanes (2005), Cui and Jiang (2012), Porta et al. (1999) and Shleifer and Vishny (1998).

the flow of public resources towards parties, which allows possible rewards of party members through patronage appointments (Kopecky et al., 2012). The exception to the prevalence of control over reward is in the regional and local administration sector. Indeed, local administrations stand out as the heartland of patronage, and parties have the capacity to reach all institutions at the subnational level of government. The pervasiveness of local patronage is reinforced by this sharp increase in the number of disaggregated institutions. Parties took advantage of the opportunities that the expansion in subnational administration offered to fill the new extra-ministerial organizations with political appointments at all levels. In addition it must be noted that the pressure from the European Union for the liberalization of local public service markets allowed subnational governments to extend their hold over local economies, using the corporatization to increase the sphere of particularistic exchange which, at the local level, and especially in southern Italy, is clearly broader and deeper than elsewhere. Nonetheless, the exchange which interests me most is between party (leaders) and members of parliament (MPs): in this view patronage is seen as an instrument to ensure party members a job after their last term in parliament, most probably if MPs have shown a high level of party loyalty. From this point of view political science literature can explain us most of what is behind the curtain. Recent research on party democracy argues that parties have begun to establish tight linkages to the state, while functioning less and less as voluntary associations for citizen representation (Bolleyer et al., 2012). The increase of patronage observed in several european systems can be read as one symptom of this overall phenomenon. Then, we can conceptualize patronage as a resource which parties use for their organizational self-maintenance in modern party democracy. The readiness of parties to use patronage needs to be understood as a selective incentive to assure individual loyalty, where the capacity to do so through collective incentives declines due to several mutually reinforcing processes. Since political engagement has become a matter of 'choice' more than of 'belonging', parties need to assure loyalty on the basis of selective benefits. An increasing demand is one part of the story, the problems to handle patronage as a resource to satisfy these demands is another. The last part of the chapter looks at patronage exchanges and the challenges springing from them when patronage positions are used to maintain organizational support and to influence candidate selection process.

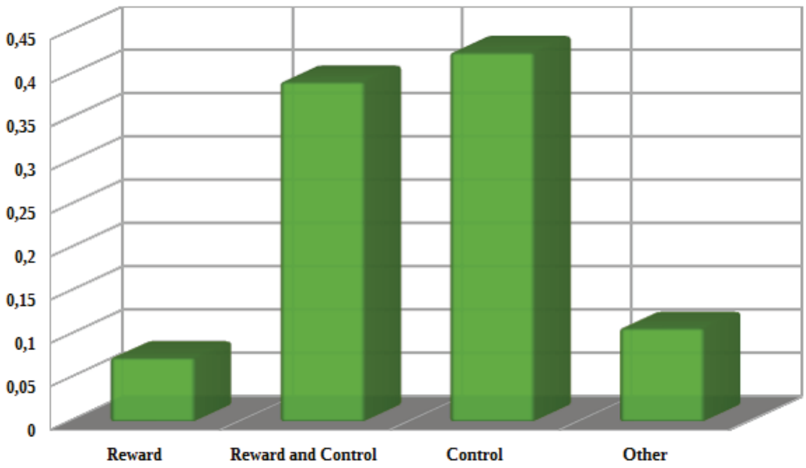

Figure 1.1 – Motivation for patronage in Europe. Source: Kopecky (2012).

1.2 Collecting resources: the political economy of privatizations

In this section I describe two of the major sources of patronage positions: partial privatizations of SOEs and the creation of regional/local public firms as local public services providers. About the former there is a huge amount of literature, both theoretical and empirical but, although there are many scholars that have examined the economic outcomes of privatization, just few of them have studied possible political reasons for the government to maintain the control of privatized firms. In other words, few researchers stressed out how ruling parties have privatized SOEs simultaneously retaining appointment authority, or gaining electoral consent thanks to the manner the process has been implemented.

In Stiglitz (1993) one of the main disadvantages of privatizations is represented by the loss of potential rents by the government; moreover the author poses the question about how privatize SOEs, preventing the state from interfering in firms management. To this end the author also proposes to divide the government interests among different government units using check and balances tools. More specifically, in Shleifer and Vishny (1994) the authors review several kinds of such potential interferences. Firstly, SOEs, and PPEs in general, sometimes could produce goods desired by politicians rather than by consumers, highlighting how the production of a good may have a symbolic value for a government party but no value to the community. In addition, a public bank could be asked to channel its loans towards less efficient enterprises only because their political closeness to the government party. Another possible example of rent is the case when a public firm is asked to locate its production in politically desirable rather than economically attractive regions. Furthermore, some public enterprises may charge prices below marginal cost to increase their political masters electoral consent. In their model then, politicians never desire to relinquish control over state or partially privatized firms. Lastly, they assume that most publicly owned firms are encouraged, by politicians, seeking votes employing too many people.

In Clarke and Cull (2002) the authors examine this last kind of rent for the argentine public provincial banks divesting process at the beginning of the 1990s. In those years most of argentine provinces owned banks and, given that provincial governments believed that the Central Bank would have guaranteed their banks solvency, the local governments have had little reason to ensure that the banks performed efficiently. This magnified corporate governance problems by reducing provincial governments incentives to monitor bank performance and allowed provincial politicians to use the banks for political gain at a relatively low cost. Indeed, the most important political benefit was that the banks provided provinces with a cheap way of financing their operations. Provincial governments could borrow from the provincial banks, which would then rediscount the loans to the Central Bank of Argentina. By 1990, the provincial banks financed 60 percent of provinces credit needs in this way. In addition, in using these banks to finance provincial deficits, local politicians also used them to reward supporters with cheap access to credit and employment. This arrangement ended when, in 1991, the newly elected Menem administration implemented the Convertibility Plan to stabilize the economy and reduce inflation. By decreasing the benefits associated with owning a bank and increasing the risk, the Convertibility Plan made owning a poorly performing bank significantly less attractive than it had been before, which encouraged provinces to consider privatization. Then the provincial banks were divested via direct asset sales, which were generally not designed to maximize revenues. In addition, many privatization contracts contained concessions to opponents of privatization, the most important being some agreements protecting workers and maintaining branch networks. In their study a number of empirical tests provide support for the notion that political factors played a role in provincial bank privatization decisions. Among other results, the authors argue that labor market conditions do affect privatization decisions. Governments, in provinces with overstaffed banks, high shares of public employment, and high unemployment rates, were less likely to privatize.

In order to maximize electoral consent a government party may also divest SOEs "underpricing" its share-issue privatization (SIPs). In Laurin et al.

(2004) the authors examine this strategy, similarly to Jones et al. (1999).[4] The dominant political economy view is that politicians maximize the number of votes, the plurality of votes, the probability of winning reelection or, more generally, political power (Downs, 1957; Buchanan and Tullock, 1962; Dixit and Londregan, 1995). Revenues from SIPs could help governments achieve their re-election ends but, selling shares at below market prices to domestic shareholders, who are also potential voters, may be more effective. More generally, governments might lower the price of SIPs when the political benefits of underpricing exceed the political opportunity cost of the foregone revenues.[5] Following this logic the authors, in their paper, wonder whether governments act to maximize the revenues they receive from privatizations or whether political motives may stand behind the process. When governments engage in privatization via the broad-based issuance of fixed-price shares, one might expect that they maximize revenues. Finance theory relating to initial public offerings in the private sector (IPOs) suggests that some underpricing is consistent with revenues maximization. The relevant question then becomes whether governments underprice SIPs by more than is necessary to maximize revenues. Political goals are one reason they might do so. The core question is whether the underpricing of SIPs is due to revenues goals, to political goals or to a combination of both. In order to address the question, the authors develop three models of underpricing. The first assumes that governments maximize revenues when engaging in SIPs, the second assumes governments emphasize political goals, and the third assumes governments

[4] Jones et al. (1999) test the underpricing models of Perotti (1995) and Biais and Perotti (2000). Both models predict that governments that are ideologically committed to privatization and economic reform will deliberately underprice SIPs and will privatize in stages, to signal their commitment to protecting investor property rights. "Populist" governments pursuing privatization strictly as a means of raising revenue will be unwilling to underprice as much as will committed governments. Populist governments will also try to sell larger stakes in SOEs. Jones et al. (1999) find that initial returns (underpricing) are significantly positively related to the fraction of the firm's capital sold and to the degree of income inequality (Gini coefficient) in a country. They also find that initial returns are negatively related to the level of government spending as a fraction of GDP (a proxy for how socialist a society is) and to a dummy variable indicating that more than 50 percent of a company's stock is being sold. Collectively, these findings strongly support the predictions of Perotti (1995) and Biais and Perotti (2000).

[5] A different version of political utility-maximizing behavior is that politicians have ideological goals that conflict with vote maximization (Kalt and Zupan 1984; Alesina and Rosenthal 1995). Dixit and Londregan (1998), for example, present a model where parties maximize a weighted average of votes and an ideological social welfare function. One potential advantage of underpricing is that it melds ideological preferences and vote maximization. Underpricing increases share ownership dispersal (Brennan and Franks 1997), reduces the probability of renationalization (Schmidt 2000; Biais and Perotti 2002) and is politically popular.

have both revenues and political goals. In aggregate, SIPs are underpriced by about the same amount as private initial public offers (IPOs). This is somewhat surprising given that most SIPs are less risky than most IPOs and suggests that governments have pursued political objectives and “left money on the table”. The authors also find important differences between countries.

A possible rationale for continued government influence following privatization is provided by the theoretical model of Perotti (1995), who argues that partial privatization can signal government’s commitment to market-oriented policies. By relinquishing their control rights, governments signal that privatization is credible and implies no policy risk (i.e., risk of interference in the operations of NPFs either through regulation or renationalization). By retaining residual ownership, governments thus signal their willingness to share any remaining policy risk. As a result, and according to Perotti’s model, partial privatization is a political choice that depends on the characteristics of the government in place, that is, on political institutions. Based on this model, Biais and Perotti (2002) show that right-wing governments, whose objective is to ensure their re-election, signal their commitment to the median voter through partial privatization and underpricing.

As said, a primary concern about the political economy of privatizations, is the partial implementation of the policy and the continuing role of the state in the PPE management. Specifically, allowing a persistent public sector interference in mixed firms business administration means continuing the potential creation of patronage positions. Along these lines Bortolotti and Pinotti (2008) show how some governments have promptly entered the advanced stage of the privatization process, and raised a significant fraction of their revenues earlier, while others have lagged behind. The authors claim that political fragmentation, which is related to the number of agents with veto power in a given political system, hampers the implementation of policies with significant distributional consequences, such as privatization. A lower political fragmentation favours executive stability and allows incumbent governments to privatize a sizeable fraction of their SOEs sooner, as the constituency of the “losers” from the policy change is less likely to enjoy bargaining power. On the contrary, highly fragmented political systems tend to disperse decision-making power among different actors, so that executives are weaker and characterized by higher turnover. In this context, the different political actors will hardly reach an agreement about how to distribute the burden of the policy change, and privatization will be delayed by a *war of attrition* as in Alesina and Drazen (1991) and in Spolaore (2004). In the paper, the authors test this prediction by estimating a duration statistical model on data for 21 OECD economies during the 1977–2002 period. The results are consistent with the empirical implications of the war of attrition theoretical model. Political systems with a smaller number of parties and operating under majoritarian electoral rules privatize sooner, while large-scale privatization is delayed in more fragmented democracies. These results are confirmed also by Bortolotti and Faccio (2009): in their paper the authors firstly remark that in terms of flows, privatization transactions, including SIPs and private placements, raised US $ 1,230 billion globally during the 1977–2003 period, about one-fifth of the total value of issues floated on public equity markets. Nevertheless, they also remind how governments have often separated ownership and control in privatized companies by means of devices that leverage the voting power associated with their investments, such as pyramids, and by means of special powers, such as the power to veto acquisitions, granted to the state. In this line Italy serves as an example: the italian government launched its first large-scale privatization program after the 1992 general elections, when the country was facing one of the most acute economic and political crises of the post war period. Since 1993, major privatization deals have raised more than US$ 100 billion.[6] Despite this apparently remarkable result, the italian government is still an influential shareholder in many privatized firms. For example, it holds direct and indirect stakes, through Cassa Depositi e Prestiti, in Eni (the largest oil and gas company), Enel (the electricity giant) and Finmeccanica (the aerospace, defense, and IT group). Then, despite the large value of total privatization, italian and others governments retain substantial power in PPEs. In the paper, there is an assessment of government control of privatized companies, which appears significant and widespread across the industrialized world. The authors show that many cases of privatization are characterized by the sale of equity without a proportional transfer of control. There are two types of mechanisms that are commonly used to achieve this. First, the government can leverage the voting power associated with its investment through pyramiding, dual class shares, etc. With these ownership leveraging devices, it can remain the largest ultimate shareholder of a company even though it no longer directly owns 100% of the stock. Second, it may hold golden shares, permitting the government to make important decisions in the company administration, such as to veto proposed acquisitions, or alternatively, to impose constraints on other investors, such as caps on their share of voting rights. They document governments overall control of privatized firms by evaluating both *ultimate control*[7] and *golden shares*. For the analysis, they construct a sample of 141 companies from developed economies that were privatized (and became pub-

[6]Securities Data Company (SDC) online database of financial transactions.

[7]The diction "ultimate" means that ownership leveraging devices are accounted for. The authors remark how neglecting these mechanisms, they would substantially understate the power of the state in privatized firms.

licly traded) prior to the end of 1996. Just considering ultimate government voting rights, they find that the most common privatization outcome is that the state remains the largest *ultimate owner*. Bortolotti and Faccio (2009) also show how golden shares are particularly common among privatized companies in which the government is not the largest shareholder: through either direct ownership, or leveraging devices or golden shares, governments then maintain control of almost two-thirds of privatized firms. A last result of the paper is that the preferred devices to retain government control differ across countries. In common law countries, governments tend to retain control by using golden shares, and they are unlikely to retain large ownership positions, whereas in civil law countries, governments tend to retain large ownership positions. Moreover, governments tend to retain control through ownership in countries dominated by left-wing majorities and with proportional electoral systems. In accordance with Bortolotti and Pinotti (2008) the authors conclude that in more politically fragmented environments, privatization tends to be incomplete.

Boubakri et al. (2011) provides another work on the determinants of residual state ownership in NPFs. The purpose of this study is to determine how political institutions influence post-privatization control structure in a large set of emerging markets. The analysis consists of two parts. First, using hand-collected firm-level data, the authors examine the residual control of privatizing governments using four measures of control: direct ownership, ultimate ownership, golden shares, and political connection. They find that residual state ownership, over a window of up to six years following privatization, shows a significant decline. However, the speed with which governments relinquish control appears to differ across industries and regions, and the state remains the controlling owner (holds more than 50% of the shares) in 46% of the sample firms. They also find that the method of privatization is correlated with residual state ownership; for instance, share issues on the stock market are associated with more gradual divestitures. Boubakri et al. (2011) is one of the first papers where the authors explicitly examine, among other tools, political connections (30.3% of the sample firms), as a direct way of controlling NPFs administration. The second part of the paper focuses on the impact of political governance on post-privatization control structure. More specifically, they assess how political constraints and institutions influence the government residual ownership in the six years following privatization. As a redistributive policy, privatization is politically costly, and hence is necessarily constrained by the strength of checks and balances, by government ideology, and by the political system in place. Their multivariate analysis, which controls for other potential factors influencing privatization design and corporate ownership structure, shows that the decline in state ownership is indeed associated with the country political environment. For instance, residual state ownership is higher in parliamentary systems and under regimes with greater constraints on the executive (checks). However, the ideology of the executive does not appear to affect residual ownership. In country-level regressions the authors find that political factors can shape residual state ownership, as predicted by prior privatization theory (e.g. Perotti, 1995 and Bias and Perotti, 2002) and empirical evidence on share issue privatization design (e.g. Jones et al., 1999). More specifically, the results show that the type of political system (e.g, parliamentary and presidential), and the degree of political constraints (e.g., checks and balances) are significant determinants of residual state ownership in NPFs, even after controlling for the influence of the legal environment. For example, residual state ownership in NPFs is higher under parliamentary systems than under presidential systems. In addition, consistent with extant arguments in the political economy literature (Alesina and Drazen, 1991), they find that when political constraints and the power of veto players are higher, they limit the ability of governments to put in place market-oriented reforms such as privatization. Facing such constraints, the government is more likely to privatize slowly, divesting small stakes in a sequence of sales over time. Their measure of political constraints is thus positively related to residual government ownership. Throughout the analysis, however, the ideology of the executive appears not to be significant, a result that contrasts with theoretical arguments in Biais and Perotti (2002) and with empirical evidence based on OECD countries that support the view that government control is significantly determined by the ideology of the executive (Bortolotti and Faccio, 2009).

Also Dinc and Gupta (2011) investigate the role of firm-specific financial and political factors in the selection of firms for privatization. While the benefits of privatization, such as revenues from sale, financial market development, and efficiency gains, tend to be dispersed across the population, the costs of privatization, such as layoffs of surplus workers and the loss of private benefits of control for politicians, tend to be concentrated among a small group. To understand how these concentrated costs can slow down the process of privatization, the authors investigate the role of political competition and, for the first time at my best knowledge, patronage in the privatization decision. Since the adverse effects of privatization, such as layoffs, are likely to be concentrated in the region where a firm operates, the governing party may lose votes in that region because of opposition from interest groups that are adversely affected, such as the local employees of PPEs. Privatization may also be perceived negatively by the public as an inequitable transfer of publicly owned assets to private owners, which can result in a loss of votes in the region. Since any decrease in voter support is likely to matter more for the governing party if it is in a competitive race with opposition parties in a region, they expect the government to delay privatization in regions where the governing and opposition parties face a close race. This is consistent with the argument that politicians may allocate public funds to pivotal regions to achieve electoral goals (Lindbeck and Weibull, 1987; Dixit and Londregan, 1996). Since politicians obtain private benefits from controlling government-owned firms (Shleifer and Vishny, 1994; Dinc, 2005), they also consider the role of political patronage in the privatization decision. For example, politicians can influence the hiring decisions of government-owned firms to favor supporters. Theory suggests that politicians may target government programs to reward supporters with patronage (Cox and McCubbins, 1986; Persson and Tabellini, 2002). Hence, rent-seeking politicians may delay privatization in regions where their supporters are based. To evaluate the effect of financial and political factors on the privatization decision, they use firm-level data on Indian firms that include both privatized firms and those that remain fully government-owned and, to investigate the role of politics, they collect electoral data for each of the 543 electoral districts in India from all the federal elections held since the start of the privatization program in 1991. The results suggest that, similar to the IPO decision of private firms, larger firms are more likely to be privatized early. They also find that privatization is significantly delayed for firms with a large wage bill, suggesting that employees of firms with a large workforce may block privatization. Unlike private firm IPOs, political factors also play an important role in the privatization decision. In particular, they find that privatization is significantly delayed if a firm is located in a politically competitive constituency where the governing and opposition party alliances have won a similar share of votes. They also find that governments delay the privatization of those firms located in districts where the opposition party has greater voter support. These results suggest that governments act to minimize the effects of a political backlash by delaying privatizations in districts where governing parties face more competition from the opposition. To investigate the role of political patronage in the privatization decision, they examine whether retaining control over a firm is a greater priority for the politician in charge of the firm if the firm is located in the home state of that politician. They find that no firm located in the state from which the minister with jurisdiction over that firm is elected is ever privatized. This result indeed suggests that political patronage has a significant impact on the privatization decision.

In addition, also decentralization reforms may generate many opportunities for appointing party members in public institutions and in PPEs at subnational levels of government. Kleibrink (2015) suggests how virtuous ideals of regional self-rule and local community, to be achieved through decentralization reforms, can be hijacked by parties elites to advance their own interests. The author argues that political elites and parties have transformed public sector positions, also at the regional level, into patronage resources. In his work he shows how politicization of the public sector has spread and he examines also the spread of patronage at different levels of government, and to what extent elites in the centre and periphery have access to patronage resources. His assumption behind this relationship is that elites in the centre are more likely to support regional autonomy and decentralization reforms if they open up opportunities to dispense patronage to their affiliates and partisans in the regional bodies gaining new powers. The empirical analysis seems to unveil a regular pattern: the growth of public sector employment would be most pronounced at the regional level and it is strongest after decentralization reforms were adopted. This surge in public sector jobs could have opened up opportunities to fill positions with political appointees. Indeed, literature mainly treats decentralization as one of the causes of patronage. Decentralization in this view is a process that increases the opportunities for patronage because it is often associated with increased public sector employment at lower levels of government and more fragmented policy-making and implementation with larger discretion for recruitment of public sector employees (Treisman, 2007). The author argues that elites and political parties at the national level consider the expected access to patronage resources at the regional level when they make decisions on decentralization reforms. That is, he treats patronage as a causal mechanism that partially explains the degree of decentralization.

Specifically for the italian case, literature has focused also on how municipal PPEs could allow the public shareholder to retain some control on these firms management.[8] The move towards privatization has demonstrated the increasing will to include the private sector in the provision of local public services, in order to improve the national public budgets and make local public firms more efficient and less oriented to political objectives. Following this trend we should assist to an increasing role of the private sector in providing local services in those sectors which have been (partially) privatized, but this is not what we observe in reality. Full privatization or private provision are rare, also at local level. A study by the European Centre of Employers and Enterprises providing Public services (CEEP, 2010) shows that in the majority of European countries (e.g. Germany, France, Austria, Poland, Estonia, Italy), municipalities organize utilities in communal enterprises, serving the local jurisdiction; they can be the sole property of a municipality, in co-management with various municipalities, or in co-participation with private

[8]See, among others, Bortolotti et al. (2007b) and Osculati (2011).

agents. As a result of the phenomena of *reluctant privatization* and *municipal capitalism*, public services in Italy, and in Europe, are increasingly provided by mixed firms. *Municipal capitalism* is the term used by Bortolotti et al. (2011) to define the diffuse phenomenon of ownership and control of firms from italian local government units. The participation to the mixed firm can allow the local government to retain some form of control over it, in order to protect the public interest, given the crucial importance of utilities in providing services affecting social welfare. Nevertheless, as national governments did, also local governments maintained the control of local firms even after the corporization process and this has, possibly, allowed them to maintain also appointment authority. In this line I argue that also at municipal level mixed firms could represent an additional opportunity for patronage.

1.3 The political usage of resource patronage

As we have seen at the end of last paragraph, one of the reasons why governments delay privatizations and retain the ultimate control of PPEs is the maintenance of the opportunity to appoint partisan politicians to those firms boards of directors. This practice may have a double benefit. On the one hand it allows parties to establish close ties with public firms in order to better control and coordinate the enacted policies. On the other hand political parties could exploit these links to place their members in firms *boards*, in order to reward the formers with which Mattozzi and Merlo (2008) call a *political career* position. The reason behind parties need to appoint their (ex) members (of parliament) in mixed firms boards may be not so straightforward, and political science literature can help us better understand some indirect interpretations. Several works on party change point to the increasing costs for party leaders in modern democracies of recruiting and retaining members, as in Blyth and Katz (2005). Mair and Van Biezen (2001) document how leaders try to maintain a membership basis, in a moment where an observable trend of political participation decline across western democracies over time. The consequence that the bulk of passive members shrinks, and with it the amount of membership fees they contribute, is problematic. Still, parties seem to be able to cope with this development by acquiring access to state funding, as stated by Van Biezen (2000) and Van Biezen (2004). As Panebianco (1988) suggests, at the same time, however, the number of active members shrinks as well - those core members who are essential to maintain the ‘party on the ground’ as an organization. Indeed, in bad electoral times the existence of a core of supporters is essential to a party survival. Furthermore, as remarked by Seyd and Whiteley (2004) for Britain, the goal of organizational self-maintenance presupposes the smooth replacement of leaders and candidates over time again presupposing that a pool of office aspirants is recruited in the first place. To control this process is not only in the interest of the party elites, who want to maintain their own position in the party machinery, but also adds to the outside credibility of parties able to deliver programs, policies and personnel in the long run. Thus party elites need an organization which helps to channel, monitor and pre-select potential successors and keeps them waiting without threatening the current leadership. To do so, party workers are needed to uphold the basic organizational infrastructure, and to motivate them to continuous work quite naturally creates costs for the party leadership. Patronage may then represent a useful tool to bear this cost without squandering parties monetary resources. Indeed, the growing challenges for party elites to reconcile electoral and organizational goals may lead to patronage usage as selective incentives that can help to cope with these challenges. From this point of view selective, in contrast to collective, incentives gain value because they are attributed to only a sub-set of members and are not accessible through simply entering the organization. The use of patronage represents one strategy available to parties to satisfy the demands for selective incentives. Empirically, the increase in party patronage observed in several European democracies of fairly heterogenous institutional make-up, as pointed out by Müller (2000a) and by Blondel (2003), can be read as one symptom of these transformations of Western democracies. While party elites resort to patronage - along with their increasing dependency on state funding - has been identified as one indication of party change, its interplay with party elites electoral strategies have not been spelled out systematically. While empirical work on patronage shows that patronage is used to compensate party activists, it would be of some interest going one step forward studying the organizational implications due to party elites changing relations with members. Further, it would be interesting to explore in what way the professionalization of parties and the demands of the electoral game change leaders' demands for members of a particular type, shifting focus from ideologically motivated members to loyal ones. Indeed, by focusing on the increasingly demanding, and therefore less stable, relationship between core members and party elites, it becomes comprehensible why party elites resort more frequently to patronage as an instrument to assure intra-organizational loyalty, as we will see in the third chapter.[9]

[9]This kind of dynamics have been properly analyzed, for the italian case, by Di Mascio (2011).

Political connections of PPEs are well documented by Boubakri et al. (2008). In their empirical research the authors investigate the extent of political connections in NPFs. They use a multinational sample of 245 privatized firms headquartered in 27 developing and 14 developed countries over the period 1980 to 2002, trying to assess whether environmental, judicial and political variables, that vary across countries, have an impact on the likelihood of observing political ties in NPFs. Results show that 87 firms have a politician or an ex-politician on their board of directors. Most of the sample of politically-connected firms is located in East and South Asia and Europe. Only 12.64% of the sample of politically-connected firms is in Africa and Middle East countries. Of the 30 firms operating in the energy sector in the sample, 18 are politically-connected (i.e., 60%). The authors note that the presence of politicians in the boards of such firms is most likely explained by the importance of strategic sectors and their relative impact on the national economy: for instance, the presence of politicians on the boards of oil companies ensures a relative stabilization of the market, and a quick reaction in times of crisis. Furthermore, strategic sectors are traditionally state monopolies (especially utilities) and the transfer to private ownership requires new regulations and extensive supervision. Thus, the appointment of politicians as directors keeps the firm politically-close and may serve as a supervisory (monitoring) mechanism. Additionally, strategic firms are often used as political means to guarantee employment (hence popular support), as these firms usually hire overcapacity, and employ thousands of employees. In the sample, 81.61% of politically-connected firms are located in major cities where politicians are more likely to extract political support (votes), and almost one thirds of NPFs privatized through SIPs are run by politicians. Their multivariate analysis of the determinants of political connections shows that political and judicial conditions influence political appointments in NPFs. For example, a government that faces higher political fractionalization and has held office for only a few years is more likely to appoint politicians on the boards of privatized firms. Furthermore, they find that political connection is more prevalent in countries with lower judicial independence. Other firm-specific variables affect the likelihood of political connection. For instance, leveraged firms, operating in regulated sectors and located in major cities are more likely to be politically-connected. Privatization characteristics such as the residual government stake and foreign ownership respectively have a positive and negative effect on the likelihood that newly privatized firms are politically-connected. Finally, the authors examine the impact of the political connection of board directors on the accounting performance of newly privatized firms. To do so, they consider three accounting performance measures: change in return on sales, sales growth, and earnings growth. Bearing in mind the fact that the sample characteristics may drive their results, and even though they do not provide direct evidence on the way political connections affect firm performance, they find that politically-connected privatized firms underperform their non-connected counterparts. A major implication of these results is that if governments retain control over privatized firms through political appointments, privatization is more likely to be slower in delivering its promises.

Beyond the political incentives which could cause politically connected NPFs Ennser-Jedenastik (2014) specifically describes what we may call the *political reason* in the strict sense. Not necessarily looking to patronage as a detrimental practice the author simply consider it as one of several forms of linkage between the government and the parties that support it. As in Müller (2000b), it represents one link in the chain of delegation between voters, parties and the state apparatus, even though this link is typically not regarded as strengthening the process of democratic representation or accountability. All conceptualisations of party government crucially revolve around the relationship between political parties and the executive as in Katz (1986) and in Mair (2008). One of the sub-fields of political science most comprehensively concerned with this relationship is coalition research. It examines the processes by which parties form governments, distribute ministerial offices, bargain over policy output and manage the termination of cabinets (Laver and Shepsle, 1990; Strom et al., 2008). The empirical focus of the article is on a very specific patron–client relationship, namely the appointment of party loyalists to managerial boards in state-owned corporations. Indeed, party leaders may also use appointments to buy support from party activists, thus mitigating the risk of intra-party rebellion in the face of electoral defeat or unpopular decisions made by the government. The most obvious intersection between research on coalition governments and patronage is thus the study of office pay-offs, even if this line of research has largely been limited to analysing the distribution of ministerial portfolios. In political science literature there are only a few exceptions that have extended scholarly scrutiny to junior ministers (Lipsmeyer and Pierce, 2011; Manow and Zorn, 2004; Thies, 2001; Verzichelli, 2008) or members of parliamentary boards (Carrol and Cox, 2007). This is in stark contrast to the vast range of other office-related pay-offs that coalition parties have at their disposal, as we have seen. Laver and Shepsle (1990) provided an idea of the scope of office perks that are potentially at stake:

> Our search might extend to the judiciary and to the civil service, senior appointments to both of which typically require at least formal executive approval. Probably the most important

> sphere of patronage, however, can be found in the parastatal agencies, such as the many nationalized industry boards; water, electricity, and other service authorities; health boards; development authorities, and so on. ... This, to the best of our knowledge, is a largely unresearched area.

In the third chapter I provide a similar research through a theoretical model. Differently, I argue that the above mechanisms could occur not only in coalitions affairs but also in basic (government) parties dynamics.

1.4 Candidate selection and patronage

In this paragraph I review several political model of candidate selection, in order to introduce the third chapter which will include patronage as a tool influencing the described political dynamics. While *service patronage* involves a non-simultaneous exchange of goods or positions for supporters' loyalty, *resource patronage* refers to the partisan distribution of crucial positions in the civil service to assure the access to patronage goods in the first place.[10] In contrast to a distribution of posts on the basis of merit, hence, based on impersonal criteria and technical competence, patronage can flourish especially in professions, or in our case organizations, providing few impersonal mechanisms or objective criteria of advancement and in which patronage goods can be monopolized by a group of superiors. Beyond applying personal instead of generalist criteria for the selection of recipients, patronage denotes an unequal and non-simultaneous exchange crucially different from market-relations: a patron controlling a desired good has the choice to reward certain clients and exclude others, which gives him a stronger position in the exchange. Hence, the client might provide support only in the expectation to be rewarded; vice versa, the patron distributes a good in the expectation that loyalty will be maintained in the future. Accordingly, as stated by Cotta and Verzichelli (1996), patronage goods can range from appointments and posts in the civil service, positions in public-sector firms, to micro-policies of distributive character, which favour particular clients, as has been a common practice in Italy. Moreover, if internal posts form part of the available *patronage goods* the nature of patronage practices has an immediate impact on how parties organize: despite the usual use of patronage referring to the partisan penetration of bureaucracies and state institutions (e.g. Warner, 1997) and its usual separation from appointments of, for instance, cabinet posts (Muller, 2000a; Blondel and Cotta, 2000), patronage

[10] Di Mascio (2011).

relations can be equally found within parties, since positions can be easily distributed, on the basis of personal criteria, to assure party workers' on-going commitment by rewarding their loyalty. Indeed, as argued above, having party leaders plentiful access to state resources and considering that party members rebellion is thought to weaken parties at the polls, it is quite straightforward to imagine the formers strengthening party discipline and reducing internal splits through patronage appointments, as in Benton (2007). One topic my theoretical model in the third chapter is close to consists in the political economy analysis of politicians' career and party selection. In Mattozzi and Merlo (2008) two career paths are viable among politicians: there are career politicians (i.e., politicians who work in the political sector until retirement), and political careers (i.e., there are politicians who leave politics before retirement and work in the private sector). In their paper, they propose a dynamic equilibrium model of the careers of politicians in an environment with a private sector and a political sector, where individuals are heterogeneous with respect to their market ability and political skills. My analysis provides a different explanation for the existence of career politicians and individuals with political careers, specifically in (semi) public firms, and their motivations, such as the proved loyalty to their party during the term. The question of loyalty and its convenience for parliamentarians is shown very clearly in Indridason (2008). Several papers on party governance have considered the effects of dissent or intra-party disagreements. Caillaud and Tirole (2002) argue that the possibility of intra–party disagreement enhances parties electoral prospects but that actual expressions of disagreement hurt the party. In an extension of Caillaud and Tirole's model, Castanheira et al. (2005) find that the possibility of disagreement is beneficial when voters are relatively uninformed about the candidates' performance and when the perks of office are low. Beniers (2005) examines a model in which party leaders' ability to fire legislators influences dissent but that such ability leads to worse policies if the party leader is incompetent. A result of my model is that the party does not require full agreement to its policies by the parliamentarians to appoint them in a patronage board of directors also because a complete loyalty by the parliamentarian could signify losing a seat in parliament after next elections.

1.5 Conclusions

The reading of the presented literature on patronage suggests some conclusions and outlines the line of reasoning behind this thesis.

1. Even though nowadays western countries are well established democracies organized according the principles of free market and private property, the state retains an important role in several (strategic) sectors of the economy. Indeed, in recent years governments have transformed the well-known model of state capitalism, under which they owned and managed wholly owned SOEs, into a new model in which the government works hand in hand with private investors. In this new soft variety of state capitalism, governments own either majority or minority equity positions in PPEs. Many analysts consider the comeback of state capitalism a consequence of the recent global financial crisis but I consider this transformation as a result of the liberalization and privatization reforms that began after the 1980s. Given that privatizations were often partial or incomplete, governments ended up as minority or majority shareholders in a variety of firms across multiple industries, often retaining a controlling stake of the firm.

2. PPEs might still be subject to the political costs of government interference because governments often control privatized firms, in addition to controlling stakes, by means of special arrangements, such as golden shares, that leverage their voting powers for privatized SOEs. Furthermore, governments not only continue to remain as shareholders but also appoint politicians to key positions in the firms, especially in countries without a strong regulation regarding conflict of interest and career incompatibility.

3. The dominant trend in literature advances political interference in SOEs and PPEs operations as a negative influence on output targets. Also, there is a consensus about how government ownership is an effective channel of redistribution for political dividends. PPEs would tend to answer to political masters instead of market rationales.

4. Among others, patronage is one of the reason why privatizations could have been implemented partially. This has probably allowed what, for the italian case, we may say a *deep state colonization* by political parties. Also, this practice may represent one of the motives behind the well known private over public supremacy in doing business.

5. Political appointments are made primarily to control public institutions: parties nominate loyal individuals to top strategic positions (senior executives, board members, public corporation managers) in order to render administrative structures more responsive to changes in policy priorities. Nevertheless, party leaders may also use appointments

to buy support from party members, thus mitigating the risk of intra-party rebellion in the face of electoral defeats or unpopular decisions made by the government. In addition, and more importantly to my analysis, having party leaders plentiful access to state resources and that party members rebellion is thought to weaken parties at the polls, it is quite straightforward to imagine the formers strengthening party discipline and reducing internal splits through patronage appointments.

6. Lastly, for all written above, patronage, a biased contest for party members "promotions", may have a role in the political process of candidate selection. In this line I remark the role of patronage as an *exit strategy* for loyal MPs, which could influence the entire selection process.

Chapter 2

An empirical analysis

2.1 Introduction

Even though nowadays Italy is a well established democracy organized according the principles of free market and private property, the state retains an important role in several sectors of the economy.[1] The perceived success of the British Telecom initial public offering (1984) persuade many other industrialized countries to begin divesting state owned enterprises (SOEs). Italy has not been an exception: italian government, leaded by Silvio Berlusconi, launched a large privatization program in july 1994 (l. 474/1994).

It has been theoretically suggested by Sappington and Stiglitz (1987) that under conditions of perfect competition and without informational problems ownership should not matter. The original arguments in favor of public ownership were justified as a solution to the lack of the above conditions, and to market failures like externalities and natural monopolies. Actually, SOEs were created as a direct instrument to channel investments in priority sectors as perceived by the policy makers, to implement full employment policies and to promote a balanced regional development. Nevertheless, by the 1970s, the performance of SOEs came under increasing scrutiny due to inefficiency, mismanagement, corruption and political interference. Privatization of SOEs has been viewed as a policy instrument for reducing the impact of political factors on economic performance, as pointed out by Vickers and Yarrow (1991). The dominant trend in literature advances political interference in SOEs operations as a negative influence on output targets,[2] as stated among others by Boubakri et al. (2008), Menozzi et al. (2012) and Carretta et al. (2012).

[1] See, among others, Bortolotti and Faccio (2009)

[2] Moreover, Chaney et al. (2011) show how politically connected firms disclose lower quality accounting information.

Also, there is a consensus about how government ownership is an effective channel of redistribution for political dividends. SOEs would tend to answer to political masters instead of market rationales as pointed out by Clarke and Cull (2002), Cragg and Dyck (2003) and Boubakri et al. (2011). Indeed, politicians forfeit an important means of generating political support when they privatize SOEs, losing the possibility to provide public employment and/or lucrative contracts to their supporters, like remarked by Shleifer and Vishny (1994). Many authors have criticized the italian way of privatizing SOEs.[3] Notwithstanding the privatization process that took place since the 1990s, the public sector continues to own large shares in many utilities such as gas and water supply, rail transport and so forth. In this research I assume that this enduring role of the state in SOEs and partially privatized firms could be an instrument for *resource patronage*.[4] Furthemore, also local government units (LGUs) have freedom of choice about the ownership structure of firms providing local public services. In Italy, as well as in other european countries, LGUs can autonomously organize local utilities: the formers can be the sole owners of the latters, or they can stand in co-participation with other LGUs or with private agents. Bortolotti et alia (2007) use the term "municipal capitalism" to describe the phenomenon. Including local public utilities in the range of the firms possibly used for patronage should be correct, at least for the italian case. Despite italian parties show a low level of verticalization between national and sub-national units, "the central office controls the organizational regulation of the sub-national level, the selection of candidates to national elections and the allocation of state funds."[5]
In addition, especially in Italy, the legal definitions of *public enterprises* are variable: some have mixed ownership (private-public), some are totally private but under the supervision of public sector entities and some are pure SOEs, totally public (*enti pubblici*). This organizational intricacy dampers the public sector accountability and probably favors the intertwining of private-public enterprises (PPEs) and patronage dynamics. In Italy, in the period under analysis (1994-2003), government alternation could have played a role in SOEs and PPEs politicization through the substitution of directors elected by the previous governing party.[6]
The research presented in this chapter is an attempt to empirically analyze patronage occurrences and to verify if governing parties exploit appointments in PPEs boards of director as a means of control and reward for their loyal members of parliament (MPs), as suggested by Bolleyer (2009) and by

[3]Among others Cavaliere (1997), Macchiati (1999) and De Nardis (2000).
[4]See Di Mascio (2011).
[5]Ignazi and Pizzimenti (2014).
[6]As supposed by Di Mascio (2011).

Kopecký et alia (2012). In this perspective, patronage represents a useful resource for the party self-maintenance: a selective benefit to assure individual loyalty. A patron (government party) controls a desired good (appointment) and has the choice to reward certain MPs and exclude others. Hence, the MP provides support hoping for the appointment or, vice versa, the government party selects MPs' appointments in the expectation that support (or loyalty) will be provided in the future. The above dynamic would figure an agency relationship between political parties and MPs, where the formers exploit the selective incentives represented by an appointment to a SOE board of director, thanks to their persistent control on SOEs and PPEs, and the latters may reserve a chance for a *political career*, as intended by Mattozzi and Merlo (2008).[7] Parties usually offer incentives to MPs for voting along party lines.[8] However elected MPs are accountable to their constituents and they can be tempted to cultivate a *personal vote*.[9] The existence of single-member districts represents a clear link between a geographically defined group of voters and the MP (Mitchell 2000, Grofman, 2005). Moreover, given the recent reduction in party attachment, constituents may be willing to hugely consider MP behaviour when casting their votes.[10] Then, viewing patronage as an organizational resource for parties, I propose SOEs and PPEs boards appointments as additional tools to stimulate MPs loyalty in roll-call votes as in Kopecký et al. (2012). I focus the attention on three cohorts of MPs: those elected to the XII, XIII and XIV legislatures of italian parliament. I consider these cohorts of politicians for data availability and in order to avoid a possible structural break due to a change in the italian electoral rule. The so-called *Mattarellum*[11] established that a 75% of the representatives were elected with a majoritarian system and the remaining 25% according to a proportional system (mixed system). Italy was divided into 475 uninominal House districts. In each district, one MP was elected by simple plurality according to a pure first-past-the-post election. The remaining representatives were then selected with a proportional rule among the candidates of the parties that reached a treshold of at least the 4% of the total national votes, with a mechanism favoring the losing parties in the uninominal districts. For the Senate, 232 MPs were elected according to a simple plurality rule in

[7]See on this Ennser-Jedenastik (2014).

[8]Parties can punish rebellion through several mechanisms. See for this Bowler et alia (1999), Kam (2009) and Milligan and Rekkas (2008), among others.

[9]See the seminal work of Cain, Ferejohn and Fiorina (1987) and Carson et al. (2010). For the italian case see Golden (2003).

[10]See on this, among others, Zittel and Gschwend (2008), Kam (2009), Bellucci and Segatti (2010) and Vivyan and Wagner (2012).

[11]From the legislator Sergio Mattarella who sponsored the electoral rule reform.

uninominal districts and the remaining senators were selected according to a proportional system.
The rest of the chapter is organized as follows: in the next two paragraphs I describe the dataset and the methodology used to conduct the empirical investigation; in section 4 I present the results; finally concluding remarks are provided in the last section.

2.2 Data and variables

The dataset used is the *Italian Members of Parliament* (2009) dataset, kindly provided by the Rodolfo De Benedetti foundation. These data contain detailed information on all individuals who have been elected to the Italian Parliament, since the inception of the Italian Republic in 1948. The data span 60 years (1948-2008). In addition I manually compiled a second dataset regarding the appointments of MPs in SOEs and PPEs boards of directors thanks to the *Telemaco* online archive of the Chamber of Commerce of Italy. Thanks to this database I have been able to investigate MPs' past and present experience as members (or presidents) of boards of directors in PPEs.[12] The empirical analysis is conducted on a sample of 1237 italian MPs elected over the period 1994-2001.[13] Among these 1237 MPs, 808 are present in only one legislature, 298 in two legislatures (not necessarily consecutive) and 131 in every included legislature. Totally there are 1797 observations.

I call the dependent variable *appointment*: it is a dichotomous variable equal to one if, after the end of the legislature and within two years, the MP has been appointed in a PPE[14] board of director, zero otherwise. I chose a period of two years to consider the organizational time that may be required to a party to make an appointment effective. In Italy the power of parties in appointing (ex) politicians in publicly owned firms *boards* has been underlined by Di Mascio (2011), who explicitly defines *resource patronage* the control of these appointments as a usage of public resources subsequently used as selective incentives.
Several regressors are included among political key variables. The first one, *rebellion rate*, is a proxy of the dissent a MP expresses towards his/her own party. It is a ratio between the number or votes for which the MP was not present without a justification and the total number of votes at which the

[12] Where a public entity holds, directly and indirectly, firm capital shares.
[13] Observations with missing values are dropped from the sample
[14] I consider PPEs those firms, directly or indirectly, at least partially owned by the State or by LGUs.

MP should have been present.[15]
I consider prominent also the electoral result of MPs in the following national election, in order to test if the appointment could be exploited as an *exit strategy* by the MP him/herself. The (in sample) MPs' feasible outcomes are three: at the end of a term he/she can run and win (and so be reelected), run and loose or retire. The first case is adopted as base case and two dummy variables have been put into the regression equation for the rest of the possible electoral results (*defeat* and *retire*). The variable *opposition* is included to discriminate between ruling parties and opposition ones. Considering that the appointments occurr next the end of each legislature, and considering the strict alternation in government in the sample period, a positive value of the *opposition* variable would suggest a kind of *spoils system* in the "market of appointments".[16] Once in power, the ex opposition party would allocate its loyal (ex) MPs to the PPEs *boards*. In addition, I assume that the political expertise could affect positively the likelihood of being appointed in a PPE *board* after serving in parliament. The variable *exp. lex* account for the MP's political experience, measured in number of national parliament legislatures in which the MP has been present before being elected in the legislature under investigation.
Since 1982, the Italian law requires MPs to disclose their annual tax returns.[17] Then among included control regressors I inserted *extra income 1st year* which is a continous variable reporting the annual income from activities outside parliament, expressed in 2005 thousands of euros, in the first year of the term. Being unavailable the MPs income before entering the Parliament I use this income variable as a proxy of the MP's income before entering the parliament,[18] and, as in Galasso and Nannicini (2011), as a proxy for the MP's ability. In addition I include the *age* variable which specifies the age a MP had at the end of the legislature, in order to check if the MP's age has a valuable effect on being appointed.
In addition, *public exp.* and *private exp.* are two dummy variables equal

[15] I counted absences without justification as "passive nay" votes, similarly to Heller and Mershon (2008). I have considered this kind of dissent appropriate to let the variable indicate a MP's signal to her/his own party. On the legislative dissent and its detrimental effects see Indridason (2008). Alternatively *rebellion rate* could be considered a proxy of MPs shrinking or rent seeking. Under this alternative view parties could consider an appointment as a reward for the MP's effort in parliament and not for his/her loyalty. See on this Gagliarducci et al.(2010).

[16] Being the opposition parties the ruling parties in the next term.

[17] Law 441 of July, 1982.

[18] The income value of the first year of the term should be the best proxy for the income gained before entering parliament because of the verified declining path of this variable during the legislatures years.

to one if the MP before being elected to the current legislature, respectively, have had an appointment in a PPE board of directors and if he/she worked as manager of a private firm (or if he/she was a self employed). This qualitative variables, in my view, should represent a MP bent in leading a (public) firm and his talent. If this control would be significant and positive I could add a professional motivation for the appointment. Legislatures dummy variables (*_XIII lex* and *_XIV lex*) and *female* are included in the regression capturing, respectively, possible time trends and gender issues. The summary statistics are provided below. In general 5% of the MPs in the sample have been appointed within the time interval (two years) I considered valid for the dependent variable being equal to one. The rebellion rate variable varies from values very close to zero to values almost equal to one. The low values of *defeat* and *retire* seem to confirm the incumbency advantage hypothesis. Also the *political experience* variable show a huge level of heterogeneity, including MPs elected for the first time in the current legislature and MPs with a long political career. The sample shows a well educated political class which also shows a very clear male predominance.

Variable	Obs	Mean	Std. Dev.	Min	Max
appointment	1797	0.0550918	0.2282229	0	1
rebellion rate	1797	0.3183297	0.2125934	0.001	0.994
defeat	1797	0.1880913	0.3908938	0	1
retire	1797	0.2598776	0.4386893	0	1
ruling party next	1797	0.4607679	0.4985972	0	1
political exp	1797	3.153589	5.458469	0	46
extra income 1st year	1797	85.27431	367.3043	-9.737	11515.28
age	1797	52.39455	9.839844	29	86
private exp	1797	0.1346689	0.3414646	0	1
public exp	1797	0.0467446	0.21115	0	1
education	1797	16.35893	2.569468	8	18
female	1797	0.1235392	0.3291467	0	1

TABLE 2.1 – *Summary statistics*

2.3 The econometric model

In this section I illustrate the empirical model of my work. The goal of this part of the research is to investigate how MPs' political characteristics could influence the probability of being appointed in a PPE board of directors after a term in parliament. So I implement the following regression equation starting from a pooled ordinary least squares estimation

$$p(y = 1|X_i) = \alpha + \beta X_i + \gamma lex$$

where the vector of individual characteristics, X_i, and legislatures dummies, lex, are used to explain the phenomenon. I consider the linear probability model my natural starting point. Parameters are the change in probability of *success* given a one-unit increase of the regressors. If the explanatory variable is binary the related parameter is just the difference in the probability of success when it is equal to one respect to the case where it is equal to zero, holding the other regressors fixed. In order to deal with heteroskedasticity I use standard heteroskedasticity-robust standard errors. Nevertheless, since the OLS fitted value is an estimate of the conditional probability $P(y = 1|x_i)$, it is troublesome if the predicted probability is negative or above unity. Aside from the issue of fitted values being outside the unit interval, the linear probability model implies that a ceteris paribus unit increase in the regressors always changes $P(y = 1|x_i)$ by the same amount, regardless of the initial value of the covariate. So increasing one of the explanatory variables would eventually drive $P(y = 1|x_i)$ to be less than zero or greater than one. Here, the main purpose of estimating my binary response model is to approximate the marginal effects of the explanatory variables, even if not necessarily averaged across the distribution of the regressors. The fact that some predicted probabilities are outside the unit interval and that the linear probability model does not provide good estimates for extreme values of the regressors lead me to consider also a nonlinear model.[19]

	Percentiles	Smallest		
1%	-.0678531	-.0937828		
5%	-.0396371	-.0932818		
10%	-.0262789	-.0902993	Obs	1797
25%	.004125	-.085116	Sum of Wgt.	1797
50%	.0487897		Mean	.0550918
		Largest	Std. Dev.	.0639598
75%	.1072083	.2332774		
90%	.1410636	.238766	Variance	.0040909
95%	.1585111	.240903	Skewness	.1638227
99%	.1908701	.2475889	Kurtosis	2.155897

TABLE 2.2 – *Linear predictions*

Next I will show how a Probit model largely confirms the main results. Nonlinearity is considered more appropriate given that about 22% of the predicted values by ordinary least squares estimation is negative. In doing this I study my binary response model in the form $P(y = 1|x) = G(x\beta) \equiv p(x)$, where, therefore, the marginal effect of x_i depends on x through the index $x\beta$, and where the function G maps the index into the response probability. I will also show that Probit and Logit models give very similar results in terms

[19]See on this Wooldridge (2010).

of average marginal effects. As shown below, they also display almost equal measures of goodness of fit. Notwithstanding the dataset is strongly unbal-

	PROBIT	**LOGIT**
R^2_MF	0.202	0.206
R^2_MFadj	0.166	0.169
R^2_CS	0.0826	0.0840
R^2_CU	0.238	0.242
R^2_MZ	0.365	0.462
R^2_EF	0.109	0.112
R^2_CT	0.945	0.945
AIC	639.5	636.8
BIC	716.4	713.7

TABLE 2.3 – *Goodness of fit: Pooled Probit vs Pooled Logit*

anced I try to exploit its panel structure, even if 808 MPs out of 1237 are present only once in the sample legislatures. In line with Wooldridge (2010) I test whether fixed effects are present by using a Hausman test, checking whether there is a statistically significant difference between the fixed effect estimator and the random effect estimator. Firstly, in the linear case, using micro data and allowing for heteroskedasticity and autocorrelation, I conduct two versions of a robust Hausman test. In the first one, proposed by Wooldridge (2002), a random effects equation is estimated with additional variables, consisting of the original covariates transformed into deviations from their means (for time-varying regressors), using panel-robust standard errors. The test statistic is a Wald test of the significance of these additional regressors. Obtaining a p-value of 0.0986 the additional regressors are not significant at the standard 5% level. Being the obtained p-value not so conclusive I implement another type of cluster-robust Hausman test based on bootstrapping, following Cameron and Trivedi (2005). The covariance matrix is estimated by bootstrap resampling over *id*.[20] Using 5000 bootstrap repetitions the p-value of the test converges to 0.1512 suggesting the not statistically significance of individual fixed effects. In absence of fixed effects I implement a random effect estimation, which tend to be fully efficient under the RE model.
Secondly, moving to nonlinearity and in line with the preceding analysis in the linear case, I test for the presence of fixed effects through a Hausman test for non linear models,[21] in line with Mundlak (1978). I run an auxiliary regression including as additional explanatory variables the individual means

[20] The identification variable.
[21] See Wooldridge (2010)

of all the time-varying covariates and then I run the model as a random effect probit. Then I test the significance of the individual means trough a Wald test. Assuming fixed effects follow a normal distribution and being linear combinations of the individual means times related coefficients, also in this non linear version of the model I would exclude fixed effects. In this case the p-value is 0.9955. Moreover, it can be noted a nearly zero value of the variance due to differences across panels (intraclass correlation).
As alternative way to establish how negligible should be a panel analysis, given the characteristics of the sample, I propose other two estimates (for linear and non linear specifications) including in the sample only those MPs elected just once in the sample period. The difference in coefficients between the subsample estimates and the full sample ones should suggest us the importance of the within variances in explaining the phenomenon.
Then I calculate the average marginal effects to make the linear and non linear estimates comparable. I provide, in addition, also the average marginal effects related to the corresponding logit model to verify how imposing different distributional assumptions on the error term of the latent regression could modify the estimates.
Finally I consider endogeneity issues. Endogeneity arises in my model in all of the three usual ways: omitted variables, due to data unavailability, measurement error, due to imperfect measures of some regressors (e.g. *rebellion rate*), and simultaneity, due to the possibile reverse causality between the dependent variable and (one of) the regressors. What the dataset allow me to do is testing the exogeneity of the *retire* variable through an instrumental variable approach, using the *age*[22] variable as an instrument in the linear specification of the model. Therefore, I conduct the Hausman test for endogeneity[23] through an auxiliary regression. For the other variables included in the estimation I have not available instruments in the dataset to check for endogeneity.

2.4 Results

Once I exclude the possibility for fixed effects through the two heterogeneity-autocorrelation robust Hausman tests implemented (for the linear specification) and through a Mundlak approach (for the non linear specification), I prefer the pooled analysis respect to a random effects model, also consider-

[22]After excluding this variable from the main regression equation, where it is not statistically significant.

[23]See on this Wooldridge (2010), among others.

ing that the coefficients and the significance of the variables of main interest holds (even if at a lower significance level) once the estimation is based on a subsample in which MPs compare only once, excluding in this way within heterogeneity.[24]

Determining the "correct" specification of the model is not necessarily an issue in the present work. The specific form of the function that maps the index model into the response probability (the identity function for the LPM, the standard normal or the standard logistic cumulative distribution functions for the probit model and the logit model, respectively) can not be derived from an existing economic model. Moreover, given that the main purpose of my study is to approximate partial and marginal effects averaged across the distribution of the included (political) regressors, most likely LPM should do a nice job,[25] even if nothing guarantees that LPM provides good estimates of the partial effects for extreme values of the included continuous regressors. In table 2.10 I report comparable values, the parameters estimates of LPM and the average partial and marginal effects of the probit and the logit model. I assume that the differences in the estimates are not so huge to question the general sense of the results.
The results of the estimation of the econometric models, illustrated in Tables 2.4 and 2.5, show that, beyond the specification of the model, some covariates are always statistically significant in explaining this particular labor market of italian MPs. In both specifications, linear and non linear, political variables as the electoral result in the next elections and the MP's rate of rebellion to his/her own party in the legislature are strongly significant.

[24]In addition, especially in the non liner case, the fraction of variance due to individual unobserved effect is very close to zero, so that the possible gain in exploiting the data set panel form here results rather useless, at the cost of the assumptions about the error term. This could be the result of having a strong unbalanced panel data set, with about the half of the sample having only one observation.

[25]See Wooldridge (2010). For an alternative view of the issue see Horace and Oaxaca (2006).

appointment	Pooled OLS		RE estimator	
rebellion rate	-0.0940***	(-3.64)	-0.0737**	(-2.63)
defeat	0.122***	(6.62)	0.129***	(6.60)
retire	0.0994***	(6.68)	0.103***	(6.50)
opposition	0.0387***	(3.31)	0.0331**	(2.97)
extra income 1st year	0.000005	(1.15)	0.000002	(0.38)
age	-0.000006	(-0.01)	0.00002	(0.03)
private exp.	0.0168	(0.95)	0.0148	(0.78)
public exp.	0.0125	(0.43)	0.0127	(0.42)
education	-0.00459*	(-1.99)	-0.00597*	(-2.28)
_XIII lex	0.00568	(0.48)	-0.000414	(-0.04)
_XIV lex	0.0311*	(2.21)	0.0308*	(2.27)
female	-0.0288*	(-2.14)	-0.0305*	(-2.07)
constant	0.0781	(1.62)	0.0965	(1.76)
N	1797		1797	
R^2	0.079			
sigma_u			0.1607	
sigma_e			0.1741	
rho			0.4600	

t statistics in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

TABLE 2.4 – *Linear models comparison*

appointment	Pooled Probit		Random effects Probit	
rebellion rate	-1.241**	(-2.84)	-1.241	(-0.78)
defeat	1.387***	(7.70)	1.387	(0.83)
retire	1.285***	(7.17)	1.285	(0.84)
opposition	0.372**	(2.87)	0.372	(0.79)
extra income 1st year	-0.00001	(-0.04)	-0.00001	(-0.04)
age	-0.00166	(-0.26)	-0.00166	(-0.25)
private exp.	0.155	(1.06)	0.155	(0.73)
public exp.	0.156	(0.68)	0.156	(0.61)
education	-0.0376*	(-2.06)	-0.0376	(-0.74)
_XIII lex	0.0573	(0.39)	0.0573	(0.39)
_XIV lex	0.273	(1.87)	0.273	(0.76)
female	-0.372	(-1.88)	-0.372	(-0.79)
constant	-1.824***	(-3.84)	-1.824	(-0.86)
N	1797		1797	
$R^2 adj.$	0.2021			
Logpseudolikelihood	-305.76247		-305.76253	
Wald $\chi^2(13)$	85.94		99.49	
$\ln(\sigma_v^2)$			-9.0345	
σ_v				0.1092
ρ			0.0001	

t statistics in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

TABLE 2.5 – *Non linear models comparison*

The related signs of the coefficients seem to indicate appointments in PPEs *boards* as a patronage *exit strategy* for MPs who have been loyal to party in the previous legislature.[26] The *opposition* regressor, being positive,

[26]Alternatively, viewing *rebellion rate* as a measure of shrinking, the appointment could

tends to confirm what is general known as the *spoils system*. Given that in each legislature in the sample the opposition party becomes the ruling one after next elections, and that the considered appointments are those made after the election day, I would suggest that, once in power, the ex opposition party nominates its (ex) MPs in the boards of directors of PPEs, still in control of political parties. As regards the control variables the estimation of the model shows that both *education* and *female* have a negative effect, although negligible, on being appointed after the term. These findings seem to suggest firstly, that more educated MPs are less interested in an exit strategy at the end of their career as politicians and secondly, that also in this particular labor market we assist to a gender issue.[27]

As written above I propose the analysis considering only one time parliamentarians in order to show how the estimates change and how negligible are individual effects. The results are shown below, both for the linear case and the probit model. From the figures we can see how, qualitatively, the reasoning does not change only considering one time legislators.

appointment	Full sample		Sub sample	
rebellion rate	-0.0940***	(-3.64)	-0.137*	(-2.37)
defeat	0.122***	(6.62)	0.108***	(4.04)
retire	0.0994***	(6.68)	0.0873***	(3.33)
opposition	0.0387***	(3.31)	0.0518*	(2.37)
extra income 1st year	0.000005	(1.15)	0.0000506	(0.90)
age	-0.000006	(-0.01)	-0.000362	(-0.37)
private exp.	0.0168	(0.95)	0.00543	(0.18)
public exp.	0.0125	(0.43)	0.00374	(0.10)
education	-0.00459*	(-1.99)	-0.00995*	(-2.43)
_XIII lex	0.00568	(0.48)	0.00988	(0.38)
_XIV lex	0.0311*	(2.21)	0.0232	(0.87)
female	-0.0288*	(-2.14)	-0.0346	(-1.44)
constant	0.0781	(1.62)	0.190*	(2.10)
N	1797		808	
R^2	0.079		0.0515	

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

TABLE 2.6 – *OLS sample comparison*

be thought as a reward to a low absence rate in parliament.

[27]The *education* significance holds in every estimated model. The *female* significance hold only in the LPM.

appointment	Full sample		Sub sample	
rebellion rate	-1.241**	(-2.84)	-1.042*	(-1.97)
defeat	1.387***	(7.70)	0.909***	(3.77)
retire	1.285***	(7.17)	0.808**	(3.15)
opposition	0.372**	(2.87)	0.343*	(2.23)
extra income 1st year	-0.00001	(-0.04)	0.000256	(0.71)
age	-0.00166	(-0.26)	-0.00410	(-0.51)
private exp.	0.155	(1.06)	0.0581	(0.30)
public exp.	0.156	(0.68)	0.0742	(0.28)
education	-0.0376*	(-2.06)	-0.0584**	(-2.69)
_XIII lex	0.0573	(0.39)	0.0439	(0.25)
_XIV lex	0.273	(1.87)	0.122	(0.66)
female	-0.372	(-1.88)	-0.346	(-1.35)
constant	-1.824***	(-3.84)	-0.942	(-1.59)
N	1797		808	
$R^2 adj.$	0.2021		0.0975	

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

TABLE 2.7 – *Probit sample comparison*

Lastly, I test the endogeneity of the *retire* variable using as instrument the *age* variable. Implementing the Hausman procedure and employing the usual t-test on the computed residuals of the first stage regression, I can show that they have not statistical significance, with a p-value equal to 0.869. This result would suggest the opportunity to consider the *retire* variable as exogenous. Using the *age* variable as an instrument for *retire* has seemed quite a straightforward solution, considering variables available in the dataset. Nevertheless, in doing this I do not exploit any economic or political science theory. I am aware that I could obtain a bias in finite samples when the instrument is only weakly correlated with considered endogenous variable.
In reporting the two stages I show the correlation between the two variables. In this case, the instrumented variable seems to hold stastical significance, although only at 10% level. Indeed, larger standard errors depend on the quality of the instrument used in estimation. Given the above, I can check how OLS and instrumental variable estimates show the same value of *retire* variable, suggesting that OLS does not underestimate nor overestimate the supposed causal effect of the MP's retirement. In Table 2.10 I provide comparable estimates for the pooled analysis, namely OLS estimates and average marginal effects for the Probit and the Logit model. Also comparing the estimates in term of average marginal effects I can notice a huge similarity between results obtained from different estimators. The variables statistically significant are, essentially, the same and the effects have very similar magnitudes.

retire		
rebellion rate	0.124	(0.0521)
defeat	-0.320***	(0.000)
ruling party next	-0.040*	(0.050)
political exp	-0.010***	(0.0018)
extra income 1st year	-0.00004***	(0.00001)
private exp	0.033	(0.0271)
public exp	-0.061	(0.0466)
education	-0.00464	(0.0037)
female	0.062**	(0.0290)
_XIII lex	0.034	(0.0242)
_XIV lex	-0.058**	(0.0263)
age	0.010***	(0.0010)
_cons	-0.101	(0.0816)
N	1797	
R^2	0.140	

Cluster-robust standard errors in parentheses
Significant at level *** 1%, ** 5%, * 10% .

TABLE 2.8 – *First-stage regression*

appointment		
retire	0.0945*	(0.0571)
rebellion rate	-0.0918***	(0.0258)
defeat	0.122***	(0.0266)
ruling party next	0.0392***	(0.0122)
political exp	0.0007	(0.00071)
extra_income_1year	0.000005	(0.000005)
private_exp	0.0172	(0.0176)
public_exp	0.0255	(0.0314)
education	-0.005**	(0.00232)
female	-0.029**	(0.0135)
_Ilex_13	0.00341	(0.0125)
_Ilex_14	0.0234	(0.0143)
_cons	0.0887*	(0.0467)
N	1798	
adj. R^2	0.073	

Cluster-robust standard errors in parentheses
Significant at level *** 1%, ** 5%, * 10% .

TABLE 2.9 – *Second-stage regression*

appointment	LPM		PROBIT		LOGIT	
rebellion rate	-0.101***	(-3.85)	-0.118**	(-3.16)	-0.134***	(-3.52)
defeat	0.124***	(6.67)	0.129***	(7.59)	0.146***	(6.75)
retire	0.101***	(6.72)	0.118***	(7.11)	0.136***	(6.39)
opposition	0.0387***	(3.31)	0.0340**	(2.95)	0.0375**	(3.29)
exp. lex	0.00495	(1.50)	0.00479	(1.14)	0.00398	(0.96)
extra income 1st year	0.00000717	(1.50)	0.00000211	(0.12)	0.00000739	(0.44)
age	-0.000229	(-0.38)	-0.000296	(-0.51)	-0.000417	(-0.68)
private exp.	0.0166	(0.94)	0.0136	(1.03)	0.0140	(1.07)
public exp.	0.0165	(0.56)	0.0179	(0.83)	0.0167	(0.79)
education	-0.00462*	(-2.00)	-0.00353*	(-2.10)	-0.00327*	(-1.99)
_XIII lex	0.00444	(0.37)	0.00392	(0.29)	0.00686	(0.49)
_XIV lex	0.0285*	(2.00)	0.0221	(1.59)	0.0218	(1.53)
female	-0.0291*	(-2.17)	-0.0348	(-1.92)	-0.0356	(-1.82)
constant	0.0832	(1.70)				
N	1797		1797		1797	
R^2	0.079					
pseudo R^2			0.2021		0.2065	

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

TABLE 2.10 – *Pooled models. Average effects comparison.*

2.5 Conclusions

Differently from the so-called "revolving door" mechanism, where politicians take up consulting or lobbying jobs in the private market after exiting office, the *patronage* phenomenon, as Kopecký and Scherlis (2008) define it, is "the power of a party to appoint people to positions in public and semi-public life." The established main motivations for patronage are rewarding and controlling, as in Kopecký et alia (2012): "the former implies that parties hand out appointments to fellow partisans in return for their loyalty, whereas the latter suggests that parties intend to exert influence over some areas of public policy". My empirical analysis try to shed light on a particular, and limited, segment of this phenomenon in Italy, considering MPs as the targets of appointments in partially privatized and mixed firms boards of directors. In doing this I assume that, as stated by Di Mascio (2012), parties can effectively control public and semi-public firms, being themselves the substantial appointing authority for this particular kind of enterprises. In addition, I fully realize that MPs could represent only a very restricted fraction of the possible targets of *patronage* appointments made in the political arena (possibly being only the tip of the iceberg, the most visible part of the phenomenon).

The results show how parties exploit political appointments in managerial board of *controlled* firms as an individual disciplining tool for the loyalty

shown by its MPs during a (previous) legislature. Considering how the literature, even specifically for the italian case, describes party loyalty as a burden for MPs' reelection concerns, I suggest how a political appointment in a semi-public firm could be used by parties as a reward, or a possible *exit strategy*, for loyal parliamentarians.
This work provides some evidence of the quantitative dimension of the phenomenon. In my view the analysis could represent a contribution to the debate about MPs' conflict of interests (and not only about members of Government, as the recent reform process has intended[28]). A future research project could be to implement a similar analysis concerning legislatures ruled by the new proportional electoral rule, as modified by l. 270/2005. In doing this, data about voting against party line should be collected; indeed they may be more convincing than unjustified absences rates, given that absentee rates might be interpreted also as a sign of laziness. Furthemore, it would be interesting to insert in the analysis data on the ex ante re-election chances of MPs (proxied by, e.g., the electoral history of single districts) checking if this aspect could influence the MPs' appointment likelihood.

[28]I refer to l. 190/2012 and to d.lgs. 39/2013.

Chapter 3

A theoretical model

3.1 Introduction

We have seen in previous chapters how, in recent years, governments around the world have transformed the well-known model of state capitalism, under which they owned and managed state-owned enterprises (SOEs) (Ahroni, 1986; Ramamurti and Vernon, 1991), into a new model in which the government works hand in hand with private investors and own either majority or minority equity positions in newly privatized firms (NPFs) and private-public enterprises (PPEs) in general. Many analysts consider this fact as a comeback of state capitalism due to the recent global financial crisis (Bremmer, 2010) but I consider this transformation as a result of the liberalization and privatization reforms that began after the 1980s. Given that privatizations were often partial or incomplete, governments ended up as minority or majority shareholders in a variety of firms across multiple industries, often retaining a controlling stake of the firm. Boubakri et al. (2009) examine a sample of major strategic industries located in 39 countries and report that governments not only continued to remain as shareholders, but also appointed politicians to key positions in the firms. In addition, also anecdotal evidence suggests that, whether the firms are fully or partially privatized, the government often resorts to indirect means to maintain the control on these firms, particularly through political connection — i.e., appointing politicians or loyal bureaucrats in key positions within the firms, especially in countries without a strong regulation regarding conflict of interest and career incompatibility. As already stated, given that party leaders have access to state resources, and that parties internal disagreement is thought to harm their own appeal, it would seem strange if party leaders were unable to reinforce internal discipline and reduce divisions through patronage appointments.

Resource patronage, a key feature of southern Europe political systems, is less extensive in the ministerial domain than in the "parallel administration". The latter consists of a "complex and probably unique melange of (parastate) bodies, public agencies and public corporations marked by an increasing extension and plurality of organizational models" (Golden, 2003). Especially in Italy, parties have pursued a strategy of colonization by penetrating all spheres of society with party–nominated appointees. Public organizations thus came under the full control of, or became largely dependent on, the parties organizational networks entrenched within an overgrown public sector. This deep state colonization created the conditions for the establishment and the reproduction of *partitocracy*, a regime at first characterized by a substantial monopoly of parties over political activity and, later, by the progressive expansion of their power into the social and economic spheres (Sartori, 2005). The weakness of public bureaucracies, the interventionist tradition of the state in the economic sector, and the necessity of maintaining a precarious consensus for a regime affected by exclusive legitimation, thus gave relevance to patronage as a crucial resource in the Italian pattern of democratic consolidation (Di Mascio, 2012). It was in 1994 that a new process of the party system consolidation began. The introduction of a new electoral law, providing majoritarian institutional arrangements, precipitated the collapse of the old parties and stimulated the consolidation of a new set of competitive interactions. The party system had undergone a radical transformation: most of the parties participating in the 1994 election were either brand new or had been affected by a profound change, with the party system assuming the features of "fragmented bipolarism" (D'Alimonte, 2005). Moreover, up to the late 1980s, Italy had had one of the largest state-owned sectors among western economies: twelve of the twenty largest non-financial companies were state-owned, and 90 per cent of financial investment was provided by state controlled banks. The turning point came in 1992, with the advent of a public finance (and currency) crisis. Privatization in Italy produced the second highest revenues in Europe, after the UK. Real progress has been made since the mid-1990s in reducing the debt-to-GDP ratio, which amounted to 124.8 per cent in 1994. Privatization was a main component of the restrictive budget policy pursued to meet the criteria for joining EMU, and between 1995 and 2000 government spending, as a percentage of GDP, fell from 52.5% to 46.2%. Nonetheless, Italy still has one of the highest debt-to-GDP ratios and the state continues to own large stakes of partially privatized firms.

As previously written, also the reform of local governments enriched political class patronage opportunities, . Legislative powers and administrative functions were decentralized; local executives were reinforced; executives acquired

wide regulatory powers over local administrative structures; a new organizational flexibility led to a sharp growth in the number of local disaggregated institutions. After these reforms, local governments represent a larger share of total expenditure (31.3 per cent) than they do of revenue (19.1 per cent), and finance 54.3 per cent of this expenditure through grants and transfers (OECD, 2009). Moreover corporatization by local governments has created a wide semi-public sphere composed of local enterprises, which amounted to 4,874 units in 2005 (Citroni, 2009). Patronage is still pervasive in the italian public sector. A quantitative analysis of opportunities for patronage has been provided in chapter 2 and it worths noting that political appointments are actually allowed by the legal framework for most types of institution in all policy sectors.
The logic of patronage is mainly guided by a desire to allow party governors to control the processes of policy design. Parties nominate loyal individuals to top strategic positions (senior executives, board members, public corporation managers) in order to render administrative structures more responsive to changes in policy priorities. Another rationale for patronage is represented by rewarding loyal party members: in that case there is a provision of support after getting a patronage job or, most likely, the provision of political support in expectation of getting a patronage job, as I will assume in the theoretical model I will present in this chapter.

3.2 Related literature

One topic my model is close to consists in the political economy analysis of politicians' career and party selection. In Mattozzi and Merlo (2008) two career paths are viable among politicians: there are career politicians (i.e., politicians who work in the political sector until retirement), and political careers (i.e., there are politicians who leave politics before retirement and work in the private sector). In their paper, they propose a dynamic equilibrium model of the careers of politicians in an environment with a private sector and a political sector, where individuals are heterogeneous with respect to their market ability and political skills. My analysis provides a different explanation for the existence of career politicians and individuals with political careers specifically in (semi) public firms, and their motivations, such as the proved loyalty to their party during the term.

The question of loyalty and its convenience for parliamentarians is shown very clearly in Indridason (2008). Several papers on party governance have considered the effects of dissent or intra-party disagreements. Caillaud and

Tirole (2002) argue that the possibility of intra-party disagreement enhances parties electoral prospects but that actual expressions of disagreement hurt the party. In an extension of Caillaud and Tirole's model, Castanheira et al. (2005) find that the possibility of disagreement is beneficial when voters are relatively uninformed about the candidates' performance and when the perks of office are low. Beniers (2005) examines a model in which party leaders' ability to fire legislators influences dissent, but that such ability leads to worse policies if the party leader is incompetent. A result of my model is that the party does not require full agreement to its policies by the parliamentarians to appoint them in a patronage board of directors, also because a complete loyalty by the parliamentarian could signify losing a seat in parliament after next elections.

Focusing on biased contest, in Athey et al. (2000), Fryer Jr and Loury (2005) and Morgan et al. (2012) the principal biases the contests for promotion to reach some further objectives, such as promoting more competent agents in the first case, diversity in the second case and attracting talent to the organization in the last case. In other words, the planner affects the composition of the organization in the direction he prefers, as in this chapter when the party (leader) cares about the composition of appointed members, caring of their proved loyalty. When the planner biases the contest to give incentives for the agents to be more loyal he is solving the *double principal problem* of the parliamentarian. In those papers it is still the planner who administers the biased contest, as in my model the party uses a biased selection for a patronage position to encourage an optimal level of parliamentarians' loyalty.

The agents in my model are pure egoists, in the sense that they only care about their utility function and not how it is maximized. In models where agents have public sector motivation, such as Besley and Ghatak (2005), Delfgaauw and Dur (2008) and Delfgaauw and Dur (2010) agents value their contribution to the welfare irrespectively of what happens if they do not contribute; in this work I do not consider this possibility.

Lastly, Prendergast and Topel (1993) consider an agency model where a supervisor intrinsically cares about his junior being promoted and biases his evaluation report to the principal. In their work, while favouritism creates distortions, completely eliminating it might not be optimal since the agents value exercising it. The agents then agree to a lower wage and, similarly, in my model the parliamentarian agree to be more loyal, partially losing his/her reputation towards his/her district, to gain utility through the patronage position.

Actually, the application to patronage of the selling of positions seems quite scarce from corruption literature. Also, very few papers consider organizational design with corrupt or favored agents.

3.3 The model

3.3.1 Introduction

Based on the above discussion I design a baseline model to depict the dynamics which could theoretically represent the incentives and the behaviors of parties, members of parliament (MPs) and districts. Representative behaviors are the results of such *players'* incentives and their utility functions. Naturally, along the model I will make some simplifying assumptions about these dynamics.

First of all I impose a term limit for a parliamentarian: a MP could be elected for two terms at most. This considerably simplify the analysis and, except for party elite parliamentarians, represents the mean incumbency duration for a MP, at least in Italy.[1] Secondly, I consider a context of selfish politicians who are solely motivated by their utility functions. Though they may pursue both policy and office goals, I assume the latter objective prevails on the former, so that MPs are foremost driven by career rationales. In the model MPs could gain utility by being (re)elected in parliament and being appointed in a *patronage* board of director (in a PPE). Then, the legislator will choose his/her level of party loyalty in order to maximize his/her expected utility given his/her beliefs about the "returns" of that particular degree of loyalty. Specifically, in order to be reelected a MP has to overcome two separated steps: the selection as a candidate and, later, the actual election.[2] In the model party loyalty affects these two steps in opposite ways: if for the former it increases the likelihood of being reapplied by the party, for the latter I suppose it can be detrimental for reelection, in line with the political science literature about the issue.[3] Indeed, voters tend to punish those legislators who systematically stand on party lines not questioning partisan policies which can be damaging to the local development of the constituency. I am aware that this contrast between party and district is more appropriate in majoritarian systems[4] where in each (uninominal) district one representative is elected by simple plurality according to a pure first-past-the-post

[1]See on this Fedeli et al. (2014).

[2]The MP finds him/herself in a *double principal* dynamic.

[3]See on this, among others, Carson et al. (2010) and Golden (2003).

[4]See on this, among others, Gagliarducci et al. (2011).

election, and I have built the model keeping in mind such electoral system. Nevertheless, the model could apply also in proportional systems even if the MP-district link is less close than in majoritarian contexts. A legislator must definitely always face these two principals. Moreover, existing interpretations for legislator party dissent include the desire to cultivate a personal vote[5] or to develop name recognition.[6] The personal vote hypothesis refers to the idea that legislators seek a personalized rather than party-based relationship with their constituents, beyond the actual electoral rule. In the base model I make the strong assumption that parties always reapply its incumbents, following the incumbency advantage rationale present in literature: using quasi-experimental regression discontinuity (RD) research designs, recent studies confirms an incumbency advantage for the political party holding the legislative seat in the U.S., as in Butler (2009), as well as in Canada, as in Kendall and Rekkas (2012), in the United Kingdom, as in Eggers and Spirling (2015) and in Australia, as in Horiuchi and Leigh (2009). In the extension I relax this assumption letting the party to be able not reapplying its incumbent.

I also assume that the party is interested in gaining its MPs' loyalty in order to be able to implement effective policies (for government parties) or to adopt a united front against the government (for opposition parties). Moreover, the party will implicitly consider a major concern also its MPs reelection, which depends on MP's district loyalty. In order to optimize its utility function the party will have to wisely balance these two contrasting incentives which are related to the MP's district (and, equivalently, party) loyalty. Having imposed the term limit equal to two legislatures, the party will offer a patronage position at the end of the MP's second term (if reelected) relating the patronage position stand to his/her second term party loyalty (shown in parliament). If the MP is not be reelected after his/her first term, the patronage position stand will be related to his/her intrinsic party loyalty, $1 - l$, rewarding only the *real* MP's party loyalty (not influenced by a mimicking strategy).[7]

Then, in the model I assume that candidate selection takes place inside political parties (no primaries) and the actual election depends on the district voters. In so doing I do not define a real utility function for the voters, I only apply a probabilistic decision rule for the reelection. Therefore, in the model, parties search for candidates who pull votes in order to be reelected and, simultaneously, who share, as much as possible, the party policy preference.

[5] Cain et al. (1987).

[6] See on this Benedetto and Hix (2007) and Kam (2009).

[7] The assumption about l is that at the end of a legislature the party may know it. See later.

3.3.2 The algebra of the model

As said, in the model I firstly assume that the incumbent will always get the candidacy to run again for the seat. I will relax this assumption later. The time of events are reported in Figure 3.1. At time t_0 MPs are elected thanks to their constituency votes. The party may be in government or may be in opposition. At nearly the beginning of the term the party promises to its incumbents a patronage position, characterized by a prestige R. The MP's utility deriving from R will depend on his/her next term *shown* party loyalty if he/she will be reelected or upon his/her first term *intrinsic* party loyalty if he/she is will not be reelected.[8] After considering his/her utility function the legislator decides about how much following party dictates in parliamentary votes and how much aligning him/herself to the district demands. In modeling this, I indicate the ratio of the number of votes in line with the latter to the total votes to be casted with λ and, naturally, $1 - \lambda$ will denote the MP loyalty towards the party in his voting behavior (Λ will denote the same characteristic in the subsequent legislature). Obviously $0 < \lambda < 1$ and $0 < \Lambda < 1$.

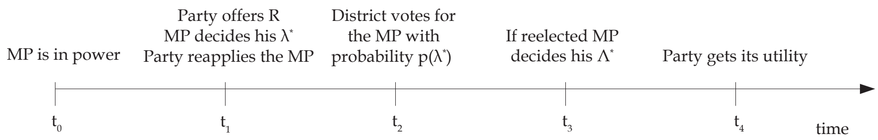

Figure 3.1 – Timeline.

The tendency of the MP in responding to his/her two principals is crucially influenced by the number of policies that government enacts in favor of the MP's district. I represent the ratio of the MP's district favorable policies with ϕ. Quite intuitively, greater values of ϕ will facilitate majority MPs and will trouble opposition ones.[9] Then, MPs are reapplied for the subsequent legislature and, with probability $p(\lambda)$, reelected. At the end of the two

[8]The MP always obtains a patronage position. Nevertheless, its standing will depend upon different variables, according to his/her next election result.

[9]I do not make strict assumptions on ϕ. I consider it not in control of government.

terms party gets its utility, $\mathcal{L}$. Formalizing the MP's utility function we have:

$$W = Y - \frac{K}{2}(\lambda - l)^2 + \delta\lambda Y - \delta\lambda\frac{K}{2}(\Lambda - l)^2 + \delta^2\lambda(1-\Lambda)hR + \delta^2(1-\lambda)(1-l)hR \tag{3.1}$$

where, beyond the already defined variables, Y represents the ego rent deriving from being elected in parliament and it is known by the party,[10] K is a parameter which translates into a cost the act of lying,[11] δ is the discount factor and h renders the personal ego rent the MP would obtain from the patronage position. Lastly, l: this variable essentially tell us the true, intrinsic, MP's loyalty towards his/her district. The idea behind this parameter is that each legislator has an his/her own inclination about siding with his/her constituency. It could depend on whether he/she always lived in his/her election district (*district commitment*), upon his/her personal belief about the importance of citizen direct support compared to the party aid in campaigning for reelection (*district convenience*) or simply upon his/her leaning towards national or local sake.[12] The value of l is inferred by the party at the end of the MP's first term, knowing his/her utility function, his/her optimal λ^* and the offered R.

Naturally, the function is different for those legislators who already are at their second term in t_0. They can not be reelected because of the term limit and have only a term ahead of them. In this case the loyalty which counts is the one denoted by Λ, his/her second term loyalty. In formula:

$$W_{2nd} = Y - \frac{K}{2}(\Lambda - l)^2 + \delta(1-\Lambda)hR \tag{3.2}$$

In this perspective I define p and P, respectively, the probability with which a legislator of the majority will vote in parliament in line with his party, in the current term and in the next one. The same holds for opposition MPs, whose likelihood of voting along their party lines is denoted by q and Q.

[10] E.g. the *indennità parlamentare*.

[11] Where for lying I intend the difference between λ and l, between the shown loyalty and the intrinsic one.

[12] I refer in this case to situations like, e.g., the NIMBY syndrome.

$$
\begin{aligned}
p &= \phi + (1-\phi) * (1-\lambda) = 1 - \lambda(1-\phi) \\
P &= \phi + (1-\phi) * (1-\Lambda) = 1 - \Lambda(1-\phi) \\
q &= 1 - \phi + \phi(1-\lambda) = 1 - \phi\lambda \\
Q &= 1 - \phi + \phi(1-\Lambda) = 1 - \phi\Lambda
\end{aligned}
$$

If ϕ is the proportion of national policies favorable to the MP's district, we can see how the above likelihoods are built. A ruling party legislator will undoubtedly (100% of the time) vote in favor of those national policies which are also beneficial to his election district (ϕ% of the time): in this case, his/her party has the same interest of his/her constituency.[13] On the contrary, in the case when the interest diverges ($1-\phi$% of the time), the parliamentarian will vote along party lines according to his party loyalty. Following the same argument I describe, in a reciprocal way, the dynamics of the opposition party. In the $1-\phi$ cases an opposition MP will easily vote against the government/majority bills, but, when the government proposes policies favorable to his/her election district he/she will vote with his/her party according to his/her party loyalty.

The above equations bring me to define the party utility function. If the party decides to always reapply its incumbents, as I assume for the moment, it will present the following utility function:

$$
\mathcal{L} = pm + q(1-m) + \delta[\lambda[PM + Q(1-M)]] - \frac{1}{2}bR^2 \tag{3.3}
$$

As I have noted above the values of p, P, q and Q depend on ϕ, and on λ and Λ (with every related value belonging to the unit interval). The m variable is an indicator variable that signals if the legislator belong to majority ($m = 1$) or to the opposition ($m = 0$). The parameter b translate into a cost the patronage position standing (R) the party proposes to the MP; it could represent the organizational costs of finding a position to the MP, and I assume that the party immediately bear this *cost*, right after the MP's first election. M measures the expected percentage of seats that the party predicts to obtain in the second term. Two clarifications are needed. Firstly, I assume that a parliamentarian will be reelected with probability

[13]The incentives are aligned.

λ: assuming the reelection dependent on district votes, I proxy this link in the most simple way. Obviously, with probability $1 - \lambda$ the MP loses next elections, in which case the party obtains nothing. Secondly, as regards M we can think that the expected number of seats the party foresees to obtain in the next election can be the result of consulted polls or, alternatively, be proxied by its current number of seats.

Maximizing equations (3.1) and (3.2) I develop the MP's optimal choice, according to the legislature he/she is actually attending, about his/her best levels of district loyalty (λ and Λ).

$$\underset{\lambda}{\operatorname{argmax}}[Y - \frac{K}{2}(\lambda - l)^2 + \delta\lambda Y - \delta\lambda\frac{K}{2}(\Lambda - l)^2 + \delta^2\lambda(1-\Lambda)hR + \delta^2(1-\lambda)(1-l)hR] \equiv \lambda^* \tag{3.4}$$

$$\underset{\Lambda}{\operatorname{argmax}}[Y - \frac{K}{2}(\Lambda - l)^2 + \delta(1-\Lambda)hR] \equiv \Lambda^* \tag{3.5}$$

$$\lambda^* = l + \delta\frac{Y}{K} - \frac{1}{2}\delta(\Lambda - l)^2 + \delta^2\frac{hR}{K}(l - \Lambda) \tag{3.6}$$

$$\Lambda^* = l - \delta\frac{hR}{K} \tag{3.7}$$

Substituting[14] (3.7) in (3.6) we obtain the optimal MP's shown district loyalty. Naturally, MPs engaged in the patronage exchange are those who have the current and the next legislatures to conclude.[15]

$$\lambda^* = l + \delta\frac{Y}{K} + \frac{1}{2}\delta^3\frac{h^2R^2}{K^2} \tag{3.8}$$

[14] Note that if $l - \delta\frac{hR}{K} < 0$ then $\Lambda^* = 0$. Without losing generality I can avoid considering this constraint.

[15] That is to say that the *game* starts as soon as a parliamentarian has been elected for his/her first time.

In words, equation (3.8) tell us how λ^* is modified by a legislator,[16] respect to his/her l, in order to maximize his/her utility. Given the threshold of his/her l, the parliamentarian will increase his/her district loyalty to rise the likelihood of being reelected at the second term. Indeed, if reelected he/she may take more advantage of the patronage position at the end of his/her second term[17] and, obviously, of the utility deriving from attending another legislature. With increasing ego rent deriving from attending another legislature and with increasing ego rent deriving from a possible patronage position at the end of his/her career, the parliamentarian will show more district loyalty, at least in his/her first term.[18] This complies with how I outline the rewarding dynamic. Moreover, the optimal level of district loyalty will depend on the individual parameters h and K, and on the discount factor δ. Indeed, the same patronage position could be more appreciated by legislators with a higher h and less enjoyed by MPs with higher K.

The party, reapplying the incumbent,[19] maximizes its utility function considering the legislator's behavior in its optimization process. Thus, from equation (3.3), I shape its objective function including the MP's optimal behavior. Posing K and h equal to one for sake of simplicity, and accordingly rescaling the others parameters, we have:

$$\begin{aligned}\mathcal{L} = {} & [1-\lambda(1-\phi)]m + (1-\lambda\phi)(1-m) + \delta\lambda\{[1-\Lambda(1-\phi)]M + \\ & + (1-\Lambda\phi)(1-M)\} - \frac{1}{2}bR^2\end{aligned} \tag{3.9}$$

In posing this expression as the party utility function I stress the importance of MPs' loyalty to the party and the relevance for the party to have its MP reelected. Indeed, lower values of party loyalty will be the price to be paid to increase his/her reelection likelihood. In this trade-off the party knows that increasing R it would discourage party loyalty in the first term

[16] Note that if $l + \delta\frac{Y}{K} + \frac{1}{2}\delta^3\frac{h^2R^2}{K^2} > 1$ then $\lambda^* = 1$. Without losing generality I can avoid considering this constraint.

[17] The advantage is that the patronage position could be influenced modifying his/her Λ and it will not depend upon his/her inherent l.

[18] This means that λ^* is positively influenced by increasing values of R.

[19] Considering the incumbency advantage theory, I assume that for the party it is optimal raising its MPs' first term district loyalty through R in so far as this choice does not lower MP's party loyalty to extreme low values; in assuming this I am implicitly stating that, the party cares about its MP reelection but also cares about his/her party loyalty.

(encouraging its MP district loyalty), increasing it in the second one, unless the MP will be reelected. By placing $m(1-\phi)+\phi(1-m)=\gamma$ and $M(1-\phi)+\phi(1-M)=\Gamma$:

$$\mathcal{L} = 1 - \lambda^*\gamma - \delta\Gamma\lambda^*\Lambda^* + \delta\lambda^* - \frac{1}{2}bR^2 \tag{3.10}$$

To γ and Γ could be given a specific interpretation. The former measures the combined effect, on party (dis)utility, of being in the majority or in the opposition and of receiving ϕ% of favorable policies by the MP's district. Similarly, the latter shows the combined effect of party expectations about the future election and of the advantageous MP's district national policies on party objective function. More specifically, if the party in t_0 is the ruling one γ will equal to $1-\phi$: in this case, then, the party would be favored with high values of ϕ, namely if national policies in favor of its elected legislators' constituencies are the large part of the total enacted policies. Viceversa for the opposition party: in order to increase its utility it would be better if the government party would not favor its MPs' districts (of the opposition party), trying, for example, to win actual opponent constituencies confidence. The described incentives are quite intuitive. For a ruling party, increasing ϕ means aligning MPs' incentives toward both party and district, so that this would minimize the utility loss due to MP's district loyalty. On the other hand, for an opposition party, an increase of ϕ by the goverment would mean splitting the MPs' incentives between the party and the district: to curry favor with his/her two principals a legislator should vote in a opposing way at the same time. The interpretation of Γ is less straightforward. From simulations we can see how it varies with different M and ϕ values.

M	0.2	0.2	0.2	0.2	0.4	0.4	0.4	0.4	0.6	0.6	0.6	0.6	0.8	0.8	0.8	0.8
ϕ	0.2	0.4	0.6	0.8	0.2	0.4	0.6	0.8	0.2	0.4	0.6	0.8	0.2	0.4	0.6	0.8
Γ	0.32	0.44	0.56	0.68	0.44	0.48	0.52	0.56	0.56	0.52	0.48	0.44	0.68	0.56	0.44	0.32

TABLE 3.1 – *Values of* Γ.

The (dis)utility of Γ component seems to increase with the increasing distance between its two constituting parts, M and ϕ; the larger their difference the larger the Γ value. I describe its dynamic reasoning two cases.[20] Firstly,

[20] In what follows I assume that parties consider ϕ costant.

we can consider the situation where the party has high expectations about (re)winning next election $\left(M > \frac{1}{2}\right)$ assuming a very low number of national policies favorable to its MPs' districts $\left(\phi < \frac{1}{2}\right)$. In this case a low level of ϕ in the next term would mean posing in sharp contrast MPs' loyalty toward the party and toward the constituency. Indeed, the party is almost sure of being in government and few convenient policies toward its MPs' district cause their legislators distress, having them different incentives about their voting behavior. Secondly, the case where party strongly believes in being at the opposition in the next legislature $\left(M < \frac{1}{2}\right)$ and expects much national policies convenient to its districts $\left(\phi > \frac{1}{2}\right)$. In such situation a high number of favorable policies addressed to MPs' districts in the next term will, exactly the same, trouble legislators who will be undecided about which principal complying with.
By substituting λ and Λ with their MP's optimal values, maximizing equation (3.10), and setting, without loss of generality, $\delta = 1$, we have:

$$\frac{\partial \mathcal{L}}{\partial R} = \frac{3}{2}\Gamma R^2 + (1 - b - \gamma - l\Gamma)\, R + \Gamma(Y + l) \tag{3.11}$$

If we assume that a party outsider's expected loyalty equals to 0.5 ($\mathbf{E}(l) = 1/2$) we obtain the following R^*:

$$\begin{aligned} R^* = \frac{1}{3}\left(\frac{1}{2} + \frac{b+\gamma-1}{\Gamma}\right) - \frac{1}{3}\left[\left(\frac{1}{2} + \frac{b+\gamma-1}{\Gamma}\right)^2 - 6Y - 3\right]^{\frac{1}{2}} &= \\ = \frac{1}{3}\left[\left(\frac{1}{2} + \frac{b+\gamma-1}{\Gamma}\right) - \sqrt{\Delta}\right]& \end{aligned} \tag{3.12}$$

Now I could shape some comparative statics about R^* and verify how its value may be modified by other variables variations.[21] First of all I verify that a positive relationship exists between R^* and Y.

$$\frac{\partial R^*}{\partial Y} = \frac{1}{\sqrt{\Delta}} > 0 \tag{3.13}$$

This result tells us that the more a legislator enjoys being (re)elected to the

[21] I assume that $R > 0$ is true if $b > 1$ and $\Delta = (\frac{b+\gamma-1}{\Gamma} + \frac{1}{2})^2 - 3 - 6Y > 0$. Note that if $\Delta \leq 0$, $\frac{\partial \mathcal{L}}{\partial R} \geq 0\ \forall R$, which leads to a trivial solution.

parliament, the more prestigious should be the patronage reward to stimulate him/her party loyalty in the second term. In other terms, patronage positions standing should tend to be greater for those parliamentarians who are ensured with high salaries respect to ones ensured with lower wages. I can interpret the result in the following manner: those legislators, characterized by high levels of Y, to be loyal to their party need additional prestige because, earning more from being a parliamentarian, they will not accept seats in *boards* of secondary firms or of low-visibility ones, in exchange of their party loyalty. On the contrary, MPs who earn less, in comparison, will positively value also less prestigious patronage positions, easily aligning their voting behavior to the party desires (in the second term).
A quite predictable result concerns the parameter b. As we have seen, this parameter measures how much a patronage position characterized by prestige standing R costs to the party, essentially in terms of organizational costs.

$$\frac{\partial R^*}{\partial b} = \frac{1}{3}\frac{1}{\Gamma} - \frac{1}{3}\frac{1}{\sqrt{\Delta}}\left(\frac{b+\gamma-1}{\Gamma} + \frac{1}{2}\right) < 0 \tag{3.14}$$

This is to say that, the more an equal patronage position costs to the party, the less the party will be likely to assure its legislators that position. In a similar way I prove an inverse relationship between R and γ:

$$\frac{\partial R^*}{\partial \gamma} = \frac{1}{3}\frac{1}{\Gamma} - \frac{1}{3}\frac{1}{\sqrt{\Delta}}\left(\frac{b+\gamma-1}{\Gamma} + \frac{1}{2}\right) < 0 \tag{3.15}$$

Recalling that: $\gamma = m(1-\phi) + \phi(1-m)$, in this case I can identify γ as the combined effect of being in the majority/opposition and of ϕ towards R^*.[22] Two possible scenarios are possible:

1. $\phi > \frac{1}{2}$; $\gamma_{opp} > \gamma_{maj}$

2. $\phi < \frac{1}{2}$; $\gamma_{opp} < \gamma_{maj}$

[22] If the party in t_0 is the ruling one, γ will equal to $1-\phi$, while if in t_0 the party is the opposition one, γ will be equal to ϕ.

In the first scenario government has been implementing many policies in favor of a given MP's district: then, if opposition legislators will tend to be loyal, in the first term, to their districts and not to their party, given that R exerts a positive influence on λ^*, the opposition party will propose smaller values of R^*, in order to enhance their party loyalty and avoiding that it would assume extremely low values. By contrast majority legislators will tend, ceteris paribus, to be loyal to both their districts and their party contemporaneously, so that the party could "afford" granting more prestigious patronage positions to its parliamentarians, possibly gaining a greater future party loyalty, and not losing anything in terms of current party loyalty (*aligned incentives*).
Vice versa in the second scenario. If government has been adopting few policies in favor of a MP's district, opposition legislators will be naturally predisposed to be loyal both to his/her district and to his/her party, while this is not the case for the majority ones. In this case the opposition party will guarantee more prestigious patronage positions to its legislators (gaining in terms of future party loyalty) while less prestigious patronage positions will be assigned by the government party to its members, avoiding the case in which they would stand too much on district line, not providing a sufficient level of party loyalty in the current legislature.
In line with such reasoning we can describe the Γ variable recalling that Γ is a continuous variable which ranges from 0 to 1 and is equal to $M(1-\phi)+\phi(1-M)$.

$$\frac{\partial R^*}{\partial \Gamma} = \frac{1}{3}\frac{b+\gamma-1}{\Gamma}\left[\left(\frac{b+\gamma-1}{\Gamma}+\frac{1}{2}\right)\frac{1}{\sqrt{\Delta}}-1\right] > 0 \qquad (3.16)$$

It is worth noting that, differently from the γ argumentation, now R exerts a negative influence on second term MP's district loyalty, as stated by equation (3.7). The comparative statics tell us that increasing values of Γ make increase the optimal value of R. More prestigious patronage positions will be proposed by the party in response to increasing values of Γ, in order to minimize the related negative utility component. Conversely, lessening values of Γ causes the party to ensure less prestigious positions in equilibrium. In this case when a MP is likely to seat in the majority party $M > \frac{1}{2}$, if he/she is likely to seat in the opposition party $M < \frac{1}{2}$. Thus it is possible to replicate the comments I have done for γ:

1. $\phi > \frac{1}{2}$; $\Gamma_{opp} > \Gamma_{maj}$

2. $\phi < \frac{1}{2}$; $\Gamma_{opp} < \Gamma_{maj}$

where in this case I consider the MP's expectations of being in the majority party or in the opposition one. Obviously in the second term, given the opposite sign of the derivative, the likelihood to be in the majority exerts the opposite effect respect to the one exerted in the first term (respect to currently being in the majority party).

3.3.3 Relaxing the incumbency advantage hypothesis

Now, relaxing the incumbency advantage hypothesis I analyze what may happen if the party decides not to reapply an incumbent of its to the following term (among those MPs who actually are attending their first legislature and for which the term limit is not binding). In doing this I assume that an incumbent may show two different levels of party loyalty: one if he/she believes to be reapplied in the next term, and another one if he/she is certain not to be reapplied by the party, after considering the party patronage offer. In the latter case the optimal value of λ for him/her will be l.[23] If the party reapply its incumbent nothing changes respect to the preceding section. Considering only the party incentives:

$$\mathcal{L}_{\mathcal{R}} = 1 - \gamma\lambda + \delta\lambda(1 - \Lambda\Gamma) - \frac{1}{2}bR^2 + \delta^2\mathbf{E}(V) \qquad (3.17)$$

where I define $\mathbf{E}(V)$ as the intertemporal party utility at time 0 when both parties nominate an outsider to the next term. Such situation happens when party in charge, in one district, has to change its MP (because of the term limit) or when it prefers changing it. $\mathbf{E}(V)$, implicitly, includes all the information about the party utility when it nominates an outsider (in an infinite time horizon), such as the likelihood of the outsider's election, the utility the party will derive from him/her loyalty once (if) elected, whether he will be substituted in the following term or after two terms, and so on. At time 0, if the party decides not to reapply its incumbent to the next term its utility function become:

[23]We can see this from the MP's utility function. See equation (3.1).

$$\mathcal{L}_{\mathcal{N}} = 1 - \gamma\lambda - \frac{1}{2}bR^2 + \delta\mathbf{E}(V). \tag{3.18}$$

Thus, with the information available to the party to estimate $\mathbf{E}(V)$, from the viewpoint of the party it would be optimal not to reapply an incumbent if $\mathcal{L}_{\mathcal{R}} - \mathcal{L}_{\mathcal{N}} > 0$, that is to say:

$$\delta\lambda(1 - \Lambda\Gamma) + \delta^2\mathbf{E}(V) - \delta\mathbf{E}(V) > 0. \tag{3.19}$$

Simplifying and rearranging

$$\lambda(1 - \Lambda\Gamma) > \mathbf{E}(V)(1 - \delta) \tag{3.20}$$

The interpretation of Equation (3.19) is quite straightforward: for a party is always optimal to reapply its incumbent if the outsider option expected utility shows a sufficiently low level, at least lower than the party utility component of the second term in case it reapplies the incumbent (not discounted). Vice versa, if the party estimates for itself a high utility from applying an outsider, the decision about reapplying its current incumbent will depend on the latter's behavior.

The incumbent behavior can be described by two utility functions: a first one in the case he/she believes he/she will be reapplied by the party, and a second one if he/she believes he/she will not be reapplied. In the first case we have (posing h and K equal to one, as in the previous section):

$$W_R = Y - \frac{1}{2}(\lambda - l)^2 + \delta\lambda Y - \frac{1}{2}\delta\lambda(\Lambda - l)^2 + \delta^2\lambda(1 - \Lambda)R + \delta^2(1 - \lambda)(1 - l)R. \tag{3.21}$$

In the second case:

$$W_N = Y - \frac{1}{2}(\lambda - l)^2 + \delta^2(1 - l)R. \tag{3.22}$$

In this case it is optimal for the MP to set $\lambda = l$: if he/she believes he/she is not running again for election, then the optimum would have been simply showing his/her intrinsic loyalty, l. As in the base model the party patronage offer is binding, and the MP will always obtain a patronage job; nevertheless, the actual patronage standing obtained by the MP will be based upon his/her second term shown party loyalty if reelected, and upon his/her first term intrinsic party loyalty if not reelected or not reapplied. As for the party, we can see which would be the incumbent's optimal choice comparing the above utility functions, specifically when for him/her is optimal to behave hoping for the reapply. In formula, I thus check when $W_R - W_N > 0$, where

$$W_R - W_N = \delta\lambda Y - \frac{1}{2}\delta\lambda(\Lambda - l)^2 + \delta^2\lambda(1-\Lambda)R + \delta^2(1-\lambda)(1-l)R - \delta^2(1-l)R \tag{3.23}$$

Simplifying, I obtain:

$$W_R - W_N = \lambda(\delta Y + \frac{1}{2}\delta^3 R^2). \tag{3.24}$$

Being $W_R - W_N$ always greater than zero, it is possible to state that for the incumbent is always optimal to behave hoping for the nomination, trying to push for standing as a candidate again next term. As a result, for the incumbent holds the following incentive scheme:

$$W_N(\lambda^*) < W_N(l) < W_R(l) < W_R(\lambda^*). \tag{3.25}$$

In words, for the incumbent is always optimal getting the candidacy (W_R), even if he/she behaves as he/she will not obtain it. In the case he/she does not get the candidacy (W_N), then his/her optimum behavior would have been simply showing his/her intrinsic loyalty, l. In figure 3.2 I report a tree

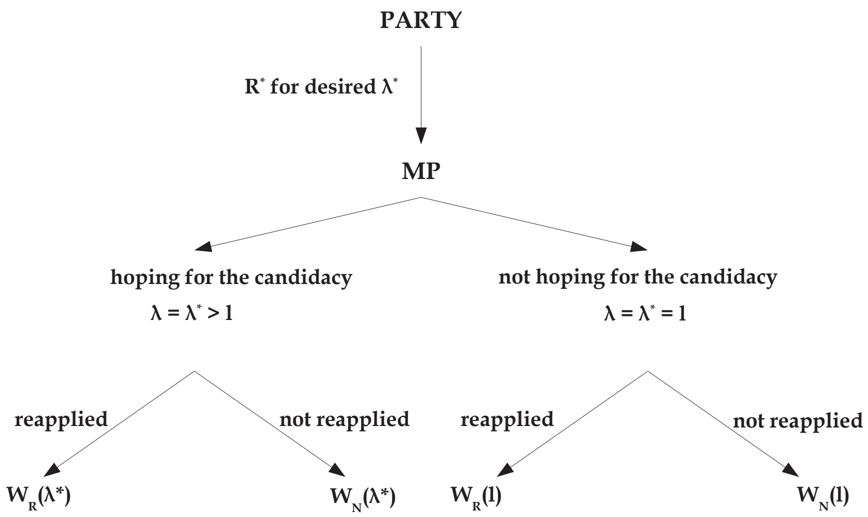

Figure 3.2 – A tree diagram representation.

diagram which represents the incumbent's strategic decision making. As I said, if the MP gets the nomination by the party once again it would have been optimal having set $\lambda = \lambda^* > l$; vice versa, if he/she does not get the candidacy it would have been optimal having shown $\lambda = l$.[24]

The equilibrium of this dynamic naturally arises considering both MP and the party optimal strategies. The next proposition describes the two possible reachable equilibria (a formal proof of Proposition 1 is provided in the Appendix).

Proposition 1 *If party* $\mathbf{E}(V)$ *is sufficiently high, and incumbent's* l *is very high or very low, then the party does not reapply the incumbent and the equilibrium is represented by* $W_N(l)$ *and* $\mathcal{L}_{\mathcal{N}}$*. Otherwise, the party will always give his/her incumbent the nomination with payoffs equal to* $W_R(\lambda^*)$ *and* $\mathcal{L}_{\mathcal{R}}$*.*

The above proposition suggests that, when the party estimate a low utility gain from giving to an outsider the nomination, then it will always prefer to reapply the incumbent to the next term, beyond the loyalty shown by the incumbent in his/her first term. In other words, when an outsider does not represent a promising option in terms of utility, the party will always prefer not to *leave the old road for a new one*. The only case in which the party could consider the outsider option would be when the party expectations

[24] To see this, just compare $W_R(l)$ with $W_R(\lambda > l)$.

about the outsider are very high[25] and, at the same time, the incumbent's district loyalty assumes extreme values. The interpretation is quite clear: the incumbent will put at risk his/her nomination if, on the one hand, he/she does not provide sufficient loyalty to the party and, on the other hand, he/she provides too much party loyalty putting at risk his/her reelection if reapplied by the party. In these cases party may consider the opportunity to replace the incumbent if and only if the expected value of such substitution, $\mathbf{E}(V)$, is high enough.

3.4 Conclusions

In this chapter, I have compared the incentives of a party (leader) and of a legislator in the political selection of candidates, also considering a possible patronage position for the latter. Throughout the paper I have assumed for MPs a two terms limit. I have also assumed a strong incumbency advantage which makes the party choose to always reapply an incumbent of its, and then, I have relaxed the said assumption.

The model suggests that for both of the players it is optimal having legislators, who may be reapplied, that in the first terms show high levels of district loyalty, in order to maximize their likelihood of being reelected (at least until a given level), and that, in the second term, show high levels of party loyalty, in order to maximize their patronage reward and the effectiveness of the party national policy (in the second term). The result show us how a party having many legislators at their first term could be less effective, about its national policies, in the current term and more in the subsequent legislature. Instead, if the party does not sufficiently encourage its MPs through patronage, allowing them to be too strongly aligned with their party demands in the first term, it could face a high risk of loosing that seat at next elections, having made the incumbent unconvincing in the voters' eyes. In other words, a party that has many first-term MPs may risk, in general, to loose next elections trying to pull its MPs' voting behavior towards its lines and not ensuring them a patronage position. Relaxing the incumbency advantage hypothesis I have proposed two equilibria which could be optimal for the party and the MP and which depend upon the outsider's standing and upon the incumbent behavior in term of party/district loyalty.

The political selection of candidates and the patronage phenomenon have been analyzed in a very stylized set-up ignoring several elements. Some extensions could be analyzed in further research. First of all I have explicitly

[25] E.g. the available outsider is a well-known politician.

defined the utility function of both the party and the MP. Naturally, even if I made relatively few assumptions about their behavior this does not mean that the utility functions structure are not highly questionable. In further research those could be much refined, e.g. a MP could be truly concerned about society interests caring less about his/her career concerns. Secondly, the role of the district is not formally made clear, but only implicitly included in the model and assuming how voters' behavior is, very simply, joined to the MP's district loyalty.

Final remarks

The extant literature on, in a broad sense, patronage has been the *fil rouge* of the reasoning behind this thesis and several conclusions could be derived from its reading. Even though nowadays developed countries are well established democracies organized according the principles of free market and private property, the state retains an important role in several (strategic) sectors of the economy. Indeed, governments own either majority or minority equity positions in PPEs. Many analysts consider this sort of state capitalism comeback a consequence of the recent global financial crisis, but I consider this transformation as a result of the liberalization and privatization reforms that began after the 1980s. Given that privatizations were often partial or incomplete, governments ended up as minority or majority shareholders in a variety of firms across multiple industries, often retaining a controlling stake. NPFs, and PPEs in general, might still be subject to the political costs of government interference because governments often control them through, in addition to controlling stakes, special arrangements, such as golden shares, that leverage their voting powers for those firms. Furthermore, governments often resort to indirect means to maintain an *informal* control on these firms, particularly through political connection i.e., appointing loyal party members in key positions within the firms, especially in countries without a strong regulation about conflict of interests and career incompatibility.

My empirical analysis try to shed light on a particular, and limited, segment of this phenomenon in Italy, considering members of parliament as the targets of appointments, in partially public owned firms boards of directors, made by political parties. In doing this I have assumed that, as stated by Di Mascio (2012), parties can effectively control public and semi-public firms, being themselves the substantial appointing authority for this particular kind of enterprises. I fully realize that parliamentarians could represent only a very restricted fraction of the possible targets of the patronage appointments made in the political arena (possibly being only the tip of the iceberg, the most visible part of the phenomenon). The results show how parties exploit political appointments in managerial board of controlled firms as an individual disciplining tool for the loyalty shown by its members during a (previous) legislature. Considering how the literature, even specifically for the italian case, describes party loyalty as a burden for legislators' reelection concerns, I suggested how a political appointment in a semi-public firm could be used by parties as a reward, or a possible exit strategy, for loyal party members. This work tries to provide some evidence of the quantitative dimension of the phenomenon. In my view, the analysis could represent a starting point in a possible debate about politicians conflict of interests (and not only about members of government, as the recent reform process has intended).

Furthermore, we have seen that the dominant trend in literature advances political interference in partially public owned firms operations as a negative influence on output targets. Also, there is a consensus about how government ownership is an effective channel of redistribution for political dividends. PPEs would tend to answer to political masters instead of market rationales and, among others, patronage could be one of the reasons why privatizations could have been partially implemented and why so many semi-public local firms (not providing local public services) have been created. Political appointments are made to control public institutions: parties nominate loyal individuals to top strategic positions (senior executives, board members, public corporation managers) possibly in order to render administrative structures more responsive to changes in policy priorities. Nevertheless, party leaders may also use appointments simply to *buy* support from party members, thus mitigating the risk of intra-party rebellion in the face of electoral defeat or unpopular decisions made by the government, as the results of the second chapter seem to suggest. Indeed, having party leaders plentiful access to state resources, and thinking party members rebellion weakening parties at the polls, it is quite straightforward to imagine the formers strengthening party discipline and reducing internal splits through patronage appointments. For all written above, patronage, a biased contest for party members promotions, may have a role in the political process of candidate selection.

In this line, in chapter 3, I have remarked the role of patronage as a possible exit strategy for loyal MPs who risk their parliamentarian career for their party loyalty, and which could influence the entire political selection process. I have compared the incentives of a party (leader) and of a legislator in the political selection of candidates, also considering a possible patronage position for the latter. Throughout the chapter I have assumed for parliamentarians a two terms limit. Firstly, I have also assumed a strong incumbency advantage which makes the party choose to always reapply an incumbent, and then, I have relaxed this assumption. I have suggested that for both of the players it is optimal having legislators, who may be reapplied for another term, that in the first term show quite high levels of district loyalty (not extremely high), in order to maximize their likelihood of being reelected, and that, in the second term, show high levels of party loyalty, in order to maximize their patronage reward and the effectiveness of the party national policy (in the second term). The results show us how a party having many legislators at their first term could be less effective, about its national policies, in the current term and more in the subsequent legislature. Instead, if the party does not sufficiently incentive its legislators through patronage, allowing them being too strongly aligned with the party demands in the first term, could face a high risk of loosing next elections. In other words, a party that has many first-term legislators may risk, in general, to loose next elections not ensuring them a patronage position. If we suppose that italian parties have wrongly used the patronage tool, perhaps, this dynamics could in part explain the regular alternation in power we have seen in Italy in last years.

Appendix A

In figure 3.3 I represent equation 3.20 when MP decides to play as if he/she will be reapplied (blue line, left branch) and when she/he decides to play as if she/he will not be reapplied (red line, right branch). Note that for internal values MP is actually reapplied, for external MP is not.

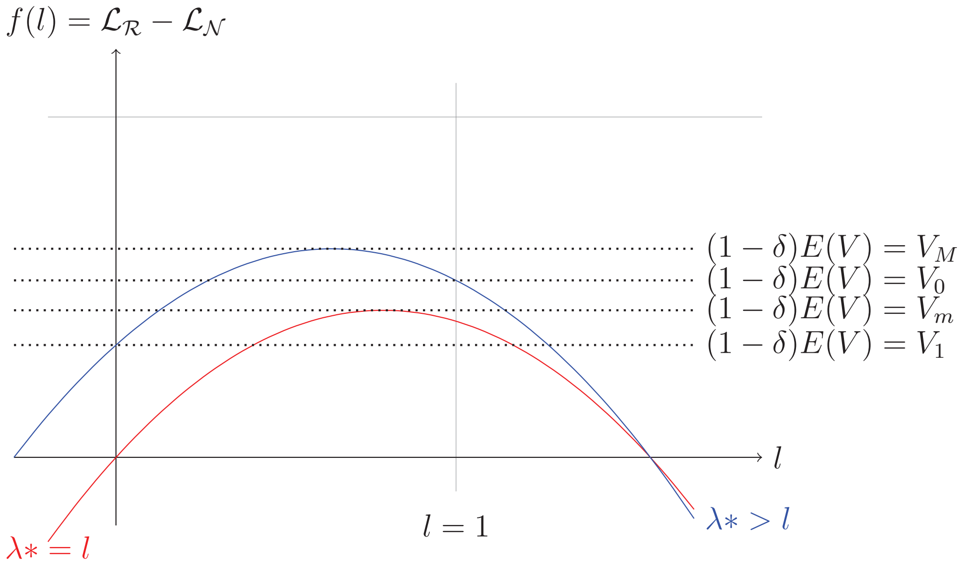

Figure 3.3 – The solution of the game.

When $0 \leq (1-\delta)V \leq (1-\delta)V_1$, party always reapplies the incumbents, thus it will be optimal for MP to play as if she/he is actually reapplied.

When $(1-\delta)V_1 < (1-\delta)V < (1-\delta)V_0$, if MP plays as if she/he will be reapplied but the value of l is very low (l is near to 0), she/he is actually not reapplied, thus in this case it is better to play against to be reapplied. If l it is high enough, if MP plays to be reapplied she/he is actually reapplied.

When $(1-\delta)V_0 < (1-\delta)V < (1-\delta)V_M$, if MP plays as if she/he will be reapplied but the value of l is very low (l is near to 0) or it is very high (l is near to 1), she/he is actually not reapplied, thus in this case it is better to play against to be reapplied.

When $(1-\delta)V > (1-\delta)V_M$ it is optimal to play as if MP will not be reapplied.

Proposition 1 is proved.

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