

## **On the applicability of the Cartel-party model**

### *Draft version*

Originally, cartel is a formal agreement among individual players of an economic market. The members want to reduce the level of insecurity and maintain the stability of the environment, in which they are operating. Since the player's total profit will exceed the amount obtainable without agreement, they will cooperate with each other.

Although the model of cartel can be employed in various fields of social sciences, at the time of application one should be fully aware that a cartel appears only under certain circumstances. As a phenomenon, its occurrence implies the existence of adequate medium environment, in which it can be grown up and realized. The phenomenon and the medium complement each other, and are strictly bound together. Therefore, when inspecting a cartel-like structure, one should describe the environment too that makes its appearance possible.

Basically, the aim of this paper is to give a frame for elucidating and understanding the medium environment when applying the cartel for political parties' organization, respectively the Katz-Mair's Cartel-party model that is one of the ruling models of the political parties theory. The problem of applicability should be examined particularly in the case of Hungary, where rioting took place in Autumn, 2007 and Spring, 2008. One was not able to experience the vehemence of these kind of turbulences even during the hectic transition period of the early 1990's. According to the vulgar explanation, the disturbance had been caused by the behaviour and characteristics of the political elit. This idea can be directly inspected in the framework of Cartel-party model.

Firstly, I describe the original model by a strong focus on the meaning of cartel in politics as a 'systemic phenomenon'. Since this kind of formal agreement among political parties leads to a public discourse where the scope of competing values and issues are constrained, I regard cartel as a liminality between the two contradictory poles of pluralism and autocracy. Furthermore, it is not suffice to claim the existence of a cartel, or cartel-parties. The aim of toning down the party-competition in given dimensions should be examined as well, since it points at the underlying common

interests of the members and at the main reasons that ignited the cartel-formation. These reasons include major internal social changes in a country, or permanent, external economic effects that can be handled only by curbing the competition.

Secondly, I consider the adequate, complying behaviour of political parties as the main element of the medium environment that is vital for the operation and permanent existence of cartel. I examine the necessary approach for a cartel in the framework of a party-system. For the analysis, I will apply Thomas C. Schelling's „Focal Point Effect“. According to Schelling's Effect, the solution to the problems of social decisions with more than one equilibrium could be identified by making one definite, optimum point the focus of members. Thus, the members assume the same behavior from each other.

Based on the preceding I will identify the required norms necessary for making the Cartel-approach the focal point of members. I will also examine the stability reached by the cartel. The scope of inspection will concentrate on the main goal of the cartel and what the stability is maintained for and not on the blocked competition. I consider cartel as a possible necessary path of development and thus, a developmental model for Hungary as well. Upon establishing a conclusion, recommendations will be stated for refinement of the Cartel-party model.

## **I. The problem**

### **I./1. Cartel as a ‚systemic phenomenon‘ – between pluralism and autocracy**

The concept of pluralism does not have a clear definition. Social and organisational pluralism is the consequence of the evolution of democracy in large scale. Basically, it refers to a structure of circumstances that make possible for a large circle of social groups to take part in decision making. Thus the political power is distributed among these separate, autonomous groups. From historical point of view, pluralism is originated from a political philosophical trend reasoning against the concept of absolute and sovereign state (Laski, 2002). According to Laski, one of the representatives of this school, the concept can not be connected to empirical evidences, and the absolute state should not be considered as a normative goal (Laski, 2003).

In contemporary pluralism, the emphasis switched from the state to the government. According to this, locus of political power is in the governmental framework, but many non-governmental groups try to influence the procedure of decision making (Dahl, 1956, Dahl-Lindblom, 1976). Dahl applied the concept of poliarchia for describing the practice of political system of Western countries as the closest to the ideal type of democracy, and he used pluralism as a necessary part and preassumption of poliarchia (Dahl, 1956).

Critics of pluralism talk about the „secondary nature“ and „third dimension“ of power. The former refers to the fact that only those interests will be raised in public discourse that are accepted by those in power or in the government. Subsequently, until they filter the topics to be discussed, the competition of issues itself can not harm their interest (Bachrach-Baratz, 1970). The latter is about the political phenomenon: the power can influence the opinion of members of the society in a way, that the citizens neglect their own personal interests. Both element of critics is based on empirical evidences (Lukes, 1974).

That is why other authors put an emphasis on the search for means by which the decision making process and the government itself can be more open for the needs and interest of external groups of the society. This ‚segmented pluralism‘ shows more resemblance with neocorporatism than with the free competition of laissez-faire. From this point of view, the interest groups building out linkages to the government do not undermine the democratic procedure. In contrary, representing issues and social groups, they form a necessary and enhancing medium between state and its citizens. (Offe, 1981, Kelso, 1978)

The autocracy means the other end of the scale, it is the negative of pluralism. It is a shortage in freedom, where participation in the decision making-process is not possible: only limited, mostly unchangeable set of values are accepted in the political system, and the political decision making is exercised effectively by one person. The power of the person lies on an elite group, of which interest should be considered as well in the decision making process. That is the reason why it is problematic to identify wether an inspected political system is an autocracy or an oligarchy. (Arendt, 1975)

Contemporary autocracy refers to a person, who leads a (political) institution without taking into account the opinion or interest of subgroups in the institution, but respects the formal legal and political institutions, the law, and the social norms.

Cartel in politics represent a liminality between pluralism and autocracy. The aim of formal agreement is to narrow the scope of dimensions of political competition in order to maintain stability, and reduce the obscurity of competition by smoothing out the effects of possible outcomes.

In the economics, the form of cartel is somewhere between perfect competition and monopolium. In politics, basically, the competition takes place not between goods, or services, but can be grasped directly by values and issues. It is certainly true even in the era of media politics, where the personality of politicians has a significant role on the appeal to the voters. In fact, a politician's external 'personality developed for the competition and showed for the public is banked on certain values. Henceforth, in politics, the duality of perfect competition and monopolium can be applied as the duality of situation of freely competing values and the permanent rule of only one and given circle of values, namely the pluralism and the autocracy

## **I./2. Party-evolution and cartel**

Since the dawn of the party-evolution, due to the permanent need for adaptation to the altering circumstances of competition, party organizations underwent a fundamental change. Cadre-parties of the XIX. century, because of the restrictions on political franchise, could not be considered as parties in modern terms. By the gradual escalation of universal suffrage in the turn of XX. century the aim of competition changed. Parties had to concentrate their efforts on gaining as much votes as possible since their effective influence on political decisions in the parliaments, or in government depended on the number of the votes they received. The mobilization of supporters became a key issue, which required the application of a new organizational structure. The new, emerging model of mass party answered the problem effectively, by organizing mass of active supporters and members. It means that as competition appeared, parties' first response was to reduce its intensity by dividing the market among each other through slicing the different social groups and subcultures. Parties institutionalized the major social-economic conflicts, and competed in mobilization of fixed and defined social groups, whom interest they represented. The proportion of

the represented groups in the population meant the natural burden of this strategy. (Enyedi, 1999)

Next cornerstone of development was brought by the catch-all party model, which opened up the competition again. Since then, the strong connections between parties and fixed social groups have weakened, strong ideological characters of parties and collective identities of social groups have lingered. A real, 'unified' political and electoral market evolved. Great parties aimed to gain voters from not only their traditional supporter social groups, but from the whole society. Small parties supplied representation for previously marginal special issues. On one hand, the open competition in a common political market meant a major opportunity for parties to strive and expand, but on the other hand, it increased their exposure to the effects of social, economic and political changes. In order to reduce the possible contingencies, a tendency of cartelisation emerged among political parties at the end of the XX. century, as Katz and Mair wrote:

*„It must be emphasized that parties need not be in competition for survival in the same way that they once competed to determine policy, for while there could be only one policy at a time, all of the parties can survive together. It is in this sense that the conditions become ideal for the formation of a cartel, in which all the parties share in resources and in which all survive.“ (Katz-Mair, 1995, p. 7.)*

Party organisations adapted and altered in line with this tendency. (Katz-Mair, 1995)

### **I./3. Katz-Mair's Cartel-party model**

Katz and Mair did not only describe the trend of cartel formation, but point at the consequences of the trend in the change of party organizations. Although, cartels had already appeared several times in political systems before, this process shows unique features. Cartels formation occurs in a single, relatively unified market, and not between players of segmented, isolated political submarkets. Besides, cartelisation *„has become increasingly typical ... rather than aberrational“*. (Katz-Mair, 1996, p. 526.)

Due (or paralell) to the erodation of social integration of parties in the second half of the XX. century, they built out close symbiosis with and become part of the state. Their role as agents of civil society weakened radically. The electoral competition lost its competitive and mobilizing characteristics and became contained. Parties are strongly exposed to financial support of state: the significance of incomes from

membership fees declined, whilst the proportion of state funds thrived. The nature of party work shifted from labour-intensive to capital intensive. Parties gained privileged access to state-regulated channels of communication. (Katz-Mair, 1995)

Katz and Mair claimed that a relationship can be observed between the participation of an inter-party cartel and the characteristics of the participating, individual parties, or between the patterns of inter-party competition and intra-party development. In parties participating in cartel, role of members altered: neither their rights, nor their obligations are important any more, while they act rather as individuals, and not as part of an organized body. Hence the traditional ties of hierarchy changed, relations between ordinary members and party elite modified, a heavy tendency toward stratarchy and mutual autonomy occurred. (Katz-Mair, 1995)

The authors stated several implications that are consequences of this new, emerging model. Basically, democracy is not a process anymore which limitations and controls are imposed on the state by the civil society, but rather a service provided by the state for the civil society. The means by which state offer this service are political parties. Party programmes became similar, and electoral outcomes can hardly change or determine policy-making. Instead of social change, the players concentrate on sustaining social stability. One can not make substantial distinction between 'parties that are out and in', scope of competition narrowed and toned down in the political market. (Katz-Mair, 1995)

The mixed character of a cartel, as described before, can be grasped in the Katz-Mair model as well.

On one hand, the normative, pluralist approach considers democracy as a process, in which institutions are pluralist and which constitutes of autonomous organizations. This view has been challenged by the cartel-party model in two ways. Firstly, due to the symbiosis of cartel-parties and the state, the aimed final control of the power by autonomous organization can hardly be realized. Policy-making and public discourse is determined by the party-elites. Secondly, the tendency alters the borders of pluralism. The number of hierarchical levels, and the range of issues where pluralist process is to be applied decrease.

On the other hand, the cartel-party structure does not float towards oligarchy, or autocracy. Although political parties aim to avoid change and to maintain stability, the institution of free and democratic elections still exist as an instrument for the

voters to express their pleasure or displeasure with governing parties. That gives the opportunity for newcomers to enter the market and to challenge not the party in general, but the cartel parties in particular.

## **II. The concept of cartel**

### **II./1. The concept of cartel in economics**

In economics, cartel is a form of monopoly or a situation where the certain market is close to monopoly. Companies in a sector make an agreement on curbing their output in order to reach higher product price (or vice versa) and thus to increase their profit.

Based on the agreement, the quantity of product supplied by the cartel is less (or equal) than those of competitive market situation. Subsequently, the price introduced by a monopoly will be larger or equal than the price achieved in perfect competition, thus – comparing to competitive situation – a given level of income surplus will be distributed mainly or totally from the customers to the companies.

The output of monopoly is not Pareto-efficient. Instead of considering the cost of surplus-output and the income achievable from this surplus, it concentrates on the relation between the additional revenue from the surplus production and the cost of the output. In the terminology of economics, the monopoly will operate where its marginal revenue equals the marginal cost of production. (Carlton-Perloff, 2000)

The decrease in efficiency can be measured by the so called deadweight loss, which can be calculated from the shrinking production and unsatisfied demand of consumers (from loss of producer's and consumer's surplus). However, the total sum of social cost could be higher. The absence of competition deteriorates the spirit of innovation, decrease the industry's capability of adaptation towards economic changes and preserves distorted market structure. That is why the monopoly and cartel considered to be harmful, not only for the economy, but for the whole society as well.

The exposure of a market towards monopolistic or cartel tendencies can be evaluated based on the average cost of production and the market demand. If the minimal efficient scale of production where the output minimizes the average cost is rather large relative to the size of market, then monopoly might occur with greater probability. (Carlton-Perloff, 2000)

## **II./2. Maintaining the cartel**

In spite of the advantages of the cooperation, the collusion is vulnerable due to the fact that evasion offers better returns for the company who yields to the temptation and breaks the agreement.

Let us consider a model of two companies, producing the same good for the same market. One encounters two problems on maintaining a cartel. On one hand, if the first player thinks that the second will not change its output, then he has the belief of obtaining extra profit by breaking the cartel and increasing his production above the quota agreed. This belief could be shared by the other player as well. If one of the players declines to act along the cartel-agreement, then monopoly ceases to exist. A so called oligopoly situation of two suppliers occurs, where the deserter has the information on the exact price of the market and chooses his profit maximizing output level accordingly. The production and the profit of deserter will be higher than agreed than that of other player complying with the agreement. (Carlton-Perloff, 2000)

However, on the other hand, the situation can be more intricate. If every player has the same belief that cheating is better off, and we assume that this belief is a common knowledge. Namely, they know that the other knows the belief. Additionally, they know that the other knows that they know it as well, and so forth on. In this case, the very interest of each player would be to cheat first, gaining the extraprofit until they are able to do so. The cartel collapses before starting real operation, oligopoly evolves and both players are well aware of it. They decide on their own output level based on the known market price.

One may apply a 2x2 matrix of possible strategies of players in order to observe the outcomes systematically. Each company has the strategy of cooperation and evasion. The possible four outcomes are the following: either both companies cooperate, or one of them complies and the other deserts, or vice versa, or both of them deserts. The preference order of these outcomes, starting from the most preferred one, from the point of view of the first player are the next matches: he deserts and the other cooperates, then he cooperates and the other cooperates as well. Followed by the situation when he deserts and the other deserts as well, and finally the worst scenario is to cooperate while the other deserts. The other player's set of strategies and outcomes and the preference order is the same thus the matrix is a symmetric one.

The preference order and the matrix shows us the situation of the famous prisoner's dilemma.

		2. company	
		Cooperate	Desert
1. company	Cooperate	C, C	C--, C+
	Desert	C+, C--	C-, C-

Where

C+ is the profit obtainable by deserting the collusion, while the other player cooperates

C is the profit obtainable in cartel-situation by the members

C- is the profit obtainable by the players, when both of them deserts

C-- is the profit obtainable by the cooperating player, while the other deserts

And  $C+ > C > C- > C--$

Searching for a solution of cartel-situation, I use the concept of Nash equilibrium: an equilibrium point should be identified, where it is true that each player is assumed to know the equilibrium strategies of the other, and no player can benefit by changing his or her strategy while the other player maintain theirs unchanged.

In the cartel, each company will choose to desert, since this strategy gives them a better pay-off of C+ (larger than C) or C- (larger than C--), either the other cooperates or deserts. Thus the Nash equilibrium point is the desert-desert match, where the pay-off is C- for each player. That is the core point of the Prisoner's dilemma. The cooperation would result larger profit of C, but – knowing each other's pay-offs and strategies – the rational players choose the strategy of evasion. (Gibbons, 1993)

In conclusion, one can claim that the cartel is a rather fragile structure, since the strategy of evasion dominates the cooperation. In order to maintain a collusion, the cartel must be able to control the operation of the members, make its commitments and deterrence credible and finally punish the deserter efficiently. Certain threats should be introduced that are triggered automatically, should the members of the cartel gain the information about cheating. It is showed by the results of the game

theory that it is possible to find a solution in a game of prisoner's dilemma played either finite or infinite times, which is not a Nash equilibrium point, but offers larger pay-off for the members, even if the assumption of perfect information does not hold. Computer experiments undertaken by Axelrod proved one of these trigger strategies extremely successful in situation, where the prisoner's dilemma game is played finite times. He gave the name of 'tit for tat' for this strategy. A player choosing this will cooperate during the first round, then does exactly the same in the present 't' period the other did in the previous 't-1' period. The strategy is considered to be efficient for it punishes the deserter at once, in the next round, but forgives and forgets the cheating after that. It is considered to be successful for it increases the number of games played with cooperation, resolving the original dilemma. (Axelrod, 1981)

'Tit for tat' is hardly applicable in politics, especially on issues of tendency of slowly increasing state supports and patronage system embedded in state offices. One needs more effective tools to grasp the exact problem of long term partial collision in politics. The concept of focal point could be an adequate instrument for that research.

### **II./3. Schelling's concept of focal points**

Thomas Schelling analyzed the problem of cooperation from different points of view. Originally, he observed the international conflicts in the framework of game theory and identified the arms race of different states as a prisoner's dilemma. (Schelling, 1980)

In his book of 'Strategy of Conflict' he argued 'that „the solution in the strict sense“ of a tacit nonzero-sum game is to be understood partly,... by reference to its signaling qualities. Since other sources of signals may be present even in the purely mathematical formulation of the game, the particular qualities of the „solution in the strict sense“ are but one of many potential determinants of a „rational solution“. It is partly an empirical question, not solely a matter of deduction a priori, what signals can be appreciated.' (Schelling, 1980, p. 303.)

In his subsequent researches, he inspected situations with more than one equilibrium points and analyzed how the players make their preferences among the equilibria, and how a specific strategy is to be chosen. Schelling thought that certain circumstances,

economic and social factors evolve social norms that support the players to identify only one equilibrium point out of more possible ‚rational solution‘. He gave them the name of ‚focal points‘, since the social norms, customs, formal and informal rules make these optimums the focus of the members of anticipated cooperation. Schelling describes the ‚focal point for each person’s expectation of what the other expects him to expect to be expected to do.“. In other words, it is a firm and identical belief of each player about the expectation of every other player on each other’s behaviour in a cooperative situation. (Schelling, 1980)

Schelling constructed the following problem to illustrate the concept. ‚Tomorrow you have to meet a stranger in New York, but you can not contact him about the exact time and venue. Where and when do you meet?’ He asked a group of students this question and found that the answer with highest frequency was ‚noon (at the information booth) at Grand Central Station‘. Although a restaurant, a public building, a corner would have done fine, certain customs and social norms makes the solution of Grand Central Station more salient for the players. Grand Central is a natural focal point in this game.

One should clearly see the difference between a punishment strategy and the focal point. While the punishment is merely an instrument, the focal point could be a social institution that gives sense for the usage of the instrument. The commitments of adversaries are banked on these institutions, for they make the preferences, the incentives, the pay-offs and threats standing behind commitments plausible and credible. For example, applying the ‚tit for tat‘ strategy, focal points makes it possible for one to comprehend the frames of cooperation, and additionally what should be a communicable and believable ‚tit‘ and what is ‚tat‘ in the situation.

Applying Schelling’s approach to cartel, a certain social norm is required for maintaining the collusion. This attitude helps to make the cooperation focal point of the companies and decline from the desert-desert strategy.

#### **II./4. The political market**

The fundamental characteristics of cartel are the same in politics as well. Players of a unified political market evolve an agreement for curbing the competition and act accordingly. If the political system operates on a basis of given formal democratic rules then the collision in politics – contrary to the economics - is not considered

basically to be harmful for the society. Representatives of interest groups may unite along the dimensions of political debate and articulate common standpoint or do not let certain topics to be discussed in the public discourse. The paper main aim is not to overview the results of literature on pluralism, elite theories and corporatism, but simply to shed light on and inspect the adequate medium environment, more focusedly, the set of norms necessary for cartel formation. In order to do so, in the following the political market and the nature of collision should be described by economic and game theoretical concepts.

The market observed is the political market of nowadays democracies. This is a rather intricate and compounded institution of several submarkets, like the different submarkets of polity-debates, of public policies sliced up by other dimensions of social cleavages. However, it could be regarded as a unified market due to more reasons. Firstly, active and passive universal suffrage ensure the right for every citizen to be involved in the market interactions without any constrain. Secondly, the strict and life-long connection between the suppliers and certain group of customers based on societal status, relation towards capital or the kind of work has been continuously fading since the second world war. The competition is open, and no market segment is occupied for ever by one group of suppliers. Thirdly, the customers and the suppliers play in the unified political space with regard to each other. Neither groups of customers, nor suppliers can exist separatedly from the market. Customers are involved in the innovation process of suppliers regarded both the production technology (campaign techniques, inner organizational structures of suppliers) and the product (campaign issues, public policies for example) as well. The institution of market is accepted and known by all the players. Fourthly, emergence of new communication technologies and increasing influence of mass media initiated and augmented the unification process.

The idea of one and unified political market is involved in the Katz-Mair model implicitly as well. On one hand, the systemic phenomenon of cartel used by them implies the existence of one market. On the other hand, when responding to Koole's comments on their model, they distinguished the historical, cartel-like situation in politics mentioned by Koole and the cartel-tendency of eighties and nineties (Koole, 1996, Katz-Mair, 1996). This comparison cast light on the difference between the

partly divided and separated market of the first half of the XX. century and the unified political market of the turn of the millenium.

Identifying suppliers and customers, general supply and demand in political market should be determined. However, the topic of need will not be discussed in a detailed analysis for it would be beyond the scope of this paper. The final question behind the need in political market is finding the natural harmony between one's quest for finding happiness in his or her life and the cooperation with other members of human community.

Translating the abstract approach into temporary definition, it is suffice to say that the product may involve representation of certain social and economic values, and working out and implementation of public policies, that support finding harmony between the personal and community goals. Additionally, one may mention large number of other services like providing 'office' for groups of supporters, special services for members of organization, not forgetting the feeling of belonging to a community for supporters.

In this paper, the product in the market-metaphor of politics consists of only the first two elements mentioned above, namely the representation of certain values and paralel to this, the suggestion and implementation of public policies. The reason behind this is twofolded. Firstly, this two activities represent the main product for the vast majority of the customers. Benefits offered for supporters formally or informally constitutes only a small submarket. Secondly, this meaning complements the concept of vote as price in the political market.

Seeking for the concpet of suppliers, one should concentrate on political parties. Interest organisation, corporate bodies, trade unions are out of the scope of inspection, partly because the paper is about analyzing a party model, and partly due to the fact that in modern, pluralist democracies, basically, political parties are able to formally accept or reject a suggestion in the parliament or national assembly.

Customers are the citizens. They establish a demand for the products of the political parties. By doing so, they exercise the customer's right of evaluating the quality of product and performance of suppliers expressing their opinion by their votes for a candidate and - directly or indirectly - for a party as well.

The effective political power, and thus the pay-off of political parties is strongly connected to the ratio of received votes during the elections. Therefore it is essential for a political party to collect as much votes as possible. This leads us to the concept of price. In economics, the price has the functions of setting, and resource- and income-allocation. The setting function means that every player expresses the costs and results of his performance and consumption in the price. The other functions refer that the price also allocates the resources of a player efficiently and adequately, and shows the locus of player in the distribution of income. Based on these definitions, vote itself can be considered as price in political market, but only with limitations.

On one hand, exchange of vote between customers and political parties happens usually only once in years, during the elections. The vote cast for a party can not be connected unambiguously to its general performance in the given term, but to numerous other factors of party competition as well like its relative performance among the competitors, the efficiency of its campaign, the success of a public policy initiated by the party, or the phenomenon of strategic voting. In conclusion, one should say that the ratio of received votes might correlate with the general performance of a political party but is not strictly connected to its achievements or the used and sacrificed resources.

On the other hand, as Stroem claimed, the assumption of vote-maximizing behaviour of political parties could not be held in every situation. In fact, the strategy of a party acting rationally, is influenced by the institutional environment and the organizational characteristics as well (Stroem, 1990). Under certain circumstances party's main aim alters from ,vote-seeking' to ,office-seeking' or ,policy-seeking'. The change in strategical goals is affected by for example the distorsion of electoral system, the ,electoral competitiveness', the number of dimensions of competition, or by the characteristics of internal organizational hierarchy, and of the relationship between party-members and leaders. This mainly explains why the possible resource allocation function of votes can not be squarely validated in politics.

Subsequently, the ratio of received votes will not elucidate unequivocally the real influence and power of a party. Respect of a relative small party can increase dramatically if it can provide the missing number of representatives for the majority in the parliament. Likewise, the weight of a large party can fade should it be in real need for political support from other parties.

## **II./5. The cartel model of economics in politics**

Collision of suppliers will be based on an agreement among political parties (or group of them) on constraining the competition and upkeep stability. Since products are a set of values and public policies of several dimensions represented in the public debate, a sales agreement means here a formal or informal pact on decreasing the number of dimensions. It will not lead to less engagement toward evolving new public policies, but the working out and implementation will be less salient to the public.

Using similar logic, but with contrary effect, since the concept of price is attached to the votes, a price agreement is about heating up the debate in one particular dimension. The clash of different opinions makes the customers pay attention to the product of political parties and vote for them accordingly in larger number. (However, one can sometimes hardly differentiate this situation from the real competition)

One should be aware that the original Katz-Mair model used only the concept of 'volume agreement' since the tendency of political debates toning down are part of their basic idea. If the argumentation of this paper is right, then, when analyzing a party-structure and organizational characteristics of a given country, the structure of the political discourse may refer to collision, and the intensity is connected to fact whether the cartel concentrates on output or pricing.

Regarding the cartel in politics in general, using the pluralist terminology, collision automatically limits and decrease the circle of autonomus groups and their potential as well to participate in decision making. By curbing the topics to be discussed it constrains the people's final control of power.

One should be aware of the difference between the meaning of stability in a submarket of the economy and in political market. While stability caused by a collision in economy leads to loss of efficiency and unsatisfied demand, a cartel in politics should not be judged in a similar way. One may clearly see that political stability reached through a cartel narrows the array of public debate and can augment the intensity of narrowed competition in limited, well-chosen issues. However, stability in politics reflects the equilibrium of social forces. It is not simply a temporal point of repose of the interest, but a situation that is realized by the majority of players as an optimum. This situation can be enhanced for the time being only by the expense

of one of the players and every player is well aware of this fact. The main question is what the groups of players the period of stability are using for. Whether the ,deadweight loss‘ of decreasing openness, toning down competition, and hushing up important issues can be balanced by the strategic goals of the community that can be reached through collision. The paper discuss this problem at the end of the argumentation.

The economic connection between minimal efficient scale of production, relative size of market and monopolistic tendencies can be applied here as well. In political market, among the competing parties, size does matter. In order to minimize average cost, the efficient scale of production requires considerable organizational network throughout the country, embedded in the society, requires competent party center with experienced, qualified employees. There is a need for group of professionals in working out policies, and in supporting the parliamentary party group. Regarding the political market, this relatively large network of paid employees and groups of supporters can be considered as of efficient size. Seeing the exact and targeted own interests of these networks (namely winning the elections, realizing the program and keeping the network alive by giving work for it and financial support), they may exercise their tremendous influence in order to control the market. The survival of small parties in ,Western‘ party structures is not contradicting to this approach. The existence of small players in the oligopol market can be elucidated even by the existence of collision between large parties. These small parties try to articulate dimensions of polity and policy, and social interests ignored by the others.

Again, it should be emphasized that it is not basically the logic and process of operation of large players in the political market that is interesting, but the phenomenon how they assimilate the cartel tendencies, and show the characteristics of long term collision.

## **II./6. Cartel-model and prisoner’s dilemma in politics**

If collision is organized in a political market among political parties, it will surely have the basic characteristics of a cartel in economics, and thus will encounter the fundamental problem of maintaining the cartel. Due to the prisoner’s dilemma, seemingly each member has the strong interest to cheat.

Although these results concern a game with two adversaries, the assumptions are not exaggerated simplification of the real life situations. Two players approach still can be applied not only in two-party system, but in a multidimensional party-system as well being composed of two main blocs, or of one large and several other cooperating small parties. Besides, beyond the artificial model of two-party prisoner's dilemma, the temptation of evasion are banked on the same attitudes when the group of members consists of more than two parties. As a matter of fact, in economy, the gain of cheater could be more in a multi-member cartel. It is true that in that case the punishment of an effective cartel could be more devastating as well.

Evasion of ,volume agreement' would mean the expansion of political debate with new topics, ignored by the players till that time equivocally. Timing a campaign on a neglected dimension of competition just before elections, a member could win the day and get more votes from the citizen than he would had by acting in accordance with cartel-agreement.

Similarly, moving against a ,pricing pact' means retreat from a heated debate on an issue of interest chosen by the members before. This kind of strategy would lead to ignore engaged campaign of other member(s), and - totally contrary to the pact - instead of fighting, the cheater emphasize the importance of cooperation in front of the public or initiate a new campaign in another dimension, on other issue.

Relation of pay-offs of possible outcomes are the same as in an economic market. Using the markings of chapter II./2.:  $C_+ > C > C_- > C_{--}$ . A player is able to gain the largest return by evasion, which is  $C_+$ . The operating cartel can provide a pay-off of  $C$  for the members. Should both of the players desert, they earn  $C_-$ . The pay-off is  $C_{--}$  for the one who cooperates while the other deserts.

### **III. Maintaining a cartel of political parties**

#### **III./1. The focal point of cooperation**

Although it sounds commonplace in itself, but a very important implication of the pluralist theory is that the competition within the party-structure in general is a non-zero game for long term. Each party has its preferences and goals that are not exclude each other by necessity, what's more, the formal pluralist democratic institution grants the right to take part in competition for every party. Zero-sum situation may

occur only in short term, when parties are struggling for the same segment of voters during a campaign on an issue.

This means that the relation between political parties is not based on pure conflict of completely opposing interests. Their final goal is not the total annihilation of the players. In fact, a successful political party will not strike for destroying the others. This fact gives room for – using Schelling's word - bargaining among political parties. Bargaining is about obtaining positive yields of votes, or of resources and may involve deterrence. This bargaining process between political parties could be either explicit or a tacit one, in which the members ,watch and interpret each other's behaviour', without meeting physically or communicating with each other.

It is hard to evaluate the real effect of continuous bargaining among political parties whose circle is not changing dramatically for a long term.

On one hand, in Anglo-Saxon countries, this might have a less influence to the ,degree of competition' where the most important is to keep up the freedom of customers, freedom of voters, freedom of choice. Any kind of cartel-tendency in political market that curbs the possibilities of citizen's choice is equal with violating their freedom and thus might be condemned by the public. Maintaining social cooperation means maintaining competition. On the other hand, the continental and Scandinavian, Western-European countries' public might be more open for accepting the competition, but smoothing and making the bargaining more ,comfortable', since their historically embedded guild and corporatist tradition concentrates on central maintenance of order and harmony in contrary to the competition that leads to chaos. The cornerstone of effective social cooperation is constraining competition. This contrast emerged in the original essay of Katz-Mair as well:

*„Pending a closer and more rigorous enquiry, therefore, we estimate that the process is likely to be most developed in countries such as Austria, Denmark, Germany, Finland, Norway and Sweden, where tradition of inter-party cooperation combines with a contemporary abundance of state support for parties, and with a privileging of party in relation to patronage appointments, offices and so on. Conversely, the process is likely to be least developed in a country such as the UK, where a tradition of adversary politics combines with relatively limited state support for party organizations, and where the possibilities for patronage, while growing, also remain relatively limited.“ (Katz-Mair, 1995, p. 9.)*

They distinguished two different circles of countries based on the experienced intensity of a group of phenomena. Although the connection along the factors mentioned by Katz and Mair can well be tested, but the general underlying causes of cartel-formation may be understood by inspecting the characteristics of cooperation and bargaining process as well.

It should be done due to the fact that one of the important factor of cartel formation is the tradition and comprehension of relation between competition and cooperation in a certain country. And this comprehension prevails through the bargaining process among political parties, where the tradition, and social norms assign the possible set of strategies and set of outcomes for the parties.

This comprehension is the necessary social environment for cartel-formation. One of the players from the political parties playing the game of (tacit) bargaining will initiate a policy that results in increasing state support for the parties. The player will do so for it regards this as a temporary optimum of the game. It thinks that every player will cooperate. This expectation is based on two beliefs: firstly, every player will gain higher yields, and secondly, trust and united political activity of political parties for the good of the country are strongly supported by the citizens, while the issue of state support and patronage system is not doomed by the citizen with the same intensity. Although theoretically, another optimum can be raised, which would be the situation of long-lasting public debate on state support and a competition on proving the independence of the players from state. But the previous optimum is the focal point of political parties, thus they will choose the strategy of cooperation and this will be the equilibrium point.

Subsequently, it implies that the concept of focal point of collision among political parties should be attached to the evaluation and application of cartel-party model. Beyond the strategies and outcomes, the circumstances of negotiations will determine the irrevocability of a player's commitment, the threat behind it and the ways of communication. Thus in order to analyze whether the social environment will make the cartel-formation the focus point of the player along the negotiation process, the insitutional and structural characteristics of the process should be inspected.

Is the debate an explicit or a tacit one on the issue of state support? The political parties use politicians as bargaining agents. But do these politicians have incentive

structure different from the parties? What kind of effects do other negotiations between parties have in long term for the patronage-system and state-financing?

As a matter of fact, based on the empirical findings of future research on the dimensions above, the concept of cartel-party as a general organizational model should be perhaps amended. Even Katz and Mair made a distinction between two groups of countries. But if behind a phenomenon of cartel formation lies not the same reason and the difference is not in merely due to the intensity of the phenomenon then the tendencies in organizational characteristics should not be the same and be explained based on other reasons.

### **III./2. Cartel and stability**

One of the most important consequences of the existence of a cartel is that it aims to maintain stability. As mentioned above, the original cartel-party model – emphasizing toning down competition – considers only one type of cartel: the collision based on a volume agreement. Other type of cartel, namely the pricing-agreement may have positive yields in votes for political parties, and it may occur in politics, but through the growing intensity of debates it is against stability in the political market and thus in society as well. Katz and Mair interestingly regarded only the cartel-form that offered stability. It might be due to the fact that in politics, a pricing pact – although being cartel – is rather a short term phenomenon, while output –agreement is for long term. And the scholars composed their paper in order to cast light on a long term tendency.

Regarding stability, cartel reflects the equilibrium of social forces, a situation that is realized by the majority of players as an optimum point, where one is able to enhance his pay-offs only at the expense of at least one of the players. Although the cartel-stability is upheld by constrained competition, the situation should be analyzed according to the strategic goal of community, which can be reached by the collision during the period of stability. From this point of view, the cartel-formation, and the organizational form of cartel-party together can be considered as a model of development.

The emergence of cartel-party phenomenon can be linked to the late seventies and eighties of the XX. century. This was the period, when the western welfare states had

to encounter real serious challenges for the first time. With the cancellation and abolition of Bretton Woods monetary system, period of stability of exchange rates after the second world war ended. In parallel with this, the two oil crisis occurred, economic globalisation intensified, and the product, the financial and the labour markets became more and more international. Besides, the process of European integration accelerated. All of these three challenges had its direct influence on the economies of western countries primarily, but their effects shifted to the political systems too. All of the countries had to find its own answer for the external pressure and find a an adequate development course with considerable economic growth like experienced between 1950's and 70's. The expenditures of adaptation should have been supported by certain social groups. If the political parties had not made an agreement either through effective or tacit bargaining on who pays the price, the country would have faced a crisis. Besides, in situation of crisis, the players are hardly able to defend the political market against newcomers. In this sense, the cartel-formation had been a necessary step of the political parties and resulted the ,collateral' consequence of increasing state-support and political parties existing not between civil society and state but in the state.

Since Hungary is facing the same challenges directly since 1990's, and is already the member of the European Union, the relevance of application of the same developmental model should be raised. In Hungary, the characteristics of the model can be observed partially, and henceforth one can not regard parties of Hungarian political party-structure as cartel-party organization in its original meaning. On one hand, political parties are ,existing' in the state, huge part of their income originates from the state, and their membership are small relating to the received votes (Enyedi, 2006). They exclusively use the communication channels of state media, their operation is highly professionalized. On the other hand, the intensity of competition is large, one can experience heated debates along the dimensions of competition. (Enyedi, 2004) The election result does matter for the prize of the winning party, the prize in state offices and in informal influence are much higher than the position obtainable by the losers. The organizational characteristics of party in office's strenghtening, of the stratarchia in relation of the headquarter and local organization, and of the marginalization of members are also only partially observable, (although these are questioned to be the direct results of the cartelization by certain scholars (Detterbeck, 2007)).

The high level of state-support and the heated debates on other, different issues reflects the parameters of a cartel - not a volume, but a political price-cartel. In order to follow the developmental model, political parties in Hungary should cut off the price-agreement and move towards a volume-cartel. As mentioned above, political cartel-formation is more acceptable in certain groups of countries, where freedom and the goals of society are reached not primarily through competition, but through the equal validation of the principles of competition and cooperation together. In Hungary, the problem originates from the fact and historical tradition that although the norm of curbing the competition is accepted, it does not prevail through the cooperation between the different parties, but through the constraining intentions of only one, large (ruling) player of a political market. Cooperation as a complement of competition is not in the focal point of the parties, and it results in failure of formation of a long term cartel. Volume-cartel can be built if the behaviour of long-term cooperation (either implicit or a tacit one) between political parties becomes an accepted norm in the society.

### **III./3. Summary - Implications for the cartel party model**

Katz and Mair's cartel-party approach is one of the ruling models in the contemporary political sciences. Although tremendous effort has been made by researchers to explore its relevance and applicability in party structure of several countries, relatively few has been said about the assumptions that lie behind the core ideas of the model. Evolving their model, based on evidences, Katz and Mair talked about the tendency of cartel-formation. But cartel-formation implies a necessary medium environment of formal and informal institutions that supports this long-term process. This paper's aim was to analyze informal ones by using the conceptual framework of economics (and game theory), namely – using Schelling's concept of focal point - certain informal social rules and norms that help the evolution and maintenance of collision. The inspection results in the following.

Firstly, cartel in economics is a distinguished concept describing collision among suppliers of a market aimed to control either quantity or price. Applying this differentiation in the political market, it has been showed that the original Katz-Mair model refers only to volume-agreement. However, other type of cartel, namely the one of pricing pact can be observed in the political market as well, where suppliers

are political parties, consumers are voters and the income received for the performed product is the vote itself. This kind of collision aims to produce engaged and heated debates on one chosen issue in order to win as many votes as possible. This contradicts the assumption of general toning down of debates in the original model. Katz and Mair might have not mentioned this kind of cartel due to their concentration on long-term tendencies, where volume-agreement might be better to prevail.

Secondly, inspecting the process of cartel-formation and maintenance in the framework of game theory, the paper analyzed the importance of bargaining, the problem of credibility of player's commitments, and the deterrence from cheating. It has been showed that one of the most important factor in the evolution and existence of cartel are the social norm that shape the expectation and beliefs of players and thus influence the rules of and their power to bargain. The adequate social norm makes cartel-formation the focus point of the players. The paper argued that this informal institution is the historical norm of constraining competition based on continental corporatist tradition. The norm is originated from the social comprehension of the relation between competition, cooperation and harmony. Katz and Mair referred to this at less general level in the original article by assuming differences between the group of continental-Scandinavian and Anglo-Saxon countries along the intensity of the inspected characteristics of party organization and party structure.

In order to describe this abstract social norm, future research should be conducted for identifying the exact insitutional-structural characteristics in politics of that norm. At least the following problems should be clarified. Is the possible political debate on the issue of state support an explicit or a tacit one? The political parties use politicians as bargaining agents. But do these politicians have incentive structure different from the parties? What kind of effects do other negotiations between parties have in long term for the patronage-system and state-financing?

Following the line of argumentation, if behind a phenomenon of cartel formation lies not the same reason in various countries and the difference is not merely due to the intensity of the phenomenon then the tendencies in organizational characteristics should not be the same and be explained based on other reasons.

Thirdly, regarding stability caused by the cartel, collision reflects the equilibrium of social forces, a situation that is realized by the majority of players as an optimum

point, where one is able to enhance his pay-offs only at the expense of at least one of the players. Although the cartel-stability is upheld by constrained competition, the situation should be analyzed according to the strategic goal of community, which can be reached by the collision during the period of stability. From this point of view, the cartel-formation, and the organizational form of cartel-party together can be considered as a model of development. The Hungarian parties and party-structure show the characteristics of a pricing-cartel. The developmental model may be applicable in the case of Hungary, if (and a volume-cartel can be built) if the behaviour of long-term cooperation (either implicit or a tacit one) between political parties becomes an accepted norm in the society.

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