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The Legislator as Political Entrepreneur: Investment in Political Capital

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Abstract. This paper applies the standard Austrian theory of capital investment to the standard interest group model of legislator behavior. Distinguishing between reputational capital and representative capital as interdependent forms of political capital, I argue that legislator behavior (specifically roll call voting) can be explained as entrepreneurial investment in political capital under uncertainty. I discuss several examples in which this approach can potentially add predictive power regarding legislative voting.

Key Words: models of legislators, political capital, market processes

JEL classification: D72, D81, B41.

1. Introduction

This paper attempts to build on interest group theories of the legislator by introducing an element of investment under uncertainty. In interest group models of the legislator, a net political support function is maximized subject to opposition and time constraints. One area of this literature has emphasized a broadening of this net-support model to incorporate the importance of political capital to acquiring electoral support constituencies (Denzau and Munger 1986). I discuss a way of building on this model by delineating two interdependent but distinct forms of political capital-reputational and representative. I argue that there is usually a tradeoff between these two forms of political capital, and that the terms of this tradeoff are potentially obscured by structural uncertainty. This implies viewing the legislator as an entrepreneur who invests in political capital under uncertainty. With roll call voting as the choice variable, I apply the time structure of production model of capital accumulation to conceive of the legislator as weighing the interests of constituent-voters, organized interest groups, and party leaders against each other with each vote. I then discuss how this formulation of the legislator's decision problem may help extend our predictive capabilities regarding the legislator. For example, legislators may have good reason to vote contrary to their and their constituents' true preferences, if doing so today is expected to increase their political capital in the future. Also, because legislation on institutional changes

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(such as rules of debate, term limits, or campaign reform) affect a legislator's future political capital more than non-institutional changes (such as appropriations or poverty policy), legislators will be more likely on institutional changes to vote against their constituents. Conversely, where greater uncertainty is not compensated by an opportunity to increase political capital, legislators should vote closer to constituents' preferences: for example, legislators may vote less loyally to party leaders during closely balanced congresses because the identity of the majority party in the next congress is less certain. Based on empirical considerations such as these, I argue that this view of the legislator offers some areas for innovative empirical work in legislator voting.

In the next section, I begin discussing the main features of interest group models, including the Denzau-Munger emphasis on political capital. In Section 3 I then carefully distinguish between two forms of political capital, and argue that they are interdependent for the purpose of arguing that the legislator investment in political capital is faced with conventional risk as well as structural uncertainty. In Section 4 I propose the capital investment model of the legislator as political entrepreneur. I then discuss the empirical properties of the idea in Section 5, and how these properties may potentially add to interest group models' empirical implications. In Section 6 I conclude with some discussion of implied future work.

2. Legislator Behavior and the Role of Political Capital

Conventional interest group models of legislator behavior take a vote- or electoral-support-maximizing approach. The typical model is Peltzman's model of price regulation, in which the regulator weighs marginal opposition and support in determining the regulated price that maximizes net political support (Peltzman 1976). The theory draws directly on Olson (1965) and Tullock (1967) in that the net marginal support from an increase in regulated price depends on the relative size/effectiveness of the winning and losing groups (i.e., their "Olson costs"), as well as the size of the Tullock transfers. Peltzman's key formal result shows that the regulator will increase price until the marginal gain in electoral support from increasing producer rent is just equal to the marginal loss from imposing Tullock losses on consumers. As a corollary, the regulator's optimal price will be lower than producers' optimal (profit- or rent-maximizing) price when consumer opposition is positive.

For present purposes, the specific results are less relevant than the agent's calculus in the model because the same calculus-in fact, the same model-was extended to, and is currently used to analyze, the legislator. In McCormick and Tollison (1981), for example, the legislator's function is to enact legislation that brokers wealth transfers from groups with high Olson costs to groups with low Olson costs. The legislator equates marginal political opposition with marginal political support, setting the quantity of wealth transfers at this optimum point. Legislators are beholden to the preferences of their political support constituencies subject to the collective action structure in the polity. More than a reformulation of Peltzman, this model implies that all government activities, not only economic regulation, are designed to transfer wealth from one group in the polity to another. Congress, or the relevant legislature, is simply the clearinghouse for the wealth transfer market, and it is the role of the individual legislator to match the marginal demander of wealth transfers with the marginal supplier. The legislators who are successful in doing so acquire the highest net commissions-manifesting as votes and campaign contributions-for supplying the policy that affects the wealth transfer.

To this lean model of the legislator, Denzau and Munger (1986) incorporate unorganized interests (i.e., voters and groups with very high Olson costs) as a margin of political support. The model also features an additional constraint-a time, or effort, endowment-through which political opposition emerges as a shadow price: the cost of servicing a group is the foregone benefit of not servicing the next best alternative group. With this slightly more complicated model, the maximizing choice is still to service each vector of electoral support until the net marginal gains are equal. But now this depends in part on whether unorganized interests care about the legislator servicing a particular interest group, and how intensely they like or dislike the interest group involved. If voters are sufficiently opposed to the legislator being bedfellows with organized labor, for example, then the legislator will not service that group. Also, voter opposition could be sufficiently strongly negative toward an organized interest—such as tobacco or firearms industries—that the legislator benefits from extracting wealth from the organized interests.

The Denzau-Munger model introduces institutional detail to the interest group model; therefore embodied in the model, in two distinct but related ways, is the centrality of political capital. First, the composition of a legislator's parliamentary rights determines which groups he can service with the least cost. For example, a legislator on the agriculture committee is better suited than a legislator on the armed services committee to imparting rents on farmers. So is a more senior legislator, ceteris paribus. Second, the legislator's standing among voters and other unorganized interests also determines which groups he can service with the least cost. Between two legislators representing similar constituencies, the one with higher poll support or greater margin of victory (or some other measure of standing among voters) will be better suited to servicing a given organized interest. From the perspective of an organized interest, a lower cost provider is preferable to a higher cost provider, ceteris paribus, because the lower cost legislator will charge the lower "supply price" for imparting the rent. In short, these two types of political capital will affect a legislator's productivity in creating policies for specific interests, and therefore will affect the types of interests with which he exchanges.[1]

The distinction between these two types of political capital warrants careful attention. First, let representative capital be defined as the vector of parliamentary rights and legislator attributes that determines productivity in influencing a policy. Examples of representative capital would include (but not be limited to) the legislator's committee assignments, seniority within those committees, logrolling and lobbying contacts, law-making acumen, and political wile. Such attributes help to define policy areas where the legislator has a comparative advantage. A legislator with low representative capital on a policy issue is at a comparative disadvantage in influencing that issue. Since it is costlier for this legislator to influence this issue, interest groups would have to pay a high supply price for this legislator's service on this issue. So interest groups would be wise to lobby legislators with greater representative capital (and lower supply price) in their policy areas. A wealth of empirical evidence, which I discuss later, supports this notion. We should predict, therefore, that a change in representative capital would result in changing legislator behavior. As a legislator acquires the committee seats he seeks, accumulates seniority, assumes sub-committee chairs, committee chairs, and eventually leadership positions, he will begin servicing more groups and his returns to holding office will increase. On this view, the member has incentive to accumulate representative capital over time. In the next section, I elaborate on this claim with evidence from the literature, and I later demonstrate the specific forms of investment that are required for this accumulation.

Second, let reputational capital be defined as the vector of legislator attributes that determines his standing with voters and other unorganized interests. Examples of a legislator's reputational capital would include his political party affiliation, voting record, campaign platform, and name recognition—attributes that are recognizable to voters as a prediction of future performance in office. Reputational capital can be thought of as the political counterpart of human capital in asymmetric information labor markets. To economize on information costs in the face of voter uncertainty, legislators have the incentive to signal productivity to voters, and voters use a legislator's reputational capital to form expectations of his likely performance if re-elected. The greater a legislator's reputational capital (or the better his ability to signal it clearly), ceteris paribus, the lower will be the legislator's reelection costs.[2] Like labor supply, legislators can utilize different forms of signaling. The avoidance of scandal or major political gaffes, for example, is essential to maintaining reputational capital. More common signals of reputational capital are party affiliation and the legislator's voting record. Finally, advertising—i.e., campaign spending—is a potent form of reputation building in a manner similar to the way that advertising builds brand name and goodwill for firms.[3]

A Denzau-Munger style capital investment conception of the legislator departs from the static Peltzman model. This is not necessarily due to a change in the legislator's assumed maximand but to the arguments therein. A legislator may forego immediate political gains if doing so will create greater expected and appropriately discounted gains in the future. As I elaborate on the processes of accumulating representative and reputational capital, I will also argue that forming expectations of future political gains and losses involves structural uncertainty—which suggests an extension from the Denzau-Munger model toward an entrepreneurial conception of the legislator.

3. Representative and Reputational Capital as Interdependent Investment Goods

3.1. Reputational Capital Accumulation

Legislators accumulate reputational capital by advertising and maintaining consistent policy positions over time. Advertising is measurable as campaign expenditures, and policy consistency—whether keeping promises or upholding ideological views—manifests in the legislator's vote record vis-à-vis her announced platform and her party's position.

Through direct mail, organized rallies, and mass media advertising, campaign expenditures are the most conspicuous form of reputational investment. In the 2000 election cycle, congressional candidates raised and spent a combined \$1 billion (FEC 2001). Over the previous six years, congressional candidates in non-open seat elections spent a combined \$2.2 billion (nominal), with incumbents accounting for \$1.6 billion, or 73 percent, of the cumulative total.[4] It is when perceiving this incumbent-challenger imbalance over time that the investment aspect of campaign expenditures becomes clear. For any incumbent seeking reelection, current campaign expenditures serve the dual purposes of: (1) increasing vote share in the pending election; and (2) accumulating reputational capital for future campaigns. Looking backward, this means that past campaign spending constitutes an approximate measure of the incumbent's accumulated investment in reputation. Evidence of this is available in looking at challenger spending, which is typically positively related to current incumbent spending but negatively related to past incumbent spending (Lott 1987, 1989). In other words, for a given amount of accumulated incumbent reputation, challengers tend to spend more to counter incumbents' current spending. But challengers are dissuaded, and spend less, in the face of higher incumbent accumulated reputational capital.[5] Even incumbents who face an ineffective challenger, or who run unopposed, engage in campaign spending: in the 1998 election cycle a total of 52 unopposed candidates for the House of Representatives spent $14 million; 119 candidates who would win 80 percent or more of the vote spent a combined $32 million.[6] Where vote share is not a concern, unopposed incumbents invest campaign spending to build reputational capital.

A consistent policy position signals a legislator's reliability, which serves to reduce uncertainty that voters face in supporting a candidate for office. In spatial analytic terms, a legislator works to position himself consistently relative to his party and to his past positioning. Both of these activities have been interpreted as establishing a consistent ideological reputation. For example, party affiliation is among the most basic signals because it associates the legislator with the broader ideological reputation of the party (Downs 1957). This greatly reduces voters' information costs[7] yet voters also evaluate the quality of the party signal ex post vis-à-vis the legislator's job performance (Dougan and Munger 1989). That is, legislators are disciplined by the need to maintain the quality of their party affiliation signals, and must sometimes forego opportunities to capture political gains if doing so would position the member too far away from his party.

Party affiliation is a highly general signal so legislators must also establish a position relative to the party. A representative of a liberal constituency will benefit from positioning himself to the left of the Democratic Party median; a representative of a moderately conservative constituency will want to be slightly to the left of the GOP median. The legislator's campaign platform helps to establish the initial position, and his voting record determines whether he maintains that announced position. To track voting records, watchdog interest groups such as Americans for Democratic Action and National Taxpayers Union maintain annual indexes of individual legislator voting records. Voters use this information in their adverse selection problem of selecting candidates; they will perceive a higher variance to the benefits of re-electing a legislator who diverges, which makes a given challenger more attractive, ceteris paribus. In other words, it is costly for a legislator to diverge from his announced position once in office. So legislators have an electoral incentive to maintain a consistent reputation. If the incumbent sends a strong ideological signal, it is less costly for constituents to infer the incumbent's productivity. Thus, both constituents and politicians benefit when the politician's views are strongly signaled and those views match well with the constituency's. This can also be interpreted as the incentive to maintain a consistent ideology, even at the expense of more immediate political gains.[8]

3.2. Representative Capital Accumulation

Legislators accumulate representative capital by acquiring parliamentary rights and political experience necessary to successfully push (block) legislation that benefits (harms) their electoral constituencies. Parliamentary rights involve benefits such as: the markup influence that is associated with committee seats, which increases with committee seniority; agenda and gatekeeping powers imparted by sub-committee and committee chairmanships; and the ability to direct national policy with party and chamber leadership positions. Examples of the value of parliamentary rights are abundant in the literature. In spatial theoretic terms, the policy outcome falls closer to one's ideal point the greater is one's parliamentary power (Moser 1999). Legislators with greater tenure and a sub-committee chairmanship are more likely to have their bills brought to the floor earlier, and more likely to have their bills passed on the floor (Crain, Leavens, and Tollison 1986). Interest groups direct campaign contributions to legislators with parliamentary power over their policy areas-the evidence includes case studies (Godwin and Seldon 2001), survey studies (de Figueiredo and Tiller 2000), and econometric studies (Grier and Munger 1991, Kroszner and Stratmann 1999). The benefits of representative capital seem clear.

However, this begs the question of what valuable resource is invested to acquire parliamentary rights. The majority of the literature on this question points to some form of loyalty to the party leaders (who allocate parliamentary rights), sometimes at the expense of adhering to constituents' desires. Coker and Crain (1994), for example, offer evidence that placement on a major committee is more likely if the legislator has voted along with party leaders on close votes. Similarly, Cox and McCubbins (1993) find that switching to a better committee assignment is more likely when the member has voted more frequently with his partly leader and whip when they vote against the opposition party leader and whip. Leighton and López (2002) find corroborating results: members with greater exhibited loyalty to party leaders acquire a more valuable portfolio of committee assignments in the ensuing Congress. These results suggest that there is some degree of exchange between party leaders and the rank-and-file membership to allocate parliamentary rights. Leighton and López (2002) also show that members are constrained by their constituents when voting loyally to the leaders: in voting loyally, each member faces her own shadow price of foregone constituent support; the lower this price, the more loyalty the member demonstrates, ceteris paribus. It seems clear that in many cases investment in parliamentary rights comes at the expense of servicing constituents' interests.

3.3. Interdependence of Reputational and Representative Capital

In short, while the legislator views both representative and reputational capital as goods to accumulate, the two are interdependent: sometimes they are mutually exclusive and in other cases mutually reinforcing. Accumulating representative capital often entails the loss of reputational capital, and vice-versa. Likewise, the need to maintain reputational capital often prevents the legislator from taking an opportunity to accumulate representative capital. As an example of this interplay, consider the sources and uses of campaign expenditures. Expenditures, which derive from contributions, are used to invest in reputation. Individual contributions depend on legislators keeping their promises and maintaining ideological consistency; but contributions from organized interest groups depend on the legislator's stock and composition of representative capital (especially parliamentary rights). Thus, on any given vote, the legislator must weigh constituents interests against the demands of interest groups against the desire to be loyal to party leaders. Campbell and López (2002a, 2002b) demonstrate one aspect of this with aggregated data by regressing vote records on campaign expenditures, finding a statistically significant relationship. Leighton and López (2002) demonstrate another aspect of this interdependence with their result that constituent interests constrain loyalty to party leaders. In effect, this demonstrates legislators' willingness to forego some degree of reputational capital in order to accumulate additional representative capital. And when the constraint binds, legislators must protect their reputational capital by foregoing opportunities to increase representative capital at times when these opportunities would have required too much reputational investment.

4. Capital Investment: The Legislator as Political Entrepreneur

Because of this interdependence between reputational and representative capital, I will argue that the legislator's investment in political capital involves a type of agent uncertainty found in theories of entrepreneurial innovation. This implies a market process, or political entrepreneurship, model of the legislator.

In proceeding with the process model of legislator behavior, I begin with a few simplifying assumptions found in interest group models. First, the legislator's objective is to maximize net political support for the purpose of being re-elected with a strong mandate. Second, political support and opposition is realized with each representative decision (i.e., legislator choice), and representation is simplified to voting on final roll calls. Without question there is more to representation than the act of roll call voting, and to focus solely on this forfeits analytical richness. But for the current context, roll call voting is particularly useful because it interacts with the forms of political capital at hand in direct ways. A vote can increase reputational capital if it benefits constituents and/or relevant interest groups, particularly if the vote is well publicized by the media. A legislator can also use a vote as an opportunity to demonstrate ideological convictions. On the other hand, a vote that diverges from constituent interests could increase representative capital by demonstrating loyalty to party leaders (e.g. better committee seats) or other organized interests (higher campaign contributions). So the specific choice variable in the model will be the decision on roll call voting (yea, nay, abstain, etc.). Third, all roll calls can be seen as influencing wealth transfers in the polity either directly or indirectly, as I presently explain. Finally, as argued above, on each vote the legislator faces multiple margins of opposition and support (deriving from the influence on wealth transfers), which may reinforce or abate one another. Thus, with each roll call vote, the legislator weighs the expected marginal political support and opposition on each margin, and makes the choice that maximizes net support. This constitutes a slight modification of the standard interest group model of the legislator.

I first introduce a stylized analysis that considers the hedonic characteristics of different types of roll call votes and therefore implies further modification of the model. Legislative outcomes, and therefore roll call votes, influence the polity-economy in heterogeneous ways.

That is, while each legislative outcome redistributes wealth, not all outcomes transfer wealth at the same stage (or "height" as I will use the term later) of the political-economic process. Constitutional changes arrange political institutions; political institutional arrangements allocate representative capital, which in turn determines policy changes, which in turn affect economic institutions and influence wealth transfers in the economy. A roll call that directly impacts an economic institution, such as import restrictions or the banning of a particular good, directly redistributes wealth. In contrast, a roll call such as congressional term limits that alters the way parliamentary rights are allocated must first redistribute political power, then influence the legislative process, then result in legislation to influence economic institutions before it can result in the expected wealth transfers. If we may refer to this logical cascade of roll call stages as respectively "higher order" and "lower order" redistribution, we have the stylized feature that the legislator evaluates each roll call based on how far away (or roundabout) it is from a direct redistribution of wealth and therefore political support or opposition.

Next, in forming expectations of the political costs and benefits of a roll call, along each margin of support or opposition, the legislator is faced not only with parametric uncertainty (or "risk" in a Khightian sense) but also structural uncertainty (or "radical ignorance" in an Austrian sense).[9] The case for parametric uncertainty of voting is made and modeled in various neoclassical models (e.g., Banks 1990). In addition, the legislator faces some structural uncertainty with each vote, to a degree that depends on how high-order (or roundabout) the vote is. The structural uncertainty of a vote exists for a number of reasons. First, there is a temporal separation between the action (when the roll call is taken) and the realization of political benefits or costs (support or opposition). The legislator's degree of uncertainty tends to increase with higher order votes because there is longer temporal separation. Second, the adjusting behavior of economic agents can mitigate or accentuate the expected effects of the legislation. In the current context, the outcomes of higher order votes must work their way through the cascade of political-economic stages before redistributing wealth and therefore manifesting as political costs and benefits to the legislator. For example, current valuations of resources affected by the legislation may not persist for the duration of the legislator's time horizon. As a result, the legislator is uncertain, among other things, as to: (1) the actual effects of the policy that is proposed in a vote; (2) the reciprocation that can be expected from whichever group(s) the legislator benefits/harms with a vote; and (3) the amount of reputational and representative capital at risk of losing/gaining. Third, the value of each vote as a means of accumulating political capital is subjective: a roll call decision may impart political capital to one legislator but not another. It depends on how the vote impacts the individual legislator's specific plans for reelection, which depend on the desires of his constituents, his standing within the party, and the amount of political capital he already possesses. In this sense, political capital is subjective.[10]

It would be a mischaracterization to claim that the legislator faces a significant degree of structural uncertainty on every type of roll call. Many votes involve predictable effects because they are encountered on a regular basis. For example, estimating the political costs and benefits of granting most-favored-nation trade status to China, appropriations bills, and other annual decisions, is fairly predictable. To a lesser degree, re-authorizing bills such as the Endangered Species Act and the Clean Air Act, which emerge every few years, also provide the advantage of experience. The effects of non-routine votes, however, are less predictable.

In Misesian terms, one might say that the effects of individual roll call votes on individual legislators, insofar as the votes are not routine, fall more in line with "case probability" than with "class probability" (Mises 1949: ch. 6). This is not a claim that statistical probability is useless to forming expected costs and benefits of a vote. But if it is acknowledged that the subjectivity and non-repetition that accompanies many political capital investment opportunities implies some degree of structural uncertainty, then when the legislator evaluates roll call decisions in the face of this uncertainty, the net benefits must be discounted where parametric uncertainty exists and discovered where structural uncertainty exists. This implies an extension of legislator behavior to Austrian-style models of entrepreneurship. In the current context, this implies exploring the worthiness of Austrian capital theory to explain entrepreneurial discovery in selecting between higher and lower order goods.[11]

In the economic structure of production, current consumption is foregone in order to devote resources toward the production of higher order goods, which in turn serve as inputs into the production of consumption, or lower order, goods. The sacrifice of current lower order goods is contrary to the time preferences of consumers, and must therefore be compensated in the form of either greater future consumption or current remuneration in a durable store of value. The production of higher order goods, therefore, commands a positive rate of interest payable to those who forego current consumption, namely savers. Thus, the production of higher order goods is a process of investment that requires the outlay of capital acquired through the payment of interest (Menger [1871] 1981, Böhm-Bawerk [1888] 1959).

In the political structure of production, there are higher and lower order votes, each of which represents a motive for voting a particular way on a given roll call. Higher order votes produce representative capital, and lower order votes produce value to constituents and therefore reputational capital. The production of higher order goods requires a capital outlay because the pursuit of representative capital and reputational capital are in most cases mutually exclusive.[12] I.e., production of higher order goods is contrary to the transfer preferences of constituents. Term limits, for example, represent a higher order good, the production of which requires a capital outlay. Legislators would expend reputational capital toward the passage (defeat) of term limits if they stand to gain (lose) sufficient representative capital. By investing in this manner, the legislator pursues his ultimate objective of reelection with a strong mandate. Increasing net transfers to the electoral constituency increases reputational capital. But the ability to increase net transfers depends on representative capital. Therefore, the legislator-entrepreneur constantly seeks out opportunities to invest reputational capital toward the production of representative capital, which in turn will increase reputational capital again, all in order to provide net transfers and win reelection.

To convey this more vividly, I use Figure 1, which represents the idea of a political structure of production within the context of legislator voting. Beginning with Figure 1(A), the horizontal axis measures current value to constituents. The vertical axis measures roundaboutness of production—as the entrepreneur chooses higher and higher order goods, the production process takes more time to generate value to constituents. Without scale

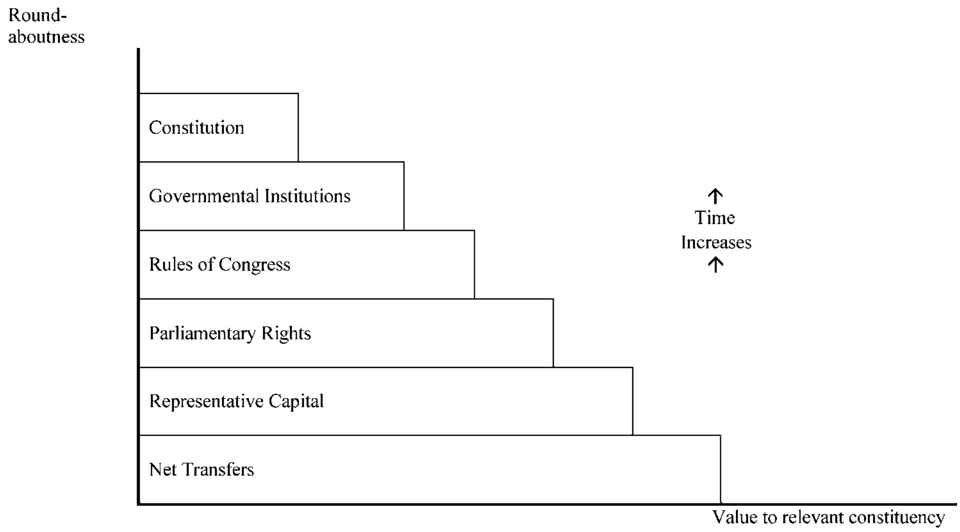

Figure 1A. Structure of producing constituent value.

implications, the various stages of production are arranged in ascending order beginning at the horizontal axis and proceeding along the vertical. In production closer to the horizontal axis (i.e., lower order goods) constituents receive higher current net transfers. As the entrepreneur engages in more roundabout production, the time until constituents benefit from it increases. Higher and higher order production proceeds, in this particular taxonomy, from parliamentary rights, to house rules, to legal institutions governing the legislature (e.g., term length, term limits), to the constitution.

The actual investment motive, and tradeoff between reputational and representative capital, are depicted in Figure 1(B). The difference between the two graphs is the horizontal axis, which for Figure 1(B) measures value to the legislator rather than to the constituent (and thus includes two additional orders of production). By producing net transfers to electoral constituents, the legislator increases reputational capital and, in turn, produces reelection. By adding the production of representative capital, the investment process can be seen. The legislator increases reputational capital by servicing constituents directly. However, representative capital is often increased by failing to service constituents. In other words, the two are often mutually exclusive. As a result, in pursuing representative capital, the legislator often must sacrifice reputational capital, as indicated by the dashed lines. The legislator invests his reputation in more parliamentary rights, for example, which increases representative capital and eventually filters down to increased reelection probabilities.

This model of political entrepreneurship implies that legislators are faced with many alternative ends toward which they can utilize their powers of office. On any given issue, the politician has to weigh the interests of constituents against those of: (a) the interest groups from which he draws electoral support; (b) the party leadership, (c) the media that supplies positive/negative coverage; and (d) his ideological position. In most cases, these different ends are in competition with one another: the politician can rarely satisfy all.

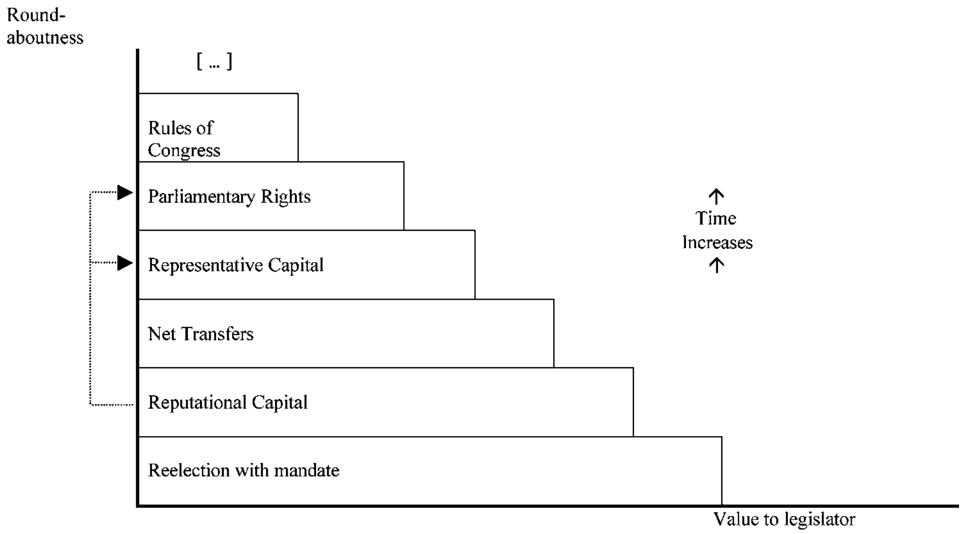

Figure 1B. Structure of producing legislator value.

Nor can politicians know for sure what the effects of their actions will be on these varying groups. Hence, political entrepreneurship is in large part a trial-and-error process of selecting interest groups and constituents to service, while seeking out committee assignments, party leader support, media coverage and rhetorically effective campaign advertising with which to most effectively service their demands. Over time, the legislator-entrepreneur incurs a learning process (which is only implied here): after some failures and some successes perhaps over many elections, the signals become clearer and clearer as to which groups turns the legislator for electoral support. The legislator learns that a chair on Committee X would be the most leveraged means toward the satisfaction of his political support groups' desires for legislation.[13] Over time, the successful entrepreneurs are reelected, and the ones who commit numerous errors—either in seeking out electoral support or in servicing their demands—are sorted out of public office.

5. Empirical Considerations

Modeling the legislator as a political entrepreneur in this way suggests hypotheses that can be empirically investigated in a variety of ways. First, the model lends itself to an econometrically testable hypothesis. The structure of production in congressional voting suggests that divergences between constituent interests and roll call voting will be greater on higher order votes (institutional changes) than on lower order votes (policy changes). For example, in the mid 1990s, Congress voted on several institutional changes such as a balanced budget amendment, the executive line item veto, congressional term limits, committee term limits, and various parliamentary procedures and restructuring of Congress. Congress also voted on a typical assortment of lower order policies such as small business subsidies, expanding the wild and scenic rivers system, and increasing veterans' disability payments. Lower order redistribution requires less political capital outlay, and entails less uncertainty, so the capital investment model of the legislator would predict that legislators would vote more in line with constituents' wishes on policy changes than on institutional changes. This is a hypothesis that would not emerge from the standard interest group model of the legislator.

The empirical legislator voting literature, in fact, has been somewhat confounded by the apparent divorce between constituent interests and representation (i.e., "shirking"). To a large degree, shirking has been the pivot point on which the empirical ideology literature has turned (Bender and Lott 1996). The vote-maximizing approach to legislator behavior suggested that rational legislators would exhibit no deviation from constituent interests in their voting behavior. In agency terms, voters are strict principals and legislators are exact agents. But early empirical work on this question concluded otherwise. Papers by Kau and Rubin (1979), Kalt and Zupan (1984, 1990), and others, showed results by which vote records were explained jointly by constituent interest and ideology variables. This seemed to indicate that legislators "shirked" constituent interests in favor of their own ideological views, which in turn brought the rational, vote-maximizing model into question:

> If ideology matters we may be led to concern ourselves with hard-to-specify and hard-to-quantify matters such as culture, intellectual ideas and trends, and political institutions with significant distinctions between principals and agents. And we may be led to reject the methodological recommendation that we apply Occam's Razor and adopt as the "economic theory of politics" that model in which all political actors are not only rational but also concerned in their political actions solely with investment motives (that is, own-pecuniary wealth) and not at all with consumption motives (that is, goods that perhaps include the returns to feeling one's self to be morally upstanding and/or a good citizen).
>
> Kalt and Zupan (1990:104)

These results caused a pervasive stir in the empirical public choice voting literature (see the survey and critiques in Bender and Lott 1996). One response, through a group of time-series empirical papers, demonstrated that constituent interests act as a constraint on legislator shirking, and that this constraint typically is binding: voters will punish (or "sort out") legislators who consistently shirk even a statistically small amount with lower vote shares.[14] In this sense, shirking is a consumptive activity, and diminished reputational capital is its shadow price. But this consumption view of the legislator obscures the process of foregoing reputational capital in order to acquire the representative capital that finances the ability to shirk in the first place. Addressing the problem of shirking from the structure of production capital investment view, voting contrary to constituents' interests might risk reputational capital in order to increase relative representative capital, which, if successful, would lead to greater net wealth transfers for their constituents in the future.

Take for example the votes on term limits in 1995 and again in 1997. Why would a legislator vote against term limits if her constituents are clearly in favor of them? The empirical studies of congressional term limits suggest that constituent interests were not fully represented in the votes on term limits. Rather, legislator interests (whether economic or ideological) provided most of the explanatory power, especially in the senate model (López 1997). Consider a senator who stands to lose political power under the passage of congressional term limits, but whose constituents appear to favor term limits anyway. The senator votes against term limits and it is later concluded that she misrepresented constituents' interests. But in helping to defeat term limits, she actually preserved (and possibly increased) her relative legislative power, and can therefore more effectively represent constituents' interests in the future. Such a vote is effectively representative of constituent interests, if defined over the long term as in a structure of production argument. The uncertainty materializes during the subsequent reelection bid, in which a challenger will potentially successfully exploit the apparent divorce between constituent preferences and the senator's voting, even though her actions would tend to maximize long-term net wealth transfers to her constituents. In order to survive this challenge, the senator must have possessed sufficient reputational capital to risk.[15]

In circumstances that do not offer opportunity to increase representative capital, it should be expected that legislators adhere more to constituents' preferences—i.e., that they do not expend any reputational capital. Leighton and López (2002), for example, find that legislators are more likely to vote with party leaders on very close votes than on lopsided votes. This suggests evidence that party leaders reward loyalty on close votes only. So the legislator does not perceive opportunities to increase representative capital on lopsided votes, and is more likely to retain her reputational capital by voting with her constituents. Similarly, where uncertainty increases without an opportunity to increase representative capital (unlike higher order votes as discussed above), legislators should also retain their reputational capital. Consider a legislator in an evenly balanced legislature. The closer the number of seats held by each party, the greater the uncertainty over which party will have majority control after the next election. Party leaders are now less able to make credible promises to increase a legislator's representative capital. Under these circumstances, we should expect the legislator to exhibit a greater adherence to constituents' preferences.

On a different empirical front, some innovation aspects of political entrepreneurship fit within this model. Consider the entrepreneurial alertness of Senator James Inhofe (R-Oklahoma). In 1992, Inhofe was still a relatively unfamiliar third-term member of the U.S. House, who had won re-election twice (in 1988 and 1990) but by fairly narrow margins. Frustrated by Democratic committee chairs blocking Republican-sponsored bills, Inhofe recognized an opportunity to expose the faults of an arcane parliamentary procedure that facilitated blocking legislation in committee. For years, this "discharge petition rule" kept secret the names of members who had signed a petition to report a bill from committee despite the chairman's opposition. The secrecy of the signatories allowed members to falsify their support for bringing legislation to the floor when they actually had not. Inhofe mounted a campaign to expose the rule, and successfully pressured the House leadership to eliminate the practice in 1993, a story that grabbed national headlines at the time. Did Inhofe's constituents have an extreme preference against the discharge petition? If so, was it sufficiently more intense than other constituency's that Inhofe alone would have rational incentive to attack the rule? This would seem to be a tenuous explanation. In his campaign against the discharge petition, Inhofe gained national reputational capital sufficient to marshal the resources to ascend to the Senate in 1994, from which he now more effectively services the interests of his relevant constituency. This anecdotal application of the capital investment model demonstrates entrepreneurial alertness and innovation, which are also absent the standard interest group model.

Finally, since not all entrepreneurial effort is successful, another front for empirical investigation may be in demonstrating evidence of policy error. In July 1988, under pressure to provide prescription drug benefits, Congress passed with near unanimity the Medicare Catastrophic Coverage Act (MCAA). In addition to partially covering prescription drugs, MCAA instilled higher deductibles for hospital expenses (Part A) while eliminating patient cost-sharing and the cap on covered expenses—the key provision by which MCAA covered catastrophic care. This represented the largest expansion of Medicare in almost two decades, but it was financed with a surtax on beneficiaries' personal income tax and a minor increase in premiums for doctor visits (Part B). Most affected were middle- and upper-class seniors, and Congress subsequently discovered that it had badly estimated the political costs of harming this group. A massive political upheaval in protest of the Act ensued, led by senior citizen interest groups' opposition to the means-testing and higher premiums. The Senate first tried (with a rider to the 1989 Energy and Water Appropriations bill) to delay the financing side of MCAA by one year, but failed. Ultimately, both chambers of Congress repealed the entire law, again by nearly unanimous votes, in November 1989.

A major factor in this policy reversal was the pressure that MCAA put on existing federal budget rules, which again demonstrates the role that institutions play in lower order redistribution. There is error in the cost estimates as well. The Congressional Budget Office doubled the estimated costs of MCAA eight months after its passage, which fanned the critics' fires against the Act. In fact, it is fairly common for estimates of health expenditures programs to be systematically downwardly wrong. On the inception of Medicare, Congress estimated that it would cost \$12 billion by 1990; its actual costs were approximately \$107 billion. Similarly wrong estimates were made when expanding the program to end-stage renal failure in 1972. And when a pilot Medical Savings Account program was started in 1998, it was estimated that over 300,000 individuals would participate in the five year program. To date, not a single person has.

The above examples are suggestive of the presence of structural uncertainty to policy choices. Another, perhaps more systematic, demonstration of the thesis can be viewed in the policy reversal concerning endangered species. In 1973 Congress passed with near unanimity the Endangered Species Act (ESA). In 1978 Congress significantly weakened the ESA (mostly by allowing for more and easier exemptions, and by requiring a new endangered species listing to account for the economic costs involved). López and Sutter (2002) empirically model the Senate votes on ESA to investigate whether Congress initially voted with some ignorance of the consequences of ESA. Such ignorance is thought to manifest in senators' voting being influenced by unforeseen costs of ESA. Using maximum likelihood estimation on the individual votes, as well as on constructed change-of-vote dependent variables, they find that the measures of unexpected ESA activity have significant explanatory power over senators' voting to scale back the Act in 1978.

In short, by a more sensible and accommodating interpretation of a legislator diverging from constituent interests, explaining entrepreneurial alertness and innovation, and explaining policy error as well, the structure of production model of capital investment of the legislator as a political entrepreneur is able to expand our predictive abilities regarding legislator voting.

6. Conclusions

This paper has taken an investment under uncertainty approach to legislator voting. The interest group model of Denzau and Munger (1986) combined with the time structure of production model of capital accumulation has formed the basis of this approach. This view highlights the legislator's tradeoff between reputational capital and representative capital, and this can be used to derive innovative testable hypotheses. In general, legislators may vote contrary to their and their constituents' current preferences—i.e. forfeit some reputational capital—in order to accumulate some representative capital. This contrasts with conventional interpretation. For example, the public choice interpretation of deviations from constituent service is shirking or some other act of on-the-job consumption. But the approach taken here accommodates the interpretation that legislators may be investing some degree of current favor with constituents into greater political capital in the future, with which they can then more effectively pursue their and their constituents' objectives. Variations on this theme generate more specific hypotheses. For example, legislators should be more likely to go against constituent interests—i.e., expend reputational capital—on votes that offer opportunities to accumulate representative capital. Similarly, legislators should be less likely to diverge from constituents when the uncertainty of voting increases without an accompanying opportunity to accumulate capital. These can form the basis of innovative future empirical work in legislator voting. In addition, the current approach can be used to identify political alertness and innovation among legislators, and help to explain some forms of policy reversal. Finally, the approach can be used in future work to address the efficiency of representation: the efficiency consequences of legislative entrepreneurship ought to depend on the structure of the market for legislative labor. Where anti-competitive institutions such as barriers to entry (e.g. incumbent advantage to dissuade effective challengers) distort entrepreneurial incentives, less efficient outcomes will be predicted. This hinges on specific definitions of political efficiency, and represents a topic for future research that follows from this analysis.

Notes

1. In their usage, Denzau and Munger (1986:91) define "supply price" as the amounts interest groups must offer a legislator for his services.
2. In the case of a challenger or open-seat election, the candidates' reputational capital may derive from previous campaigns, performance in another elected office, or other forms of public life. Therefore it is transferable if the politician seeks higher office. However, it is typically not transferable to other politicians except though family name and much less so through official and public endorsements (Lott 1987, 1989).
3. The above explanation characterizes the two forms of political capital within an interest group model. Alternatively, in social choice theory reputational capital would contain information about the legislator's ideal point, whereas representative capital would help determine how close to the legislator's ideal point will be the equilibrium.

4. These are my own calculations using the table "Financial Activity of All U.S. House of Representatives Candidates, 1988–2000" in FEC (2001).
5. Note that political capital thusly conceived is both sunk and non-transferable (except in rare cases of familial legacies). Thus, incumbents' reputational capital can be construed as a type of barrier to entry into the congressional labor market, with the presumed accompanying political market failures. The entry barriers have another effect, however, in enabling incumbents to take a long-term view of policy and, therefore, perhaps engage in efficiency-enhancing policies (Wohlgemuth 1999).
6. These are my own calculations based on the 1996–1998 "Candidate Summary" data file that is downloadable from the Federal Election Commission's website.
7. Rather than evaluate a legislator on n-dimensions for each nth policy issue, voters can use an i-dimension (where $i \ll n$) signal of ideology to indicate whether the legislator would support the kinds of policies the voter wants. The number of dimensions, i, is equal to one minus the number of political parties. In a two-party system such as in the United States, $i = 1$, and on this basis many argue that most of American politics is explainable in a single dimension (left-right or liberal-conservative) spatial analysis (Poole and Rosenthal 1997). This view has been criticized by many (e.g., Koford 1989, Heckman and Snyder 1997).
8. See Banks (1990), Lott (1987), Dougan and Munger (1989), and Rogoff (1990). A natural question is whether vote signals and campaign expenditures are substitutes or complements, which is addressed in Campbell and López (2002a, 2002b) and discussed presently in the text.
9. Structural uncertainty is typically associated with unique or once-and-for-all events of which the entrepreneur is radically ignorant (O'Driscoll and Rizzo 1985:72 ff., Langlois 1994:120 ff.).
10. In the important chapter "The Market" in Human Action, Mises devotes a section to distinguishing between capital goods and capital—an argument which results in the claim that capital is solely a feature of the market economy. "It is not a category of all acting. It is a category of acting within a market economy." Mises (1966[1949]:264) On my read, Mises' effort here is to distinghish the market economy not from political processes but from socialism. In a nearby passage, he writes: "The market economy must be strictly differentiated from the second thinkable—although not realizable—system of social cooperation under the division of labor: the system of social or governmental ownership of the means of production.commonly called socialism, communism, planned economy, or state capitalism." Mises (1966[1949]:258).
11. More broadly, it introduces a fairly typical Austrian methodological point. The primary inconsistency with basing the theory of legislators (or, generalizing, any theory of politics) upon a neoclassical rationality is the lack of process. Just as neoclassical economics is concerned primarily with the equilibrium price (the final state) to the neglect of the market process (the path to the final state), so public choice has been content to explain individual political equilibria while foregoing a robust analysis of political market processes. Without an explanation for how one political equilibrium can transform into another, the role of ideology and other "hard-to-quantify" (see quote of Kalt and Zupan (1990) below) things like knowledge, history, and institutions, while important to the establishment of the individual equilibria, cannot be reconciled with a strict neoclassical rationality.
12. A given vote can be neutral in this regard, adding to both representative and reputational capital, but typically the legislator must choose whether to utilize a vote to satisfy either constituent interests or exercise one of the other vote motives.
13. Groseclose and Stewart (1998) demonstrate that approximately seven terms are required for a representative to reach the desired allocation of committee seats.
14. Wright (1993) finds that legislators who diverge from constituent preferences lose an average of five percentage points in political support as indicated by primary elections. Lott and Davis (1992) find a significant correlation between shirking and defeat in subsequent election, and Lott and Bronars (1993) show that the House members who lost their reelection bids shirked more in the prior term as a group than those who won reelection. Finally, Kau and Rubin (1993) argue that insofar as ideological shirking exists, it is costly and punished quickly by the electoral process. For lengthier discussion, see Bender and Lott (1996).
15. Senators Boxer and Feinstein from California fit this explanation well. They were both freshmen senators (low representative capital to risk) at the time of the vote, and their electorate favored term limits. The econometric model in López (1997) predicts they will oppose term limits, and indeed both cast negative votes. Whether either or both of them possessed sufficient reputational capital to survive the apparent misrepresentation of their constituents' interests was seemingly resolved in both Senators' successful reelection bids.

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