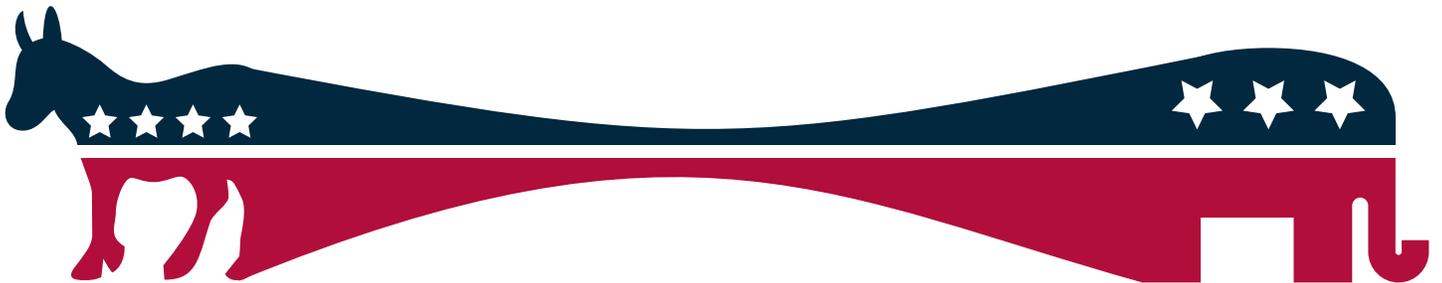


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WHY COMPETITION IN THE POLITICS INDUSTRY IS FAILING AMERICA

A strategy for reinvigorating our democracy

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EXECUTIVE SUMMARY

Harvard Business School (HBS) launched the U.S. Competitiveness Project in 2011 as a multiyear, fact-based effort to understand the disappointing performance of the American economy, its causes, and the steps needed by business and government to restore economic growth and prosperity that is widely shared across all Americans.

The Project identified a consensus set of essential policy steps needed to do so. Over the course of the Project, however, we found that Washington is making virtually no progress—and hasn't made any in decades—in addressing *any* of these steps. Meanwhile, many other countries are getting better. A similar failure to progress has also afflicted the nation's social agenda, where America has fallen from being a leader—and often a pioneer—to a position well behind most other advanced countries.

Citizens are beginning to understand that something is deeply wrong with our democracy. Surveys of both Harvard Business School alumni and the general public identified the political system as America's greatest competitive weakness.

It wasn't always that way. America's political system was long the envy of the world. It advanced public interest and gave rise to a grand history of policy innovations that fostered both economic and social progress. ***Today, however, our political system has become the major barrier to solving nearly every important challenge our nation needs to address.***

In this report, we bring a new analytical lens to understand the performance of our political system: the lens of industry competition, used for decades to understand competition and performance in other industries. Competition thinking sheds new light on the failure of politics in America, which has become a major business in its own right. Our political problems are not due to a single cause, but instead the result of the nature of the political competition that the actors have created.

PART I sets the stage by assessing the outcomes that politics is delivering, revealing a broken system that has become the major barrier to progress in America.

PART II shows how the political system is not a public institution but a private industry that sets its own rules. In the process, it has fundamentally diminished our democracy.

PART III describes the essential outcomes we should

expect from a well-functioning political system, but are not achieving.

PART IV uses the Five Forces framework to analyze how the evolving structure of the politics industry has led to the failure of political competition to serve the average citizen—and to the antithesis of the outcomes we need to achieve.

PART V explores the deliberate changes that have undermined our political system beginning in the early 20th century.

Finally, PART VI puts forth a strategy for reinvigorating our democracy by addressing the root causes of the political dysfunction we are experiencing. This will require action by our fellow citizens, because our political system will not be self-correcting. We must change it.

COMPETITION THINKING SHEDS NEW LIGHT ON THE FAILURE OF POLITICS IN AMERICA, WHICH HAS BECOME A MAJOR BUSINESS IN ITS OWN RIGHT.

Key Findings

The political system isn't broken. It's doing what it is designed to do

The starting point for understanding the problem is to recognize that our political system isn't broken. Washington is delivering exactly what it is currently designed to deliver. The real problem is that our political system is no longer designed to serve the public interest, and has been slowly reconfigured to benefit the private interests of gain-seeking organizations: our major political parties and their industry allies.

This report is about politics, but it is not political. The problem is not Democrats or Republicans. Most individuals who seek and hold public office are genuinely seeking to make a positive contribution. The problem is not the existence of parties, per se, or that there are two major parties. The real problem is the nature of political competition that the current duopoly has created, their failure to deliver solutions that work, and the artificial barriers that are preventing new competition that might better serve the public interest.

By nearly every measure, the *industry* of politics, itself, is thriving. There's just one problem. The people whom the politics industry is supposed to serve have never been more dissatisfied. Public trust in the federal government is hovering at a near 60-year low.

Competition in politics appears intense, which is usually good for customers. But today's competition is failing, delivering gridlock and growing division instead of offering practical solutions to the nation's problems. The parties compete on ideology and unrealistic promises, not on action and results. The parties compete to divide voters and serve special interests, rather than weigh and balance the interests of all citizens and find common ground to move the country forward. And there is no accountability for results. Those who fail the average citizen year after year remain in control.

There is a long list of culprits commonly blamed for our political problems: the influence of special interests, the role of big money, the decline of bipartisanship, the polarization of the American public, and, most recently, the proliferation of fake news. Many of these play a role, but they are symptoms. The underlying root cause is the kind of political competition that the parties have created, including their insulation from new competition that would better serve the public interest.

THE POLITICS INDUSTRY IS DIFFERENT FROM VIRTUALLY ALL OTHER INDUSTRIES IN THE ECONOMY BECAUSE THE PARTICIPANTS, THEMSELVES, CONTROL THE RULES OF COMPETITION.

The political system is a private industry that sets its own rules

Most people think of politics as its own unique public institution governed by impartial laws dating back to the founders. Not so. Politics is, in fact, an industry—most of whose key players are private, gain-seeking organizations. The industry competes, just like other industries, to grow and accumulate resources and influence for itself. The key players work to advance their self-interests, not necessarily the public interest.

It's important to recognize that much of what constitutes today's political system has no basis in the Constitution. As our system evolved, the parties—and a larger political industrial complex that surrounds them—established and optimized a set of rules and practices that enhanced *their* power and diminished *our* democracy. These changes—

often created behind closed doors and largely invisible to the average citizen—continue to take their toll at both the federal and the state levels.

The politics industry is different from virtually all other industries in the economy because the participants, themselves, control the rules of competition. There is no truly independent regulation of politics that protects the public interest. Free from regulation and oversight, the duopoly does exactly what one would fear: The rivals distort the rules of competition in their favor. Examples of this includes controlling access to the general election ballot, partisan gerrymandering, and the Hastert Rule, which puts partisan concerns above legislating for the public interest.

These biased rules and practices have many competitive consequences, including a sharp decline in legislation passed, the near extinction of moderates in the Senate and the House, declining bipartisan support for laws enacted, and many others.

Citizens should expect four outcomes from a healthy political system—which currently delivers none of them

- 1. Practical and effective solutions to solve our nation's important problems and expand citizen opportunity.** Solutions are policies that address important problems or expand opportunities for citizens. Solutions actually work and make things better in practice. Effective solutions address reality, not ideology. Practical and sustainable solutions are not uni-dimensional, but nuanced, and they integrate the range of relevant and important considerations involved in virtually every good policy. Solutions weigh and balance points of view across constituencies, and make sound tradeoffs in integrating them. Real solutions almost always require compromise and bipartisanship. ***While the importance of solutions seems obvious, solutions are almost non-existent in America's political system today.***
- 2. Action.** Legislation that matters is legislation that is actually enacted and implemented. Yet the vast majority of promises made by candidates and political leaders in today's system never get acted upon. Little serious legislation is even advanced, much less passed.
- 3. Reasonably broad-based buy-in by the citizenry over time.** Good solutions should be able to gain over time reasonably broad-based acceptance and consensus across the population. While there will never be 100% support for any policy, true solutions

(which most often involve bipartisanship) are those that can be accepted over time by a range of constituents across the political spectrum.

For this to happen, political leadership is required and must—at times—be ahead of popular opinion (that's why it's called leadership). At its best, political competition should educate, unite, and inspire citizens, rather than dividing them. Today, politics is dividing us, not bringing us together.

4. Respect the Constitution and the rights of all citizens. In our democracy, good solutions reflect the rights and interests of all Americans, rather than simplistic majority rule. This can sometimes make achieving political solutions more complicated, but is part of what has made America the remarkable country it has become.

These desired outcomes seem self-evident, yet many citizens have lost sight of what we want from our political system. This has created a vacuum that has allowed political actors to define success to fit their own purposes instead of public purposes, and mislead citizens in the process.

The structure of the politics industry has created unhealthy competition that fails to advance the public interest

The nature of competition in any industry—and the degree to which it meets the needs of customers—depends on its underlying structure. To understand the failure of politics, we can employ the same tools used to study competition in other fields.

What is the structure of the politics industry? It is a textbook example of a duopoly, an industry dominated by two entrenched players. Around the two major parties, the Democrats and the Republicans, has arisen what we call the “political industrial complex,” an interconnected set of entities that support the duopoly. These include special interests, donors (particularly “big money”), pollsters, consultants, partisan think tanks, the media, lobbyists, and others. The political industrial complex is big business. And virtually all the players in the political industrial complex are connected to one side of the duopoly or the other—the right or the left—which has contributed to failed competition.

In healthy competition, industry actors would be competing to deliver the desired outcomes for customers—fellow citizens—and be held accountable for results. Political rivals who fail to serve the public would be replaced by new competitors who do. Instead,

today's political competition is unhealthy competition in which rivals are entrenched, insulated from the pressures to serve customers better, and protected from new competition. The political industrial complex expands and grows, but the nation fails to progress.

The structure of the politics industry

How have political actors distorted competition to serve their interests, not the public interest? There are four essential elements:

1. Who the duopoly serves. A political system is supposed to serve the public interest, so all citizens should be its customers. Instead, customers in the politics industry can be divided into five major segments based on how they engage with the industry: partisan primary voters, special interests, donors, average voters, and non-voters. The parties prioritize the customers that most advance their interests through the two currencies of politics: votes, money, or both. The most powerful customers are partisan primary voters, special interests, and donors. Average voters and current non-voters, the majority of citizens, have little or no influence on policy or outcomes.

The parties do pay some attention to the average voter in order to increase the turnout of their base, depress the turnout of the other side's base, and capture “swing” voters. But since average voters have only two choices in most general elections, parties appeal to them on the margin. The parties do not compete for average voters by delivering outcomes for their benefit, but rather by seeking to be a little less disliked than—or slightly preferred to—the other party. Parties don't need to deliver solutions, but only convince average voters to choose them as the “lesser of two evils.” In a normal industry, ignoring such a large group of customers would make a competitor vulnerable to new competition. But in the politics industry, as we will discuss, the barriers to entry are very high, and therefore, new competition does not emerge.

Recent research supports these conclusions about where customer power actually lies. In 2014, researchers at Princeton and Northwestern University examined congressional action on 1,779 policy issues. Their sad finding: “When the preferences of economic elites and the stands of organized interest groups are controlled for, the preferences of the average American appear to have only a minuscule, near-zero, statistically non-significant impact upon public policy.”

- 2. Controlling the inputs to modern campaigning and governing.** There are five key inputs to modern political competition: candidates, campaign talent, voter data, idea suppliers, and lobbyists. Increasingly, most everything required to run a modern campaign and govern is tied to or heavily influenced by one party or the other, including think tanks, voter data, and talent.

This amplifies partisanship and becomes a disadvantage for third-party candidates, independents, and even moderates.

PARTIES DIFFERENTIATE AND SEPARATE THEMSELVES BY DIVIDING UP CUSTOMERS BASED ON THEIR IDEOLOGICAL AND PARTISAN INTERESTS.

- 3. Co-opting channels for reaching voters.** The parties increasingly control not only direct voter contact and political advertising, but have also coopted both social media and independent media. Mainstream media are less and less independent and have aligned with the duopoly and reinforced partisan competition.
- 4. Erecting high and rising barriers to new competition.** In the politics industry, a sure sign that barriers to entry are high is the fact that no major new party has emerged since the founding of the Republican Party in 1860. And, despite widespread and growing public dissatisfaction with the existing parties, contemporary third parties and independent candidates continue to fare poorly.

Barriers to new competition include economies of scale; a well-developed infrastructure; brand recognition; deep and growing expertise and relationships; privileged access to funding; election rules and practices favoring parties; and governing rules creating party control of the legislative process.

While some of the barriers reflect the inherent nature and cost of modern campaigns and governing, many are artificial and have been created by the parties through the strategic adoption and refinement of a wide array of rules, practices, and choices that preferentially benefit the duopoly.

Even higher barriers to entry confront alternatives to the party system, such as independents. The duopoly has systematically disadvantaged candidates and elected officials who are outside the parties.

Competing in ways that benefit the parties, not average citizens

All these elements come together to affect how the parties compete. To make sense of this competition, one must understand the essential nature of duopolies.

Rivalry in a duopoly is almost always constrained, because the two rivals recognize that head-to-head competition is mutually destructive. Instead, the two rivals seek to compete in ways that reinforce their differentiation and separation from each other.

In a duopoly, rivals also understand that, while they compete, they will both benefit from an “attractive” industry (as defined from their perspective)—one that strengthens and reinforces their way of competing, limits the power of other actors, and increase barriers to entry. In a duopoly, rivals will also cooperate (or collude) to enhance the industry in their favor and avoid undermining it.

How the duopoly competes

Parties differentiate and separate themselves by dividing up customers based on their ideological and partisan interests. This is how the parties populate their respective “bases,” putting the parties in sharp contrast and minimizing target customer overlap and common ground.

The duopoly targets mutually exclusive groups of partisans and special interests that are aligned with their respective ideological and policy stances. Interestingly, each party’s collection of interest groups and partisans—and the policies that appeal to them—are sometimes inconsistent.

Competing on division reinforces the parties’ differentiation from each other while enhancing their core customer loyalty. Competing on partisanship rather than by appealing to a broad range of voters reduces accountability. Appealing to the middle, or to customer groups with overlapping interests, blurs party differentiation while creating more pressure to actually deliver results.

Parties, then, compete to create and reinforce partisan divisions, not deliver practical solutions. The duopoly appeals to its partisan supporters based on ideology, not policies that work.

This partisan and ideological competition presents voters with false choices that frame issues as “either/or”—for example, big government versus small government, free trade versus protectionism, regulation versus

deregulation. This approach creates artificial divisions, and the parties seek to reinforce these divisions through confusion and by misleading voters on the facts about what they should actually want.

The duopoly avoids compromise. Party rhetoric divides voters based on hostility toward the other side. Rather than working to bring citizens together to further the public interest, each party demonizes the other party's supporters and their views. The duopoly incites citizens to vote based on anger and fear.

This approach makes real progress on important issues even harder. In today's political competition, then, serious legislation can often only be passed when one party forces its bill down the throat of the other party during those rare periods when it has enough power to do so.

Cooperation to reinforce party success

The parties work together to improve industry attractiveness and to strengthen and reinforce the way they compete. Over time, the duopoly works together to set numerous rules and practices that reinforce division and enhance separation. A series of election rules and practices—which both sides have advanced—have enhanced and expanded partisan division, resulting in more and more extreme candidates and elected officials. These include partisan primaries; gerrymandered districts; ballot access rules and fundraising biases that disadvantage independents; and governing practices in Congress that amplify partisanship, work against compromise solutions, and discourage bipartisan activity, such as co-sponsorship of legislation or cross-party consultation.

The very existence of the entrenched duopoly in U.S. politics reflects the very high barriers to entry facing new competition, as we described earlier. While remaining fierce competitors, the parties have also cooperated to raise barriers, such as implementing the election and governing rules we discussed earlier, controlling key suppliers, and growing party alignment with the media and party control of other key channels.

The devastating implications for citizens

Today's political competition rewards special interests and partisans and diminishes the influence of the average voter (much less non-voters.) Today's rivalry incites divisive rhetoric, gridlock, and unfulfilled promises, not solutions. Today's rivalry undermines the ability to elect pragmatic and moderate public officials, co-opts

the independence of the media, and raises ever-higher barriers to entry for third-party candidates, independents, and even moderates.

Beyond this failure to deliver good outcomes, the structure of the politics industry has resulted in three devastating implications for the citizens:

- 1. An incentive not to solve problems.** Keeping a problem or controversy alive and festering is a way to attract and motivate partisan voters, special interests, and committed donors to each side. Solutions can also mean that voters focused on that particular issue will become less motivated to affiliate with and support the party.
- 2. No accountability for results.** Despite making little or no progress on solving the nation's problems and serving the American people, the duopoly is not held accountable for results. In politics, accountability would mean voting party leaders and many legislators out of office if progress is not made. However, since there are only two major parties who compete by dividing up and serving partisan voters and special interests, voting out individual legislators means replacing them with others from the same party or the other party who can get elected in the current structure. Nothing really changes.
- 3. No countervailing forces to restore healthy competition.** Despite widespread dissatisfaction and poor results for the average citizen, the duopoly remains dominant, and partisan competition persists. The failure of politics has persisted because the normal checks and balances of healthy competition have been neutralized.

RATHER THAN WORKING TO BRING CITIZENS TOGETHER TO FURTHER THE PUBLIC INTEREST, EACH PARTY DEMONIZES THE OTHER PARTY'S SUPPORTERS AND THEIR VIEWS.

The system has gotten worse over time

While partisanship at some level has existed since our governmental system was created, the structure of the politics industry has changed significantly—for the worse. Of these changes, some were well-intentioned refinements to rules and practices that had unintended consequences. Many other "reforms," however, were driven by political actors to expand their influence and ensure their growth. Some existing practices were optimized over time to benefit the duopoly. For example,

through the use of much more detailed and precise voter data and better technology, gerrymandering has become far more sophisticated and effective. Finally, broader shifts in American culture, institutions, and demographics have also played a role.

A strategy for political reform

Our political system will not be self-correcting. The problems are systemic and structural, involving multiple factors that are self-reinforcing. This means that the only way to reform the system is by taking a set of steps to change the industry structure and the rules that underpin it—shifting the very nature of political competition.

Many well-meaning reform ideas—such as term limits, electing better candidates, promoting bipartisanship,

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instituting a national primary day, improving civics education, establishing bipartisan issue-advocacy groups, and others—won't matter much absent changes in the underlying industry structure.

In thinking about realigning competition, it is important to recognize that historically, transformational changes in the U.S. have often begun at the fringes—in decidedly non-moderate camps. Eventually, however, change must be enacted by a majority in democratically elected legislative bodies. It is here that bipartisan, pro-problem solving, consensus-seeking moderates are crucial for delivering practical solutions, and it is precisely this genre of elected officials that our current political competition has rendered almost extinct. From a strategy standpoint then, we believe that restructuring the election process, reducing barriers to entry, and reinvigorating electoral opportunities for the rational middle must be a central premise of political reform.

Fortunately, many reforms to change competition in politics have already been proposed, and numerous organizations are already involved in reform efforts. Our analysis highlights those reforms that will be the most powerful in addressing root causes and discusses how to combine them into an overall strategy.

Our recommended strategy addresses the following four pillars:

- Restructure the election process
- Restructure the governing process
- Reform money in politics
- Open up near-term competition, without waiting for structural reform

1. Restructure the election process

Establish nonpartisan top-four primaries. The current partisan primary system shifts both campaigns and governance toward the extremes. States should move to a single primary ballot for all candidates, no matter what their affiliation, and open up primaries to all voters, not just registered party voters.

Institute ranked-choice voting with instant runoff in general elections. This system will ensure that no candidate is elected with less than majority support, resulting in the election of candidates with the broadest appeal to the most voters.

Institute nonpartisan redistricting. Drawing legislative district boundaries must be non-partisan to eliminate artificial advantages for the party in control.

Rewrite debate access rules for presidential elections. Current requirements for participation in presidential debates are unreasonable (for anyone except the Democratic and Republican nominees) and anticompetitive.

2. Restructure the governing process

Eliminate partisan control of House and Senate rules and processes. Legislative and governance rules must align the process with the public interest and reduce the ability of parties to control Congressional deliberations and outcomes simply for partisan gain.

3. Reform money in politics

The influence of money is distorting competition and biasing elections. Reform is challenging due to the First Amendment, but experts have crafted practical steps to diminish big money's influence (i.e., systems for citizen funding, 100% transparency in political spending, and eliminating loopholes favoring existing major parties in fundraising).

However, a focus on money alone will not transform our political system. The real answer is to reduce the

attractive return on investment that donors currently enjoy. The systemic reforms detailed in this report will shift the incentives for politicians to respond to constituents, instead of responding to donors.

4. Open up competition, without waiting for structural reforms

The top two parties should always be operating under a potential threat from competitors that better serve the public interest. The innovations in this section can start to open up competition as soon as the 2018 election cycle, and should be implemented now rather than waiting the decade or more it may take to implement all the structural reforms needed.

Implement the Centrist Project's "Senate Fulcrum Strategy." Structural reform will take time. A highly leveraged way to break the current political gridlock would be to elect three to five centrist independent U.S. senators to act as a swing coalition and force change from the political center.

Run (centrist) independents at all levels. Solutions-oriented, independent campaigns would bring critical new competition to politics, and can be powerful change agents. Today, it is difficult to run outside the duopoly, and even more difficult to win outside the duopoly. Concerned voters should seek out and actively support such independent candidates.

Establish a shared election and financing infrastructure for independents (and moderates). Shared election infrastructure will be needed to reduce the barriers to entry for independent and moderate candidates. In addition, support structures are needed for solutions-minded center-right and center-left party candidates to help them withstand primary challengers.

Create and expand state-level models, such as "Govern for California," to shift election outcomes. State legislators have an important role in our political system, both in setting policy as well as election and governing rules. "Govern for California" focuses on state-level reform through leveraging political philanthropy to support candidates who put citizen interests ahead of personal, party, and special interests. Such efforts, as well as others that provide state-level support for independent and moderate candidates and elected officials, should be expanded.

Our responsibility as citizens

We can fix our political system, but it will require sustained citizens' initiative and significant investment. A new kind of philanthropy, which might be called "political philanthropy," is needed. Donors who support the collective interest in political reform, innovation, and solutions-oriented candidates will have a huge impact on America's progress in addressing the many societal needs our nation faces.

We can never forget that the political system we have today was designed by our own elected representatives—the people we voted into office. This system was corrupted over time, and most of us did not even notice. We have the power to reinvigorate our democracy, and we must.

It is easy to become resigned that the system will never change, and that reform is hopeless. However, many of the steps we have described here are beginning to gain traction, as evidenced by the progress in moving to nonpartisan primaries, ranked-choice voting, gerrymandering reform, presidential debate litigation, and others we detail in this report. We can do this.