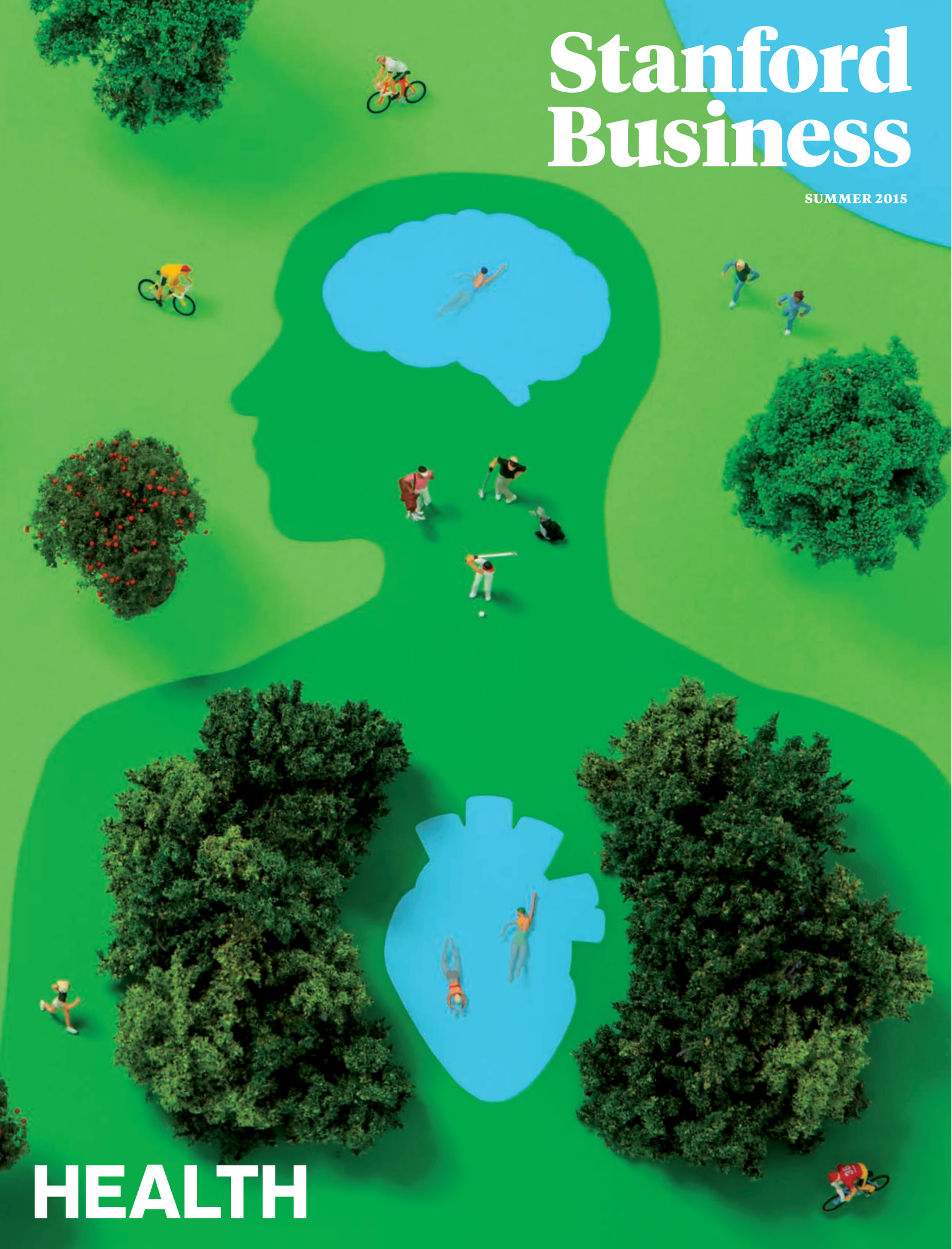


Stanford Business

SUMMER 2015



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affordable access to necessary health care."

—Alain Enthoven

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INSIGHTS AND IDEAS
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COMPENSATION

How Voters Can Beat Special Interest Groups

Protests and political competition help. So do elected officials' salaries.

BY IAN CHIPMAN

Renee Bowen and Cecilia Hyunjung Mo have been thinking about a big question: “When do voters win?” It’s not as abstract as it might seem. What Bowen, a professor of economics at Stanford GSB, and Mo, a professor of political science at Vanderbilt University, are really asking is how does a citizen, armed with only a vote, compete with the carefully calibrated campaign contributions of deep-pocketed lobbyists and special-interest groups.

In a working paper, the researchers studied a set of linked elements that can contribute to a climate where politicians set policies that favor voters over corporations.

One of their most surprising findings: It turns out we might be shooting ourselves in the foot by not paying our elected officials more.

Renee Bowen is an assistant professor of economics at Stanford GSB, where she teaches *The International Economy: Policies and Theory*. Her current research examines characteristics of dynamic political institutions that yield compromise.

Photograph by Drew Kelly

RENEE BOWEN
"Why wouldn't
[a democracy]
perfectly
represent the
interests
of the voters?"



THE BLUNT TOOL

The idea for the study came out of Bowen's longtime interest in exploring what role governments play in economies and, more specifically, how special interests can commandeer democracies — often at the expense of voters. She points to the example of the Occupy movement that began in 2011 and protested against economic inequality. The movement called attention to the issue of a tiny minority — in this case, the country's wealthiest 1% — wielding disproportionately outsized influence on policy. Bowen was curious to know what could help reassign influence back to the 99%.

"Democracies have lots of great qualities — they're representative, they encourage entrepreneurship — but there's clear evidence that some democracies work better than others," Bowen says. Policies can be influenced by groups of people, which makes sense as democracy is supposed to be representative. "But sometimes that leads to outcomes where the democracy is captured by interests that go against growth."

It is this self-defeating nature of democracies that Bowen wants to understand. "Why wouldn't [a democracy] perfectly represent the interests of the voters? On the one hand, you have these coalitions that are very active in lobbying and directing policy for their self-interest," Bowen says. "Whereas the voters, you and I sitting in our house, when we go to the polls, the only thing we have is that vote."

This yes-or-no nature of a vote is why Bowen calls it a "blunt tool," relative to the scalpel available to special-interest groups and lobbyists. In other words, while corporations can fine-tune their influence on policy — through contributions, influence, or even outright corruption — the only lever available to voters to sway policy in their favor is the vote.

Still, while the tools are fundamentally mismatched, the good news is that "the vote is a pretty big blunt tool," Bowen says.

THE POWER OF THE VOTE

What the researchers sought was a simple model to capture the tension between voters and firms and to understand what influences a democracy's ability to produce policies that benefit voters.

To do so, they analyzed state-level data dating back to 1950 to look at how different variables — including office-holding benefits, political competition, and activism — affected two sample policies. These two policies were the ratio of taxes collected from income to taxes collected from corporations and the minimum wage. Both policies naturally pit voters and corporations against each other on opposite ends of a spectrum. The role of the politician (played by governors in the model) is to create policy somewhere between the ideal positions of voters and firms, ensuring electoral victory while maximizing contributions.

In both policy cases, the researchers found that increasing overall political competition (which, in our political system, boils down to having more electable candidates vying for both votes and contributions) shifted policy in favor of the voters. In addition, the researchers found evidence to support the notion that increased activities including boycotts and protests led to policies that favored voters.

The factor that influenced policy in favor of voters the most, however, was increasing office-holding benefits, as measured by governor salary relative to state income per capita. As governor salary increased, the researchers found, the voter share of the tax burden decreased while minimum wage increased. It's important to note that the relationship is correlational and not necessarily causal, but a \$10,000 increase in governor salary was associated with a 0.18 decline in voter tax burden relative to the corporate tax burden and a \$0.06 increase in minimum wage.

In short, their findings show that the more a politician values being in office, the more she cares about the vote and the more she's going to skew policy in favor of voters and away from special-interest groups. Therefore, while the voter can only vote or not vote, that vote becomes more powerful as the attractiveness of being in office grows. "It's one of those things that's surprising when you first discover it," says Bowen, "but after you think about it a bit more, it makes perfect sense."

"Democracies have lots of great qualities. But there's clear evidence that some of them work better than others."

PAY MORE, EXPECT MORE

Despite roaring debates over income inequality and stagnating wages, the issue of whether we're paying our elected officials the optimal amount of money hasn't faced much scrutiny under the microscope of public discourse.

Bowen says that we tend not to regard our elected officials like other individuals — who when expected to perform better, get compensated better. "Yes, they're public servants, but they respond to incentives in exactly the same way as any other employee does," she says. "They're our employees, and we should treat them like employees and incentivize them appropriately."

Indeed, the results of Bowen's study suggest that boosting office-holding benefits — which can include other less-definable elements like prestige in addition to salary — is a powerful mechanism for swinging the pendulum of influence back toward the voters and away from special interests.

Thus, "there's very clear evidence that you have to think about the salary of politicians, but so far that hasn't been part of the political discourse," Bowen says. "It's almost a dirty thing to say we're going to pay politicians more to enact better policy. But the vote is a very real and very valuable tool." If voters aren't using it to the best of their ability, she adds, we're only hurting ourselves. ▲

The Takeaway



An Ethical Approach to Portfolio Management

Applying moral principles to portfolio management can sometimes meet the needs of small investors without significantly harming those who have invested more.

— **Dan Iancu**

THE ESSENTIALS

FIVE LESSONS FROM OUR STORIES ON HEALTH

EDITED BY
DEBORAH PETERSEN

A Case for Paying Politicians More

Public servants respond to incentives in the same way as any employee does. We tend not to regard elected officials like other individuals who, when expected to perform better, get compensated better.

— **Renee Bowen**



What Determines the Health of Cities?

College graduates are increasingly clustering in more expensive cities that offer more amenities. That rise is tightly correlated with an increase in rents, leading to a disproportionate out-migration of non-college graduates.

— **Rebecca Diamond**



Hospital Competition Is Good for Patients

Competition among hospitals significantly improves management and quality of care, drives down prices and makes people run their businesses more effectively. "Competition is good for reducing managerial laziness."

— **Stephan Seiler**



Keep It Simple

Well-targeted, low-technology approaches to problems can make a huge difference. The initial success and subsequent sustainability of a program in Bangalore that reversed its high rate of a common hospital-acquired infection were rooted in its simplicity and emphasis on human capital rather than in high-tech solutions.

— **Stefanos Zenios**

