

3.3 – Special Interest Groups

ECON 410 • Public Economics • Spring 2022

Ryan Safner

Assistant Professor of Economics

 safner@hood.edu

 [ryansafner/publicS22](https://github.com/ryansafner/publicS22)

 publicS22.classes.ryansafner.com



Major Players in a Liberal Democracy



- **Voters** express preferences through elections
- **Special interest groups** provide additional information and advocacy for lawmaking
- **Politicians** create laws reflecting voter and interest group preferences
- **Bureaucrats** implement laws according to goals set by politicians
- **Judges** interpret laws to settle individual disputes



Special Interest Groups in a Liberal Democracy



- **Special interest groups:** any group of individuals that value a common cause
- SIGs as economic agents:
 1. **Choose:** < candidate/policy to support >
 2. **In order to maximize:** < utility >
 3. **Subject to:** < budget >



Only Some Interest Groups are Like This



Interest Group Pluralism



- Enormous variety of interest groups: business industries, environmental groups, religious groups, taxpayers, government agencies, etc.
- **Pluralism:** a wide distribution of many groups with different viewpoints on any given issue (or priorities across issues)



Interest Group Pluralism



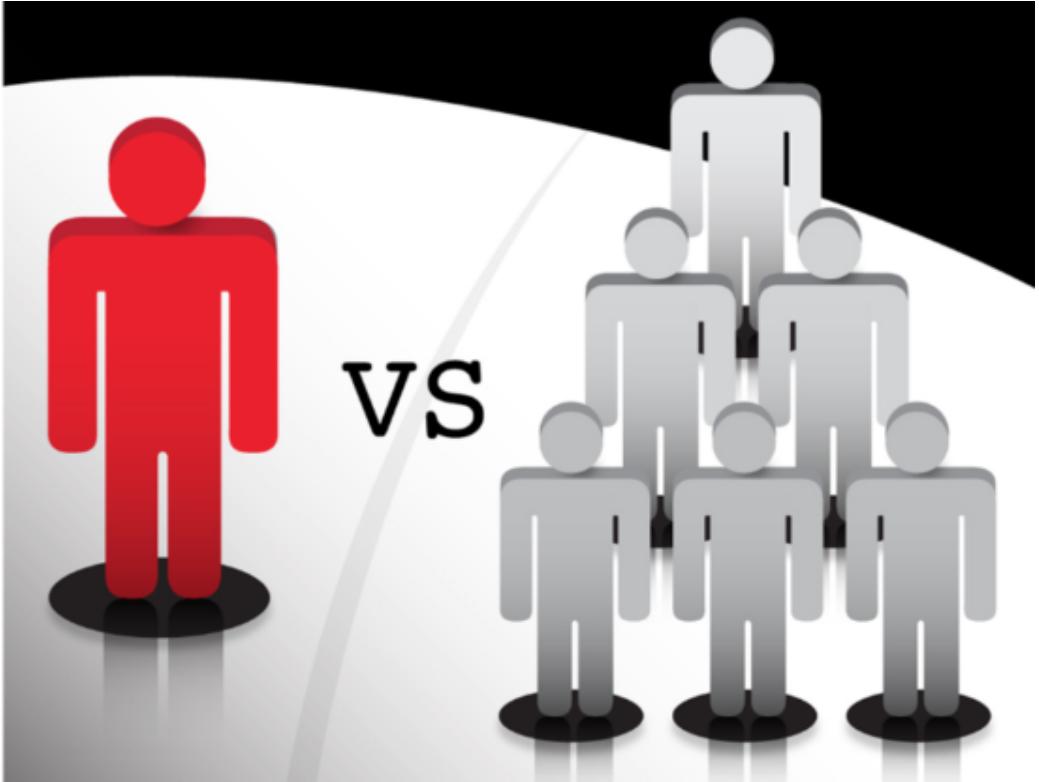
- Democracy as a grand bargain between varying interest groups on issues
- Role of politicians as leaders to mediate these groups



The Logic of Collective Action



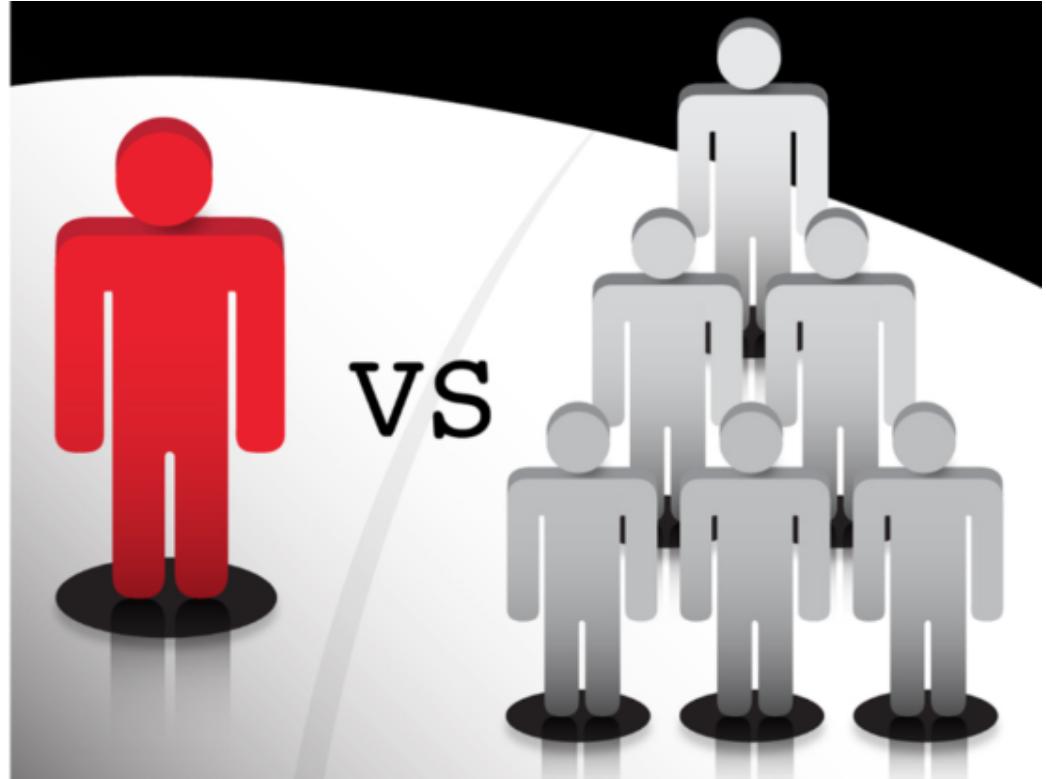
- But power and influence is not evenly distributed across interest groups
- Olsonian logic: **Smaller** and more **homogenous** groups face **lower** collective action costs of organizing than **larger** and more **heterogeneous** groups
- Smaller groups to whom benefit (cost) of a policy is more concentrated can outmobilize larger groups where benefit (cost) is more dispersed



The Logic of Collective Action



- Policies in representative democracies tend to feature **concentrated benefits and dispersed costs**



An Example



"In fiscal year (FY) 2013, Americans consumed 12 million tons of refined sugar, with the average price for raw sugar 6 cents per pound higher than the average world price. That means, based on 24 billion pounds of refined sugar use at a 6-cents-per-pound U.S. premium, Americans paid an unnecessary \$1.4 billion extra for sugar. That is equivalent to more than \$310,000 per sugar farm in the United States"

Source: [Heritage Foundation](#)

An Example



An Example



An Example



- And yet, each individual pays maybe \$1-2 a year in higher prices for sugar
- Difficult to mobilize voters to petition to end the sugar subsidy to save \$1
- Sugar producers stand to lose a billion dollars
- Sugar PACs that contribute thousands to key lawmakers





Interest Groups as Demanders of Regulation

The Supply and Demand for Regulation



- Imagine a “market” for regulation (or laws, policy, etc.) – who are the participants?
- **Demanders:** voters, interest groups, bureaucracy (?)
- **Suppliers:** politicians, bureaucracy, interest groups (?)
- What determines the regulation we have?



The Supply and Demand for Regulation

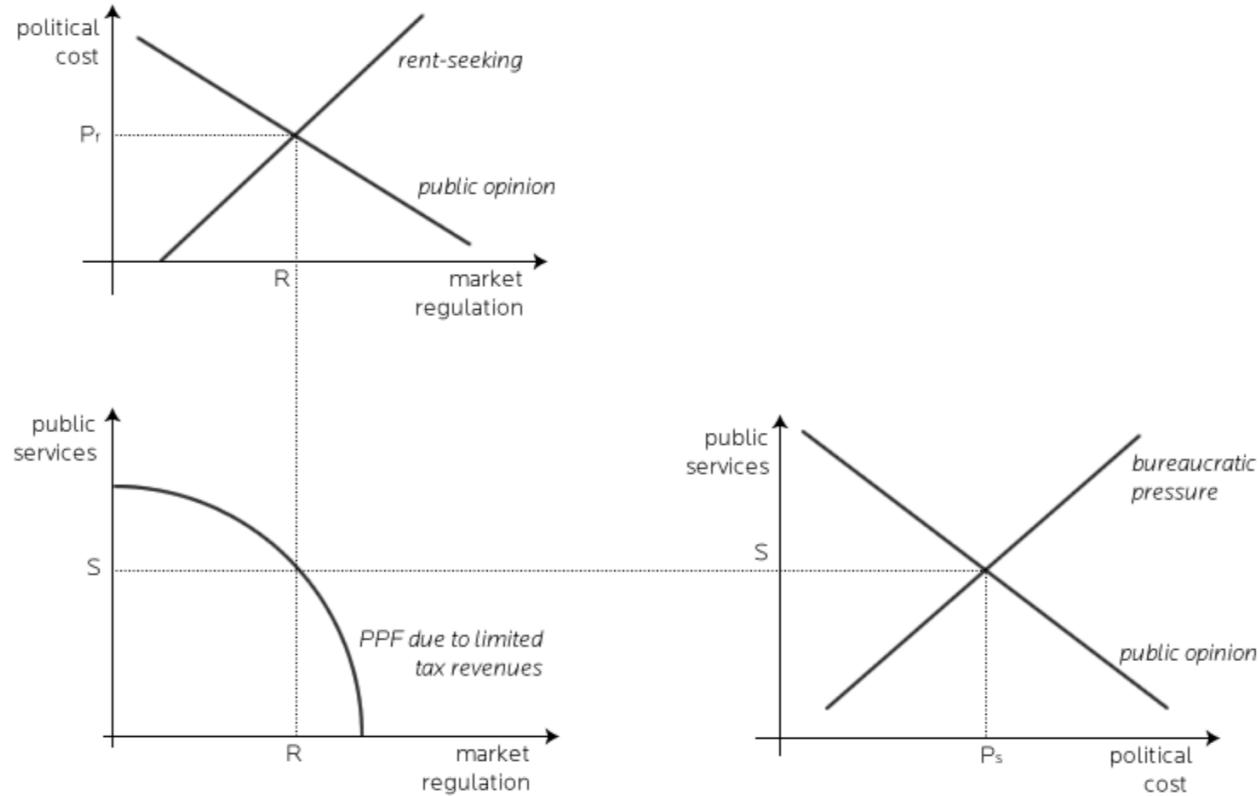


Figure 9: Fiscal Possibilities Frontier

Rent-Seeking



Government Intervention Creates Rents I



- Political authorities intervene in markets in various ways that benefit some groups at the expense of everyone else
 - subsidies to groups (often producers)
 - regulation of industries
 - tariffs, quotas, and special exemptions from these
 - tax breaks and loopholes
 - conferring monopoly and other privileges

Government Intervention Creates Rents I

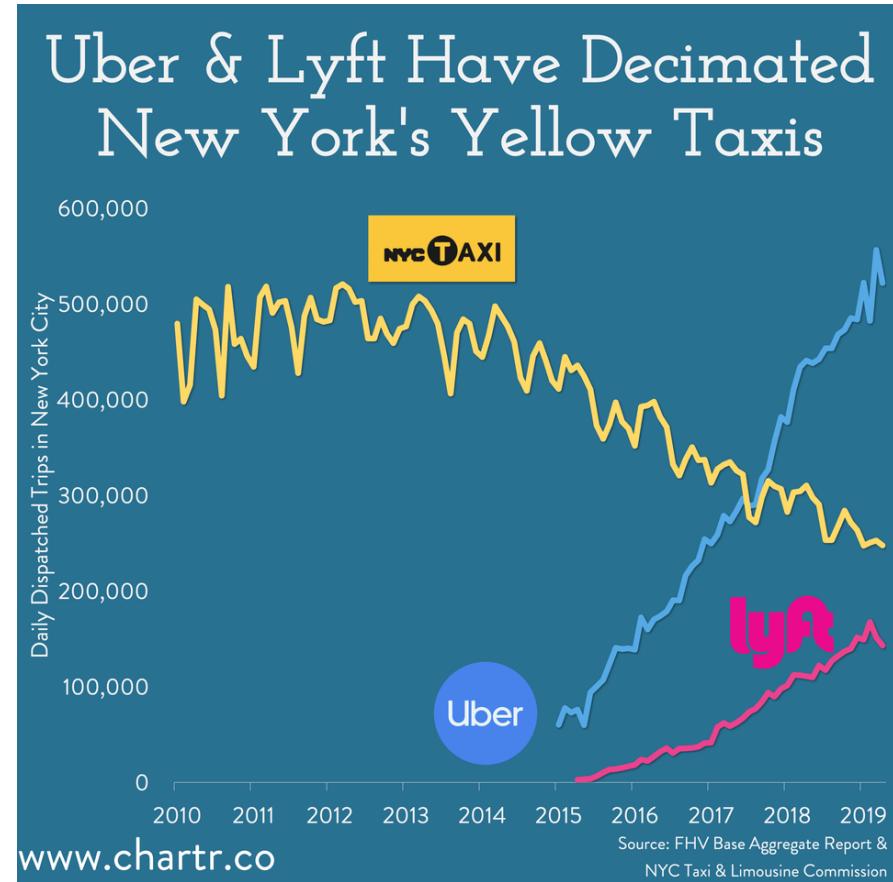


- These interventions create **economic rents** for their beneficiaries by reducing competition
- This is a transfer of wealth from consumers/taxpayers to politically-favored groups
- The promise of earning a rent breeds **competition over the rents (rent-seeking)**

Taxis I



Taxis II



Taxis III



Occupational Licensing I



Figure 2: Share of Workers with a State Occupational License



Sources: The Council of State Governments (1952); Greene (1969); Kleiner (1990); Kleiner (2006); and Kleiner and Krueger (2013). Westat data; CEA Calculations.

Occupational Licensing II

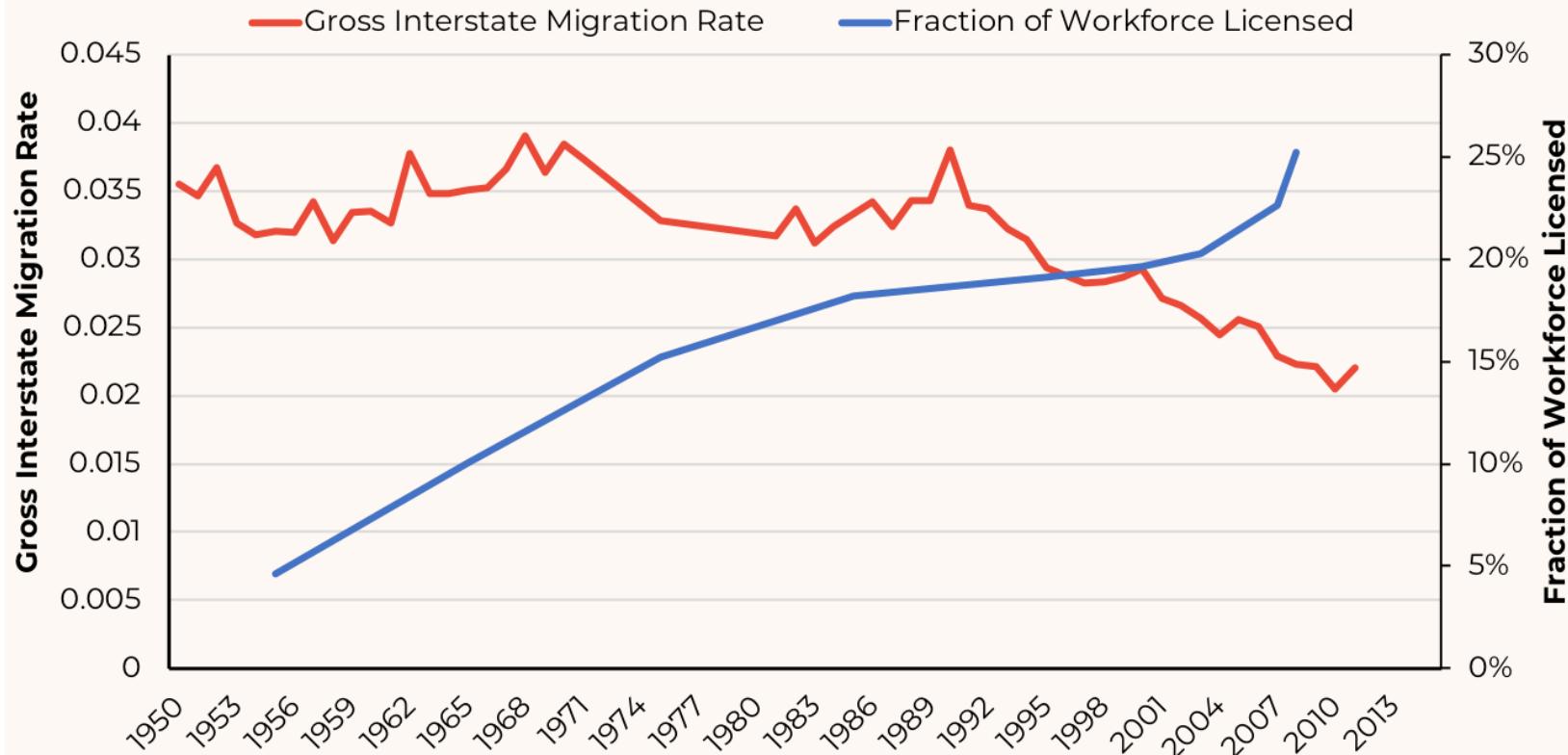


Occupational Licensing III



Interstate Migration Rates and Occupational Licensure

Interstate migration has declined as a greater share of the workforce became licensed.



Source: Janna E. Johnson and Morris M. Kleiner, "Is Occupational Licensing a Barrier to Interstate Migration," National Bureau of Economic Research Working Paper no. 24107, December 2017.

Occupational Licensing IV



Rent-Seeking: Milk



The New York Times

EAT

SUBSCRIBE NOW

LOG IN

Got Almond Milk? Dairy Farms Protest Milk Label on Nondairy Drinks

Subscribe for \$1 a week. Ends tomorrow.

SUBSCRIBE

Source: [New York Times \(Feb 13, 2017\)](#)

Tax Preparation



The screenshot shows a web browser window with the ProPublica website. The URL bar says "propublica.org". The main navigation menu includes "ProPublica", "Illinois", "Local Reporting", "Electionland", "Data Store", "Donate", "Facebook", "Twitter", and "Graphic & Data Newsletters About". Below the menu, there's a secondary navigation bar with categories like "Politics", "Debt", "Health Care", "More...", "Series", "Video", "Impact", and a search bar. The main headline reads "THE TURBOTAX TRAP" in bold capital letters, followed by the sub-headline "Filing Taxes Could Be Free and Simple. But H&R Block and Intuit Are Still Lobbying Against It." A brief summary below states: "The makers of TurboTax and other online systems spent millions lobbying last year, much of it directed toward a bill that would permanently bar the government from offering taxpayers prefilled filings."

Source: *ProPublica* (Mar 20, 2017).

"Consumers for Paper Options"



The screenshot shows a news article from The Wall Street Journal titled "Print Is Dead? Not in Mutual-Fund Reports". The article discusses how the paper industry responded to government plans to make it easier for mutual funds to quit mailing investors billions of pages of reports each year. Below the headline is a photograph of a paper mill floor with large rolls of paper and industrial machinery. A caption at the bottom states: "Work at an International Paper plant in Pennsylvania is seen in 2011. Mutual funds mail investors millions of reports a year, many of which go into the trash unread." The photo credit is given as "PHOTO: PAUL TAGGART/BLOOMBERG NEWS".

DJIA 26139.56 2.87% ▲ S&P 500 3024.46 2.38% ▲ U.S. 10 Yr 6/32 Yield 1.088% ▲ Euro 1.1167 1.28% ▲

THE WALL STREET JOURNAL. SEARCH

MARKETS

Print Is Dead? Not in Mutual-Fund Reports

When the government planned to make it easier for mutual funds to quit mailing investors billions of pages of reports each year, the paper industry got involved



Work at an International Paper plant in Pennsylvania is seen in 2011. Mutual funds mail investors millions of reports a year, many of which go into the trash unread.

PHOTO: PAUL TAGGART/BLOOMBERG NEWS

Source: [Wall Street Journal](#)

If You Look at the World Long Enough...



The Theory of Economic Regulation



George Stigler

1911-1991

Economics Nobel 1982

- All groups desire to use the State to protect their interests (create rents)
- Direct **subsidies** boost profits but can induce **entry** into the industry
 - dilutes profits/rents
- Control of entry reduces competition and increases rents to incumbents
- Olsonian problem: More organized industries fare better in controlling politics than less organized

The Theory of Economic Regulation



George Stigler

1911-1991

Economics Nobel 1982

"[A]s a rule, regulation is acquired by the industry and is designed and operated primarily for its benefits," (p.3).

"[E]very industry or occupation that has enough political power to utilize the state will seek to control entry. In addition, the regulatory policy will often be so fashioned as to retard the rate of growth of new firms," (p.5).

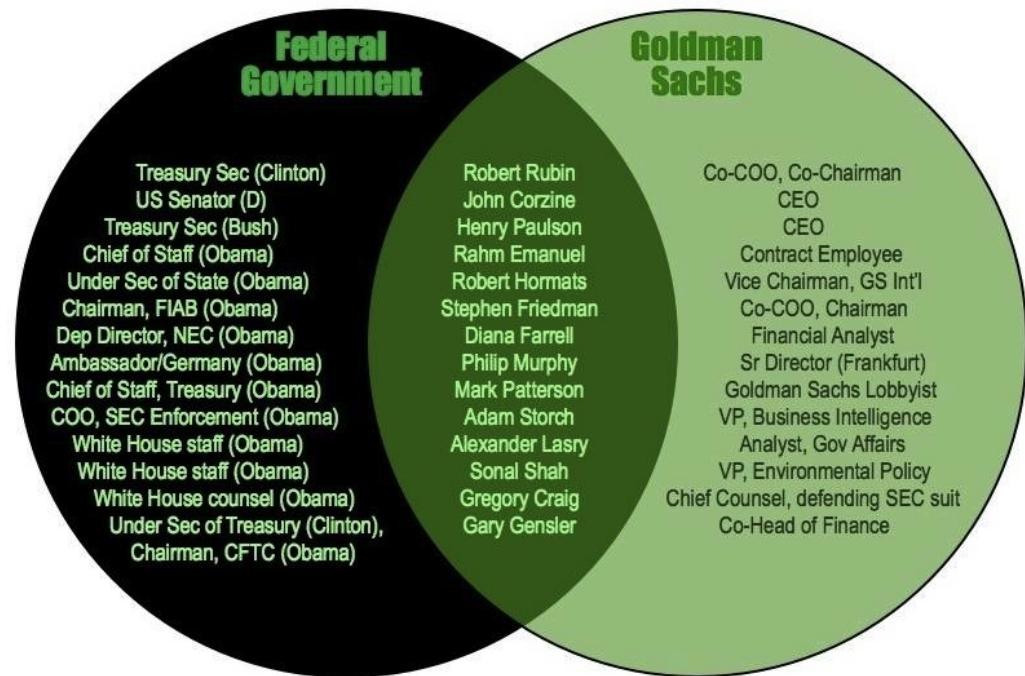
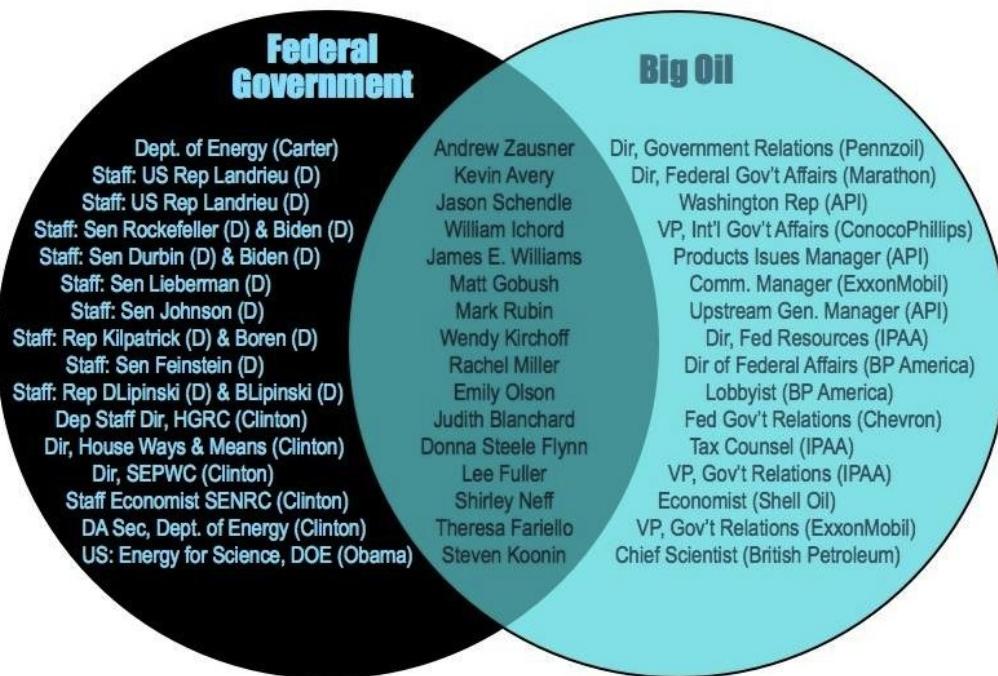
Stigler, George J., (1971), "The Theory of Economic Regulation," *Bell Journal of Economics and Management Science* 3:3-21

Regulatory Capture



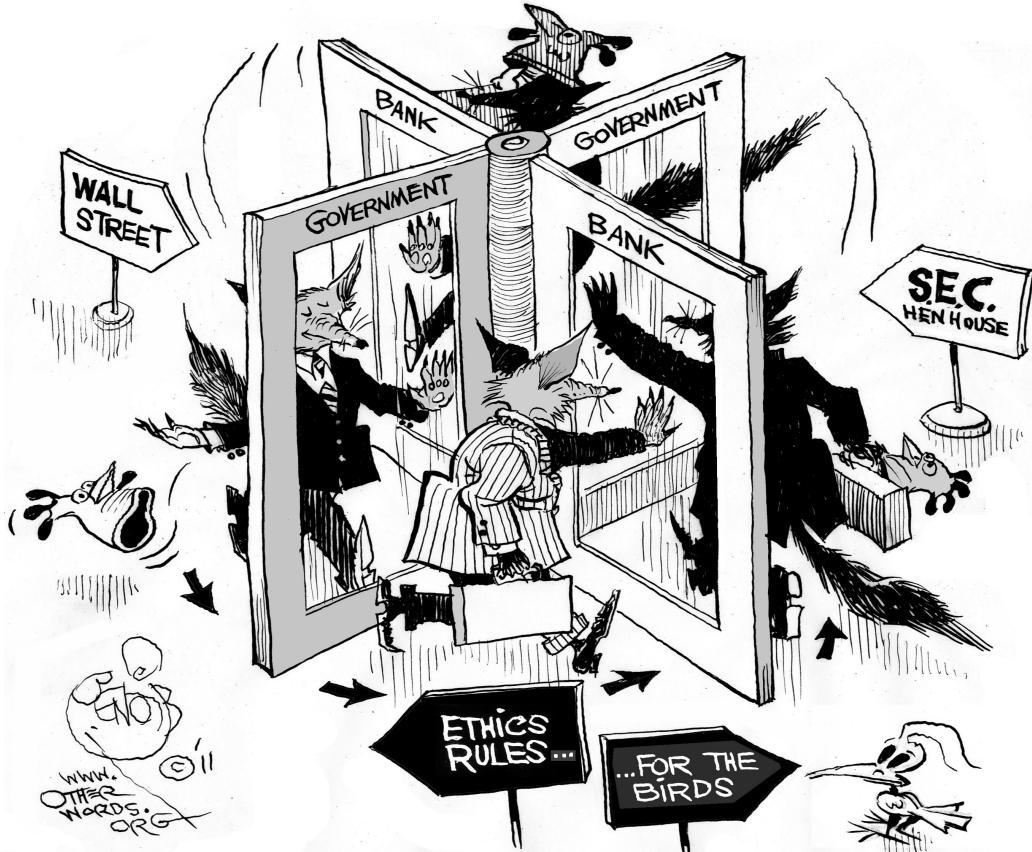
- **Regulatory capture:** a regulatory body is "captured" by the very industry it is tasked with regulating
- Industry members use agency to further their own interests
 - Incentives for firms to design regulations to harm competitors
 - Legislation & regulations written by lobbyists & industry-insiders

Regulatory Capture



Source: [Larry Lessig](#)

The Revolving Door



- One major source of capture is the **"revolving door"** between the public and private sector
- Legislators & regulators retire from politics to become highly paid consultants and lobbyists for the industry they had previously "regulated"

Less Sinister Reasons for Regulatory Capture



- A large industrial economy requires complex regulation on very technical issues
 - Nuclear physics, pharmacobiology, derivatives pricing, etc
- Experts in the industry tend to know the most about these fields
- Key resource is *information*, not necessarily money or influence

Less Sinister Reasons for Regulatory Capture



“Professional lobbyists are among the most experienced, knowledgeable, and strategic actors one can find in the everyday practice of politics. Nonetheless, their behavioral patterns often appear anomalous when viewed in the light of existing theories...We model lobbying not as exchange (vote buying) or persuasion (informative signaling) but as a form of legislative subsidy – a matching grant of policy information, political intelligence, and legislative labor to the enterprises of strategically selected legislators. The proximate political objective of this strategy is not to change legislators' minds but to assist natural allies in achieving their own, coincident objectives,” (p. 69).

“In sum, lobbyists freely but selectively provide labor, policy information, and political intelligence to likeminded but resource-constrained legislators. Legislators, in turn, should seek policy-relevant services from likeminded lobbyists. The effect is to expand legislators' effort at making progress toward a policy objective that lobbyists and legislators share,” (p.75).

Hall, Richard and Alan Deardorff, 2006, “Lobbying as Legislative Subsidy,” *American Political Science Review* 100(1): 69-84

Less Sinister Reasons for Regulatory Capture



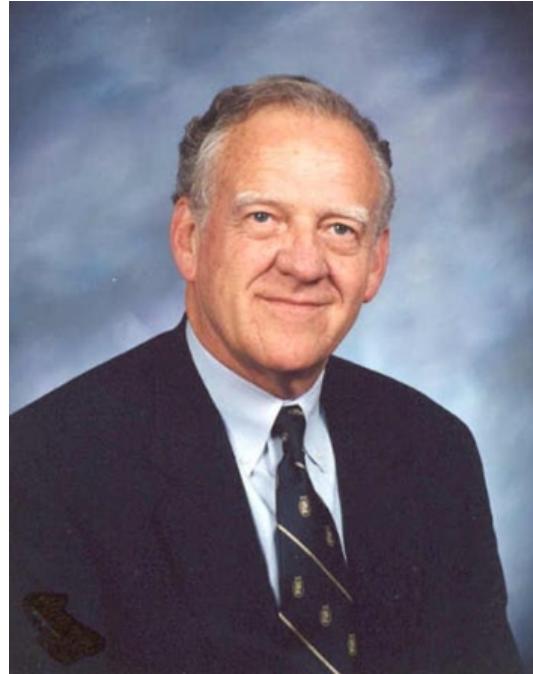
- Lobbying is an **essential** part of a modern democracy
 - Provide information about complex issues
 - Conveys relative **intensity** of preferences of different groups
- Democracy as one big extended discussion
- The socially-optimal amount of lobbying is not 0!

Challenges to Good Regulation Thus Far



- Olson: collective action/free rider problem is larger for larger groups
- Rational ignorance of voters
- Caplan: voters are rationally irrational about policy
- Tullock-Stigler: it's often in the interests of industries to seek rents
- Yandle: rent-seeking can be masked by publicly noble intentions

Baptists and Bootleggers



Bruce Yandle

1933-

"What do industry and labor want from the regulators? They want protection from competition, from technological change, and from losses that threaten profits and jobs. A carefully constructed regulation can accomplish all kinds of anticompetitive goals of this sort, while giving the citizenry the impression that the only goal is to serve the public interest," (p.13).

Yandle, Bruce, 1983, "Bootleggers and Baptists: The Education of a Regulatory Economist," *Regulation*

Baptists and Bootleggers



- Regulations are often supported by two categories of groups:
- "**Baptists**": group that supports the ostensible public-interest purpose of the regulation
- "**Bootleggers**": group that supports the regulation because it generates rents for them
- Bootleggers often adopt the language of Baptists



Baptists and Bootleggers



**WHAT IF THE FIRM LOBBYING FOR
REGULATION TO "PROTECT CONSUMERS"**



**IS ACTUALLY JUST TRYING TO PROTECT
ITSELF FROM COMPETITION?**

Baptists and Bootleggers?



cnn.com

LIVE TV

Facebook's Mark Zuckerberg calls for more regulation of the internet

By Jackie Wattles and Donie O'Sullivan, CNN Business

Updated 5:54 PM ET, Sat March 30, 2019

GERARD JULIEN/AFP/GETTY IMAGES