Lobbying/Activism and Collective Action

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LSE

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Introduction

Plan

Goal: See how collective action problems affect policy outcomes

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Focus: who organizes to apply political pressure (mostly based on Olson)

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- Why policymaking might be biased towards _____

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- Why policymaking might be biased towards _____
- How to fix that bias
- How to finance your nonprofit and motivate activists

Some views of policymaking

- Naive economist view: policymakers do what we tell them
- Naive political scientist's view: policymakers do what the median voter tells them
- "Pluralist" (e.g. Bentley, Dahl) view: policymakers respond to balance of pressures from interest groups

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Today's big question: What determines the balance of pressure from interest groups?

The free rider problem: a story

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The free rider problem: a model

Baseline: individual compensation (no free rider problem)

		Luke	
		Pick up stick	Play
Duncan	Pick up stick	4,4	4,3
	Play	3,4	3,3

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		Luke: Pick up stick	Luke: Play
Duncan	Pick up stick	4,4	4,3
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- Payment for picking up a stick: \$.04
- Value of picking up a stick and being paid \$.04: 4
- Value of playing: 3
- No interdependence

The free rider problem: a model (2)

Shared compensation (free rider problem)

		Luke: Pick up stick	Luke: Play
Duncan	Pick up stick	4,4	2,5
	Play	5,2	3,3

The free rider problem: a model (2)

Shared compensation (free rider problem)

		Luke: Pick up stick	Luke: Play
Duncan	Pick up stick	4,4	2,5
	Play	5,2	3,3

- Payment for picking up a stick: \$.04, shared by two brothers $\rightarrow$ \$.02
- Value of picking up a stick when brother also picks up a stick: 4
- Value of picking up a stick when brother plays: 2
- Value of playing when brother picks up a stick: 5
- Value of playing: 3

Concepts

(Near) equivalents:

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- Collective action problem
- Voluntary provision of public goods

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- Free rider problem
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In common: Social dilemma in which individuals lack the incentive to take a socially beneficial action

(Closely related to **common pool problem**, a social dilemma in which individuals *have the incentive* to take a socially *destructive* action.)

Collective goods and collective action

Definitions:

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- Lump sum grant to orange growers
- Consumer safety regulations, to consumers

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Therefore collective action to achieve policies (i.e. lobbying, activism) is subject to the free rider problem.

> *If there is only voluntary and rational behavior, then for the most part neither governments nor lobbies and cartels will exist, unless individuals support them for some reason other than the collective goods they provide.*

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Background: influential theories that downplay collective action problems

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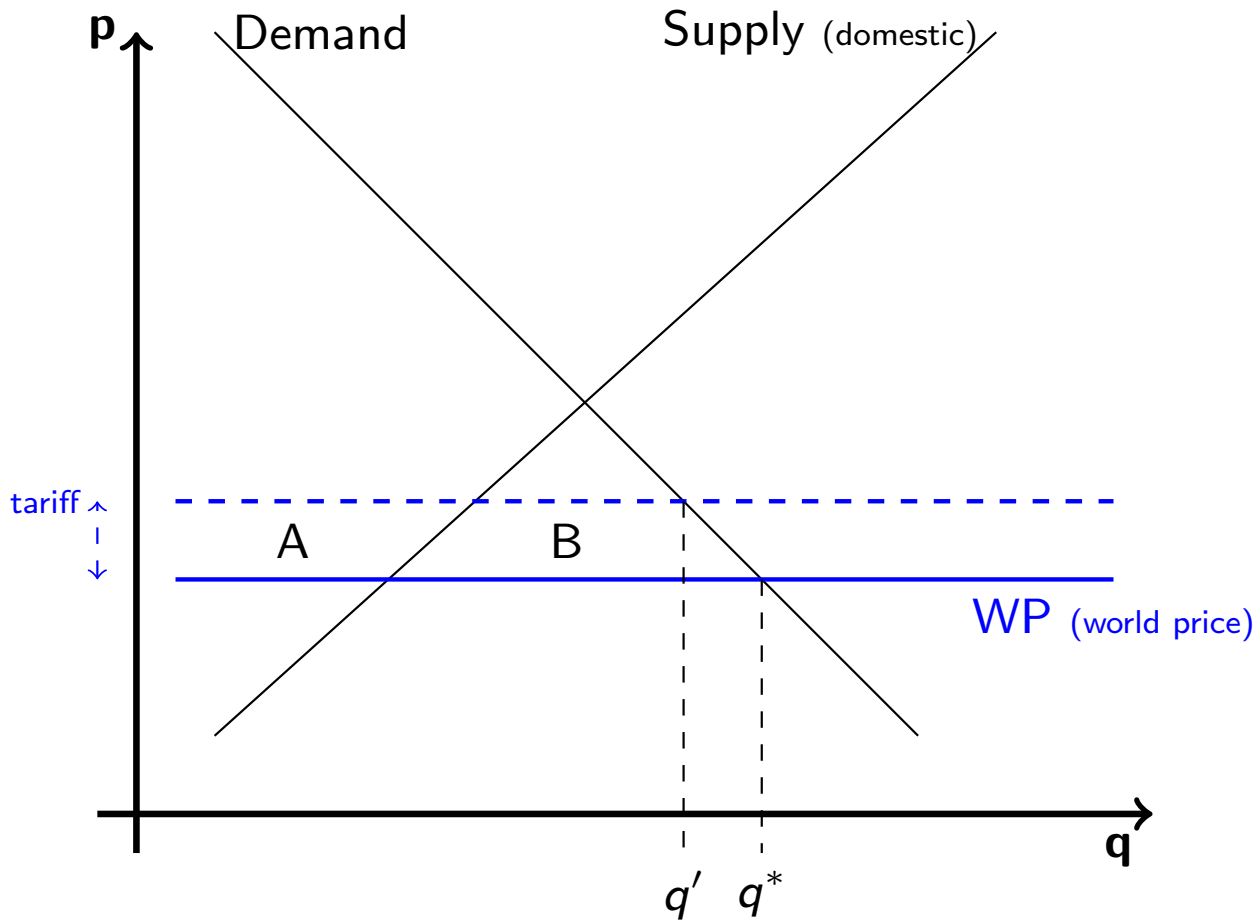
Intellectually, the idea that collective action is problematic comes from *methodological individualism*.

The running example: proposed tariff on imported oranges



A: producer surplus to be gained if tariff is imposed

A + B: consumer surplus to be lost if tariff is imposed

The running example (2)

Two lobbyists recognize an opportunity.

- One goes to collect money from consumers that he will use to oppose the tariff.
- The other goes to collect money from producers that he will use to support the tariff.

Free rider problem: binary contribution (1)

2-person prisoner's dilemma:

		Orange producer 2	
		Contribute	Free ride
Orange producer 1	Contribute	2,2	0,3
	Free ride	3,0	1,1

Free rider problem: binary contribution (2)

n-person prisoner's dilemma:

		All other orange producers: Contribute	All other orange producers: Free ride
Orange producer 1	Contribute	2,2	0,1 + ϵ
	Free ride	3,2 - ϵ	1,1

Free rider problem: continuous contribution (1)

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1. The cost of a contribution x_i to i is just the monetary cost (i.e. his utility is linear in money).
2. Spending on lobbying has diminishing returns (i.e. $f''(x) < 0$)

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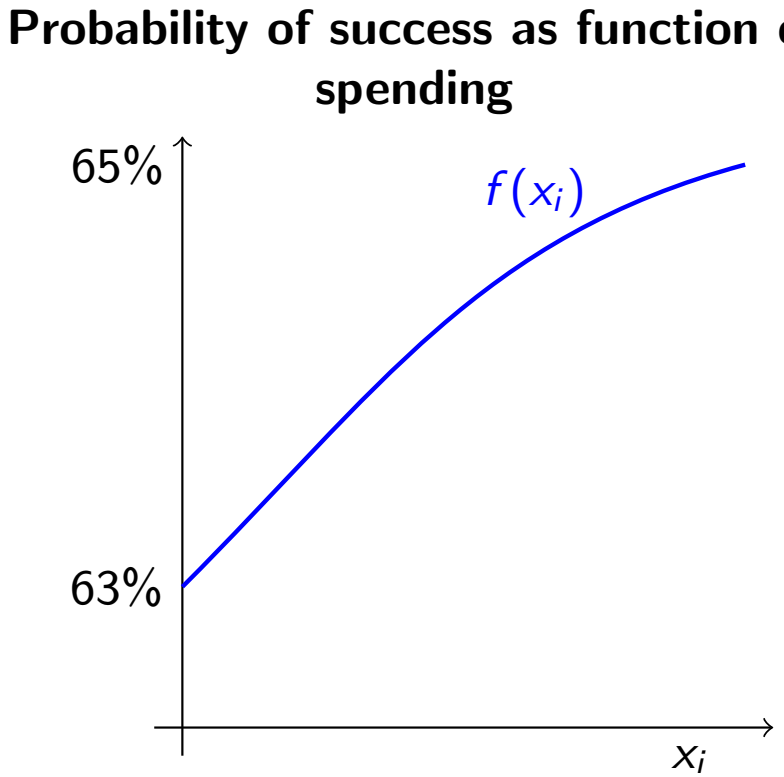
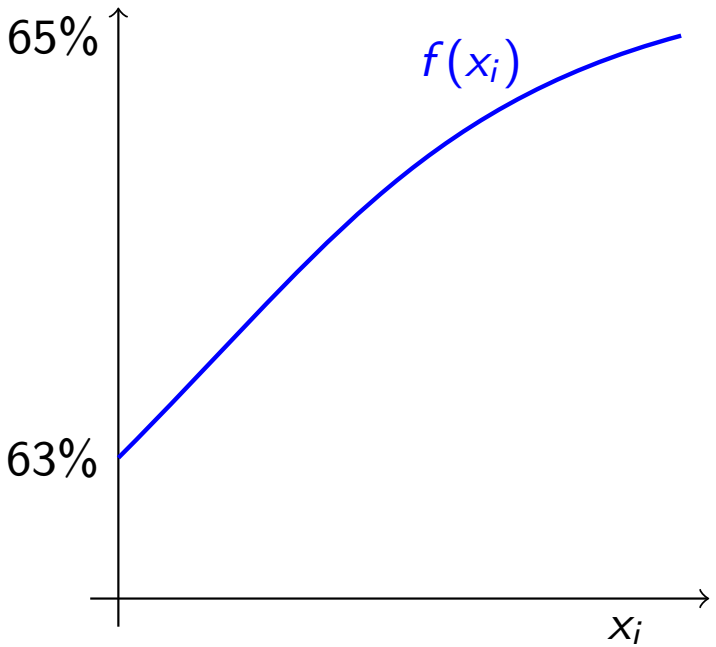
	Total	**Marginal**
Costs:	$\mathrm{TC} = x_i$	$\mathrm{MC} = 1$
Benefits:	$\mathrm{TB} = f(x_i)B_i$	$\mathrm{MB} = f'(x_i)B_i$

Free rider problem: continuous contribution (2)

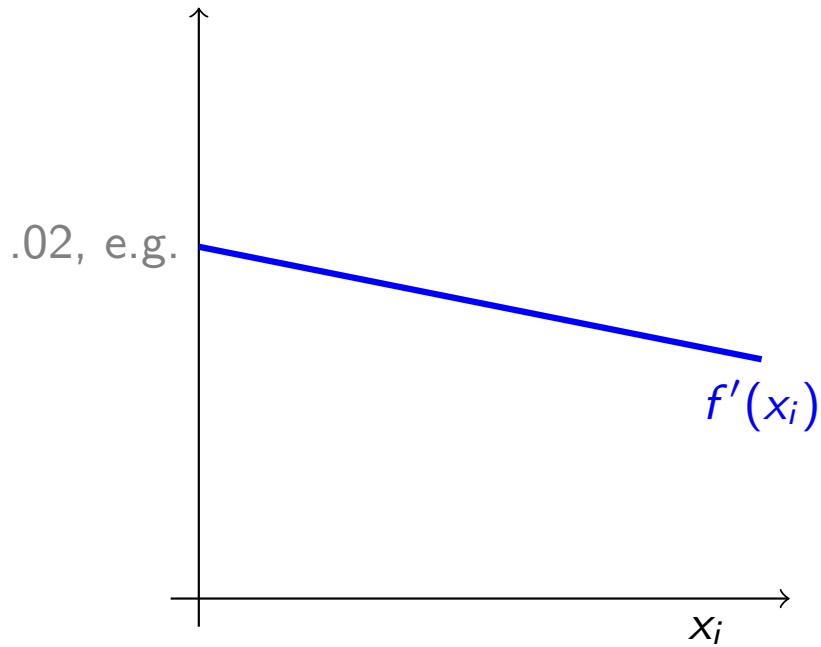


Free rider problem: continuous contribution (2)

Probability of success as function of spending



Marginal probability of success as a function of spending



Free rider problem: continuous contribution (3)

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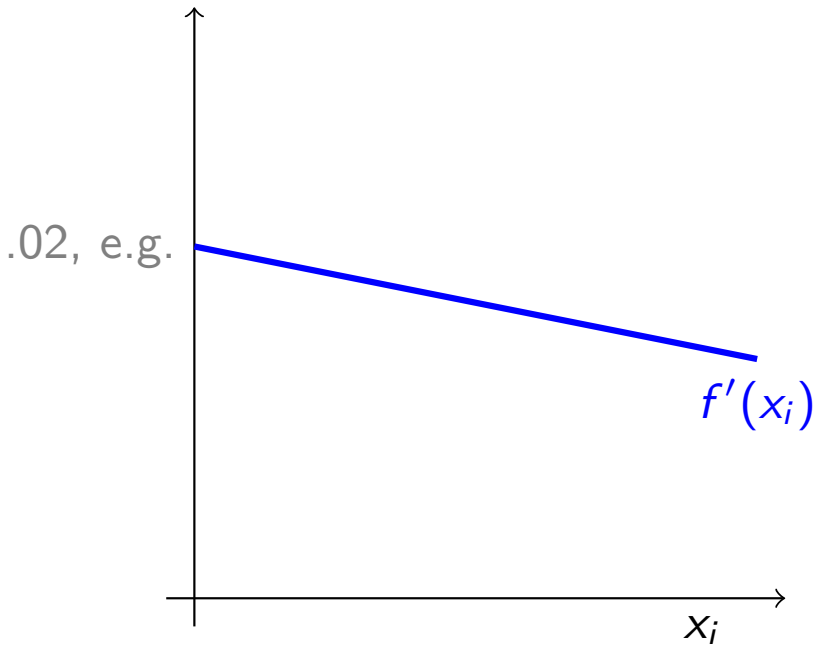

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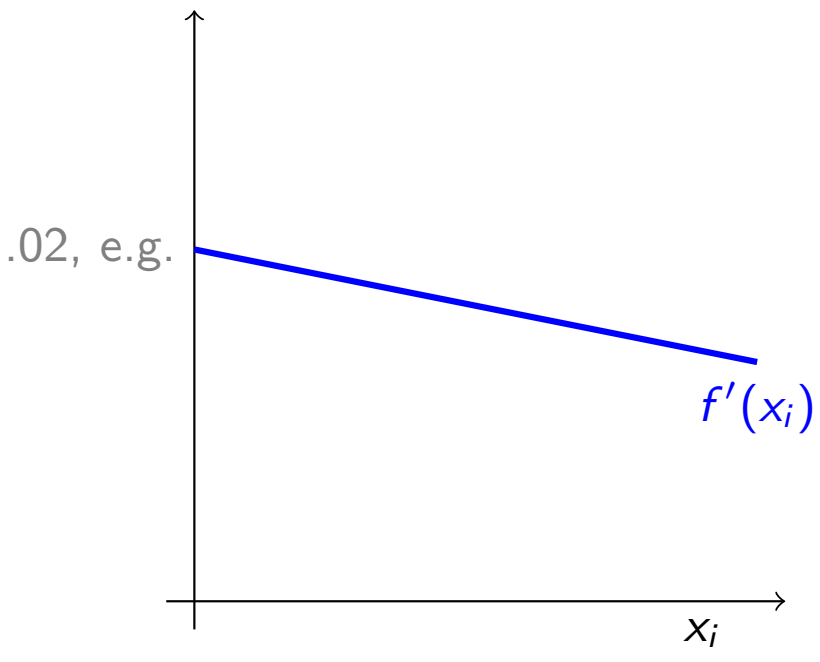
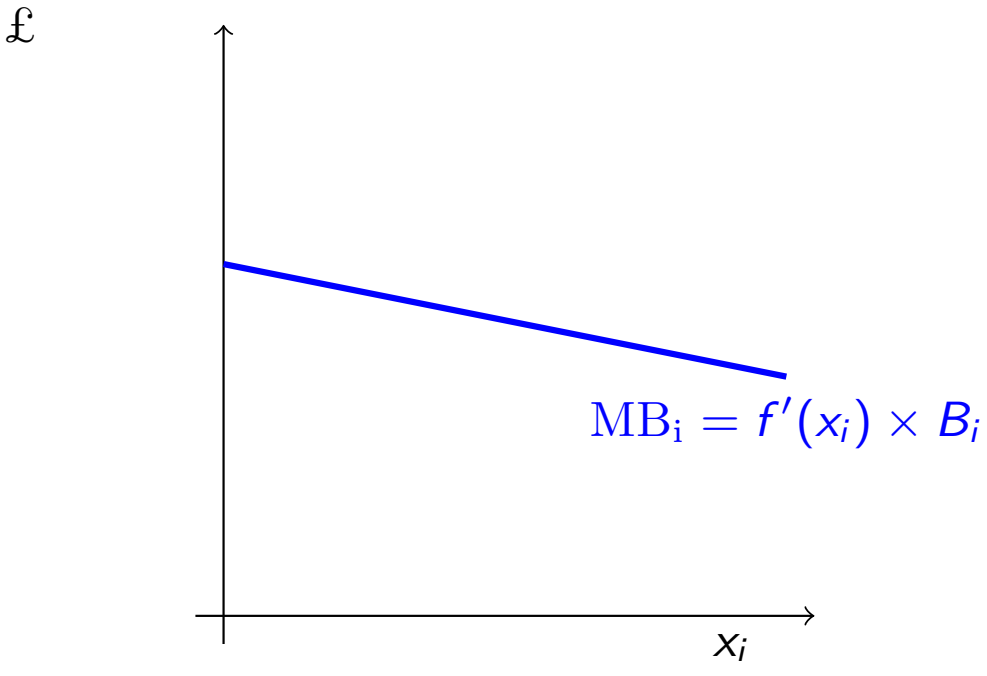


Marginal benefit and cost of spending



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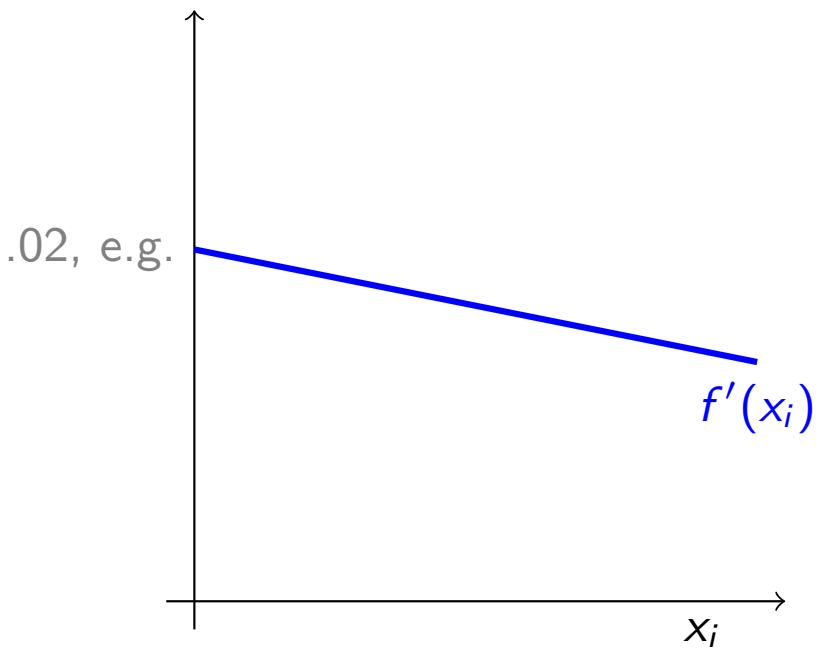

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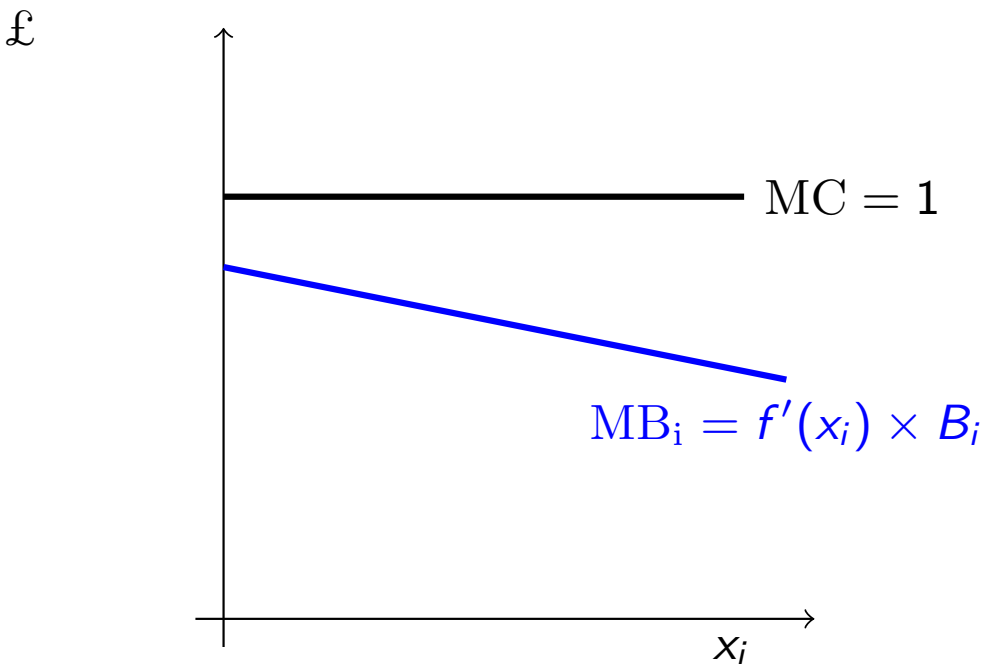

So no lobbying then?

So far we've depicted situations where the only equilibrium is **no contributions** $\rightarrow$ **no lobbying**.

Then how does any lobbying take place?

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I focus on four situations/mechanisms (adapted and extended from Olson, Shepsle):

- When voluntary contributions *are* rational (Olson)
- When beneficiaries are able to *organize* (Olson)
- When cooperation is enforced by reciprocity (Shepsle)
- When values matter (Shepsle)

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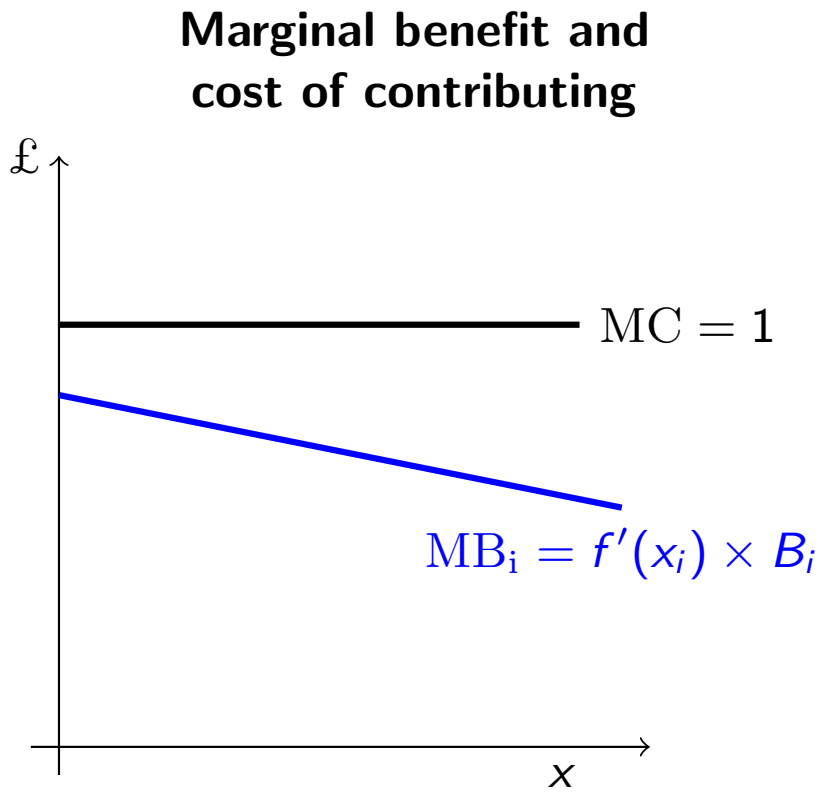
Key: Understanding mechanisms and which interest groups benefit from each

When voluntary contributions are rational



where

- $f(x_i)$ is the probability of success conditional on i spending x_i,
- $g(x_j)$ is the probability of success conditional on j spending x_j,
- x-axis is size of contribution to lobbying effort,
- y-axis is marginal value to contributor

The point is: it might be worth if for someone to contribute on his own if

- his spending is particularly effective ($g'(x_j) > f'(x_i)$) or
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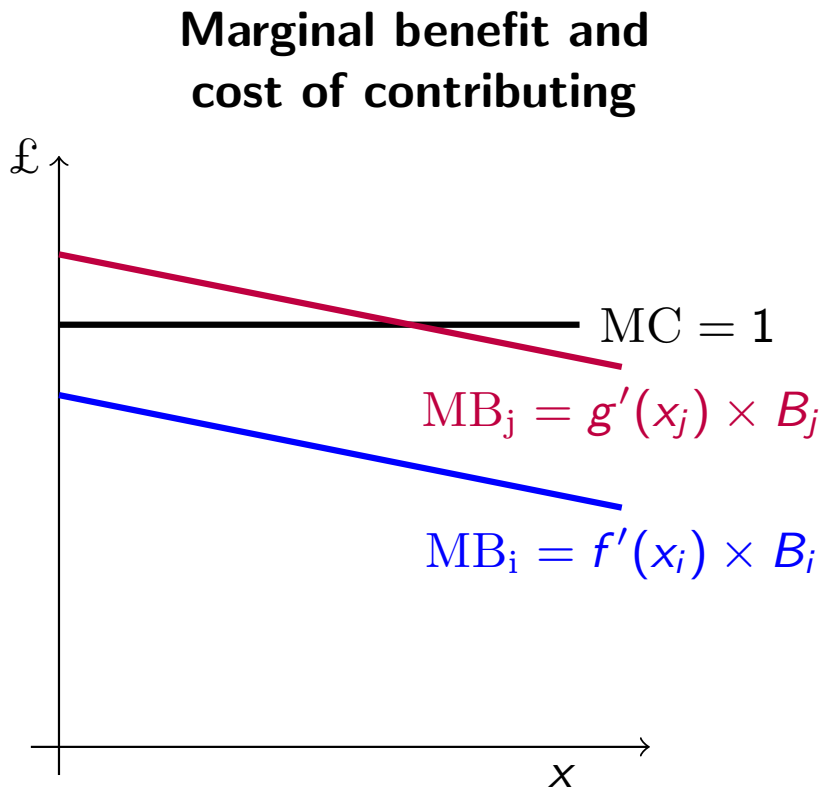

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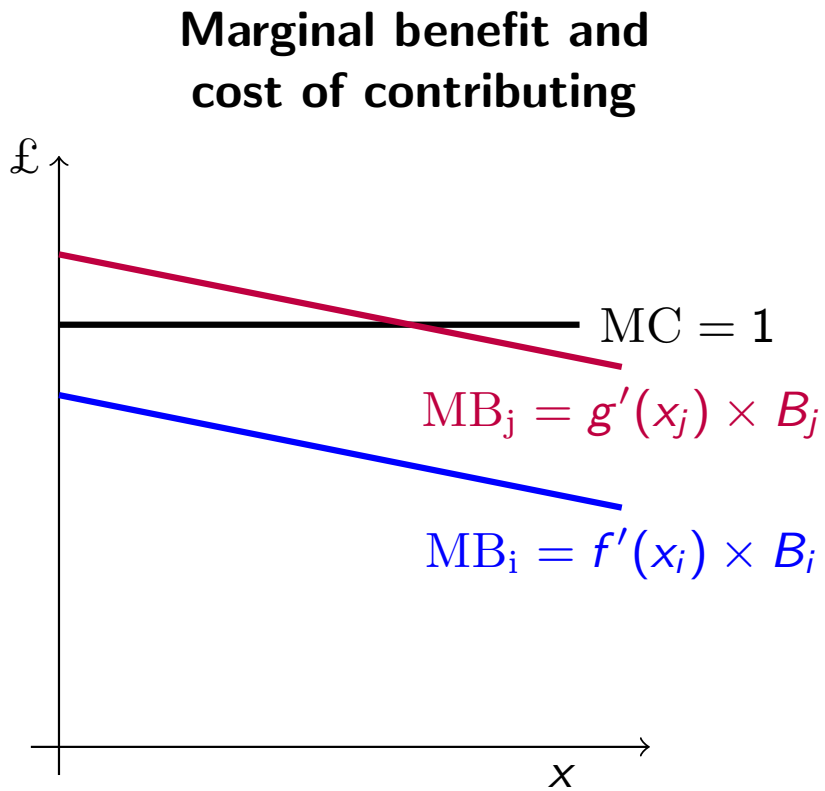

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When voluntary contributions are rational (2)

Are voluntary contributions more likely to be rational for an orange producer or orange consumer?

- Size of the per-person (or per-decisionmaker) benefits
- Effectiveness of lobbying effort at affecting the outcome

When beneficiaries are able to organize

Recall that the "solution" to the legislators' common pool problem was to vote on a "spending rule."

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Can the players in this lobbying situation organize and *force themselves* to contribute? (Hobbes, Rousseau)

When beneficiaries are able to organize (2)

Olson distinguishes between two types of benefits to group members:

- **Policy benefits**: benefits that accrue to group members ((e.g. orange consumers) as a result of a policy victory (e.g. tariff defeated). (In notation above, B.)
- **Selective benefits**: benefits that accrue to group members *if they contribute* to the collective action (e.g. contribute to a campaign, pay a membership fee)

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When beneficiaries are able to organize (3)

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Organization requires

- monitoring of membership/contributions
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- self-governance: agreement on goals, management of lobbying efforts, etc.

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(These are also collective goods!) Same problem in establishment of civil society. (Again, Hobbes.)

Which groups more likely to be organized?

Is self-government/organization more likely to be possible for orange producers or orange consumers?

- Difficulty of monitoring, punishing, making decisions
- Difficulty of solving the collective action problem of getting organized in the first place
- (Note however: once organized, big groups can benefit from their size!)

When cooperation is enforced by reciprocity

{`Defect, defect`} is the only Nash equilibrium in one-shot prisoner's dilemma.

What if the game is repeated indefinitely?

Multiple equilibria, including:

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Perhaps actors contribute to shared efforts (even when it is not a one-shot eqm to do so) only because others do.

Repeated prisoner's dilemma

When is cooperation by grim trigger a Nash equilibrium?

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Suppose this game is repeated:

		Player 2	
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Definition: δ is the probability of the game continuing to the next round.

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Deviation is not profitable if

$$\overbrace{2(1+\delta+\delta^2+\delta^3+\ldots)}^{\text{payoff from not deviating}} \geq \overbrace{3}^{\text{immediate gain}} + \overbrace{\delta+\delta^2+\delta^3+\ldots}^{\text{payoff in ``punishment phase''}} \quad (1)$$

$$\frac{2}{1-\delta} \geq 3+\frac{\delta}{1-\delta} \quad (2)$$

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i.e. grim trigger cooperation is a Nash eqm if game is sufficiently likely to continue.

Equation 2 comes from a fact about the sum of an infinite geometric series.

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When is cooperation in prisoner's dilemma possible?

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- Future interactions matter to players
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$\rightarrow$ cooperation in practice will depend on frequency, continuity of interaction; quality of information.

When cooperation is enforced by reciprocity (2)

Is reciprocity more likely to sustain cooperation for orange producers or orange consumers?

- Likelihood of future potentially-cooperative interactions with other players
- Importance of those future interactions to the players
- Observability of contribution decisions

When values are important

Shepsle: "Internalized values"; Elster (1989) "(non-consequentialist) social norms"

When values are important

Shepsle: "Internalized values"; Elster (1989) "(non-consequentialist) social norms" (i.e. what you know about cooperation before game theorists tell you it's not rational to cooperate)

- Share with others
- Do unto others as you would have them do unto you
- Categorical imperative (or "everyday Kantianism", Elster (1989))
- Don't be a free-rider
- Don't snitch
- Specific actions: contribute, tithe, vote
- If something isn't fair, don't stand for it

What looks like a prisoner's dilemma may not be, once values are included in payoffs!

When values are important (2)

The material payoffs we observe:

		Player 2: Cooperate	Player 2: Defect
Player 1	Cooperate	2,2	0,3
	Defect	3,0	1,1

The payoffs they experience:

		Player 2: Cooperate	Player 2: Defect
Player 1	Cooperate	2 + 2,2 + 2	0 + 2,3
	Defect	3,0 + 2	1,1

or

		Player 2: Cooperate	Player 2: Defect
Player 1	Cooperate	2 ,2	0 ,3 - 2
	Defect	3 - 2,0	1 - 2,1 - 2

When values are important

Are values more likely to encourage contributions from orange producers or orange consumers?

- Interactions among players
- Role of emotions versus financial motives
- Costs of contributing

Gawande et al 2009

Gawande et al 2009 contribution:

- Idea: estimate the weight placed on consumer welfare vs. producer profits (a parameter they call a) by governments around the world based on tariff rates (and data on demand elasticities, import penetration)
- explain variation in a using political factors

Estimates of a

TABLE 2. *Countries ranked by their estimates of* a

$a < 1$		$2 < a \leq 1$		$3 < a \leq 5$		$5 < a \leq 10$		$10 < a$	
Nepal	0.06	Thailand	1.06	Indonesia	2.62	Greece	5.11	Finland	10.57
Bangladesh	0.16	Trinidad and Tobago	1.11	India	2.72	South Africa	5.13	France	10.96
Ethiopia	0.17	Morocco	1.14	Phillipines	2.84	Argentina	5.25	Germany	11.55
Malawi	0.25	Ecuador	1.23	Netherlands	2.85	Venezuela	5.41	United Kingdom	11.86
Cameroon	0.30	Egypt	1.24	Malaysia	3.13	Latvia	5.75	Sweden	12.28
Bolivia	0.68	Mexico	1.29	Ireland	3.50	Poland	7.48	Italy	13.42
Pakistan	0.74	Guatemala	1.53	Uruguay	3.62	Colombia	7.88	Turkey	14.53
Kenya	0.86	Costa Rica	1.98	Hungary	3.96	Denmark	8.10	Spain	15.16
Sri Lanka	0.93			Norway	4.22	China	8.33	Korea	16.15
				Chile	4.83	Taiwan	8.53	Brazil	24.91
				Peru	4.85	Austria	8.79	United States	26.14
						Romania	9.25	Japan	37.81
								Singapore	404.00
								Hong Kong	∞

Notes: China, Ethiopia, Hong Kong, and Taiwan are excluded from the remainder of analysis. Only democracies during 1988–96 are included.

Explaining *a*: expectations

	Effect on *a* Expectation
Political institutions	
Proportional elections (vs. majoritarian)	+
Executive checks	+
Polarization in legislature	−
Divided government	+
Influence/responsiveness	
Literacy	+
Urbanization	+
Productivity of media spending	−

Explaining *a*: findings

	Effect on *a*	
	Expectation	**Finding**
Political institutions		
Proportional elections (vs. majoritarian)	+	
Executive checks	+	+
Polarization in legislature	−	−
Divided government	+	
Influence/responsiveness		
Literacy	+	+
Urbanization	+	+
Productivity of media spending	−	

Assessing the evidence

Limitations:

Assessing the evidence

Limitations:

- Tariffs provide only measure of government priorities
- Omitted variable bias: what else affects tariffs? How would including those variables affect the outcome?

Evidence on lobbying activity across industries

- What would we predict across industries? One idea is that more concentrated industries would lobby more because they would overcome free rider problems more easily.

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- Hansen et al (2005): not much evidence for this, based on US data!
- Bombardini and Trebbi (2012) suggests emphasizing a different part of the theory: in more concentrated industries, firms tend to lobby on their own rather than through a trade association
  - Voluntary provision of public goods, but also
  - Goods less substitutable $\rightarrow$ policy benefits are more private than collective/public
- Complicated mix of motives and factors.

Summary

Explaining collective action and its effects on policy.

- Olson: public policies are collective goods for their beneficiaries → collective action (aka free-rider) problem
- Four mechanisms by which the collective action problem is overcome
  - Voluntary provision
  - Organization
  - Reciprocity
  - Values
- Olson: systematic bias toward small groups ("group size paradox").
- More generally: many arbitrary factors determine strength of interest group organization → pluralist ideal not realized

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Next time (week 3): Bureaucracy and regulation

Feedback

Please take out a sheet of paper and write down 3 things:

1. What, if anything, did you find particularly difficult or confusing?
2. What, if anything, did you find particularly interesting or helpful?
3. Any suggestions or comments about the pace, content, presentation?

Thank you!

Rational ignorance

Why is lobbying effective?

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Costs of becoming informed $\rightarrow$ rational ignorance $\rightarrow$ susceptibility of voters to advertising $\rightarrow$ susceptibility of politicians to persuasion.