

CLASS JOURNAL

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PSC 300

SYRACUSE UNIVERSITY

MONEY AND

POLITICS

SPECIAL INTERESTS

PART 1

EXAM 1

- **Moved from March 7 to March 5**
- **March 7: Visit from William Magnarelli, Member of NYS Assembly**

COUNTRY RESEARCH PAPER

- **Start thinking about which country you want to analyze**
 - **First deadline: March 21**
- **Start looking for academic articles, media reports, policy reports, etc.**
 - **There may not be a lot of material on the country you are interested in**

EXTRA CREDIT!

- **I'm giving you 1 extra point for the first part of the country research report**

EXTRA CREDIT!

- You can put any amount of this into a pot
 - 0, 0.1, 0.2, ..., 1
 - You do *not* get that part of the extra credit
- Whatever is in the pot gets tripled and equally shared among everyone
 - Do it here: <https://rebrand.ly/extracredit>

QUESTIONS IN THIS CLASS

- **What are we talking about?**
- **Who is involved in money and politics, why, and how?**
- **What determines money and politics?**
- **What are the consequences of money in politics?**
- **How can we reduce money in politics? Should we?**

WHAT'S NEXT?

- **Moving from bureaucracy to politics**
- **So far, we have talked about corruption a lot**
- **Now, moving to "money in politics" more broadly**
 - **Legal and illegal**

WHAT'S NEXT?

- **Special Interests**
- **Lobbyists**
- **Politicians**
- **Voters**

WHAT'S NEXT?

- **Special interests**
 - **Who tries to influence politicians?**
 - **Why do special interests not spend more money on politics?**
 - **What are the benefits of spending money on politics?**

HOW TO?

Constitution of the United States

First Amendment

First Amendment Explained

Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, and to petition the Government for a redress of grievances.

- **Who tries to influence politicians, and how?**

BACK TO EXTRA CREDIT

- How much of the extra credit should you have put into the pot?
- If everyone puts entire point into the pot, you get:
 - 50 people in class = 50xP
 - Tripled, so 150xP
 - Divided equally among all 50: 3xP for everyone

A GAME

- **What happens if you put in only $0.9xP$?**
 - You keep 0.1
 - 49 people put in 1, plus 0.9 from you: 49.9
 - Tripled, so 149.7
 - Divided equally among all 50: 2.994 for everyone
 - You get: $0.1 + 2.994 = 3.094$

A GAME

- **What happens if you put in less?**
 - **Put in 0.8 (keep 0.2): $0.2 + 2.988 = 3.188$**
 - **Put in 0.5 (keep 0.5): $0.5 + 2.97 = 3.47$**
 - **Put in 0 (keep 1): $1 + 2.94 = 3.94$**
- **Best strategy: You put in nothing**

A GAME

- **What happens if you put in less?**
 - **Put in 0.8 (keep 0.2): $0.2 + 2.988 = 3.188$**
 - **Put in 0.5 (keep 0.5): $0.5 + 2.97 = 3.47$**
 - **Put in 0 (keep 1): $1 + 2.94 = 3.94$**
- **Best strategy: You put in nothing**
 - **A point you put in gets tripled, but you only get 1/50th of that back**

STRATEGY

- **Of course, everybody else makes the same calculation**
- **So nobody should put in anything**
- **“Collective action problem”**
- **“Free rider problem”**

COLLECTIVE ACTION PROBLEM



- **What would you like the sidewalks you walk on to look like?**

COLLECTIVE ACTION PROBLEM



- So why do people throw trash onto the street?

COLLECTIVE ACTION PROBLEM



COLLECTIVE ACTION PROBLEM



PBS budget: \$465m/year

BBC budget: \$8.5bn/year



COLLECTIVE ACTION PROBLEM

- **Other examples?**

COLLECTIVE ACTION PROBLEM

- **Other examples?**
- **What do they have in common?**

COLLECTIVE ACTION PROBLEM

- **Public, non-excludable good**
 - **Cannot exclude people from clean streets, public TV/radio, no global warming etc.**
- **Under-provision if left to voluntary individual action**

COLLECTIVE ACTION PROBLEM

- **What does any of this have to do with the question “Who tries to influence politics?”**

COLLECTIVE ACTION PROBLEM

- **U.S. steel producers vs. steel consumers**
 - **Steel producers want tariffs on foreign steel**
 - **Steel consumers do not want a tariff on foreign steel (makes steel more expensive)**

COLLECTIVE ACTION PROBLEM

- **Both can influence politicians through lobbying, campaign contributions, etc.**
- **Costs money, which group members need to pay**
- **Benefits are non-excludable**
 - **If tariffs, all U.S. steel producers sell more**
 - **If no tariffs, all steel consumers can buy cheaper goods**

COLLECTIVE ACTION PROBLEM

- **Incentives to free ride for both groups**
- **The fact that we have a lot of money in politics is not as trivial as it may seem**
 - **Groups need to overcome their collective action problem**
 - **How? Why do groups spend any money at all?**

OVERCOMING THE COLLECTIVE ACTION PROBLEM

- Back to game at beginning
- Instead of 50 people, suppose you now play in pairs
- Suppose the other person puts whole xP in pot. How much should you put in?
 - Put in 1: $(6/2) + 0 = 3$
 - Put in 0.8: $(5.4/2) + 0.2 = 2.9$
 - Put in 0.6: $(4.8/2) + 0.4 = 2.8$
 - Put in 0.4: $(4.2/2) + 0.6 = 2.7$
 - Put in 0.2: $(3.6/2) + 0.8 = 2.6$
 - Put in 0: $(3/2) + 1 = 2.5$

OVERCOMING THE COLLECTIVE ACTION PROBLEM

- **Small groups are more likely to overcome collective action problem**
 - **The public good is shared among fewer people**
 - **Some may find it in their interest to pay for the public good themselves**
 - **Benefits of higher tariffs > cost of political influence campaign**

WHO SPENDS MONEY ON POLITICS?

- **# of steel producers in U.S.: ~50**
- **# of steel consumers in U.S.: > 300 million**

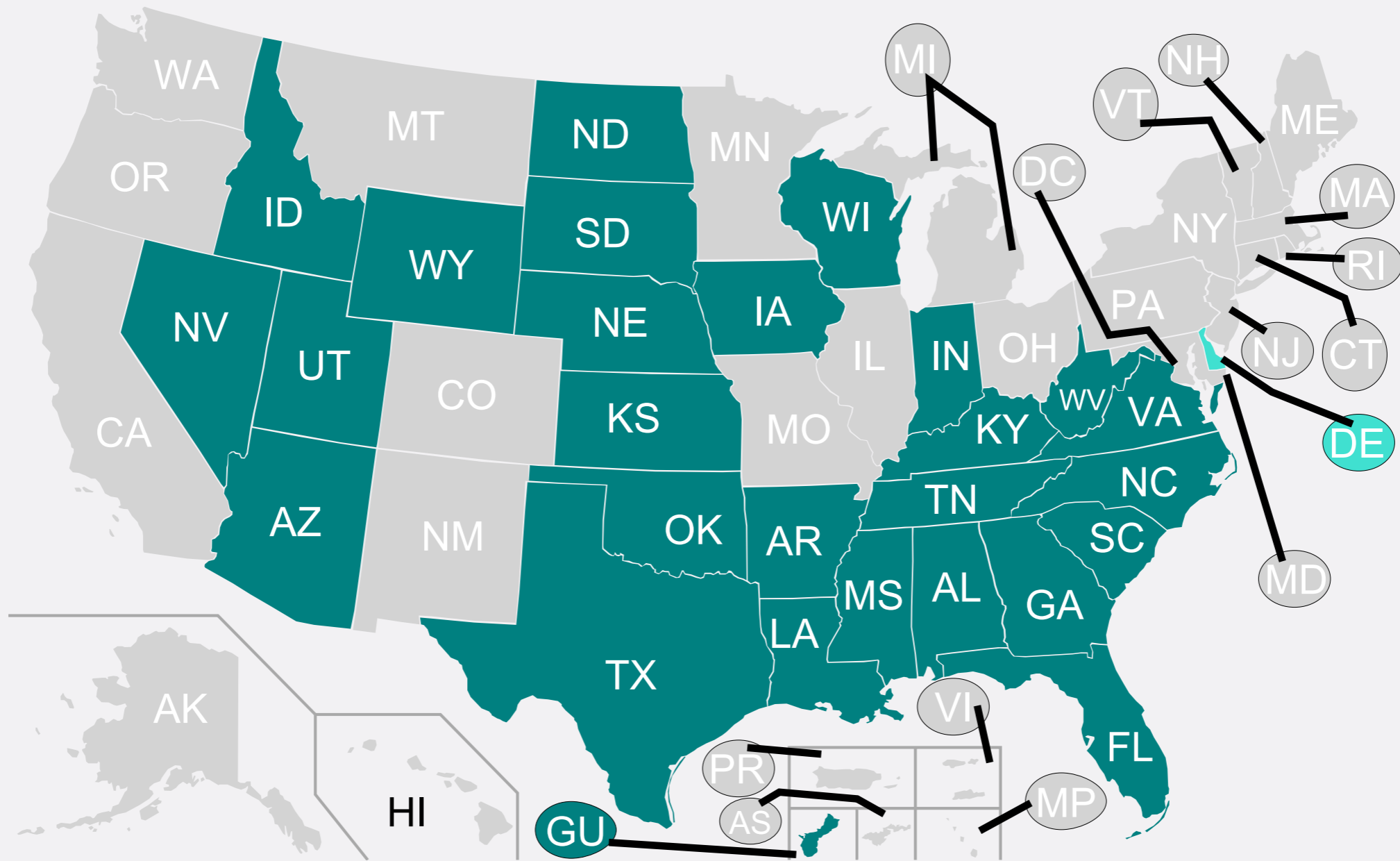
WHO SPENDS MONEY ON POLITICS?

- # of steel producers in U.S.: ~50
- # of steel consumers in U.S.: > 300 million
- Why money in politics often called "special interest politics"
 - Producers vs. consumers
 - Employers vs. employees (unions)
 - etc.

COLLECTIVE ACTION PROBLEM

- **Other ways to overcome the collective action problem?**

REQUIRE CONTRIBUTIONS



In the context of [labor law in the United States](#), the term "**right-to-work laws**" refers to state laws that prohibit [union security agreements](#) between employers and [labor unions](#) which require employees who are not union members to contribute to the costs of union representation. Unlike the [right to work](#) definition as a

SELECTIVE BENEFITS



Member Benefits

With AARP membership, there's always more to discover.

✈ Travel

AARP Travel		
CAR RENTALS		
AARP® Travel Center Powered By Expedia®	Budget Rent A Car	Payless® Car Rental
Avis Rent A Car	Budget Truck Rental	Zipcar
CRUISES		
AARP® Travel Center Powered By Expedia®	Grand European Travel	
Collette	Liberty Travel	
FLIGHTS & VACATION PACKAGES		
AARP® Travel Center Powered By Expedia®	Grand European Travel	Park Ride Fly USA
British Airways	Liberty Travel	Xanterra Travel Collection
Explorations By Collette	MedjetAssist	
HOTELS		
AARP® Travel Center Powered By Expedia®	Hampton By Hilton™	Rodeway Inn
Ascend Collection	Hawthorn Suites By Wyndham	Sleep Inn

HEALTHCARE

AARP® Dental Insurance Plan Administered By Delta Dental Insurance Company	AARP® MyVision Care Provided Through EyeMed
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MEDICARE ELIGIBLE

AARP® Medicare Supplement Insurance Plans, Insured By UnitedHealthcare Insurance Company	AARP® MedicareComplete Insured Through UnitedHealthcare	AARP® MedicareRx Plans Insured Through UnitedHealthcare
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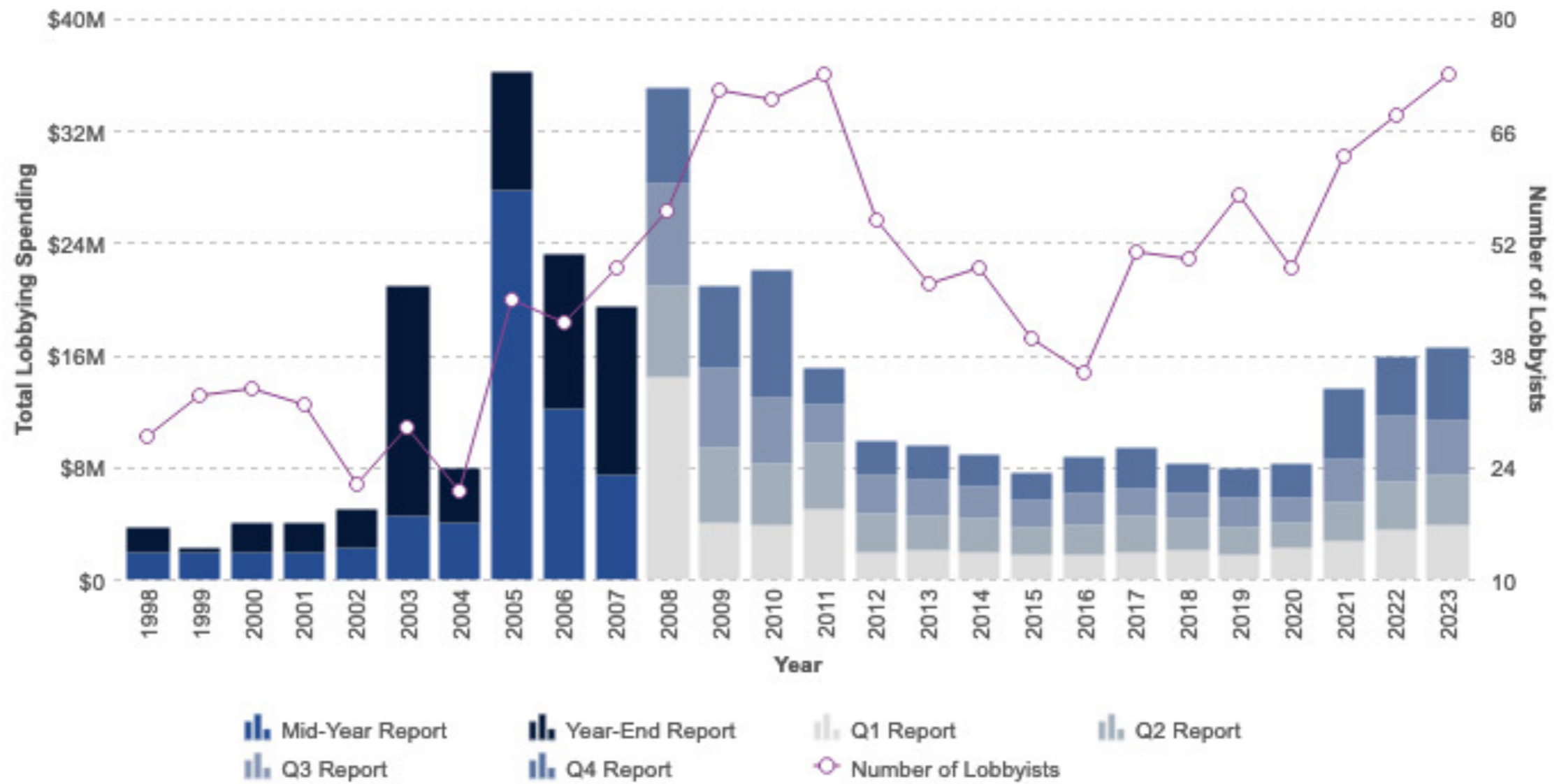
VEHICLE, LIFE, PROPERTY AND BUSINESS

AARP Life Insurance Program From New York Life	AARP® Mobile Home Insurance Program From Foremost	ATV, Golf Cart & Snowmobile Insurance From The Hartford
AARP® Auto Insurance Program From The Hartford	AARP® Motorcycle Insurance Program From Foremost	Boat & Personal Watercraft Insurance From The Hartford
AARP® Homeowners Insurance Program From The Hartford	AARP® Property & Casualty Insurance From Real Legacy	Collectible Vehicle Insurance From The Hartford
AARP® Massachusetts Auto Insurance Program From Plymouth Rock Assurance	AARP® Small Business Insurance Program From The Hartford	Recreational Vehicle Insurance From The Hartford

•\$• Finances

AARP Foundation Tax-Aide	AARP® Investment Services From TD Ameritrade	Money Tools
AARP Lifetime Income Program From New York Life	American Bank Checks	Retirement Calculator
AARP Podcasts	Fraud Watch Network	Retirement Resources
AARP® College Savings Solutions From TIAA	Interview An Advisor™ Tool	Social Security Benefits Calculator
AARP® Credit Card From Chase	Money Management Resources	Social Security Q&A Tool

AARP LOBBYING



SUMMARY SO FAR

- **Benefits to political influence are non-excludable**
 - **Free riders, collective action problem**
 - **Less severe for smaller groups**
- **Structural advantage for producers, employers etc.**
 - **In addition, they also often have more money**

COLLECTIVE ACTION PROBLEM

- **But: Are benefits to spending money on politics always non-excludable?**
 - **Maybe there are “private benefits” to spending money on politics?**

GOVERNMENT RULES

Law-making stage



Implementation stage



Monitoring stage

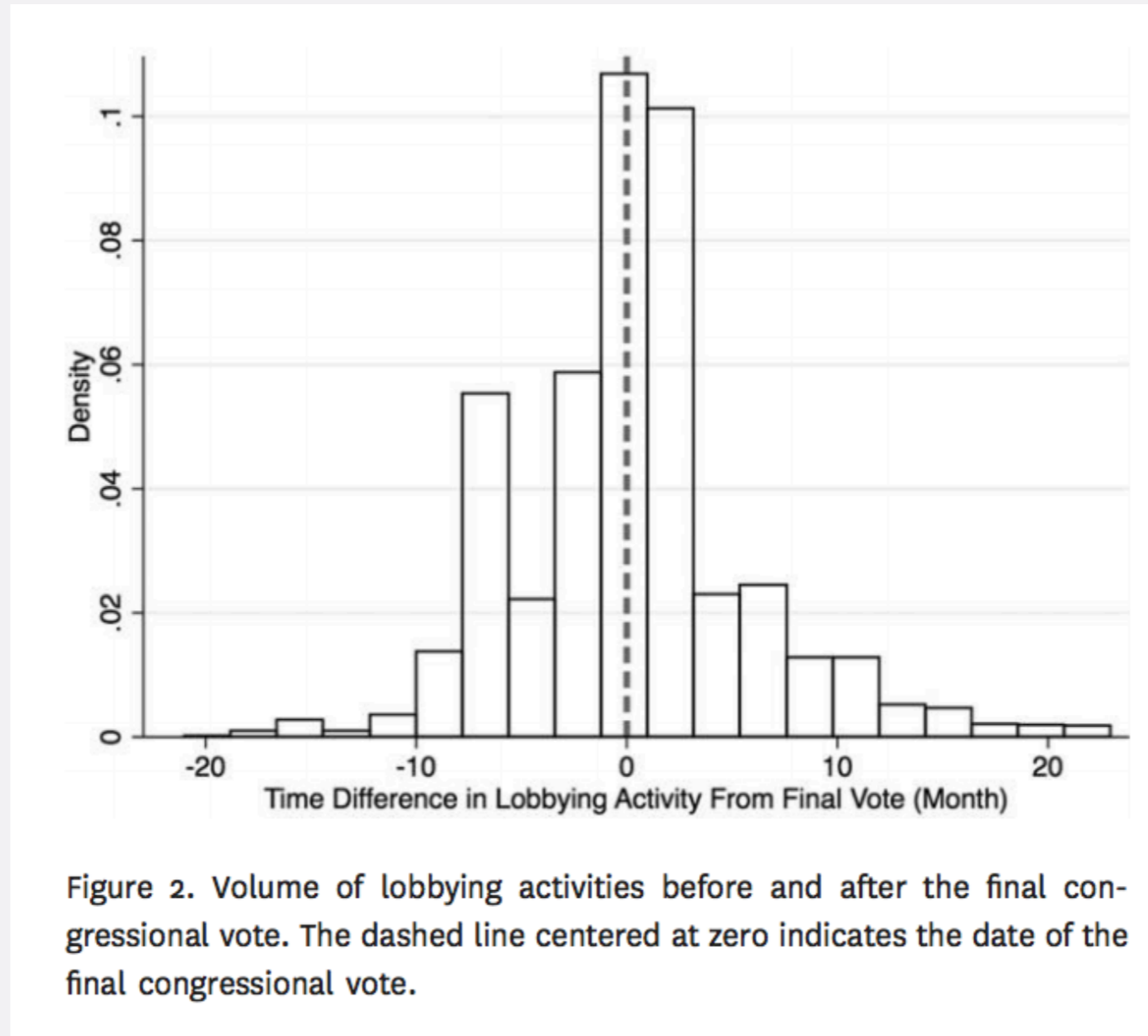
IMPLEMENTATION

- **Tariff rates:**
 - **Cotton, not carded or combed, having staple length of 28.575 mm or more but under 34.925 mm: 14%**
 - **Cotton, not carded or combed, having staple length under 19.05 mm (3/4 inch), harsh or rough: 0%**

IMPLEMENTATION

- **Tariff rates:**
 - **Flashlights: 12.5%**
 - **Portable electric lamps designed to function by their own source of energy, other than flashlights: 3.5%**

IMPLEMENTATION



- You, Hye-Young (2017): "Ex Post Lobbying." *Journal of Politics*, 79 (4): 1162-1176

GOVERNMENT RULES

Law-making stage



Implementation stage



Monitoring stage

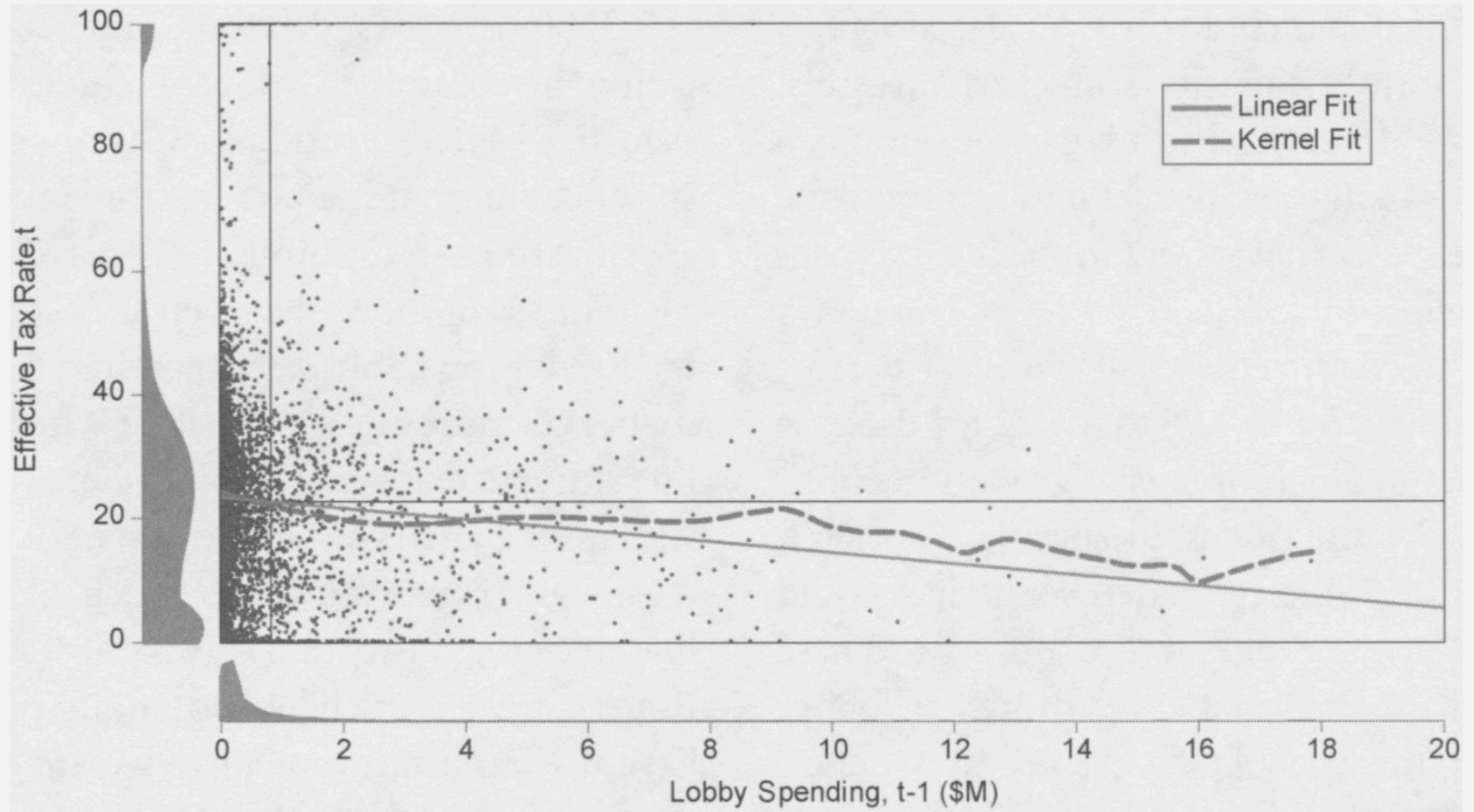
MONITORING

Lobbying and Taxes

Brian Kelleher Richter University of California, Los Angeles
Krislert Samphantharak University of California, San Diego
Jeffrey F. Timmons Instituto Tecnológico Autónomo de México

- All U.S. firms with publicly available financial statements (1998-2005)
- Dependent variable: Effective tax rate
- Main independent variable: Lobbying expenditure

MONITORING



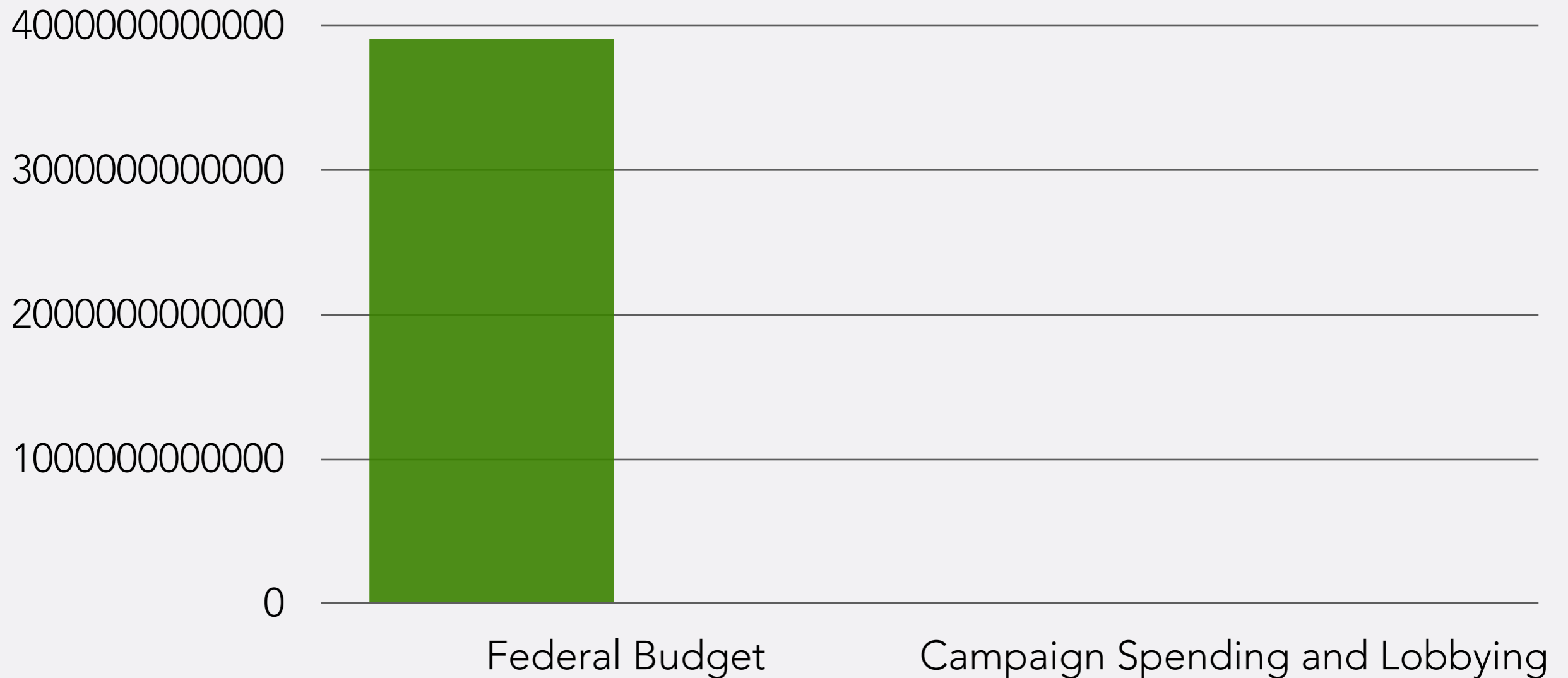
MONITORING

- **Firms that lobby more:**
 - **Pay lower taxes**
 - **Less likely to be fined by the SEC**
 - **Lower inspection rates (nuclear power plants)**
 - **Less EPA fines**
 - **Less likely to be found out if engaging in fraud**

SUMMARY

- Spending money on politics has *collective* benefits
 - Non-excludable benefits, subject to collective action problem
- Spending money on politics also has *private* benefits
 - Excludable benefits, not subject to collective action problem

NEXT TIME



- **Federal budget 2016: \$3.9 trillion**
- **Spending on campaigns and lobbying 2016: \$9.6 billion**
- **Why is there so little money in politics?**