

POLI 065
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Follow-up on public goods and private goods

Point 1. Public goods will be under-produced because of the temptation to free-ride.

Key issue is whether your own contribution to the collective effort will be noticeable or negligible. Depends on the size of the group, and your size relative to the group.

Privileged groups

Can produce a public good in certain circumstances:

If small enough, one person's contribution may not be negligible.

For such an actor, it really isn't a temptation, since if they don't contribute, the good won't get produced. So if they want to see the good produced, they have to contribute. Note, however, that since we're talking about public goods, everyone else will also benefit, essentially free-riding off the efforts of the larger actors.

This is called the "exploitation of the strong by the weak"

Examples of industrial groups where one company is huge, all the others free ride.

Large companies may want a tariff on imports in their industry, for example.

Gallo winery in California produces some huge percentage of the total amount of wine.

They also pay the bulk of the dues to the local trade association.

Small privileged groups, say with only three members, may not even face this problem, as each members' contributions are noticeable and important. As the group gets larger, this becomes less likely. And if all the members of the group are equally sized, the problem is worse because there is no opportunity for the weak to exploit the powerful.

Disadvantaged groups

Large enough that they face the temptation to free-ride fully.

Note that the way Mancur Olson defines a "disadvantaged group" is not what your mom means by it; it is not necessarily the same as the everyday definition. A group of shoe-stores might be considered a disadvantaged group, if none of them is large relative to the others, and there are tens of thousands of them in the country.

Point 2. Societies have invented many ways to solve this problem.

Material benefits: the most common solution. The Sierra Club gives you a backpack or a hiking map, or access to information you can't get otherwise. AARP gives you discounts on prescription drugs. This is particularly common among trade and professional groups. For example, I'm a member of the American Political Science Association because you have to join in order to go to the annual convention, to subscribe to the journals, and to get the newsletter that describes where the jobs are. Trade and professional associations can provide all kinds of useful

professional information to their members, and keep this information away from non-members. It could be as simple as a magazine or much more complex.

“Solidary” benefits: friendship, socialization, etc. Meetings are fun. You meet people; you might get a date. There might be free music at the meeting, whatever. So they induce people to become members because they make membership something that is enjoyable for whatever reason.

“Purposive” benefits: ideology, sense of doing the right thing, etc. Patriotism, sense of civic duty, such things would fall under this category. You feel good because you gave to public radio, or did your part to stop global warming, end poverty, or whatever.

Entrepreneurs: some people do a lot of work to create interest groups so that they can become the leaders of them. They invest huge amounts of their own time and energy, develop a “business model” to make the finances work, and in return they become famous or powerful, speaking not just on their own behalf, but on behalf of all their members as well.

Patrons: Wealthy people, institutions (e.g., the Ford Foundation), or the government itself can provide start-up funds to get an organization off the ground, or to support its actions.

Government contracts for services: many social service providers are actually charities, such as the Salvation Army. When they provide services such as homeless shelters, they may do so as part of a contract with a government agency, and this can stabilize their finances.

Tax-exempt status: Government in the US encourages giving to charities by allowing all gifts to be deducted from your income tax. If you pay 30% income tax, then this reduces the cost of a contribution by that amount. Such groups are referred to as 501-c-3 groups and this includes most hospitals, charities, universities, and lots of interest groups.

Laws and regulation, aka, coercion: It is common for certain types of public goods, such as national defense, to be related to legal requirements such as the requirement to pay your taxes. Traffic laws are another example. We all benefit from everyone else following the law, but we don’t rely just on altruism on the part of the other people. There are strong social norms backed up by the threat of fines or jail if you don’t conform.

Social norms: Many things don’t require so much coercion as they are part of the norms of society. Few arrests occur for example for public nudity! It’s a norm so broadly held that no one breaks the rule so it doesn’t even seem like a rule.

Iterated v. single-shot games: Social norms are much more likely to develop if interactions are common and repeated rather than if you interact with the other person only once or very rarely. This is one of the reasons why small groups of people in an apartment can keep the place cleaner than large groups; informal enforcement mechanisms work better if you can reward “good” behavior and punish “bad” behavior on a daily basis. Compare your likelihood of being ripped off if you have to have your car repaired while travelling out of state (e.g., a one-shot relation

with the garage) to going to your neighborhood car repair place, the same one that has dealt with your parents' cars for years (e.g., a long term continuing iterated relation).

So: there are lots of reasons why public goods might get produced in spite of the temptation to be a free-rider.

However: Note that private goods don't require all these complicated explanations; the profit motive will cause them to be produced to the extent that there is a demand.

Why do non-political groups get involved in politics?

The by-product theory. Groups form for reasons that have nothing to do with politics or ideology, but once they are formed and they have an organizational structure, it is trivial to devote some of the resources to politics. Trade associations are not formed to lobby Congress, but to help share information and set standards within their industry, or to train their members, or to encourage high professional standards (and therefore higher profits or salaries for their members). But once they are in existence, watch out!

Final analysis: $\frac{3}{4}$ of all interest groups in Washington are related to professions or industries. Only $\frac{1}{4}$ are "citizens groups."