WHAT IS SO SPECIAL ABOUT SPECIAL INTEREST POLITICS?

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Public choice (sometimes known as rational choice) assumes that individuals act to promote their own interests. From this simple assumption, a whole body of theoretical and empirical work has been spawned. Much of this research shows that bureaucrats, politicians, and pressure groups get their way at the expense of the voters. But if one really believes in the economic model of behavior, then one should be skeptical of such results. After all, it was Adam Smith who showed that the self-interest of the baker and the candlestick maker leads them to provide what consumers desire. So by the same economic logic, one should expect that the invisible hand works for the democratic political system, as well. Now there are counter-arguments to this last statement, but, in this chapter, I counter these counter arguments by using standard economic theory and methodology. Along the way, I show that many of the negative results arise because the authors (1) have incorrectly assumed that the political system is characterized by monopoly rather than by competition, and (2) have implicitly assumed that voters are irrational, which, of course, is contrary to the rational choice paradigm.

By far, the majority of papers on political economy emphasize the power of special interests in the political process. This argument takes several forms: (1) In comparison to the typical voter with diffuse interests, it is more worthwhile for those groups who have much to gain (the concentrated special interests) to organize and influence the political outcome. (2) Legislators are re-elected by representing the interests of their constituents (which tend to be local) rather than the interests of the nation as a whole. Therefore, congress enacts costly pork-barrel projects. (3) Congress is controlled by special-interest committees (such as the agricultural committee) that institutionalize the power of special interests. And (4) candidates for office cater to special interests to finance their campaigns.
All of these arguments appear to provide plausible explanations for the power of special interests. However, as I will show, these arguments have logical gaps, and the conclusions can only be reached by assuming that voters are irrational and/or that competition for political office is absent.

1. RATIONALITY

Because rationality plays such an important role in public choice, in general, and in this paper, in particular, it is useful to digress and discuss the meaning of rationality. The following is how economists define rationality. If a person can rank order her preferences (e.g., Tom prefers (A) Obama to (B) Clinton to (C) Romney, everything else being the same) and the person chooses her most preferred feasible alternative, then the person is rational.\(^1\) Rationality is a plausible assumption regarding human behavior. Isn’t it a better theory of human behavior that people do what they prefer to do rather than that people behave randomly (they are arational) or that they consistently act against their own preferences (they are irrational)?\(^2\)

In this chapter, we are explaining aggregate, rather than a particular individual’s, behavior. Because we are interested in aggregates, our predictions are not undermined if some people do not act rationally. While one might argue that a particular voter is either irrational or uninformed, it is much harder to claim this to be the case for voters in general.\(^3\) Note that there is no need to assume that individuals are perfectly informed. Rational people can be misinformed.

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\(^1\) More formally: To act rationally an individual must have a complete set of ordered preferences over the set of outcomes and these preference rankings must be both transitive and reflexive. Transitivity says that if Tom prefers Obama to Clinton and Clinton to Romney, then Tom prefers Obama to Romney. Reflexive means that a person does not strictly prefer something to itself. That is, Tom cannot strictly prefer Obama to Obama. Note that rational individual behavior need not lead to rational group behavior.

\(^2\) Presumably, individuals at different times are characterized by one of the three (rationality, irrationality, and arationality). The problem is that we cannot predict which characterization is operative (which would be the case if we could detect which part of the brain is being used or how much alcohol was consumed, for example). Under such circumstances, to predict behavior rather than merely define behavior ex post, we need to go with the characterization that works the best on average. The argument here is that rationality works best.

\(^3\) This holds when the information is available contemporaneously. Obviously, in the eighteenth century doctors did not know that penicillin killed bacteria and voters might not have voted for improved sanitation.
and make mistakes. However, voters on average will not persist in their mistakes over a long period of time if the evidence is to the contrary and a mistake is costly. It is also unlikely that people are consistently prone to misjudgments in a particular direction. I am skeptical of arguments that assume that people tend to underestimate (or overestimate) the dangers of some activity (for example, underestimating the dangers of taking prescription drugs) when such information is public. Here, the basic premise is that some people may overestimate and others may underestimate the probability of a bad outcome, but over all issues, there is no reason to believe on a priori grounds that the average person’s beliefs systematically differ from the experts’ beliefs in a certain direction.

Note that being rational does not mean that voters are selfish. Rational people may be altruistic; but being rational, they will try to achieve their altruistic ends in the best way possible. Note also that being rational does not mean that voters have “nice” preferences. Voters may be homophobic, racist, and xenophobic. And if this is the case, a democratic electorate will elect representatives that are homophobic, racist, and xenophobic.

It is common to view emotional responses as being contrary to rational behavior; indeed, emotional is often used as a synonym for irrational. For example, someone might say that he got angry and did something that he regrets. I have a different view. Emotions are what shape our preferences and rationality is the handmaiden to these emotions. Consider our emotional attachment to our children. Because of this attachment, we rationally try to figure out ways of making our children successful and happy adults. And in a similar way, we rationally figure out ways to defeat those that we hate. “Appealing to the voters’ emotions” is generally considered pejorative and implies that the candidate is manipulating the voters; but translating the phrase into “appealing to the voters’ preferences” produces a less negative connotation. It is my view that when we don’t like the preferences of the majority of voters, we are inclined to use the word “emotions” and claim that the voters are manipulated. We will come back to the issue of voter irrationality in section 7.

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4 Even if candidates could manipulate voters, remember that there are two candidates running so that their ability to manipulate in their own favor is diluted when both candidates engage in such tactics.
2. EMPIRICS

In this chapter, I concentrate on the theory of special interest politics. But before doing so, it is worthwhile to undertake a brief discussion of the “evidence” demonstrating the power of special interests. There are, no doubt, numerous government policies that are inefficient. I will not be arguing that inefficiencies do not exist. However, I am skeptical about the methodology used to demonstrate the power of special interests.

My first methodological concern is the way that examples are counted. To illustrate, let us consider rent control in New York City. Some would treat this example as demonstrating the power of special interests (in this case, the power of the existing renters). I agree that rent control is a costly and inefficient regulation. I would therefore argue that this explains why rent control is relatively rare, at least in the United States. While others see the existence of rent control as proof of the power of pressure groups; I see its rarity as proof that pressure-group explanations for policy outcomes are not that powerful in this domain. In a similar fashion, while some might point to the existence of any tariff as illustrating the power of pressure groups, I would find the relatively low tariffs that we now have in the U.S. as illustrating the weakness of pressure groups in getting their way.

Related to this issue is the choice of areas to study. We are shocked and awed when government behaves inappropriately, but not when it acts appropriately. It is the former that grabs our attention, when maybe it should be the latter. Why do we see more signals in cities than in rural areas? Is it because the signal producers have less political clout in rural areas or is it because economic efficiency suggests that there should be more signals in urban settings? We don’t even ask the question in the first place and no economics journal would bother publishing a study that showed that efficiency, rather than special-interest politics, explained why there are fewer signals on interstate highways than on urban streets.

There are plenty of examples where efficiency rather than special-interests politics explains policy differences. The normative (efficiency) theory of government predicts that the government will subsidize the production of public goods when the market is likely to fail in that

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5 In various jurisdictions there is rent control for people living in mobile home parks. I doubt that rent control would exist in these jurisdictions if the average voter did not have some warm spot for low-income families. So attributing outcomes to special interests may be misleading even in this case.
endeavor. And by and large, the evidence conforms to the normative expectations. Governments subsidize vaccinations more than plastic surgeries, rather than vice versa. Governments subsidize a greater percentage of the cost of building streets than the cost of building cars, rather than vice versa. And the role of government relative to the private market is much greater in national defense than in consumption, rather than vice versa. None of these statements is very new or exciting to a public finance economist. But they are puzzling facts to those who believe in rent-seeking theory and the power of special interests. Are those who build streets more organized and politically savvy than those who build automobiles?

So the first problem I have with the evidence in favor of the special-interests theory of politics is that it is very selective. There are plenty of exceptions to the normative theory. But selectively choosing exceptions and then "testing" them is not really good science. Either, the sample needs to be random or one needs a compelling theory as to when special interests trump normative public finance (and vice versa).

Another major methodological concern is that special interest explanations tend to be ad hoc and contradictory across subject matter. Do we have a consistent theory as to why both the 12,000 sugar cane and beet growers and the many more wheat farmers get more government protection (through import restrictions or government subsidies) than almond growers? We should keep in mind that all kinds of special interests are interested in any particular government policy. For sugar, the users of sugar, including jam producers, baking companies, soft-drink producers, the Sweetener Users Association (a lobby group for food companies that use sugar), and consumers would be against restrictions on sugar imports while the American Sugar Cane League (a lobby representing sugar cane growers) and manufactures of sugar cane equipment (unless they exported to other countries in significant quantities) might be in favor. Wheat producers also have to face bakers (more concentrated than wheat farmers) and consumers (less concentrated). Stories that favor one concentrated interest over a diffuse interest are just stories. At a minimum, one should have a comparative static story. For example, one industry became more concentrated and as a result the equilibrium changed in its favor.

Finally, I am always fascinated by the contradictory special-interests explanations. Consider the following statements: Environmental regulation is too weak because of the power of special interests (mining and industry). Environmental regulation is too strong because of the power of special interests (lawyers and wealthy people who don't care about jobs). Both sides
adhere to the special interest story, but the stories are inconsistent. The standard excuses for being on the losing side of a political battle are that voters are biased and ignorant and special interests (always on the other side) have their way in the political process. So maybe special interests are an excuse rather than a reality.

3. DIFFUSE VERSUS CONCENTRATED INTERESTS

What happens in other forms of government--namely that an organized minority imposes its will on the disorganized majority--happens also to perfection whatever the appearance to the contrary under the representative system. …This is because the only candidates who have any chance of succeeding are those who are championed by organized minorities. Mosca (1939, 154)

The steel industry and its workers … are willing to act because the benefits from protection are concentrated on the relatively few who invest and work in the industry. Their incomes are significantly affected. The larger costs of their protection are borne in dispersed fashion by the much more numerous population of taxpayers and consumers. The dilution of costs renders its bearers politically ineffective. Demsetz (1982)

A democratic system tends to give undue political power to small groups that have highly concentrated interests. … Consider the government program of favoring the merchant marine by subsidies for shipbuilding. … The estimated cost … is 15,000 dollars per year for each of the 40,000 people actively engaged in the industry. Ship owners, operators and their employees have a strong incentive to get and keep these measures. … On the other hand [these subsidies] only come to about 3 dollars a person per year. Which of us will vote against a candidate because he imposed that cost on us? Friedman and Friedman (1980)

Politically successful groups tend to be small relative to the size of the groups taxed to pay their subsidies. Becker (1983).

These quotes represent only a small subset of the numerous authors who have argued that those who have concentrated benefits (e.g., the defense industry) will have an upper hand in the political process over those who face diffuse costs (the taxpayer). The logic is that it does not pay to enter the political arena when only small amounts are involved. There are two strands to this argument. The first is that it does not pay for diffuse interests to organize and lobby Washington, the state capital, city hall, or wherever lobbying takes place. The second strand argues that diffuse interests will not even know about special interest legislation and therefore will not vote against those representatives who have voted for the legislation. However, both strands of the
argument confuse individual motivation on one issue with overall political effect. In fact, quite plausible arguments can be made that concentrated interests are at a great disadvantage in majority rule systems; after all, majority rule is about the majority not the minority.

Let us start with the second strand, which depends on the diffuse interests not being aware of the special interest legislation. Consider the case in which a candidate's policy would result in taking a dollar from a million voters and distributing the proceeds to one thousand members of a pressure group. This could be done directly or indirectly through some kind of legislation (e.g., imposing tariffs on the importation of sugar). Obviously, the probability that each of the thousand members of the pressure group vote for the candidate is a lot greater than the probability that each of the one million voters (most of whom may not even be aware of the policy) vote against the candidate. But even if this policy reduces the probability of each of the million voters voting for the candidate by only .005, such a redistribution will not take place, for it involves a loss of five thousand votes from the diffuse majority in return for a thousand more from the pressure group. Indeed, given these stylized facts, we would observe the diffuse majority taxing the concentrated minority.6 Despite the widespread arguments claiming that the concentrated interests of a minority will override the diffuse interests of the majority, the contrary theoretical results presented here should not be surprising. As in other areas of economics, some people are at the margin, and thus very small changes will have an effect. This effect multiplied times the very large number of voters with diffuse interests may be very substantial.7

Furthermore, one might expect that the other candidate would inform the voters that the first candidate was in favor of special interests. In this regard, Kingdon's (1989) book on congressmen's voting decisions is insightful. He interviewed congressmen after roll-call votes and discovered that they regularly adjusted their votes in ways designed to forestall electoral problems. When one congressman was asked whether anyone in his district would notice his vote, the congressman replied: “No, I know that nobody will notice it right now. People never do. But it may be used against you in the next campaign. I learned that lesson in my first

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6 But, as we will argue later, candidates always have the incentive to provide efficient policies over inefficient ones.

7 There is also an inherent logical problem that occurs if minorities have a natural advantage over larger groups--it is easy to make a group smaller, and everyone is a concentrated-interest minority of one.
campaign for reelection. About 5 days before election-day, they hauled out [some charge against me] because I cast a vote against some ridiculous District [of Columbia] bill. You see, most people don't notice it. But your opponent will comb down through every aspect of your record, every vote you've ever cast, looking for dirt and using it.” (Kingdon 1989, 60).

Even if voters are not particularly interested in any particular government regulation, a candidate might run on a policy of abolishing a whole slew of regulations as Reagan did. While one might argue that the loss to a consumer-voter from any particular regulation was small, the overall effect was quite large.

Turning to the second strand of the argument. It is true that consumers are unlikely to go to Washington to lobby their representatives against some form of legislation that hurts them only in very minor way. But they don’t have to go to Washington to influence policy. All they have to do is vote against the incumbent who has voted against their interests. And while virtually no voter pays attention to what his/her representative has been doing in Washington, there is one very important person who has – the challenger. And, as the Kingdon quote shows, the challenger will bring out every misdeed (real or imagined) to the attention of the voters.

In a nutshell, the authors quoted above have only a very partial model of the political process. Their major omission is considering the competitive process of elections, which is rather strange if you are trying to analyze democratic politics. We will come back to the issue of competition later.

4. PORK BARREL POLITICS AND SPECIAL INTEREST COMMITTEES

One does not have to search far to find complaints about Congress. Scholars have placed the blame on two interrelated structural aspects: Congressmen represent individual districts and committees represent special interests. The result is pork-barrel politics and special-interest legislation. In this section, I consider each of these in turn.

Special interests may form along geographical lines. Voters in corn producing states (even if they are not farmers) will be interested in promoting the use of Ethanol, either through

8 This omission is not confined to economists (as the inclusion of Mosca suggests). Political sociologists have been known to ignore elections also. See how much discussion of elections you can find in Alford and Friedland (1985), Domhoff (2005), and other tomes on political sociology.
direct subsidies or through regulation. And, in general, voters in each state will be interested in promoting pork-barrel projects within their state. Representatives will want to promote those expenditures that benefit their constituents and are paid for by voters in other legislative districts, even if the benefit to their district does not outweigh the cost to other districts. So we have a rational choice explanation for the demand for pork-barrel projects. But why would other districts want to pay for these wasteful pork-barrel policies?

Let us see how the rational choice literature answers this question. Shepsle and Weingast (1981) assume that voters in a congressional district respond positively to pork-barrel expenditures in their own district but not negatively to wasteful pork in other districts. As a result, Congress funds wasteful projects in a majority of districts. The reason Shepsle and Weingast give for voters not responding negatively to pork spent in other districts is that voters are unaware of what is going on in other districts. Their model implicitly assumes that voters underestimate rather than overestimate the amount of wasteful expenditures in other districts. That is, their model assumes that lack of information leads to biased beliefs in one direction. But Shepsle and Weingast present neither a theoretical explanation nor empirical evidence to justify this claim. So their model implicitly violates the assumption that individuals have rational expectations. Without this irrationality assumption, their model would not predict wasteful pork barrel expenditures.

We now turn our attention to the committee structure. An extensive literature views congressional committees as centers of power and the prime source for political-market failure. The logic proceeds as follows: Many committees represent special interests. The senate agricultural committee has members from agricultural states and generally represents the interests of agriculture; the armed services committee is often composed of senators from states where large defense expenditures take place, and in general these senators are supporters of the armed services. And the same goes for other specialized committees. So it is not at all surprising that these committees would send to the floor special interest legislation. 

In general, blaming congress for wasteful policies seems to be misguided for the following reasons: It is congress that decides the structure of congress. We would not expect its

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9 For McConnell (1970) and Lowi (1979) committees are part of the "iron triangle" of interest group liberalism, pork-barrel politics, and policy reciprocity. See Shepsle and Weingast (1991) for a more positive view.
members to design a harmful committee structure. And given the committee structure, one would expect its members to bargain over policy so as to exclude negative-sum outcomes. This is just a public sector application of Coase (1960), who showed that when transaction costs are low, bargaining could overcome wasteful activity and achieve an efficient outcome in the private sector. Furthermore, political parties are organized to increase the likelihood of election and reelection of their candidates. Political parties do not win elections by implementing inefficient policies that make those who voted for the party worse off. Indeed, inefficient policies never make sense, because by definition of inefficiency there exists another policy that makes someone better off without making anyone worse off. Because each party wants to get as many votes as possible, the parties will strive for the most efficient policies possible.

I will now show how political parties exert control over the special interest committees. An important method of party control is to make transfers to major committees partially dependent on past behavior on minor committees. Those who have voted with the leadership on key votes in the past are rewarded with choice reassignments. More important committees also have a greater percentage of members from the majority party, thereby controlling for the possibility of defection. While Congress has a committee structure that could be seen as representing special interests, it also has control committees such as Budget and Appropriations that oversee the more specialized committees. Parties are very careful in choosing members on control committees to reflect the preferences of the median congressperson in the party, thereby controlling for the possibility of opportunism when the goals of the agent and the principal coincide.

Even after committees have been set up, Congress has considerable power over them. The House

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10 Logrolling is a common method of exchanging rights in legislatures. Although logrolling is often seen in a negative light, it, in fact, allows for Pareto improving trades. Politicians create efficiency enhancing bundles of policies. Without trades (either in the legislature or in the private sector), resources would not go to their highest use. Hillman’s 1989 book on the political economy of trade protection explicitly assumes away the possibility of such efficiency enhancing trades. So it should not be at all surprising that he finds that trade policy will be inefficient. He should be commended for being explicit in this regard.

11 Empirical support is found in Coker and Crain (1992), who show that House members who have demonstrated more loyalty to the party leaders by voting in agreement with their positions in the past are more likely to obtain assignments on important committees (see also Cox and McCubbins, 1990).

12 See Cox and McCubbins (1989), who show that these control committees (universal, in their terms) are more representative of Congress than special committees, such as agriculture.
can shift jurisdictions of committees, refer certain bills to several committees, and impose procedural rules (for example, minority members can choose witnesses). In the Senate, each senator has the right to propose riders for most legislation under an open-amendment rule, thereby undermining the power of special committees to influence legislation.

In a nutshell, the power of special-interest committees has been exaggerated because Congress and the majority party design the committee system, influence the staffing of committees, make the special interest committees subservient to the gate-keeping committees, and allow for changes to legislation from the floor.

Understanding of committee structure is enhanced by looking at the analogous structure for firms. Firms are not unorganized amorphous blobs. Rather, divisions are created within firms to deal with specific issues. A structure, not ad hoc arrangements, is imposed. The structure facilitates comparative advantage and reduces transaction costs. The upper layers of management provide general direction to the lower levels and deal with the occasional conflicts between departments. Congress is structured in the same way. Specialized committees deal with specialized concerns, which facilitate trades among the people within the committee and even between committees. Overall direction is given by the party leadership. It is hard to imagine an effective Congress without a committee structure very similar to the existing one.

5. POLITICIANS TRADE OFF GOOD POLICY FOR CAMPAIGN DONATIONS

I will start with the intuition and then, in the following subsections, fill in the ideas in a more careful manner. Just about everyone “knows” that candidates grant special favors to special interests in return for campaign donations that in turn are used for political advertising. And presumably, the more the special interests donate, the more the candidates will bend to their wishes if elected to office. But this standard explanation for the power of special interests makes no sense if voters are rational. If everyone knows that politicians trade off good policy in return for advertising money, then rational voters will vote against the candidate doing the most advertising (which is easy to monitor – just see which candidate has the most campaign adds on TV). So either voters are irrational and they respond positively to political advertising or voters are rational and the view that candidates trade off good policy for donations from special interest groups is wrong.
Let us consider the role of pressure groups when voters are rational. Campaign advertising is informative. It tells which candidate is more in favor of abortion, gun control, etc. This allows uninformed voters to become more informed. Special interests provide this information if they think that the otherwise uninformed voters have preferences on average closer to their own interests than informed voters have. So campaign donations by special interests move the outcome from the median of the informed voter to the median over all voters. Under this scenario, voters are rational and special interests aid the political process, not hinder it. We will now turn to a more detailed discussion.

A. The Downsian model

Let us start with the standard Downsian model. In this model, candidates are only interested in winning the election and therefore both candidates try to appeal to the median voter. But what is meant by the phrase, median voter? Downs postulated that the most preferred positions of the voters can be arrayed along a single continuum as in Figure 1 (page after next). Voters have single-peaked preferences -- the closer a position is to a voter’s preferred position, the happier the voter is. We also assume that voters’ utility functions are concave so that they are risk averse. Candidates R and D are assumed to maximize the expected number of votes that they will receive. Under such conditions, both candidates will choose policies at the median voter’s most preferred position (Position M in Figure 1). The logic is as follows. If both candidates are at position M, then both candidates will expect to gain 3.5 votes and have a 50% chance of winning. If one of the candidates moves to the left, then a majority of voters will prefer the candidate that has stayed at the median (all of those voters at the median or to the right of the median). So, the candidate moving left will have 3 or fewer votes and lose with certainty. Because the candidate wants to maximize the expected number of voters, this will not happen. By the same logic, neither candidate will want to move to the right of the median. This is the essence of the median voter theorem.\(^\text{13}\)

\(^\text{13}\) Political issues may be multidimensional rather than unidimensional. Unfortunately, dealing with multidimensionality requires a much more technical presentation. For surveys of the research on spatial models, see Enelow and Hinich (1984) and Duggan (2006).
Next let us introduce uninformed voters. Uninformed voters are labeled U and informed voters are labeled I. Uninformed voters know their own most preferred position, but not the positions of the candidates. I have drawn in a very extreme case where the uninformed are all to the left, but they could be all to the right or evenly distributed across the spectrum of preferences. Let us assume that, in the absence of information about the candidates, the uninformed either abstain or vote for each candidate with probability one half. It is easy to see the candidates will pay no attention to the uninformed voters in this case as the candidates’ positions do not influence the votes of the uninformed. That is, once again the candidates will be at the median of the informed voters, $M_I$.

This result holds quite generally. To see this, suppose that half the time an uninformed voter votes correctly and the other half of the time the voter abstains (so the uninformed voter is informed half the time). This is more or less equivalent to saying that three of the uninformed voters have become informed. As a result, both candidates will move to the left to $M^*$ (where there are 4 “informed” voters to each side of $M^*$). Furthermore, if the uninformed become perfectly informed, then the candidates will move to $M_{I+U}$ (where there are 6 informed voters to each side of $M_{I+U}$). This is a very important result. It says, that other things being equal, the more informed a voter is, the more the candidates will cater to the voter’s interests.

Now it is possible that pressure groups are composed of relatively informed people, possibly because they get information from their pressure group’s publications (e.g., AARP provides political information to its members). If that is the case, then we do have a reasonable explanation for the relative success of pressure groups – their members are more informed (Lohmann, 1998). But the standard explanation for pressure groups being more influential is that their interests in legislation is concentrated while the interests of the voters on the other side is diffuse. And, as we have shown in section 3, this is not a good explanation because other things are not equal. In particular, the size of the pressure group is much smaller than the diffuse group.
There are 7 voters arranged on a left-right continuum. For convenience, the voters are numbered from left to right. Note that both voters 2 and 3 have the same preferred position. Both R and D will be at M, the median position.

M_I is the median of the informed voters.
M_{I+U} is the median over all voters, both informed and uninformed.
FIGURE 3: Uninformed voters with perfect political advertising

<table>
<thead>
<tr>
<th>U₁</th>
<th>U₃</th>
<th>U₅</th>
<th>I₂</th>
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<td>U₂</td>
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<td>L</td>
<td>M₁⁺U</td>
<td>M₁</td>
<td>R</td>
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Because of political advertising, all 6 the uninformed plus informed voter I₇ will vote for R. If D maximizes the expected number of votes, then D’s best strategy is to be at I₆ as then informed voters 1-6 will vote for D. If D were to remain at M₁, then I₆ would vote for R instead of D. While if D were to choose R, then D’s expected number of votes would be 3.5.
B. The role of political advertising

As already noted, the chief explanation for caving into special interests is to get campaign donations that will be used for political advertising which in turn increases the likelihood that the candidate will win the election. Most political economy models do not delve into how this actually works. Perhaps the people who employed these models believe that the relationship is so obvious that it does not need explaining. So the work of Grossman and Helpman (1999) is an important step in trying to connect the dots between donations and winning the election. But, as we will see, they had to implicitly assume that voters are irrational.

Their model is very complex, but I believe that I can simplify it without distorting the underlying argument. In addition to the assumptions we have already made about the candidates and the voters, they make the following assumptions: (1) Uninformed voters respond positively to the amount spent by the candidate on political advertising; in particular, the more money spent by the candidate relative to the other candidate, the greater the share of votes the candidate will receive from uninformed voters. (2) If the candidates spend the same amount on political advertising, they will each get 50% of the uninformed vote. In this case, to make the logic simpler, I will assume that at most one candidate undertakes political advertising. The pressure group, which I will assume is on the right, makes a one-time take-it-or-leave-it offer to one of the candidates: If the candidate moves right from the median voter, then the pressure group will provide sufficient money to convince more uninformed voters to vote for the candidate than the candidate loses in informed voters when it moves right.14

Given the assumptions, the results are obvious. The candidate will accept the offer, move right from the median, and win the election.15 All of this is illustrated in figure 3 where the pressure group has donated enough money for advertising so that all 6 of the uninformed voters will vote for R. In return for this money, candidate R has agreed to be at the most preferred position of informed voter number 7. In this way, R will do better than if R had not accepted the

14 The assumption that the pressure group makes the offer rather than the candidates make an offer, vastly increases the power of the pressure group. I find the former characterization to be less realistic than the latter characterization, but it does not make that much difference given the way that we have modeled the election.
15 In their model, the analysis is in terms of probabilities.
offer (and the situation was the one drawn in Figure 2). If D chooses the same position as R, then D will get on average 3.5 votes from the 7 informed, while R will also get on average 3.5 votes from the informed and 6 votes from the uninformed; if D chooses to be at the most preferred position of informed voter number 6, then D will get 6 votes from the informed and R will get 7 in total; if D were to remain at the median, informed voter number 6 would then vote for R; so D would only get 5 votes from the informed voters.

The diagram illustrates an immediate problem with the assumption that uninformed voters vote for the candidate who undertakes the most political advertising. They can be made worse off. Of course in the particular case, they do not know it, because they do not know whether the candidates are on the left or the right. But, as I will now show, the uninformed voters should be able to infer that voting for candidate doing more political advertising will on average make the uninformed voter worse off.

In the G&H model, the uninformed voters are truly uninformed. They do not know whether the pressure group is on the right or the left or which candidate is to the right or the left. However, if they are rationally uninformed they understand the model and act accordingly. That is what is meant by rationality. As we can see, the candidate that is not doing the advertising (or more generally, the candidate with less advertising) will be closer to the median informed voter. If the candidates are to the right of the median informed voter, then the candidate doing the advertising will be the candidate to the right; and if the candidates are to the left of the median informed voter, then the candidate doing the advertising will be to the left (these are the only two possible outcomes if the pressure group donates money for political advertising). This means that the candidate doing the advertising is riskier for all uninformed voters. Furthermore, those uninformed voters near the median informed voter will on average be closer to the candidate not advertising (but the reverse does not hold for any of the other uninformed voters; that is, for no uninformed voter is the expected distance of the candidate doing the advertising closer than the expected distance for the candidate not doing the advertising). So rational uninformed voters will vote for the candidate not doing the advertising (contrary to the assumption of the G&H model).

While all of the rest of the participants (candidates, informed voters, and the pressure group) are assumed to act rationally, the behavior of the uninformed is treated functionally (more political advertising leads to more uninformed voters voting for the candidate doing the advertising). I have shown that this implies that uninformed voters are irrational. G&H do not
explicitly state that the uninformed voters are acting irrationally nor do they argue that voters are irrational in this way. It is just built into their model in a non-obvious manner. I want to emphasize that the authors are not being disingenuous or being at all dishonest. They are modeling functional behavior in a reasonable way. After all, there must be a positive relation between money spent on advertising and votes; otherwise, why spend money on advertising.

It is conceivable (especially if you are not an economist) that uninformed voters are irrational and respond positively to political advertising even though it makes them worse off. But the evidence seems to be to the contrary. As we will show below, political advertising results in voters making choices more congruent with their pre-existing preferences. We will now turn to the most controversial part of this essay.

C Informative Political Advertising

So let us model political advertising as being informative.\textsuperscript{16} Realistically, the information is likely to be sparse. The information might be limited to identifying which candidate is endorsed by a particular pressure group say the NRA, NAACP, etc. As long as the uninformed voter knows where the pressure group stands, this will be enough information for the uninformed voter to determine the relative positions of the candidates and to vote effectively.

Essentially uniformed voters who are closer to the NRA than what they perceive as the average voter’s preference will vote for the candidate endorsed by the NRA and those farther away from the NRA than the average voter will vote against the candidate endorsed by the NRA. Hence, if the uninformed voters are on average closer to the NRA than the informed voters are and there are enough uninformed voters, then the candidate will willingly be endorsed by the NRA and win the election. So the pressure group endorsement and donations help shift the outcome from the median informed voter to the median overall. Of course, if the opposite is the case, the NRA will want to avoid the election and turn it resources elsewhere. In a nutshell, donations by pressure groups are used to provide political information to uninformed votes, whose preferences may not coincide with informed voters. So pressure groups aid the political process rather than hinder it.

\textsuperscript{16} For a more formal analysis, see Wittman (Forthcoming); for the role of pressure groups when candidates differ in quality, see Wittman (2007).
Statistical evidence corroborating the use of endorsements is found in Lupia (1994), who showed that voter choice on five ballot measures to reform insurance in California was strongly dependent on knowledge of the positions of various interest groups on the measures. Lupia identified fifteen organizations that took positions on one or more of the five measures. These organizations included the California Trial Lawyers Association, the insurance industry, Ralph Nader, and the Friends of Motorcycling. The first two organizations tried to hide their sponsorship and advertised themselves as pro-consumer or pro-citizen, as did all the other organizations. Despite the fact that there were five complex measures on the ballot and that some organizations tried to hide their true identity, many of those who were otherwise very poorly informed about the substance of the ballot measures were able to correctly identify the positions of the various interest groups and then make the same choice that they would have made if they had been fully informed.

Looking at over 1400 voters in the US 2000 election, Freedman et al. (2004) showed that political advertising increased political knowledge of the candidates. Gelman and King (1993), Finkel (1993) and Iyengar and Simon (2000) showed that campaigns, by increasing the amount of relevant political information available to voters, help citizens cast votes in line with their pre-existing attitudes and proclivities. Arceneaux (2005), using cross-national survey data, showed that campaigns ‘enlighten’ voters as the election draws near. This effect was particularly noticeable for politically unsophisticated individuals (uninformed voters) who used campaigns to learn which party matched them ideologically. Rather than persuading voters to change their minds, as a model of voter irrationality would predict, this research suggests that campaigns help voters (particularly uninformed voters) to gain information for making up their minds.

6 COMPETITION

Economists believe in competition in the market place, much more than other social scientists do. But when it comes to the political sphere, many economists, particularly those who believe very strongly in the competitive nature of economic markets and their good effects, see
only monopoly power.\textsuperscript{17} In economic markets, monopolies (without potential competitors and without the ability to engage in multiple pricing) are inefficient. It is therefore not surprising that monopoly models of government also lead to bad results. Some of the most influential papers in political economy ignore the fact that in democracies there is competition for electoral office. For example Brennan and Buchanan (1980) have a model where government behavior is not at all constrained by the need to be elected or re-elected to office. Democratic politics is missing – the government just maximizes tax revenue. Along the same lines, neither Tullock’s 1967 paper nor Krueger’s 1974 paper on political rent-seeking incorporates electoral competition. And the same holds true for Peltzman’s 1976 paper on the political economy of regulation.

Competition is not restricted to elections. In federal systems, competition takes place within and across government levels. There is competition between cities and between states. People and businesses choose to locate where their consumer and producer surpluses are maximized. Those cities and states that provide better government will attract more residents (Tiebout, 1956). There is also competition between city, state, and federal governments (Breton, 1996). Citizens choose the arenas where their preferences can be best satisfied. Often one sector has a clear comparative advantage: cities are better at deciding school location, and federal governments are better at deciding defense expenditures. But there are many times when the appropriate arena is not so obvious and the various levels of government are in competition with each other. Finally, there is competition between these governments and other institutions, such as religious organizations, unions, corporations, and families in trying to satisfy consumer demands.

Competition is like water held in a sieve. To argue that competition does not exist because it is absent somewhere is like saying water is not leaking because one of the holes in the sieve is plugged. So beware of monopoly models of government; they are likely to be highly misleading.

\section*{7. IRRATIONALITY}

\textsuperscript{17} Examples include Friedman and Friedman (quoted earlier) and some of the people cited in the remainder of this paragraph.
Could voters be irrational? Psychologists, sociologists, and even some behavioral economists suggest that people are irrational. Caplan (2006) compares voters’ beliefs to economist beliefs and argues that when there is a disagreement, this is evidence that voters are not rational. As a social scientist, I must allow for the possibility that voters are irrational. I cannot just assume it away. Nevertheless, I am very skeptical regarding its use in answering political issues. There are just too many ways that people can be irrational. We have covered two ways of being irrational here: (1) Voters may systematically underestimate the cost of pork-barrel projects; and (2) uninformed voters may respond positively to political advertising even if the candidate’s policy is expected to be worse for the voter than the other candidate’s policy. Caplan highlights three sources of voter irrationality: (1) anti-market bias; (2) anti-foreign bias; and (3) pessimistic bias. While those in social-psychology highlight other biases such as: (1) confirmatory bias; and (2) bias in favor of tall candidates. The list is endless (perhaps some people even have an irrational fear of pressure groups) and who knows, under what conditions, which set of biases are the most influential. There are just too many degrees of freedom and neither evolutionary psychology nor empirical studies has been able to narrow the list sufficiently. As a consequence, irrationality serves either as an ad hoc explanation for the unexplained variation in rational explanations of voter behavior or as an easy excuse for why the majority does not agree with me (whoever the me is).

And most important, we have plenty of results demonstrating rational behavior. People who are pro-abortion are more likely than people who are anti-abortion to vote for pro-abortion candidates; African-Americans, who have a larger proportion of people on welfare, tend to be in favor of more liberal welfare policies than European-Americans are; and individuals from corn growing states, in comparison to those in other states, are more likely to support legislation in favor of ethanol. The list could go on and on.

8. CONCLUDING REMARKS

This is not to imply that all voters vote their pocket book, but rather to demonstrate that assuming that voters are rational yields predictable results.
Special interest groups have been viewed as the source of democratic failure by the left, right, and middle. But the evidence for this view is often pre-selected and the explanations tend to be ad hoc. Economic models that have tried to explain the power of special interest groups have generally been able to do so only by violating standard economic assumptions. Once the standard economic assumptions are engaged, the models show that special interests aid the democratic process rather than hinder it.
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