

Interest Groups: A Survey of Public Choice Thinking

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Research on interest groups goes back at least to Cicero. He distinguished parties (*partes*) from factions (*factio*). A faction worked in its own interests whereas a party sought to discover the common good. Since then only the details of inquiry into interest groups have changed. Two thousand years on, the question of what political systems promote good interest groups still excites and maddens researchers. Thinking on this question sputtered until Montesquieu and later Madison explained how government institutions could be structured to limit the power of factions. Madison, in his #10 Federalist paper, argued that factions could be contained by dividing power between competing branches of government and by encouraging factions to be numerous so none would come to dominate government.

The greatest minds in political economy have focused on interest groups in order to understand how power flows, just as Boltzman and the atomists of the mid-19th century focused on the atom as a mental device for understanding thermodynamics. De Tocqueville, Marx, Toynbee, Orwell; the names go off like cannons. These thinkers sought to build a science of power, but their writings as those of most political sages of this century are descriptive. Their attempts at generalization are either too grand or dotted with exceptions. The leap from musings to science took place in the 1940's and 50's with the work of Duncan Black (1958). Black drew on the writings of these earlier greats to propose the first formal model of how interest groups rise to power. His median voter model is simple but was a base from which to formulate testable hypotheses about how interest groups work.

Black's median voter model suggested that in a democracy, provided the preferences of voters over policy alternatives are ordered in a special way known as single-peaked, power will go to the median voter. The first tests of the Black model had to wait thirty years until studies such as those of Pommerehne and Frey (1976) began to see whether median income determined government spending better than mean income in both direct democracy and representative democracy. Theirs and similar studies that followed seem

to vindicate the median voter view of policy-making but suffer from being joint tests of political equilibrium and the hypothesis that power flows to the median voter. If the median voter model is false, it is possible that positive results are due to a political disequilibrium.

The median voter model does not try to explain how interest groups wield power. Black was almost silent on the machinations of special interest groups and preferred to study the machinations of committees. His model rather is like the Modigliani-Miller theorem of corporate finance; a model we know to not describe reality perfectly but which frames our questions on what is missing from our understanding. Insights about the power of interest groups comes from noting “frictions” in political systems that lead politicians to deviate from the interests of the median voter. Noting what causes the deviation between median interests and politician behaviour is crucial to understanding the circumstances under which a special interest group (Cicero’s *factio*) will have the whip hand over a public interest group. Can voters be consistently fooled? Are preferences single or many-peaked and so are laws subject to agenda control? Can politicians create artificial barriers to the entry of competing parties and ideas coming from public interest groups? Do special interest groups benefit from a built-in technological advantage that allows them to push their ideas ahead of others? An affirmative answer to these questions will tilt power to the side of special interests.

Knowing when power will tilt to the side of special interests has fascinated researchers because a political system that serves special interests will forgo the benefits of government projects and institutions that work in the public good. Public goods benefit everyone and are a sort of cauldron from which emerges economic growth. In *Plagues and Peoples* William H. McNeil (1976) argued that parasitism by special interests is similar to parasitism by microorganisms. Predation by the large and the small undermine cooperation and fruitful public ventures and so are forces of entropy. A society which wishes to increase its wealth must find ways either to eliminate the predators or coax them into a symbiotic union with the host of people who amass resources and so combat entropy. McNeill sees democracy as a late step in the evolution of economic predators

and prey in which the parasitical overhead, or political profits that people pay for their public goods is on a downward curve greased by political competition in orderly elections.

Before we can accept McNeill's grand vision of interest group evolution we need to know the parameters that egg on interest groups. Mancur Olson (1965) used a mix of old-fashioned political economy, journalistic inquiry, and public choice insight in his investigation of collective action to argue that interest groups which have low costs of containing free riders in their ranks will have an advantage over interest groups who cannot control free riders. Political scientists took up this insight but it lay dormant in the *Public Choice* field until George Stigler reanimated it in 1971 in testable form. Stigler batted on the hypothesis that groups whose interests were concentrated would be better able to influence government than groups whose interests were diffuse. In his empirical explorations he used this hypothesis to guide him in his finding that the main beneficiaries of regulation in the consumer interest were not consumers but the regulated firms. Samuel Peltzman (1976) put Stigler's argument in maths by saying that regulators, or political brokers, maximize a value function (most often interpreted as votes gained) into which enter positively the utilities of consumers and of the predatory producers who seek through regulation to extort wealth from these consumers. Political middlemen redistribute income between the two groups to the point where the marginal loss in votes from consumers equaled the marginal gain in votes from producers.

Peltzman's article came to be one of the most cited articles in economics but its weakness was in assuming that the tradeoff between consumer and producer interests was linear. Gary Becker grafted onto Peltzman's model the insight that an interest group which preys on another is like a pickpocket. The thief damages his victim by stealing money and by forcing the victim to dash about replacing credit and identity cards. More technically the interest group harms its victim by taking money and by imposing deadweight losses. Becker's insight was to recognize that deadweight losses put an exponential break on predation. He took Harberger's insight that deadweight losses are proportional to the square of the tax, and used it to argue that a linear increase in takings by a predatory

interest group will provoke a non-linear increase in the deadweight losses its victim suffers. These rapidly increasing losses will prod victims to invest equivalent sums in resisting attempts on their wealth. The advance of predators, fueled by linear incentives slows before the stiffening resistance of prey outraged by non-linear damages.

Becker's model has been seen by some as implying that politics are efficient because deadweight losses are a break to predation. This conclusion has weight if we hold constant all other forces that influence political outcomes and the conclusion fits neatly into McNeill's hypothesis that virulent predators evolve into benign symbiotes, but the conclusion comes from a partial reading of Becker's model. The outcome of a contest between interest groups depends also on combatant's political savvy. Groups with the gift of intrigue, or with more guns, can laugh at deadweight losses and impose their will for generations, as the sad example of African dictatorships shows. Palda (1997) has shown that there can be gaping contradictions in the fiscal policies of democracies, as in the case where governments churn their finances by transferring money to someone and taxing that money back, and Rowley and Vachris have given a thorough account of the frictions and problems inherent in evolving towards an efficient democracy. To date no one has traced the path by which political efficiency can evolve. Perhaps the best hope for such an understanding will be to carry over to public choice Thomas Ray's (1992) computer simulation (the Tierra model) of the evolution of parasites and prey by grafting some measure of the deadweight loss of government and see how this deadweight loss will evolve under different political rules.

Becker's analysis is so general that its hull can fit around just about any sort of relation between interest groups. The model applies as well to dictatorships as it does to democracies. What is remarkable is that what some may see as a Dr. Seuss version of political modeling can make powerful testable predictions about interest groups. In a paper with Casey Mulligan (1998) Becker found that governments with efficient tax systems that impose small deadweight losses per dollar raised tend to be larger than governments with inefficient tax systems. This finding is indirect confirmation of theoretical musings which have tried to weld interest groups to the median voter model.

Austen-Smith's (1987) model of interest group influence grew out of the theoretical poverty of service-induced campaign contribution models of interest groups. These earlier models were intellectual islands lying outside the Stigler-Peltzman-Becker view of politics and the Black median voter model, and saw interest groups as moustache-twirling capitalists who could buy government protection for their businesses and pet concerns with election campaign contributions. Policy played no role in the success of politicians. Empirical work by Snyder (1990) gave feeble support to this caricature.

Austen-Smith's path breaking work set out a theoretical model of policy in which interest groups can only buy influence contrary to the public interest by exploiting the public's ignorance of where politicians stand. Politicians serve two masters: voters who have preferences for a public good and special interest groups who help politicians communicate with voters for a price paid in government favours. The conclusion that comes out of Austen-Smith's model is that policy tends towards the median voter's wishes, but deviates from that tendency the greater is voter ignorance. The greater this ignorance the more can special interests sup at the public's cost. Voter ignorance in the Becker model is a function of self-interest. Special interests and their political middlemen who impose large deadweight losses on voters give voters a reason to become informed about policy and so to resist the inefficient growth of government. Becker's finding that efficient tax systems dovetail with large governments could be seen as a manifestation of political systems where efficient tax policies lull voters and allow politicians and their supporting special interests to coast like pilot fish dragging on the skins of productive citizens.

Austen-Smith (1997) believes that the modeling of interest group behaviour is in its early stages and that because we know so little about the path by which information comes to voters and resounds with them that "there is little hope of saying anything normative about whether any induced influence over policy is good or bad." This is a backhand at what is perhaps one of the most surprising and original contributions of public choice to

the understanding of what drives interest groups and whether their activities are productive; the theory of rent-seeking.

Rent-seeking is a term that evokes images of landlords shaking down tenants for a few coppers. Such imagery is unfortunate because it cuts off policymakers and the public from seeing the dangers of a political system that encourages pie-cutters above pie makers. The Holy Grail of rent-seeking research is to discover whether in the contest for government favours interest groups together spend as much or more than the prize being sought. The work of Reinganum (1982) into patent races and the huge literature in tournament theory which Lazear and Rosen (1979) spawned show that concern about whether disputes over resources destroy those resources are not restricted to the public choice field.

The rent-seeking literature takes as its basic tool a power function popularized by Tullock (1980). This “logistic power function” states that the probability a group wins government influence over other groups depends on how much it spends relative to those groups and on a parameter called political talent which translates expenditure into political success. The logistic power function is to public choice what the Cobb-Douglas function is to microeconomics: a simple, intuitive, function consistent with many different micro-formulations of power.

Rent-seeking theory says little about inner workings of interest groups. Rent-seeking theory describes the efforts interest groups will invest in forming policy given a certain reward from government, given the rules for obtaining that reward, and given how politically astute are these groups. If competing groups are of similar political skill they will each believe themselves close to the government prize. In their striving they may dissipate all or even more than all the value of the favour government has to grant. This is both a positive and normative insight. Empirical work can proceed by looking at circumstances where politicians have the discretion to grant favours and seeing whether special interest groups are particularly active in such areas. Discretion fuels the hope of interests groups that by spending money to influence government the dice of power will

roll their way. Here, for the first time in thousands of years of political research is a formal proof that political discretion carries with it a cost.

Austen-Smith's finding that voters who are informed about the public good can put a break on the activities of special interest groups gives punch to rent-seeking research. Political systems that constrain the power of politician to place artificial barriers to the flow of information such as campaign spending limits, centralized finances which discourage local governmental experiments, and a refusal to allow direct democracy, are political systems which will allow voters to become informed about the public good and will reduce the dissipative activities of special interest groups.

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