

WHO CAN ORGANIZE RESOURCES:
CONCENTRATED VS DIFFUSE
INTERESTS

ORGANIZING RESOURCES FOR POWER

One way to wield power is to organize resources

- ▶ Lobbying
- ▶ Donations
- ▶ Get out the vote
- ▶ Protest

Societal groups that can better organize resources for politics will have more power

Policy will be distorted to over-represent such interests

CONCENTRATED AND DIFFUSE INTERESTS

Concentrated Interest: Small group of people each of whom cares a lot about an issue

Diffuse interests: Large group each of whom cares a little about an issue

CONCENTRATED VS DIFFUSE INTERESTS

Groups organizing for power have an externalities problem

Less severe for concentrated interests than for diffuse interests

Concentrated interests wield power disproportionate to their interests

We will explore this idea in a simple model of lobbying

OUTLINE

A MODEL OF LOBBYING

POLITICS AND CLIMATE CHANGE

HOUSING POLICY

A MODEL OF CONCENTRATED VS DIFFUSE INTERESTS

1 wealthy home owner and 2 poor citizens each decide whether to hire a lobbyist

Each person can hire at most one lobbyist at a cost c

If poor citizens hire $P \in \{0, 1, 2\}$ lobbyists and the wealthy citizen $W \in \{0, 1\}$, policymaker build affordable housing with probability

$$\frac{P}{P + W}$$

If no one lobbies, affordable housing built with probability $\frac{1}{2}$

POLICY PAYOFFS

For each poor citizen, the benefit of affordable housing is $B_P > 0$

For the wealthy citizen, the benefit of no affordable housing being built is $B_W > 0$

Wealthy citizen cares substantially more about housing than an individual poor citizen, but not more than both

$$\frac{3}{2} \cdot B_P < B_W < 2 \cdot B_P$$

UTILITARIAN OPTIMUM

If affordable housing, net benefit is $2 \cdot B_P$

If no affordable housing, net benefit is B_W

Utilitarian optimum is to build affordable housing

- ▶ Poor Citizens care more, in aggregate, than the wealthy citizen

POOR CITIZEN'S BEST RESPONSES

If wealthy and other poor lobby, lobby if:

$$\frac{2}{3} \cdot B_P - c \geq \frac{1}{2} \times B_P \iff \frac{1}{6} \cdot B_P \geq c$$

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If wealthy doesn't lobby and other poor does, don't lobby

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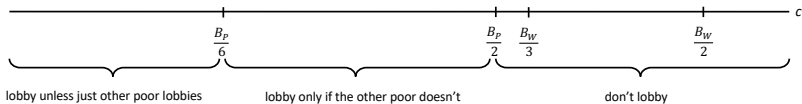
$$\frac{1}{2} \times B_P - c \geq 0 \iff \frac{1}{2} \cdot B_P \geq c$$

If wealthy doesn't lobby and other poor does, don't lobby

If no one else lobbies, lobby if:

$$B_P - c \geq \frac{1}{2} \cdot B_P \iff \frac{1}{2} \cdot B_P \geq c$$

POOR CITIZEN'S BEST RESPONSES



WEALTHY CITIZEN'S BEST RESPONSE

If both poor lobby, lobby if:

$$\frac{1}{3} \cdot B_W - c \geq 0 \iff \frac{1}{3} \cdot B_W \geq c$$

WEALTHY CITIZEN'S BEST RESPONSE

If both poor lobby, lobby if:

$$\frac{1}{3} \cdot B_W - c \geq 0 \iff \frac{1}{3} \cdot B_W \geq c$$

If one poor lobbies, lobby if:

$$\frac{1}{2} \cdot B_W - c \geq 0 \iff \frac{1}{2} \cdot B_W \geq c$$

WEALTHY CITIZEN'S BEST RESPONSE

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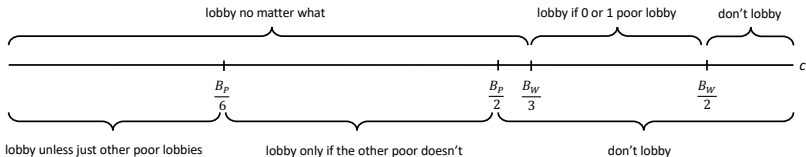
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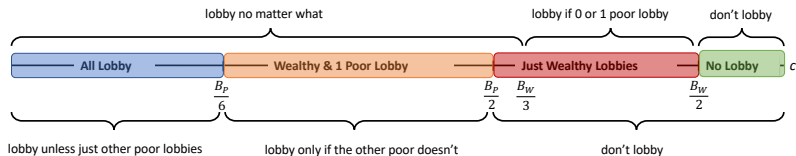
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WEALTHY CITIZEN'S BEST RESPONSES



EQUILIBRIUM



EQUILIBRIUM AND EFFICIENCY

Likelihood of utilitarian optimum winning is decreasing in c
(until no one lobbies)

- ▶ Low cost: $\frac{2}{3}$
- ▶ Medium Cost: $\frac{1}{2}$
- ▶ High Cost: 0

Wealthy citizen is better able to organize to wield political power, even though poor citizens care more in aggregate

WHY DO WE HAVE INEFFICIENT OUTCOMES?

Suppose cost is high enough that only wealthy lobbies

$$\frac{B_P}{2} < c < \frac{B_W}{2}$$

If poor citizens both lobbied, they'd each make

$$\frac{2}{3} \cdot B_P - c$$

For $\frac{B_P}{2} < c < \frac{2}{3} \cdot B_P$, poor citizens would be better off if they lobbied

Poor citizens don't lobby because they only think about private costs and benefits, not shared benefits

CONCENTRATED VS. DIFFUSE INTERESTS

Small group each of whom cares a lot about an issue
(**Concentrated Interest**) more powerful than large group
each of whom cares a little (**Diffuse interests**)

Diffuse interest is hampered by greater externalities
problems

This makes it hard to organize in support of even very
important issues

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CANONICAL SECOND BEST ANALYSIS

People don't internalize externalities from carbon use

We each use too much carbon

To mitigate climate change, need to increase price of carbon to reflect social cost

Two ideas for how to do carbon pricing

- ▶ Carbon tax
- ▶ Cap and trade

“A well-designed carbon price is an indispensable part of a strategy for reducing emissions in an effective and cost-efficient way”

“Carbon prices encourage producers to decrease the carbon intensity of the energy sector and manufactured products, and consumers to choose less carbon-intensive goods”

“Carbon pricing promotes innovation and incentivizes the generation of new ideas”



Stiglitz et al. (2017)

POLICY ANALYSTS PREFER TAX

An inflexible cap-and-trade program... would require too many reductions when the cost of achieving them was high and would mandate too few reductions when the cost was low.



Greg Mankiw

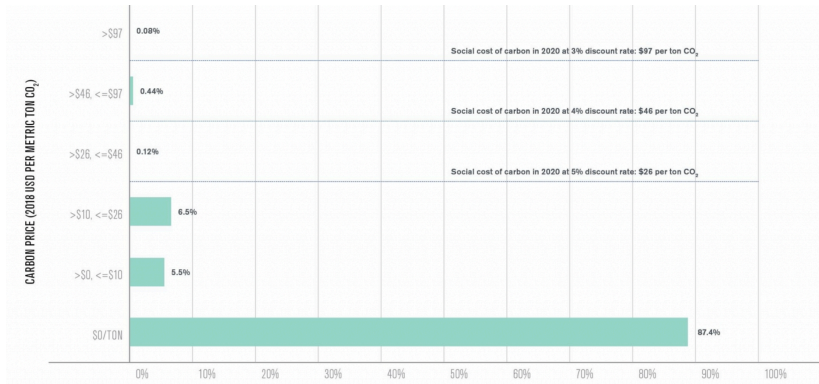
WHAT DO WE SEE?

There is no federal carbon tax or cap & trade

A few states have implemented cap & trade systems

But carbon pricing has not been a major part of climate change policy because the politics are terrible

PERCENT OF GREENHOUSE GASSES COVERED BY PIGOUVIAN TAX



CONCENTRATED INTERESTS AND CARBON PRICING

Benefits are **diffuse**, costs are **concentrated**

Fossil fuel firms and labor oppose carbon pricing

- ▶ But cap & trade can allocate permits to big polluters

Fossil fuel consuming firms oppose carbon pricing

- ▶ Those that can reduce emissions might benefit from cap & trade

Financial services industry benefits from cap & trade

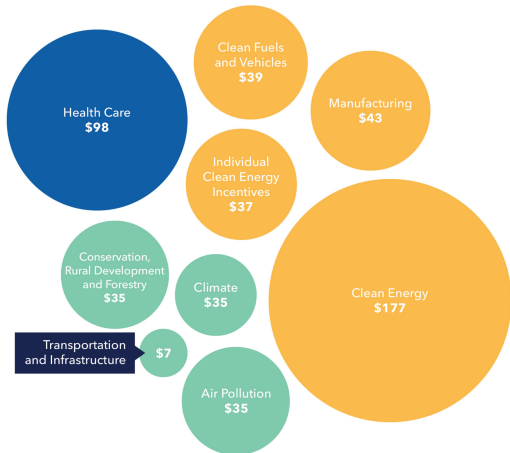
Cap & Trade is economically inferior, but politically more feasible

INFLATION REDUCTION ACT

Spending and Tax Cuts

Figures in billions over 10 years from 2022-2031

● Health Care ● Energy ● Climate



WHAT THE IRA DOES

Consumer incentives

- ▶ low emissions vehicles
- ▶ reduced household emissions

Business incentives

- ▶ Carbon capture
- ▶ Emissions free energy
- ▶ Energy infrastructure
- ▶ Clean manufacturing

Industrial policy

- ▶ Domestic production requirements
- ▶ Prevailing wage requirements

THE IRA'S BASIC TRADE-OFF

Rather than make carbon more expensive, subsidize clean energy and emissions reductions

Shifting cost of reducing emissions from households and businesses to diffuse tax base

Less economically efficient

- ▶ Choosing winners and losers among technologies
 - ▶ What if it chooses “wrong” technology?

More politically feasible

POLITICS OF SUBSIDIES

Carrots more attractive than sticks

Subsidizing concentrated interests

- ▶ Domestic industry
- ▶ Labor unions

Using tax code rather than grants to state and local government to avoid partisan conflict

- ▶ Compare to Medicaid expansion

POLITICS OF INDUSTRIAL POLICY

Long-run sustainability by creating **local concentrated interests**

- ▶ Domestic manufacturing and union/high-paid workers
- ▶ In red states
- ▶ Analog to placement of military bases

This also helps break apart concentrated opposition

- ▶ Decouples unions and some manufacturing from fossil fuel industry

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HOUSING POLICY

Housing in the Cities

House price distribution for major U.S. cities, 1989 and 1999

City	1989		1999	
	Units valued less than 90% of construction costs	Units valued greater than 140% of construction costs	Units valued less than 90% of construction costs	Units valued greater than 140% of construction costs
Albuquerque, N.M.	2%	82%	3%	83%
Anaheim, Calif.	0%	100%	0%	93%
Austin, Tex.	0%	46%	6%	71%
Baltimore, Md.	18%	41%	30%	27%
Chicago, Ill.	20%	28%	16%	44%
Columbus, Ohio	33%	18%	12%	29%
Dallas, Tex.	6%	56%	13%	47%
Denver, Colo.	4%	60%	8%	86%
Detroit, Mich.	85%	5%	54%	20%
El Paso, Tex.	5%	34%	2%	28%
Fort Worth, Tex.	12%	40%	26%	29%
Greensboro, N.C.	13%	59%	0%	69%
Houston, Tex.	25%	40%	25%	27%
Indianapolis, Ind.	25%	22%	24%	22%
Jacksonville, Fla.	8%	55%	11%	43%
Kansas City, Mo.	33%	9%	40%	12%
Las Vegas, Nev.	0%	29%	3%	45%
Little Rock, Ark.	9%	36%	8%	40%
Los Angeles, Calif.	2%	93%	4%	89%
Milwaukee, Wis.	32%	10%	27%	22%
Minneapolis, Minn.	22%	21%	20%	30%
Nashville-Davidson, Tenn.	2%	69%	5%	56%
New Orleans, La.	2%	49%	3%	57%
New York, N.Y.	4%	81%	11%	56%
Norfolk, Va.	1%	87%	2%	66%
Oklahoma City, Okla.	13%	30%	16%	41%
Omaha, Neb.	21%	15%	30%	21%
Philadelphia, Pa.	10%	52%	60%	16%
Phoenix, Ariz.	2%	69%	5%	65%
Raleigh, N.C.	6%	81%	2%	81%
Sacramento, Calif.	0%	55%	3%	72%
San Antonio, Tex.	12%	48%	30%	26%
San Diego, Calif.	7%	88%	3%	93%
San Francisco, Calif.	0%	97%	4%	96%
Seattle, Wash.	6%	49%	2%	86%
Tampa, Fla.	9%	43%	13%	49%
Toledo, Ohio	27%	16%	40%	23%
Tucson, Ariz.	6%	43%	4%	61%
Tulsa, Okla.	7%	36%	8%	38%
Wichita, Kans.	18%	21%	13%	48%

Source: Authors' calculations, derived from central city data contained in the American Housing Survey and construction costs from the R.S. Means Company.

THE HOUSING AFFORDABILITY PROBLEM

Country can be divided into three groups

Housing priced below cost of new construction

- ▶ central cities in the northeast and midwest

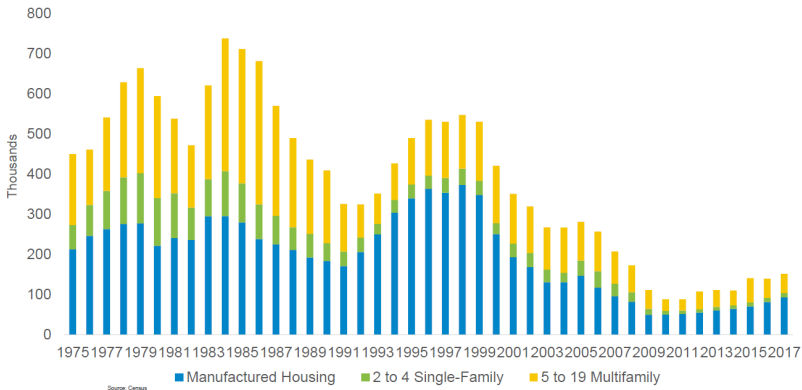
Housing priced near new construction costs

- ▶ much of the country

Housing priced way above new construction costs

- ▶ New York, CA, some western and southern states

New Supply of Traditionally Affordable Housing Segments Are Shrinking



Source: Census

WHY NOT BUILD?

Regulatory hurdles

- ▶ Environmental impact to block building
- ▶ Zoning requirements to prevent multi-unit housing

Legacy homeowners block regulator change

- ▶ Concentrated interest
- ▶ Empowered by institutions
- ▶ Significant influence over local politicians

DISCUSSION

What might be some elements of an effective policy strategy to address the housing crisis that takes seriously these political constraints?

TAKE AWAYS

Concentrated interests are better able to organize resources and wield political power than diffuse interests

This is because of an internal externalities problem

This distorts policy towards those favored by concentrated interests

Policy entrepreneurs seeking to solve problems need to find ways to work around or coopt concentrated interests