

Unit 4
Lesson 8
The Economics of Special Interest Groups

Introduction

Economics Special interest groups are able to have a substantial impact on the political system. Such groups can provide valuable services to individuals and to elected officials. They also can generate substantial benefits to a small minority while imposing a small cost on many other people. This can happen because the costs of a particular program may be spread widely. Voters may not notice the small increased cost to them and therefore may not take the time to study the matter in order to hold their elected officials more accountable.

Reasoning Elected officials, like other people, respond to incentives. Being re-elected is often an important incentive to government leaders. Re-election depends on earning votes, a scarce "good." This means that elected officials have a strong incentive to work on behalf of special interest groups that they think can be helpful in finding votes at the next election. This may occur even if the particular program they put into effect is economically inefficient.

Concepts

Interest group
Incentives

Instructional Objectives

Students will

1. Recognize the diverse nature of interest groups.
2. Identify the services provided by interest groups to individuals and to government leaders.
3. Analyze situations to identify how incentives might influence the behavior of public officials.

Lesson Description

Students learn about the diverse nature of interest groups and read examples of how incentives influence the actions of elected officials.

Time Required One class period

Materials

One transparency each of Visuals 4-8-1 and 4-8-2.
One copy for each student: Handout 4-8-1.

Procedure

1. Ask the students if they have sometimes wondered: Why don't politicians only pass laws that benefit the whole nation? Why do they sometimes pass programs that cost everyone but benefit only a few?

Explain that the purpose of this lesson is to consider the reasons why special interest groups are able to receive special favors from government leaders.

2. Tell the class that many individuals belong to special interest groups. Display Visual 4-8-1. Explain that this list shows just a few of the thousands of interest groups in the United States. For example, about 4800 organizations and individuals are registered as lobbyists in Washington, D.C.

3. Explain to the students that special interest groups often have a bad reputation. However, it may be true that special interest groups offer valuable services to society. Ask:

A. What incentives might interest groups offer to individuals?

- B. What advantages might interest groups offer to elected officials? Encourage many responses.
4. Display Visual 4-8-2, which mentions some reasons why elected officials and citizens may encourage the formation of interest groups.
5. Explain that there are times when the political process tends to work in favor of special interest groups, even when their programs are inefficient or work against the public interest.
6. Distribute Handout 4-8-1. Ask the students to read Part 1 about the problem in Twin Lakes. To help them analyze the problem, they should answer the questions at the end of the reading. Afterwards, ask:
- A. What is the problem facing the citizens of Twin Lakes?
(Danger of the Muskies moving.)
- B. What was the plan that local and state leaders in government, business, and labor had decided upon?
(To build a new stadium instead of the industrial park.)
- C. Why did the local and state leaders want help from the federal government?
(They needed an additional \$15 million.)
- D. Who will benefit from the construction of the new stadium?
(People in local and state business, labor, and government all will benefit. The members of Congress from the state will benefit if their constituents know they helped deliver the stadium.)
- E. Are people in other states and communities likely to derive much benefit from the construction of the new stadium?
(No, unless they visit Twin Lake or watch the Muskies on TV.)
- F. If you knew that your taxes would increase by a few cents so the people in Twin Lakes could have a stadium, would you protest the action to your members of Congress?
(No, it probably would not be worth your effort.)
- G. What do you predict will happen in this case?
(It is reasonable to think that Twin Lakes will get the federal money. In this case, the cost per taxpayer is small and is spread widely, while the benefits are great to the people in Twin Lakes. The large number of state and local voters involved provides a strong incentive for the members of Congress from the state to work hard to deliver the federal funds.)
7. Ask the students to read the examples in Part 2 and to identify the incentives in each case. Discuss the questions at the end of each section with the class. Suggested responses are provided below.
- A. The people in Los Angeles want federal funding to help pay for a modern subway system. Who will benefit from the construction of the new subway?
(Interest groups in Los Angeles, including labor, business, and government.)
- B. Will people in other states and communities derive much benefit?
(No, unless they visit Los Angeles and use the subway.)
- C. What do you predict will happen?
(There is a large number of voters, represented by the interest groups. They would benefit a great deal and the cost would be spread widely. All this suggests that the members of Congress from Los Angeles would work hard to obtain the necessary federal dollars.)

D. The people in Townsend, Wisconsin (population about 500) want a new federal dam and reservoir constructed. Who will benefit from the construction of the new dam and reservoir? (Business and labor interests in Townsend.)

E. Will people in other states and communities benefit? (No, unless they vacation there.)

F. What do you predict will happen? (It is likely that the effort will fail. Even though this project is of intense interest to groups in Townsend and the costs would be spread widely, the number of voters is so small that members of Congress would have little reason to work hard to deliver the federal funding.)

Closure

Conclude the lesson by reminding the students that incentives influence behavior. Interest groups form because they satisfy the wants of individual citizens and of people in government. However, at times, interest groups contribute to an incentive structure that results in the passage of inefficient economic policies.

Visual 4-8-1

Types of Interest Groups

Thousands of organizations can be considered as examples of special interest groups. The following is a brief sampling.

1. *Business and Corporations*

Gulf Oil Corporation
McDonald's
National Football League

2. *Labor Unions*

AFL-CIO
American Federation of Teachers
United Mine Workers

3. *Trade Associations*

U.S. Chamber of Commerce
American Gas Association
American Soybean Association
American Farm Bureau

4. *Professional Organizations*

American Medical Association
American Society of Personnel Administrators
National Council for the Social Studies

5. *Political Organizations*

National Organization for Women
National Association for the Advancement of Colored People
National Rifle Association
National Wildlife Association

Visual 4-8-2

Why do We Have Special Interest Groups?

Advantages to Elected Officials

Information: In every session of Congress, more than 20,000 pieces of legislation are introduced. The subjects vary widely: national defense, energy, environment, health, welfare, jobs, education and many others. Special interest groups provide officials with valuable information on complex issues.

Ideas: Special interest groups usually understand how complex issues will affect their members and others. They can often alert politicians to alternative solutions to complex problems.

Advantages to Citizens

Diverse Interests: Americans are diverse people, with many interests. There are over 85 different religions in the U.S., numerous ethnic groups, wealthy people, middle income people, poor people, and people who work in agriculture, manufacturing, education, health care, and many other fields. Establishing an organization is one way people can represent their particular interests to the broader society.

Government Related Interests: As the role of government has expanded, many Americans have found that government policy may directly affect them. For example, veterans' groups are directly interested in the benefits provided to them by the government; businesses which compete with foreign companies are interested in knowing what imports are allowed and whether they will be taxed; civil rights groups are interested in passing laws to reduce discrimination.

The Economics of Special Interests

Part 1: Who Will Catch the Muskies?

The citizens of the U.S. city of Twin Lakes (population of 2 million) have been big supporters of professional baseball for several years. The home opener of their team, the Muskies, always sets the attendance record for the major leagues. Lately, it has become very clear that there are problems in keeping the Muskies in Twin Lakes. City Stadium, the "Home of the Muskies," is getting old. Parking is inadequate and the stadium, a great baseball stadium for over 30 years, now seems dingy and cramped. It has also become expensive to operate. Sensing some dissatisfaction, leaders in three other cities with modern stadiums are asking the owners of the Muskies to look at their modern stadium facilities as a possible future home.

Numerous special interests in Twin Lakes are deeply concerned. Labor and business groups are distressed about the potential loss of jobs if the Muskies were to move. For example, hotel and restaurant owners and their employee unions depend heavily on income generated by the Muskies. Local government leaders are worried about the loss of tax revenue if the team leaves; they are also worried about being left with a "dinosaur" stadium. The fan organization, the Musky Mongers, is obviously worried because one of its favorite pastimes is being threatened. One fan was overheard saying, "If the Muskies move, I'm moving with them!"

All the interest groups have worked out a plan with the city, county, and state government leaders. Their idea is to build a new stadium on land originally intended for an industrial park. The new stadium will cost \$150 million. Groups representing business, labor, and fans all back the new stadium idea. They have tentative commitments for local and state government funding totaling \$135 million.

On April 5, the date of the home opener, all the interest groups (business, labor, fans, state and local governments) invited the state's fourteen members of the U.S. House of Representatives and its two U.S. Senators to lobby for \$15 million in federal funds to allow them to gather all the funds needed to complete the new stadium.

1. Who will benefit from the construction of the new stadium? Why?
2. Will people in other states and communities derive much benefit from the construction of the new stadium? Why or why not?
3. If you knew that your taxes would increase by a few cents so the people in Twin Lakes could have a stadium, would you protest the action to your members of congress? Why or why not?
4. What do you predict will happen in this situation? (Think about who benefits, who pays, and the incentives to the members of Congress from the state.)

Part 2:

A. The people in Los Angeles want federal funding to help pay for a modern subway system.

1. Who will benefit from the construction of the new subway?
2. Will people in other states and communities derive much benefit?
3. What do you predict will happen?

B. The people in Townsend, Wisconsin (population about 500) want a new federal dam and reservoir constructed.

Who will benefit from the construction of the new dam and reservoir?

What do you predict will happen? (Think about who benefits, who pays, and the incentives to the members of Congress from the state.)