Why Pollsters are Wrong but Lobbyists Always Win

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Special Interest Lobbing

- retroactive copyright extension – unanimously passed US Congress, upheld by the Supreme Court
- nobody voted for it
- more serious: bank bailouts – payments from the poor many to the rich few

What is it all About

- small groups seem more effective at lobbying, large groups at winning elections

- lobbying seems to work the best when the stakes are not too high: Disney wins, but pharmaceutical companies not

- the outcome of lobbying seems more certain than that of voting

Inclusive Versus Exclusive Institutions

- autocratic or democratic must deal with special interests

- Acemoglu and Robinson: democracy is good because the alternative is a small group of people who steal from everyone else.

- India has had very democratic (inclusive institutions); China has had very autocratic (exclusive institutions)

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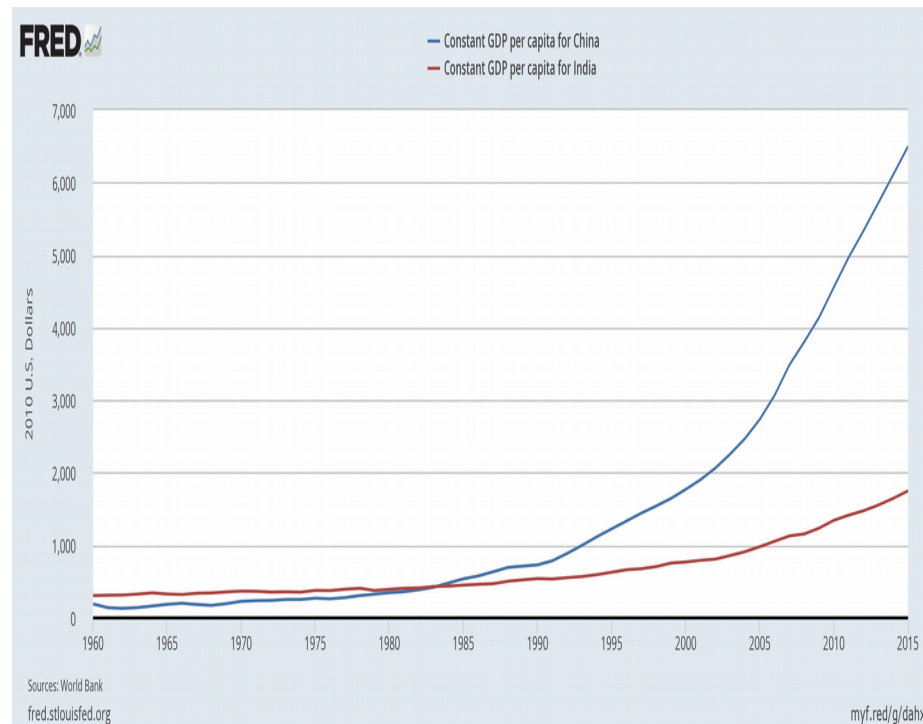
Is Democracy Good?

- China illustrates the strengths and weaknesses of autocratic government

- the good: the greatest increase in living standards in humankind in the history of forever

- the bad: the cultural revolution

- policy matters – "good" institutions can generate bad policy (India) and "bad" institutions can generate good policy (China)

- nor are autocratic governments condemned to short lives due to their inherent contradictions? ("coup proofing")

- from 605 AD until 1905 AD (1300 years) China was governed by professional bureaucrats who achieved their position through a competitive examination system

Good Lobbying, Bad Lobbying and Democracy

- In a cold country everyone can light a fire to keep warm but at a cost to others who must suffer from the smoke.

- People vote on regulations: each regulation prevents a specific person from lighting a fire.

- An existing status quo of regulations and one regulation is chosen at random to either be added or subtracted by majority rule.

- Eventually we wind up with no fires.

- This could be good or bad depending on whether the benefit to the individual exceeds the cost to the others of the smoke or not.

- In the bad case this is an example of a Condorcet cycle.

- In the bad case it would be better if public officials could be bribed to look the other way.

Bribery

- Simple: get the money out of politics, overturn Citizens United

- campaign contributions play little role in the corruption of the Supreme Court.

- The iceberg: give money to the family or to give money after departing office

- Chris Dodd the Senator "from Disney" took a several million a year job as the CEO of the Motion Picture Association of America

- message: "look how rich I am - if you play ball like I did you too can one day be a rich and sleek lobbyist like me?"

- a 31 year old was offered a $600,000 a year job as "special correspondent"

- known solution: government officials should be castrated male slaves separated from their families at an early age

Differences Between Voting and Lobbying

in common: two groups engage in a contest over a political prize

each side provides effort: votes, money

think of country like Greece where the political party that wins the election gets a lot of government jobs to reward its followers

Lobbying	Voting	Consequence
Winner pays	Everyone pays	certainty
Effort useful	Effort wasted	efficiency
Chore	Duty	who wins

Why Pollsters are Wrong: The Uncertainty Principle in the Social Sciences

- Physicists cannot predict the movement of a particle
- Economists cannot predict market crashes
- Political scientists cannot predict the outcome of elections

"Heisenberg's uncertainty principle"
nobody criticizes physicists or obsesses over their failure

Economists and political scientists
much criticized for failing to forecast market crashes and elections

- uncertainty principle: spooky particles seem to anticipate what other particles will do

- is it spooky that people can and do anticipate what other people will do?

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The "Lucas critique"

Jan and Dean are playing rock, paper, scissors

- Nate interviews the contestants
- Jan tells Nate she is going to play rock
- Dean tells Nate he is going to play scissors
- Nate publishes his prediction on his website: Jan is going to beat Dean by playing rock to his scissors.
- Jan plays rock and Dean - no fool he - plays paper and beats Jan. Oops...looks like Nate was wrong

The "Neumann principle"

- John Von Neumann showed in 1928 there is only one solution to this paradox
- Jan and Dean cannot know how the other is going to play - they must be uncertain
- Only if Nate announces that there is a 1/3rd chance of Jan and Dean each playing rock, paper or scissors will Jan and Dean be content to play as he forecasts
- Empirical research shows that in real contests - soccer matches, tennis matches - the good players play randomly and with the right probabilities

Crashes

- clever Nate discovers from his big data analysis that the stock market will crash next week
- when you read this on his website: do you wait until next week to sell your stocks?
- Nobody else does, so the market is going to crash today.
- Oops...looks like poor Nate was wrong again
- Just like rock-paper-scissors the only prediction Nate can make that is correct and widely believed is a probabilistic one: For example, he can tell you that every day there is an .01% chance of a stock market crash – but he cannot tell you when the crash will take place
- the uncertainty principle underlies quantum mechanics
- the fact that people react to forecasts underlies rational expectations theory in economics
- theory enables us to quantify our uncertainty but not eliminate it

Elections

- people vote for lots of reasons: out of civic duty, to register their opinion - and to help their side win
- 2012 voter turnout in swing states was 7.4% higher than in other states
- any analysis of elections must take into account that there are marginal voters who only vote if they think there is a chance they might contribute to victory
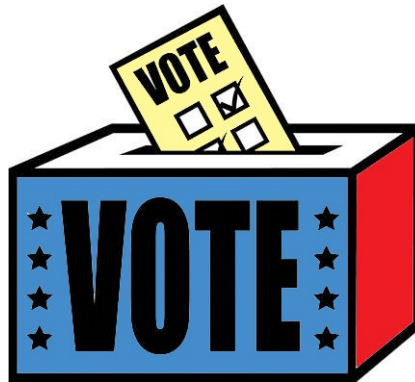
Nate and Sam

- Sam comes along and tells us that the Democrats are definitely going to win
- Republican voter Dean skips the vote
- Democrat Jan is no dummy, she realizes since Dean is not going to vote, she needn't bother either: her Democrats can win without her. But...Dean should anticipate Jan and and vote and so bring his own party to victory.
- the voter turnout game has no pure strategy equilibrium

Sam I am

Why Pollsters are Wrong: It's the Turnout, Stupid!

- Because people lie to pollsters?
- Because people change their minds at the last minute?

- polls do a pretty good job of predicting how people are going to vote
- polls do a poor job of predicting who will vote
  "this year turnout among Hispanic voters was unusually low"

- we know how many Democrats and Republicans there are and we may know that they are all going to vote for their own candidate
- if we don't know who is going to turn up at the polls we do not know who is going to win the election
- whether voters expect their party to win or lose changes whether they will bother to vote - so that voter turnout is subject to the Neumann uncertainty principle.

Mistaken Pollsters

- Pollsters argue about their mistakes; many understand that they do not do a good job of predicting turnout.
- Some - Sam Wang and his Princeton Election Consortium - made the ludicrous claim – based on"deep math" – that there was a 99% probability that Hillary Clinton would win the 2016 Presidential election.
- Nate Silver was more conservative giving her only a 73% chance of winning.
- neither one realizes that there is not something wrong with their models
- the reason that they do not predict the election is because they cannot predict the election

The Norwood Fallacy
(Jonathan Weinstein)

- 1991 Super Bowl won by the Giants when Bills kicker Scott Norwood missed a 47-yard field goal

- 47-yard miss about 50% chance

- so: the Giants' old-fashioned style proved superior to the Bills' new-fangled no-huddle offense?

- an upset in an election is a high probability event
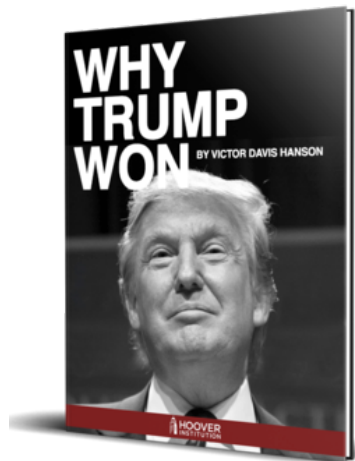
coming soon, the exciting sequel: why the

coin came up tails

Voting versus Lobbying

the cocktail party poet say "everything is relative" – except this is wrong: not acceleration or angular momentum...

so "everything is uncertain" – no, not exactly

- all pay auction versus second price auction

- the small group gets zero

- the large group gets a surplus equal to the value of the prize minus the most effort the small group is willing and able to provide

- in all pay the outcome is uncertain (why pollsters are wrong)

- in second price the outcome is certain (why lobbyists always win)

Small Groups

country	% agriculture	farm subsidy hours
Switzerland	0.8	23
Japan	1.2	19
U.S.	1.3	11
Norway	1.6	17
EU	1.7	14
Canada	1.7	8
Australia	2.4	2

% agriculture: percent of value added in the agricultural sector

farm subsidy hours: number of hours worked per capita to pay farm subsidies

Fixed Costs: Chores

- Is it worth it to take the time and effort to find, learn about, join and support an anti-farm lobby in hopes of getting an extra 11 hours a year?

- Is it worth it to a lobby to vet me, process my application and so forth if I am only going to contribute the equivalent of a few hours a year?

- Cannot simply write a check for 32 cents to the "anti-farm lobby"

- Fixed cost of effort provision = "chore"

- Note: most important source of cost is that of monitoring to make sure people contribute; key element of theory but not of this talk
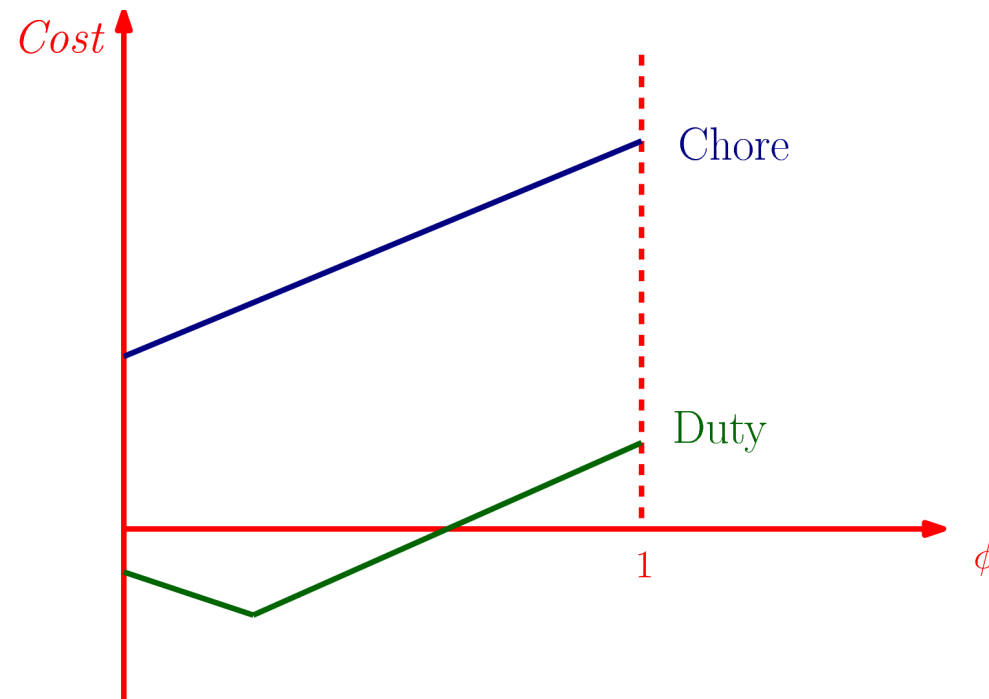
Committed Voters: Duties

- Civic duty of voting

- Camaraderie of the polling place

- Expressive voting

Bottom line: some people turn out to vote not in hope of changing the outcome but because they like to do so

The opposite of a fixed cost-of-effort

Committed voters = "duty"

Cost of Effort

Who has the Advantage?

Theorem: For a chore with a small prize the small group is advantaged. For a large prize or a duty the large group is advantaged.

Short version: the large group wins elections, the small group wins the lobbying unless the prize is large

Non-greediness: lobby groups should not be too greedy

Fungibility and Lobbying

it isn't rocket science

- the advantage of a small group is that its per member fixed cost is less

- the advantage of a large group is that it has more resources

the nature of the prize matters

- (fungible) monetary transfers: the prize money can be used to pay for the lobbying – advantage small group

- (non-rival) civil rights: each member receives a per capita benefit the size of which is independent of how many member there are – advantage large group

why farmers and bankers win and minorities lose

The Dilemma of the Democracy: All Politicians are Corrupt

- after a while: Barney Frank

- need a big enough pool of honest politicians to bootstrap off of

- else no point in firing a corrupt politician to replace with a less competent but equally corrupt politician (commitment problem)

- underlying culture matters (pool of potential politicians) regardless of institutions

Populism and Social Networks

changes in social networks over time

- greater mobility of workers between jobs and locations

- decreased interest in organized religious activities

ties in social networks have become looser: in the "old days" in Britain

- workers in the labor party socialized in their pubs

- conservatives socialized in their clubs

today commuters go their separate ways

increased the cost of monitoring: nobody knows their neighbors

- turnout goes down and elections become more competitive: breakdown of the party system

greater success for insurgent and populist parties.

Populism

- mixed electoral success – success in Greece, UK, US; failure in Spain, Netherlands – still to come France, Italy

- mixture of electoral success due to the uncertainty principle for elections

The Curse of Rational Voter Ignorance

little guarantee that populist movements will achieve stated goals

- Trump deepened the swamp
- Syriza managed the nearly impossible task of adopting economic policies even more harmful than those of its predecessors
- Brexit on track to crush a thriving British economy
- Venezuela lacks amenities such as toilet paper
- Peronism in Argentina condemned the country to decades of economic stagnation
- Teddy Roosevelt brought anti-trust law and other measures against monopoly that mitigated rent-seeking without much harmful side effect

What is populism?

- voter backlash against successful lobbying and rent-seeking
- the corruption of the banking sector and of experts became painfully clear during the financial crisis
- those who were able used tax-payer funds as life-rafts to escape the consequences of their own bad decisions
- the populist proposals of Donald Trump on the Republican side match those of Bernie Sanders on the Democratic side
- each demands for the average voter some of those protections from competition previously reserved only for rich and successful special interests.
- populism – the ballot box – where the large group is favored – is the inevitable consequence of successful rent-seeking by small groups who dominate lobbying

What To Do?

If you are concerned about the problem of populism: figure out what to do about lobbying

conclusions are not always the obvious ones

- to reduce lobbying we should increase the cost

- this increases the cost of the general interest lobbyists as well as the special interest lobbyists

- this actually increases the ability of the special interest lobbyists to gain favors from government – the opposite of the intended effect