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Lobbying: A Classroom Game for Chapter 8

Some of you will be in Manufacturing firms and some Agricultural firms. Each firm will consist of two people.

The President of the United States is deciding between two policies. Free Trade will yield \$10 million in benefit to each agricultural firm. Protectionism will yield \$10 million in benefit to each manufacturing firm.

In each year, each firm will write down its favored policy and its lobbying expenditure, amount X, on a notecard and hand it in.

Whichever policy has the most lobbying wins. If your favored policy wins, your payoff is $10-X$. If it loses, your payoff is $-X$.

Each round the rules will variously allow communication and agreements of different kinds as indicated on the scoresheet.

Scoresheet

The date:

Your names:

Your industry:

Year	Communication Rules	Agreement Rules	Lobbying Expense	Policy Benefit	Payoff
1	Only within the firm	Unenforceable			
2	Only within the firm	Unenforceable			
3	Within firm and industry	Unenforceable			
4	Within firm and industry	Unenforceable			
5	Within firm and industry	Enforceable			
6	Unconstrained	Unenforceable			
7	Unconstrained	Enforceable			
TOTAL	——————-	——————-	——————-	——————-	

You may always communicate with the other people in your firm, but you may or may not be allowed to communicate with people within your industry or to people in the other industry.

If agreements are "Unenforceable" that means each firm submits its own notecard and may change its mind any time that the instructor allows, so there is no way to enforce any agreements with other firms.

If agreements are "Enforceable" that means groups of firms may submit their notecards jointly and if they have agreed to do so, other members of the group can block any change in their lobbying expenditure.

Instructor's Notes

This is a simple game to play, but very intricate in its optimal strategies. That is because it combines an all-pay auction (see Chapter 12) with a prisoner's dilemma for each of the two bidders. The all-pay auction would have a mixed-strategy equilibrium if there were just two unitary bidders, but to this is added the problem of each firm wanting to free ride on the bids of other firms in its industry.

Points Illustrated

1. If you fight a political battle and lose, that's often worse than not fighting at all. You've lost your expenditure.

2. There is a free rider problem. Each member of your coalition would like to have the others contribute more instead.

3. Communication may nor may not help the free rider problem.

4. Having lots of members in a coalition makes it harder to overcome the free rider problem.

5. Political struggles are expensive for both sides. Both sides might be better off if they could both agree to stop lobbying.

Features of Reality This Game Misses

A. Lobbying can actually "increase the size of the pie" by helping the government make sensible policies that help everyone.

B. Policymaking is usually not "winner take all". Rather, even the loser's spending affects the way the policy looks (tariffs aren't just 0% or 50%– they can take any value in between too).

C. Lobbying more does not guarantee victory in politics– it is not exactly like an auction. Lobbying more just increases your probability of victory.