G406: BUSINESS AND GOVERNMENT

EXTRA PROBLEMS
(CH 3,4)

3.1   Explain how the ideas of the tyranny of the majority and rational ignorance are alike and unlike each other.

The idea of the tyranny of the majority is that the majority of voters in a democracy can impose their will on the minority. The idea of rational ignorance is that voters will not become informed about their vote unless they think it is worth the cost to become informed, and so will often remain ignorant.

Both of these things lead to government failure, but in different ways. The problem with the tyranny of the majority is that a policy will pass a vote even if it hurts the minority more than it helps the majority. The problem with rational ignorance is that even the majority might vote the wrong way, or not vote at all, if the voters do not bother to become informed. The problem of rational ignorance will often lead to something like "tyranny of the minority", because the minority will often have more concentrated interests and thus more incentive to become informed than the majority.

3.2   Read the *Wall Street Journal* article, "Beijing Wields Big Stick Against Megaships."

(a) Evaluate the claims that there is vicious competition and overcapacity in the Chinese shipping industry and that the new Vale ships will affect that competition very little.

(b) Where should Vale look for political support as it tries to get permission for its ships to operate, besides the Brazilian government?

(a) If there is vicious competition and overcapacity, why would Vale enter with new ships? Price would be below average total cost. If the new Vale ships would not affect competition much, why would the Chinese shippers complain? Thus, all three claims are silly.

(b) The Chinese steel industry is a potential ally.

3.3   Springville currently has three movie theatres, which sell equal numbers of tickets. Two of them wish to merge, which would raise the price from $10 to $16. The merged company would keep both theatres and still sell 2/3 of the tickets. The marginal cost of serving a customer is $6, less than the price because the market is not perfectly competitive and the theatres generally avoid price wars. The demand curve is $Q = 20 - .5P$, where quantity is measured in thousands of tickets per year.

(a) Who would lose as a result of the merger? How much per year would they pay to prevent it if there is no free-riding problem?

(b) Who would win as a result of the merger? How much per year would they pay to lobby to get the antitrust authorities to allow it if there is no free-riding problem?

(c) What kind of free-riding or other problems might cause each side to pay less than the amount it wins or loses?

(d) Why is it better to have a single anti-monopoly law administered by a government agency rather than have the legislature evaluate each merger individually?
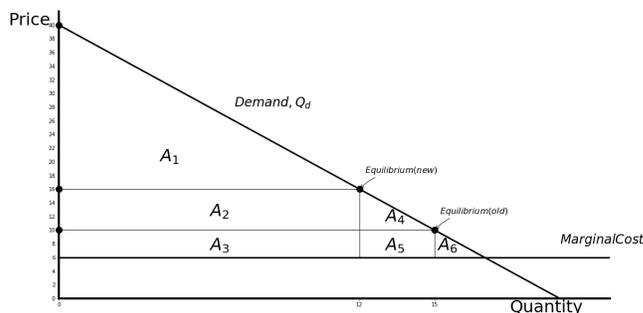
(a) Consumers would lose. To get consumer surplus, start by finding the inverse demand curve, $P = 40 - 2Q$. That shows that the maximum consumers will pay is $40. They actually pay $10 originally, for a quantity of $Q = 20 - .5(10) = 15$, so their original consumer surplus is $.5(40 - 10)(15) = 225$, which is $225,000/year (area $A_1 + A_2 + A_3$ in the diagram) After the price increase, their consumer surplus is $.5(40 - 16)(12) = 144$, which is $144,000/year (area A_1). Thus, consumers would pay up to $81,000/year to prevent the merger.

(b) All three theatres would win, even the one that is not merging, because all three would gain from the price rise. Producer surplus starts at $(10 - 6)15 = 60$, $60,000/year (area $A_3 + A_5$). It would rise to $(16 - 6)12 = 120$, $120,000/year (area $A_2 + A_3$). So the theatres would pay $60,000/year to be able to merge.

(c) There are many movie-goers, each with a small amount at stake. Thus, many or most will be rationally ignorant and will not be active in a move to block the merger. There are only three theatres, so each would be willing to lobby up to $20,000 individually.

(d) If they look at each merger individually, each will be subject to political influence and the problem of rational ignorance. A government agency will not be so subject to political pressure.

3.4   In the United States, about 4,500 sugar beet and sugarcane farms produce sugar, but sugar is also imported from countries such as Brazil (United States Department of Agriculture "U.S. Sugar Production"). Imports are subject to a quota of about 2 billion pounds per year. Suppose that in a given year the world price of sugar is 20 cents/lb but the U.S.

price is 30 cents/lb, and that though 20 billion pounds per year is currently sold in the U.S., that would rise to 25 billion pounds if the price fell to the world level. You may assume that the product cost of U.S. producers is constant at 25 cents/lb and that the transportation cost to import sugar is negligible.

(a) How much do the sugar farmers benefit from the quota, and how much would they be willing to spend to keep it in place if there were no free-rider problem?

(b) Who else benefits from the quota, and how much would they be willing to spend to keep it in place if there were no free-rider problem?

(c) Who is hurt by the quota, and how much would they be willing to spend to abolish it if there were no free-rider problem?

(d) Why do the quotas continue to exist if they hurt Americans by more dollars than they help them?

(a) The sugar farmers benefit. The price is raised by 5 cents/lb and they sell 18 billion pounds, so they benefit by .9 billion dollars per year.

(b) Whoever gets to import the 2 billion pounds also benefits. That might be merchants who ship sugar, or foreign producers, depending on how the exporting country's quota is administered. The value of buying at the world price and selling at the US price is 10 cents/lb, so the certificates are worth $.2 billion, which is 200 million dollars per year.

(c) Consumers are hurt. If the quota were abolished, the price would fall to the world price, a drop of 10 cents per pound. Thus, they would save 2 billion dollars per year on the 20 billion pounds they buy now. The quantity would expand by 5 billion pounds, however. If we assume linear demand, this creates extra consumer surplus of .5*(10 cents/lb)*(5 billion lb) = .25 billion dollars.

(d) Sugar farmers are a small and concentrated group, so they find it easier to organize, lobby, and base their votes on sugar policy than do consumers, who are numerous and who each have little at stake.

3.5   (a) What effect would banning food trucks have on the supply and demand curves for fast food generally and for brick-and-mortar fast food by itself?

(b) Why might we expect government failure in the regulation of food trucks?

(c) Think of some form of market failure that restaurants could use as an excuse to justify the banning of food trucks.

(a) If we are talking about the market for all kinds of fast food, the ban would shift back the supply curve, but leave the demand curve largely unaffected (though to some extent it would shift the demand curve back too, since there would be less selection for consumers). If we

just talk about the market for brick-and-mortar-restaurant food, the supply curve would be unaffected in the short run, but demand would shift out. In the long run, the supply curve would shift out too.

(b) Restaurant owners will be more politically aware than food truck owners. Consumers will be rationally ignorant, not paying very much attention to regulation. Thus, the political forces will be weighted toward regulation to help restaurant owners even if that hurts consumers more.

It is not a correct answer to say "because the regulation will reduce surplus". That is the definition of government failure, and the question here is why government failure would occur— why the government would impose regulations that do not maximize surplus.

(c) If the safety of the food from trucks cannot be monitored well enough by the city health department, that could be a reason to ban them based on asymmetric information. If the trucks create congestion in the streets, that would be the market failure of negative externalities.

The fact that food truck competition drives down restaurant profits is not market failure. That is how market works to maximize surplus. Any profits lost by the restaurants are gained by the food trucks or by consumers. This is a very important point.

3.6   Read the *Wall Street Journal* article,"How Washington Ruined Your Washing Machine: The Top-Loading Washer Continues To Disappear, Thanks to the Usual Nanny State Suspects.' '

(a) Why did the federal government impose regulations that prohibited most of the washing machines existing in 1996?

(b) Why did the Dept. of Energy say that washing machine quality and cost would not fall under the new regulations?

(a) The public reason, and undoubtedly part of the explanation, is that the government wanted people to use less energy and less water. Why this is desirable is unclear. Some people thought that consumers were irrational in preferring cheaper and more effective machines that used more water and energy. Others think that it is good to use less energy and more capital and labor. It reduces surplus to force people to use less energy, but some citizens seem to think that using less energy is a goal in itself, even if there is no material benefit. Still another reason is that using labor and capital instead of energy might result in less carbon dioxide emission, which may be a negative externality.

A less public reason is that the government action benefitted whichever companies were best at making water-economizing washers— most likely the companies that made upper-end machines and had better research departments. The extra cost would be similar for all washers, high-end and low, which meant a bigger percentage increase for low-end

machines bought by the less affluent. They value money more and environmentalism less, but they are also less politically aware than rich people.

In answering a question like this, it is important to consider both public-interest and private-interest reasons, and to look for whether there really is a market failure to be addressed. Even more important: don't believe everything you see written in the newspapers. The surface reasons people give for policies are not always the real reasons and when they are not, they often do not make sense.

(b) They lied. It was obvious that to meet the new standards, the machines would cost more. If it was cheaper, the manufacturers would already have been doing it. They did not want to say anything negative about the policy, or anything that would hint at how it would be particularly hard on the poor, so, as governments often do, they pretended their regulation was Pareto-improving. Another advantage of that for the government officials is that they can blame the industry for price increases. Most consumers will have no idea that it was government regulation that drove up prices. Still another consideration is that Energy Dept. officials have short time horizons and a regulation that looked good would help their careers. As in part (a), don't believe everything you read, and think about the incentives of government officials as well as of corporations.

3.7   Read the 2014 *Wired* article, "How Obama Officials Cried 'Terrorism' To Cover Up a Paperwork Error.' "

(a) What do you think motivated Attorney-General Holder, Mrs. Pipkin, Judge Alsup, Director of National Intelligence James Clapper, and Mr. Tyler to take the positions they did?

(b) Is there any way to prevent officials from defending bad decisions they make?

(a) Attorney-General Holder was trying to justify the actions of his subordinates, because he needed to get along with them and felt loyal to them. Mrs. Pipkin was being paid by Mrs. Ibrahim to defend her. Judge Alsup had no material interests at stake, and was trying to do what he thought the law required. Director of National Intelligence James Clapper was trying to defend his subordinates and the Administration generally, since his ability to do his job depended on those two things. Mr. Tyler was just doing what his bosses in government told him to do, since otherwise he would lose his chances of promotion and since that was his duty as a lawyer.

(b) This is a deep problem. Articles like this are part of the solution, since they bring attention to rationally ignorant voters the behavior of government officials. Once voters know about this, it affects their voting, which changes the objectives of elected officials such as President Obama.

3.8 The government has encouraged renewable energy in a variety of ways—guarantees to pay off loans if the company defaults, guaranteed power purchases, required use of renewable energy by public utilities, simple cash grants, exemption from property taxes, and depreciation tax breaks.

(a) Why does it use so many different ways instead of just one?

(b) What are the advantages to the government decisionmakers of each kind of subsidy relative to simple cash for producing more renewable energy?

(a) First, note that the question is not why the government encourages renewable energy, but why it does so in a variety of ways rather than picking the best way and doing it on a larger scale. The answer does not require addressing why the government wants to encourage renewable energy.

It is hard to explain the variety of programs using good government arguments. Why not simply subsidize the price of energy produced using renewable energy sources using direct cash per unit produced, if the goal is to get more renewable energy?

One possibility is that elected officials wish to conceal how much is being spent on these programs. Using a single program such as larger cash grants, the voter is more likely to see the true cost. Using a variety of programs, many with hidden price tags (such as loan guarantees and advance purchases), voters have a hard time seeing the total cost. In the same vein, the various complex programs make it easier to conceal that particular people have preferential access to the programs. A second possibility is that different elected officials want claim credit for doing something about renewable energy, so each one wants his own program even if expanding an existing program would make more sense.

(b) The question is not why the decisionmakers use subsidies, but why they prefer each kind relative to a simple cash subsidy. The answer is not that cash would not encourage renewable energy; the cash is a subsidy for company actions rather than just a gift to anybody who asks, even if they do nothing in return. Loan guarantees have no immediate cost and can be be targeted to favored companies. Guaranteed power purchases do not require tax increases, since they are paid via higher electricity prices, which can be blamed on the private utility. The same is true of required use of renewable energy. Exemption from property taxes requires no cash outlay by the government, though it must raise other taxes to compensate, so the subsidy is somewhat concealed, which offends voters less. The same is true of depreciation tax breaks.

All of these methods eventually will raise taxes, even if the cash flow is not immediate or certain. Tax breaks, for example, mean that some other kinds of tax, on other people or companies, has to be increased to make up for the lost revenue. To be sure, some subsidies can end

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up costing zero ex post, but they have even higher costs ex ante. A loan guarantee, for example, ends up costing nothing in cash flow if the company is able to pay back its loans. With some probability the company won't be able to though (if that probability were zero, the guarantee would be worthless to it), in which case the government bears a huge cash burden. It is like the choice between the government paying $50 million for sure or taking a 50-50 gamble of $0 or $100 million. The gamble is not only riskier for the government, it also creates more triangle loss because the triangle loss from raising $100 million is more than twice that from raising $50 million.

3.9 Read the article, "Get Your Kitchen Out of My Parking Space! City Governments across the Country are Threatening to Kill the Food Truck Revolution with Dumb Regulations, ' ' *Slate*, Matthew Yglesias (2012).

(a) Use supply-and-demand analysis to show how the producer surplus of restaurants would be affected by food trucks, and how much the restaurants would pay for a law to ban them.

(b) If allowing food trucks would increase total surplus, how is it that a ban on them could succeed in getting passed by the city council?
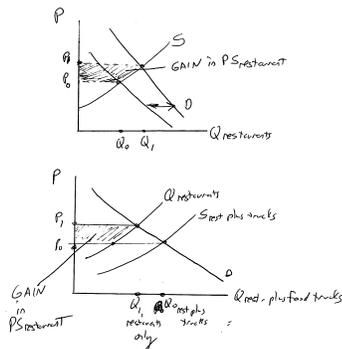
(a) Getting rid of the food trucks can be looked at in two ways. In the top diagram the change is is a demand shift when the product is restaurant food. Demand increases when the food trucks are restricted, so both price and quantity rise for the restaurants.

In the bottom diagram, the change is a supply shift when the product is food from restaurants and food trucks. Restricting the food trucks shifts the supply back to be composed entirely of restaurants. The price rises, and though the quantity of food in total falls, the quantity of food sold by restaurants rises.

(b) A ban would not be passed if every person had equal weight in politics. Restaurant owners would have more influence, though, because they are longer established than food trucks and thus would have better knowledge and connections, and consumer losses are too

diffused for consumers to notice, so rational ignorance would reduce their power.

Reasons such as the health of children are bogus, mere excuses. Don't believe everything you read in the newspapers.

3.10 The U.S. government is banning production of conventional light bulbs in 2014, saying that they use too much electricity. This is one possible response if consumers underestimate the value of the new, more expensive light bulbs. Why might the government have chosen this particular policy?

Banning conventional light bulbs will make consumers buy the new light bulbs instead. One reason for doing this is if consumers underestimate the value of the new light bulbs, and so would not buy them otherwise. This is odd, though, since the sellers have plenty of incentive to advertise the value of the new bulbs. We usually don't need the government to ban inferior old products.

This particular policy is just one way to overcome information asymmetry. Why would the government choose it over others? One other way would be for the government to provide information to consumers. Another way would be for the government to require light bulb packaging to list the electricity savings from the new bulbs. The most likely reason the government has chosen the new policy, however, is that even fully informed consumers would not want to buy the new bulbs, because they are not surplus-maximizing. Environmentalists and light bulb companies would therefore lobby the government for a regulation to force consumers to buy the bulbs to achieve their objectives of less electricity usage and higher profits. Since they are concentrated interests and consumers are not, government failure seems likely.

This question points to one of the most important things you should learn in this course: regulations are frequently imposed for the good of special interests, not the general good, but special interests will never openly say that they want a regulation just for their own benefit.

4.1   Market demand for tires is $Q = 12 - P$ and market supply is $Q = 2P$. To cover the costs of pollution cleanup, a tax of \$1/unit is imposed, to be paid by the sellers out of their sales revenue. How much will the prices firms charge rise or fall?

In the pretax equilibrium, 12-P=2P, so P=4. After the tax is imposed, the sellers receive only P-1 per unit sold, not P, so the supply curve changes to Q= 2(P-1). Equating this to the demand curve, 12-P=2(P-1) so 12-P = 2P-2, 14 = 3P, P = 4 2/3. The price has risen by 2/3.

4.2   Let the supply curve be $P = Q$ and the demand curve be $P = 24 - 2Q$.

(a) If a tax of 3 per unit is imposed on buyers, what is the change in the equilibrium price and quantity, producer and consumer surplus, and tax revenue?

(b) If a tax of 3 per unit is imposed on sellers instead, what is the result?

First, figure out what happens if there is no tax. Equating supply and demand, $P^s = Q^s$ so

$$Q^s = 24 - 2Q^d,$$

so Q=8. In that case, using either demand or supply, P=8 too.
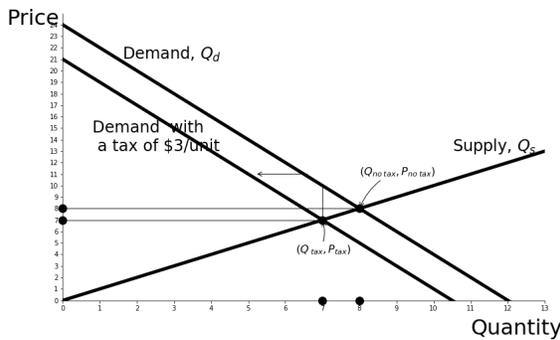
The producer surplus is .5(8-0)(8)=32 and the consumer surplus is .5 (24-8)(8) = 64. Total surplus is 96.

Next, figure out what happens if a tax of 3 is imposed on buyers. The demand curve will shift in, towards zero– with the tax, they're less eager to buy. A good way to think about it is to ask at what price they'll demand exactly Q=0. Before, that was at P=24. Now, they have to pay the tax of 3, so even if the price is 3 lower, at P=21, they'll demand zero. Thus, it must be that the new demand equation is $P^d + 3 = 24 - 2Q^d$, so $P^d = 21 - 2Q^d$, so if Q=0, P=21.

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Equate supply and demand using the new demand curve, so

$$Q^s = 21 - 2Q^d$$

and Q=7. That means P=7 too, since $P^s = Q^s$. As a result, PS = .5(7)(7) = 24.5, and CS = .5(21-7)7 = 49. Tax revenue is the tax of 3 per unit times the output of 7, so it equals 21. Adding those three things up yields 94.5 in total surplus. That's down by 1.5 from the pre-tax surplus, so the deadweight loss is 1.5.

(b) Now let's put the tax on the seller. The supply curve will shift, because sellers are less eager to sell. Before, if the price rose above 0, there'd be positive supply. Now, since they have to pay the tax of 3, quantity supplied would be zero at that price. The price has to rise to 3 before quantity supplied becomes positive. So now, $P^s - 3 = Q^s$, so $P^s = Q^s + 3$ and if P=3, Q=0.

Equate supply and demand using the new demand curve so

$$Q^s + 3 = 24 - 2Q^d$$

and Q=7. Using the supply curve, $P = 7 + 3 = 10$.

Producer surplus is .5(10-3)(7) = 24.5. Consumer surplus is .5 (24-10)(7) = 49. Government revenue is (3)(7)=21. So everything is the same as with the tax being on buyers, including total surplus of 94.5 and deadweight loss of 1.5.
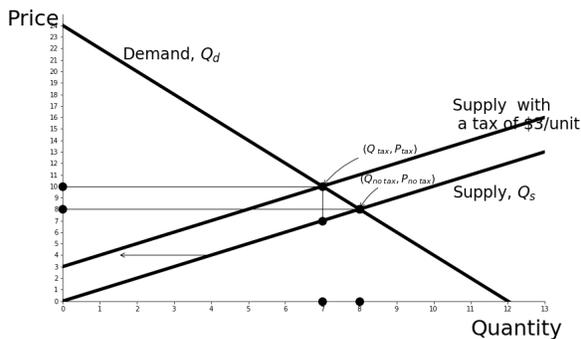

4.3   Suppose jam is initially untaxed, but then the Indiana General Assembly imposes a special sales tax of 3% on it, paid by the consumer at the cash register.

(a) Show on a diagram how this affects the equilibrium price, and show the triangle loss in social surplus.

(b) Next the General Assembly adds a 3% value-added tax on jam, paid by the seller, while retaining the 3% tax on consumers. Show on a diagram what further effect this has on the equilibrium price and the triangle loss.

(a) The price falls from P_0 to P_1. Total surplus falls by the amount of the triangle A + B because of the smaller output. The new curve is slanting because this is a percentage tax, not a dollars per unit tax. Thus, the amount of tax per unit is higher when the price is high.
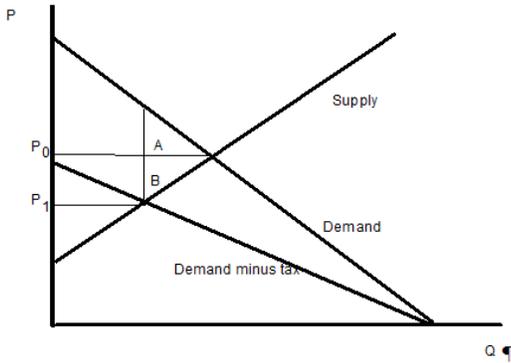
(b) The price will rise compared to with just the tax on buyers to P_2. We can't say how much— it could even rise above the original price before any taxes were imposed. That depends on the shapes of the supply and demand curves. It will definitely reduce output further, though, and the triangle loss will increase by amounts C+D+E+F+G. You can use the original supply and demand curve to find the lost surplus, because they reflect the social benefit and the social cost of sales.
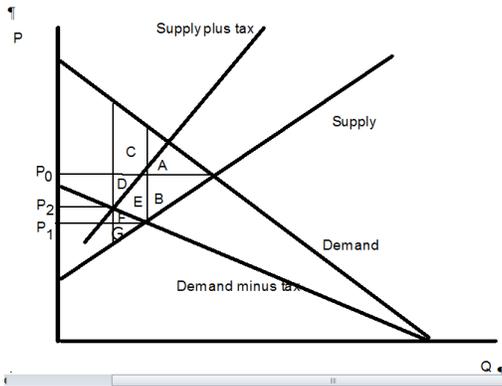
4.4   The government of Nowheristan imposes a tax on bread, which is 30% of the spending of the people affected. Afterwards, the amount of bread they buy is unchanged. I claim there is actually a deadweight loss from the tax nonetheless, and that a lump-sum tax (a tax of $X/person) with the same revenue would leave social surplus higher. Am I right? Explain.

Yes, there is a deadweight loss. Imposing the tax effectively reduces the income of the people, whether it is a lump sum tax or a tax on bread. This shifts the demand for bread out, because bread is an inferior good.

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But if it is a sales tax, people distort their consumption away from bread to other things, and we have the usual triangle loss. It is tricky because (a) having to pay the tax means the consumers are poorer, and want to eat more bread because they can't afford meat, (b) but if bread is taxed, that cuts down on the amount of bread they eat, and (c) the two first effects cancel each other out.

4.5   The state decides to impose a $0.20/gallon tax on milk, paid by the seller.

(a) Show on a diagram how this affects the equilibrium price, and show the loss in social surplus that results.

(b) Next, the State decides to use the revenue to subsidize milk. It creates a special subsidy of $0.20/gallon on milk, paid to the consumer at the cash register. Show on a diagram what further effect this has on the equilibrium price and the triangle loss.

(a) It is as if the supply curve shifted up by the amount of the tax. No transaction that yields less than $.20/gallon consumer plus producer surplus will take place, so the surplus from those transactions is lost—the triangle on the diagram.
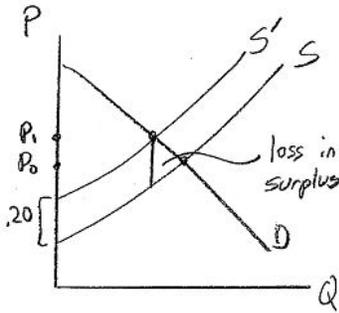
(b) This will cancel out the previous tax exactly, but shifting the demand curve out (not in, as a tax does), so the ultimate price a consumer pays and a producers receives stays the same. The consumer will now pay a higher price, but with the subsidy the net price for him is the same as at the beginning. The producer will now receive a higher price, but the net price after he pays the tax is the same as the beginning.

4.6   The Uber taxi company ran into trouble in Virginia:

"In a Thursday in June, bureaucrats from Virginia's Department of Motor Vehicles made their move against Uber Technologies. The fast-growing ride-for-hire company was told that its popular service was, in fact, illegal and that the firm needed to immediately cease all operations in the state.

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Far from being intimidated, Uber was ready to fight back...
A notice sent to Uber users in Virginia included the e-mail address and phone number of the ordinarily low-profile official in charge of the decision. The notice instructed the company's supporters to demand that the DMV "stand up for you."

Hundreds of them did and, by Sunday, Commissioner Richard Holcomb's inbox was flooded. Holcomb did his best to respond— working through the weekend, even crafting e-mails to irate Uber customers as he lay in bed at home." ("Uber Pressures Regulators by Mobilizing Riders and Hiring Vast Lobbying Network," *The Washington Post*)

(a) How is this an example of overcoming rational ignorance?

(b) Do we need to worry about companies having increased power because of the ease in the Information Age of mobilizing their customers, workers, and suppliers in political campaigns? Should corporations be banned from spending money on web- based campaigns to exert political pressure?

(a) The Web, and, more generally, deep informational connections between firms and customers, allows firms to enlist customers in their lobbying. Here, Uber was very cheaply able to tell its customers that the service they liked was being threatened, and to tell them how to contact the official in charge. If they had not done so, very few of their customers would have the motivation to learn about local taxi regulations, but Uber reduced the cost of learning immensely. As a result, many voters decided it was worth the trouble to contact government officials. This kind of tactic is particularly is helpful to firms in direct contact with consumers, who can provide broad political pressure.

Note that the biggest change is not in the cheapness of contacting the government. People could always write letters. In fact, the government actually pays less attention to each message it receives now. Rather, it's that Uber was able to inform the customers cheaply and quickly.

(b) When the cost of lobbying falls, that can be either good or bad. Here, the lobbyists we are thinking about are the customers, suppliers, and employees. This reduces the likelihood that the lobbying will be harmful, because the campaign is not directed solely at increasing the profits of the shareholders of the company. Also, this means of influencing government is so public that the danger of such things as bribery or giving jobs to government officials is miniscule. Uber will not tell its thousands of customers in a town to give bribes to the mayor. Thus, this form of corporate political pressure seems to be surplus-increasing.

4.7 Why should we expect charities to have more trouble keeping costs low and productivity high than a private company? Assume the private company is not a publicly traded corporation.

Companies are trying to earn profits, a relatively simple goal. Keeping score in money allows them to measure productivity much better than a charity, although companies do still have to worry about acts that raise profits in the short run but reduce them in the long run. Also, the people who control the charity do not own it, so they cannot keep the cost savings they make, unlike in a business. In a business, the owners keep careful watch on operations because their own money is at stake.

4.8   What is the point of the United States or an individual state having both a House of Representatives and a Senate? Why not just simplify and have one legislature composed of people elected for four-year terms?

Having two legislatures slows down the passage of new laws, because both must vote for them. The laws therefore get lengthier consideration and it is harder to push through a law backed mainly by one person who has power in his branch, which reduces rent-seeking because laws need broader support. Having two-year terms for some legislators and 6-year terms for others helps by making some legislators highly aware of the need to be re-elected and others less concerned. Those who have two-year terms (or are in the last 2 years of their 6-year term) will respond more to what voters want and have incentive to work harder. Those who have six-year terms do not need to spend as much time campaigning and are more concerned about the long-term effect of what they do. Having a mixture of such people, it is hoped, will achieve a desirable balance.

4.9   Three methods of choosing state judges are to elect them, to let the governor appoint them, and to let the state bar association (an association of lawyers) choose them.

(a) What is one advantage of each method for maximizing surplus?

(b) What is one disadvantage of each method?

(a) An advantage of elections is that the judges will do what the citizens want because they wish to be elected and re-elected. An advantage of having the governor appoint them is that the governor has the expertise to choose a good candidate for judge and he will do what the citizens want because he wishes to be elected and re-elected. An advantage of letting the state bar association choose is that lawyers know which candidate knows the law best.

(b) A disadvantage of elections is that the judges will be responsive to special interests who give them contributions and other support for election. A disadvantage of having the governor appoint them is that the governor may use the position as a way to reward friends. A disadvantage of letting the state bar association choose is that they will choose someone who represents the interests of lawyers, not of the rest of the citizens. It was not correct to answer that choice by the state bar

association, a tiny minority of the population, would lead to tyranny of the majority.

4.10   Every university has a legal department. These departments are known for the difficulties they create for hiring foreign faculty and for the stringency of the requirements they suggest for making sure that researchers comply with Federal regulations about not abusing human subjects. Indeed, the university rules often go much further than the regulations, which in turn go much further than the statute. Why would this be?

The question is not why universities obey the law. The question is why the legal departments make rules that are stricter than the law and make the running of the university less efficient. Fear of publicity is not a good answer— universities are not different from private companies in that respect, and it is not clear that bad publicity about these things (as opposed to sex and money scandals) would hurt a university. One reason is that the legal department gets blamed if the university gets into trouble, but bears none of the costs of following the stringent rules. Always ask "Cui bono?" It also may be the case that the university wants to have stringent policies anyway, and uses the federal regulations as an excuse.