
Buy-in for Buyouts:
Attitudes Toward Compensation for Reforms

Vincent Arel-Bundock (U de Mtl) & Krzysztof Pelc (Oxford)

IPES, Washington DC, Oct 2023

Premise

- ▶ The binding constraint on progress is not a dearth of innovative policies; it's **politics**.

A Winning Recipe for IPE work

- ▶ Title: "The Political Economy of X"
- ▶ Identify a **Pareto improving reform** that hasn't obtained: economic liberalization, climate transition, fisheries, health regulation, etc.
- ▶ Show that in settings that feature **powerful / concentrated** vested interests in places with greater **policy access**, we see less of the expected reform.
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Our assumptions about policymakers

IPE is good at **identifying** blocked reforms. Less thinking about how benevolent policymakers might push these through.

"We all know what to do; we just don't know how to get re-elected once we've done it."
—Jean-Claude Juncker

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Consider Two Proposals

- ▶ The costs of **coal-powered energy plants** are an estimated \$309 billion a year in healthcare costs alone. Yet the coal industry has successfully opposed phasing out coal-fired power plants.
- ▶ Reform of **US tax filing** could allow most US citizens to file their returns automatically, saving an estimated \$2 billion annually. Every year, the US tax preparation industry spends \$30 million lobbying to block it.

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One Solution: Buyouts

- ▶ A public *buyout*: a large-scale public compensation scheme that renders the interest group on the losing side of a reform "**whole**", in exchange for agreeing to a policy change.
- ▶ We ask: Is there **public support** for buyouts?
What does it depend on?
- ▶ Other related Qs:
 - Why do **some countries** resort to buyouts more than others?
 - When in a reform's "life cycle" are buyouts optimal?
 - **Normative** implications of buyouts?

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Kaldor-Hicks vs. Pareto

- ▶ We often refer to "potential Pareto improvements". What we mean is a **Kaldor-Hicks improvement**—but we like to assume away the required redistribution.

Hicks in 1939:

"Yet when such reforms have been carried through in historical fact, the advance has usually been made amid the clash of opposing interests, so that compensation has not been given, and economic progress has accumulated a roll of victims, sufficient to give all sound policy a bad name."

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Kaldor on Buyouts

- ▶ Buyouts are instances of "Kaldor-Hicks compensation".
- ▶ Kaldor described compensation in the case of the **Corn Laws**: tax the consumers of bread, compensate the owners of land. (Compensation schemes were indeed put forth in 1840s, and may have accelerated repeal)
- ▶ Kaldor himself was ambivalent about when to compensate: a "political" matter about which the economist "could hardly pronounce an opinion."

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The Case Against Buyouts

What are the main arguments against Kaldor-Hicks Compensation?

- ▶ Moral hazard.
- ▶ Moral aversion.
- ▶ Government overreach / buyout amount.
- ▶ On the part of buyout recipients: credibility of the buyout (Fernandez & Rodrik 1991) See the Alberta coal phase-out.

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Survey Design

- ▶ Three domains: tax, coal, amnesty for dictators.
- ▶ We measure impact of program **design** on rates of approval.
- ▶ Which **counterargument** seems to hold most sway?
Moral hazard, moral aversion, or fear of government interference?
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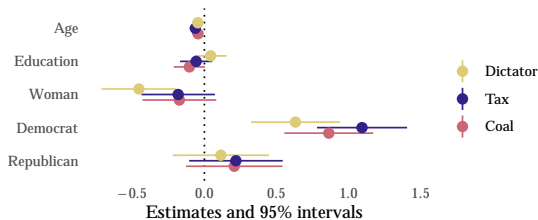
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Findings (i): Respondents generally supportive of buyouts

Highest baseline support for coal buyout:

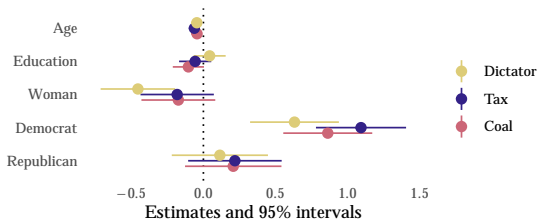
- ▶ 61% in favor across treatments; 65% for control group.
- ▶ Rises to 74% for buyout of "coal workers" rather than "coal industry." 74% approval in follow-up experiment.



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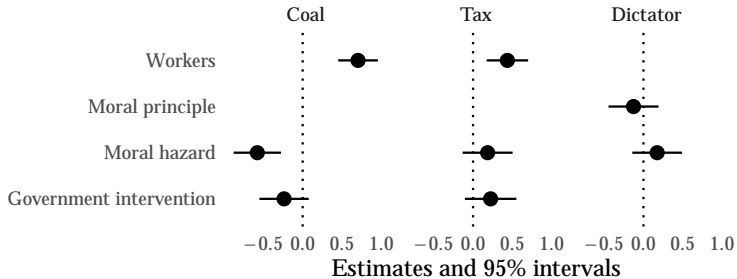


Findings (ii): Support covaries across issues

Table 1: Correlation in support for buyouts across three domains

	Coal Buyout	Tax Buyout	Dictator Amnesty
Coal Buyout	1		
Tax Buyout	0.55	1	
Dictator Amnesty	0.36	0.41	1

Findings (iii): Program design & counterarguments



Findings (iv): Rank reasons for opposition to buyout

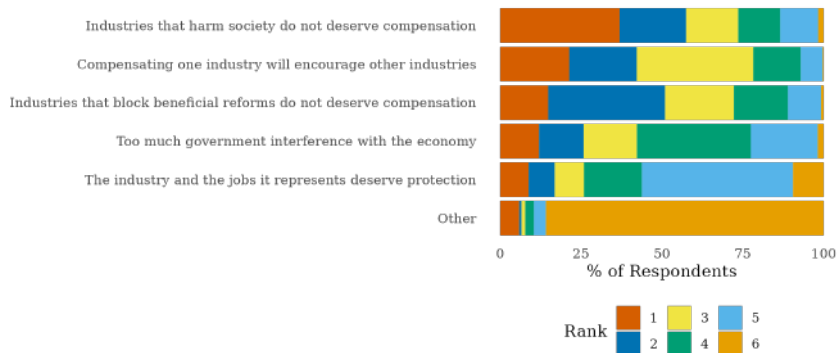
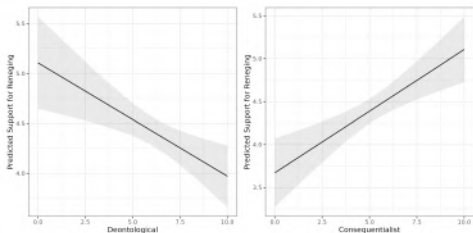


Figure : Rank the best reasons to oppose a coal industry buyout

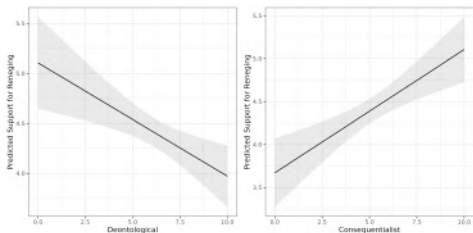
Findings (v): Recipients have reason to question credibility

- ▶ **46%** in favor of renegeing on buyout; a **majority** not opposed.
- ▶ Those in favor of phasing out coal in the first place are also **more** likely to favor renegeing
- ▶ **Consequentialist** (vs. deontological) reasoning sharply associated with support for renegeing.



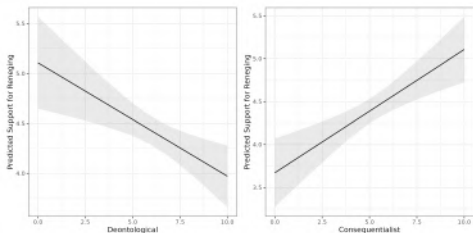
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Conclusion

Do buyouts
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to do the "right thing"?

Findings suggest tentative
yes. But **design** matters.
And the binding constraint
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Coal

One third of the energy used in the United States comes from coal. Coal mining and energy plants cause severe health problems such as cancer and respiratory illnesses. Experts estimate that these health problems cost Americans \$309 billion a year.

Coal: "workers" vs. "industry"

{The coal industry | Coal workers} oppose{s} shutting down coal power plants because it would {hurt their business | lead to job losses}. Through intense lobbying, they have pressured the government to keep coal plants running.

Some people say that the only way to close these coal plants is to compensate [the coal industry | coal workers] for their losses. This would cost \$80 billion dollars now, but it would save Americans money in the long run.

Coal: Counterarguments

- ▶ Control: no additional text.
- ▶ Moral hazard:
Others say that if the government pays to shut down coal plants, it would encourage other [industries/workers] to lobby against beneficial reforms in the future.
- ▶ Govt interference:
Others say that if the government pays to shut down coal plants, it would be playing too large of a role in the economy.

Dictator amnesty

In many countries, dictators brutally repress their citizens in order to stay in power. When dictators lose power, they are often sent to prison or killed. Some people say that if we allowed dictators to retire safely, they would be less desperate to stay in power, and would use less violence to crack down against their citizens.

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Dictator amnesty

- ▶ Control: no additional text.
- ▶ Moral hazard: *Others say that letting dictators avoid legal consequences encourages other leaders to resort to violent repression.*
- ▶ Moral aversion: *Others say that it is wrong to let dictators get away with their crimes.*

Imagine that a foreign dictator is willing to give up power and put an end to a civil war. In exchange, he wants to avoid prison and retire safely in Switzerland. Should the United States support this kind of deal?

Real Buyouts: Agriculture

- ▶ US Farm Bill buyouts: first "cash-out" attempt in 1949.
- ▶ Bipartisan Boschwitz-Boren proposal in 1985: dismantled all support for agricultural commodities in exchange of **direct transition payments** to farmers, phased out over **6 years**.
- ▶ CBO estimated the cost at **\$51 billion over the first three years**. Republicans rejected it as too expensive.
- ▶ Continuation of the program soon cost more than the buyout would have, at **\$25.8 billion** in its first year alone.
- ▶ And yet: US partly or entirely bought out and liberalized agricultural quotas in **tobacco, wheat, corn and rice**; came short of doing the same for **sugar, peanuts, and dairy**.

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Ontario's Coal Phase Out

Real Buyouts: Coal

- ▶ Ontario bought and phased out its last coal plant in 2014, and compensated coal workers. Equivalent of taking seven million cars off the road.
- ▶ Alberta copied the model: a fund to top up affected workers' income to 75% of previous earnings, paid from a carbon tax.
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Deal of the century: buy out the US coal industry for \$50bn

What if Bloomberg, Branson and Grantham came together to buy out the coal industry, close and clean up the mines, retrain workers and accelerate the expansion of renewable energy?



▲ Time to hang up the boots. It will cost just \$50bn to buy up and shut down all private and public coal companies in the US. Photograph: Ennio Morenatti/AP

A not-so-modest climate proposal: why not just buy out the US coal industry?

By Neil Parmer | @neilparmer | @neilparmer | Updated Jun 1, 2020, 3:45pm EDT

f t @neilparmer



Our own rough estimate, which we use in the survey, is **\$80 billion**.

Other buyouts

- ▶ **Patent** buyouts: e.g. France in 1839 buys Daguerreotype patent and puts into public domain.
- ▶ Canada pays **wine makers** \$8,100 per acre to pull out "undesirable," low quality vines, in exchange of liberalization, following 1988 CUSFTA. Acreage devoted to wine drops by 2/3 in one year. But industry now profitable.
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Tax Simplification

Every year, Americans spend a lot of time filling out their tax returns, and a lot of money on tax software and services. The IRS has all the information it would need to fill out most people's tax forms automatically. This would save Americans \$2 billion a year in time and money.

Tax Simplification

{Tax software companies | People who work in the tax industry} oppose automatic tax filing, because it would hurt their {business | income}. Through intense lobbying, they have pressured the government to maintain the current system. Some people say

that the only way to simplify tax filing is to compensate {tax software companies for their losses | workers in the tax industry who lose their jobs as a result}, to convince them to accept this reform. This would cost the government \$10 billion now, but it would save Americans money in the long run.

Counterargument treatment

- ▶ Control: no additional text
- ▶ Moral hazard: Others say that if the government pays *{tax software companies / people who work in the tax industry}* to simplify tax filing, it would encourage other *{industries / workers}* to lobby against beneficial reforms in the future.
- ▶ Govt interference: Others say that if the government pays *{tax software companies / people who work in the tax industry}* to simply tax filing, it would be playing too large of a role in the economy.