

PoliticalSheepdog.com:

Internet Market to Reinvigorate Democracy

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Introduction

PoliticalSheepdog.com at its core is about fairness. It is about correcting the misalignments in our profit system, which under compensates people, who do enormous good, while over compensating others. For example, shouldn't people, who do good and protect consumers, be paid and be paid fairly with competitive market rates? Shouldn't people, who do good and protect consumers, be paid fairly, even if they are working to change government? Jim Collins in his books, *From Good to Great* and *Built to Last* found that great corporations had great incentives. If great incentives can work for corporations, shouldn't they work for governments and nations? Wouldn't you and our economy be happier and healthier, if people, who protected consumers could compete fairly with the private sector to ensure sustainable protection for consumers like you, because we are all consumers? As a result, this book will argue that not only is fair compensation ethical, but failure to support fair compensation is self-destructive to you and your family. A fairer incentive structure is the purpose of PoliticalSheepdog.com.

This book will attempt to explain how PoliticalSheepdog.com, a new internet policy market or eBay for good government, works. If enough constituents participate, PoliticalSheepdog.com could drive legislation through legislatures, could invigorate democracy with more constituent engagement throughout the election and legislative process, and could protect us from multiple disasters. These disasters might include financial disasters that might result from high Federal budget deficits, Social Security deficits and trade deficits. Other sources of disasters might result from high consumer debt with increasing international competition and with an aging population, which will make it difficult to service that debt. Other disasters might result from the weather like climate change, from psychology like the opioid epidemic, from geology like earthquakes. or astronomic causes solar flares, from technology like cybercriminal. This book will challenge conventional assumptions about money in politics, about ways to stop corruption, and about intellectual property for public policy. Providing new approaches like markets for legislation, like using compensation to fight corruption, like intellectual property for laws, like taxes based on psychological processes that create bad choices, and like money to improve politics should make this book controversial. The purpose of this book is to serve as 1) a theoretical explanation, 2) a practical user's guide and 3) a sales tool to promote PoliticalSheepdog.com and other future policy markets.

The book should educate lay persons how we can use markets to correct current failings in our system. This book should also explain to the lay person and political activists the theory behind policy markets and how to use policy markets like PoliticalSheepdog.com. This book should also be interesting to members of the press, to policy innovators, to students, to talk show hosts, to academics, to intellectual property professionals, and to anyone who is concerned about corruption, the direction of their country and the distribution of wealth.

The structure of this book is more like a manual than a logically ordered book. The earlier chapters give a general overview of the entire system and the status quo that would probably interest most readers. The later chapters are for the more serious readers and for readers who might want to use various aspects of the system. As a result, in addition to a summary at the beginning of each chapter, the author provides comments about which readers might find the chapter interesting. The later chapters are for specific users, because all readers don't need to understand the entire system in order to benefit from it. Users only need to understand how to participate in the parts of PoliticalSheepdog.com, which they can use. While the initial summary

and the overview chapters will explain a portion of PoliticalSheepdog.com, they will help the reader determine whether or not she or he wants to read further or which chapter he or she might want to read.

As mentioned, the first chapter is a summary of the entire book for the lay reader. The second chapter “A Simplified Example of the Process: The Credit Card Industry and PoliticalSheepdog.com,” is a simplified example of the PoliticalSheepdog process, which explains how PoliticalSheepdog might counter excesses in the credit card industry. The chapter starts with the first registration of a description of the policy concept with the U.S. Copyright Office and proceeds to the enactment of a policy that would protect consumers and the payment of everyone, who helped with the creation and passage of the policy.

The third chapter, “The Status Quo and Fixing It,” discusses the current state of the United States and the problems like corruption and our deficits, which PoliticalSheepdog.com could correct. Then, the fourth chapter, entitled “History of PoliticalSheepdog.com,” describe the development of PoliticalSheepdog.com and the motivations behind that development.

The next seven chapters deal with theory. While written for the interested lay reader, these chapters would be more interesting to the specialists like economists, politicians, policy entrepreneurs, etc. The fifth chapter, entitled “Policy Markets and Corruption,” explains the causes of corruption and why markets are the best approach to fight corruption. The sixth chapter, entitled “Basic Economic Theory,” reviews supply and demand curves and develops a standard of fairness for markets and PoliticalSheepdog.com from those curves. The seventh chapter, “Quick Review of Welfare Economics,” explains when markets can produce suboptimal results. The eighth theoretical chapter, “Intellectual Property Theory,” explains why intellectual property is necessary and uses the fairness concepts from “The Basic Economics” chapter to develop a new theory of intellectual property, which we can apply to legislation. The ninth chapter, “Psychological Market Failure,” explains how psychological states of mind result in suboptimal purchasing and explains why businesses must prey on the psychological weaknesses of consumers. The tenth chapter, “Government Failure,” explains how governments cause suboptimal choices. The eleventh chapter, “Justification, Synthesis and Promise,” attempts to weave the theories together to explain why PoliticalSheepdog.com is necessary.

The twelfth chapter, “Innovators, activist/organizers: PoliticalSheepdog.com Entrepreneurs,” explains the different types of policy innovators and their appropriate compensation. The thirteenth chapter, entitled “Chronological Example: HIV and the PoliticalSheepdog.com Process,” explains the PoliticalSheepdog.com process in still greater detail than in Chapter 2. It describes the bidding phases of the auction, which were neglected in Chapter 2, and then summarizes the other graphs used in the lobbying and final phases of the auction. It uses the fight against HIV as an example to explain how to use PoliticalSheepdog process.

The fourteenth chapter, “Session Level, Primary Election, General Election, Sponsorship and Cascading Auctions: General Descriptions,” explains how multiple types of auctions can work together to pass legislation. The fifteenth chapter, Primary Election, General Election, and Sponsorship Auctions: A Detailed Description, explains the various auctions in more detail. The sixteenth chapter, “Preserving Integrity,” explains the structure of a foundation that would be necessary to maintain the integrity of PoliticalSheepdog.com. The seventeenth chapter, “Savings for Debt” explains how the PoliticalSheepdog.com can provide the savings to reduce our current debt. Chapter 18 is another summary.

Without the help of many people, this book could never have been written. I would like to thank Dr. Linda Mahin, who taught me to write and who proofread most of the manuscript. I would

like to thank Dr. Tom Zak, who taught me welfare economics. I would especially like to thank Dr. John Leonard, who guided me through economics and helped me with research in economic psychology and the economics of intellectual property. He helped me develop the concept of psychological market failure and a new intellectual property theory. He also said that I am working at the post-doctorate fellowship in economics level in my fields of psychological economics, welfare economics, and intellectual property economics. Thanks to him, I have probably developed the best theory of intellectual property based on a technical concept, the marginal revenue product, rather than the current approach to intellectual property based on twice the length of an apprenticeship. I would like to thank Joni Prinjinski, who contributed to the website descriptions and created the logo for PoliticalSheepdog.com. In addition, I would like to thank my mother, who supported the development of PoliticalSheepdog.com. I would like to thank my wife, Elizabeth, for her tolerance of my obsession. I would like to thank Ken Fischer of ClickforHelp.com, whose organization programmed the PoliticalSheepdog.com system. I would like to thank Nicholas Blazer, who has given me insights into politics and who encouraged me to read *Words that Work* by Dr. Luntz. I would like to thank Dr. Luntz, because he wrote *Words that Work* and has given me sensitivity to the nuances of words. Finally, I would like to thank Steve Jobs and Steve Wozniak for their efforts to development and to popularize the personal computer, which allowed a dyslexic to write this book and allowed such a system to exist.

I apologize to economists for any mistakes that I have made and any oversimplifications to provide the average reader with an understanding of the basic arguments for policy markets.

Chapter 1

Brief Summary

Why did Elvis or why do professional athletes become wealthy, while teachers don't become wealthy even though teachers appear to create more value? How can the United States create the savings necessary to pay off our high trade, Federal, Social Security and consumer deficits? How can we reduce these deficits when greater competition from more market driven economies like China and India, and when an aging population will make servicing those debts more difficult? How can we avoid potential extinction from global warming? How can the United States create a system that prevents disasters like Katrina or the 2008 banking collapse? If we made the prevention of drug addiction, alcoholism, HIV, etc. profitable, wouldn't we have less disease and better health? Why have previous attempts to stop corruption failed? This book will try to answer these questions. It will also explain the PoliticalSheepdog.com system and how it could prevent these problems and much more.

Shouldn't people, who do good, be paid and be paid fairly? For example, imagine that you were a manufacturer and an inventor tried to sell your company a new machine. The inventor told you that you could use her machine, but you had to give her half of the additional profits resulting from the machine. As a result, you would have an opportunity for a risk free \$500,000. Since you would probably consider that the \$500,000 was a good deal, you would probably accept the offer, because you would be \$500,000 richer and the inventor would have done something good for you.

If compensation for inventors can be good for manufacturers, then why shouldn't it be good for consumers? What if a policy innovator could provide consumers billions of dollars of benefits that could reduce your costs or save your life? For example, what if an innovator could have prevented opioid addiction in your children? What if a system could encourage policy innovators to identify and prevent problems rather than the current system of waiting for a disaster like Katrina to strike before democracies act? Shouldn't that innovator be paid fairly? Wouldn't such a system be an improvement? In addition, if you want other people to invent other beneficial policies in the future, wouldn't you want to provide those inventors with enough compensation to ensure a culture that could provide infinite benefits in future for you, your children and their children? Isn't it better to have more pie, than a smaller share of an equal pie? Furthermore, Abraham Lincoln in his attack on slavery said that a man ought to be able to eat the bread that he makes. As a result, shouldn't policy innovators, who protect consumers, have a share of the benefits that they create for consumers? Wouldn't it be better if the people, who did the most good, adjusted for competition, received the greatest income to signal to inventors and their supporters that good was valuable? Shouldn't policy innovators, who protect consumers receive a share of the benefits that they produce in order to signal priorities to future policy innovators that we need protective policies and to prioritize what policy innovations need creation?

In addition, government in its many forms is an invention to organize society. As a result, government is a technology. Since government is a technology, shouldn't we treat government like any other technology? Shouldn't we protect value-creating policy innovators with

intellectual property to encourage them to compete sustainably to create more innovations and technologies?

Furthermore, failure to provide these innovators with a share of the benefits could result in disastrous, self-destructive consequences, while forfeiting infinite potential benefits of an intellectual property system. As a result, it is criminally negligent that governments have failed to provide these policy innovators, whose policies protect consumers, with intellectual property rights in order to ensure that the innovators receive a share of the benefits that the innovators create for consumers.

Also, wouldn't you want to give the first innovator enough compensation to encourage a culture of innovation that would encourage future innovators with enough incentives to overcome risks and overcome alternative opportunities to ensure an infinite future flow of benefits for you and your children. These are the beliefs or premises behind PoliticalSheepdog.com. With PoliticalSheepdog.com, the policy innovators and PoliticalSheepdog.com would replace the inventors in the analogy of the inventor and the manufacturer. The consumers would replace the manufacturers.

The premise for PoliticalSheepdog.com is that people, who do good, even people who invent public policy, ought to be paid fairly. Fair in this case refers to a technical economic concept - the marginal revenue product at zero or its equivalent. The margin revenue product at zero sets the fair wage for a skill, because it balances competition with demand to determine fair compensation for different skills. As a result, the marginal revenue product at zero is the standard of fairness for markets. Since different skills receive different compensation, the marginal revenue product is a different standard of fairness than material equality. The marginal revenue product is also superior to material equality, because it provides the most accurate way to organize billions of human choices into a signal to inform businesses about what people need and what to produce. Failure to appreciate the marginal revenue product and the importance of incentives for innovation can result in disasters like the economic and political chaos in Venezuela under Hugo Chavez and his successor.

In addition, the marginal revenue product is ubiquitous. It controls everything. Even if you disagree with it, you cannot avoid it. As a result, if you do not understand the marginal revenue product and its importance, the institutions, which educated that you, have betrayed their responsibility to provide you with a fundamental education. You, however, are in good company, because few people understand the importance of the marginal revenue product.

While we cannot avoid the marginal revenue product, we can improve to make it a more accurate reflection of consumer needs. The current marginal revenue product is vulnerable to distortions, as occurs with alcoholism, with immediate gratification or with invisible dangers like the incentives that created the 2008 banking collapse. PoliticalSheepdog.com can provide the incentives for frontline individuals to create policies to improve the accuracy of all profit signals to best meet the needs of consumers like you and hopefully provide you and your family with the best protection from harm.

If you were going to improve the marginal revenue product and create financial incentives to create "good" government, then what measure would you select? First, the measure should be broad to help as many people as possible. Economists might argue that we should try to maximize the benefits to producers and consumers, but producers have several advantages over consumers. First, producers always have far fewer individuals in their industry than the total number of consumers, which includes everyone. As a result, it is far easier to organize

producers into political groups than organize consumers, who are far more numerous and far more diverse. Second, if producers corrupt the system, they can spread their costs thinly. This thinness obstructs the ability of consumers to fight corruption, because the costs to fight corruption will far exceed the costs to individuals or small groups of consumers to fight corruption. As a result, fighting corruption is difficult and consumers are vulnerable. (See *Greedy Bastards: How We Can Stop Corporate Communists, Banksters and Other Vampires from Sucking America Dry* by Dylan Ratigan for more in this subject.) This vulnerability of consumers can be reduced or eliminated by PoliticalSheepdog.com, because PoliticalSheepdog.com can find the minimum number of lowest bidding constituents necessary to defeat the corruption. Then, PoliticalSheepdog.com also encourages the passage of laws to have the government pay for the fight. In addition, PoliticalSheepdog.com could use the unethical revenues influential crooks to starve corruption, while crooks can only cheat with their smaller devious profits. In addition, since everyone buys things and is a consumer, anything that protects consumers is going to be broad.

If PoliticalSheepdog.com tried to maximize the benefits to producers and consumers, the producers might overwhelm the vulnerable consumers. As a result, PoliticalSheepdog.com will concentrate on consumers, knowing that it is not perfect for now. If someone has a better measure of “good” for good government or a better process, please inform us.

Since free good government has rarely happened, it is deliriously naive to expect to achieve sustainable good government for free. This rarity explains the failures of Common Cause and other “good” government groups to create sustainable “good” government. As a result, if we are going to create sustainable good government, we need to pay for it. If we are going to pay for it, the next questions are:

- 1) How do you measure good government in financial terms?
- 2) How do we compensate consumer-protecting innovators and their supporters?
- 3) How do we find minimum compensation to obtain the best government?

To measure good government and to compensate consumer-protecting innovators and their supporters, is there any other realistic alternative to money? Money is used throughout commerce due to its flexibility and divisibility. Using money would also blend the value of the public good with other values in the economy to send businesses more accurate signals about consumers needs and set more accurate priorities for the economy. As a result, there is probably no other way to ensure accurate signals to determine the needs of consumers and to signal to policy innovators what policies to create and to promote, than to use money as a measure of good government and to compensate policy innovators and their supporters.

Since markets fail to reveal some costs, like the costs of pollution, which effect your or your children’s health, we must occasionally estimate many costs. While the estimates might be inaccurate, failing to provide estimates is less accurate, because failing to create estimate assumes that there are no costs and that eliminating those costs and doing good have no value. As a result, shouldn’t we use financial measures to reward any good that policy innovators create with a new public policy? Furthermore, can you think of a better financial measure than the long term net health and financial savings to consumers as a measure of “good” government and still protect vulnerable consumers?

The “net” applies to the difference between the costs and benefits with and without the policy, including the costs to administer the policy and to monitor its savings. In addition, it should be noted that the taxes on one group of consumers to provide benefits for the poor only impose a net cost for consumers for the transaction costs. The actual benefits of the transfer payments cancel each other, because both groups are consumers. It should be noted here also that taxes on the wealthy to subsidize the poor, when the poverty could have been prevented like the prevention of the 2008 banking collapse, also subsidizes the inefficiency that created the poverty. These subsidies are a reckless squandering of resources and unfair to everyone.

Net long term net health and financial savings to consumers has several advantages:

First, since we are all consumers, net long term savings for consumers is broad and a pretty good definition of the public good.

Second, net long term net health and financial savings to consumers is relatively measurable and relatively non-partisan definition of what is a “good,” because everyone is a consumer. These savings are more measurable than equality, for which economists have failed to reach a consensus on techniques to measure its value.

Third, savings through efficiencies could help pay down the debt from our high Federal, consumer, trade and Social Security deficits with less pain, while protecting us from financial disaster.

Fourth, since the system requires that the payments can only come from a share of the total negotiated or arbitrated estimated savings generated from that a policy, these limits ensure that the consumers like you always benefit. These requirements also ensure that the compensation for PoliticalSheepdog.com is tied to the welfare of consumers like you and your family. As a result, consumers would always benefit and these benefits can extend into infinity, while the costs would only be temporary.

Fifth, since corruption causes costs to consumers like you, PoliticalSheepdog system could use net long-term savings from corruption reduction to crush corruption. In addition, limits set by a share of total savings would also prevent corruption from PoliticalSheepdog.com.

Sixth, savings can provide a source of funds with which to pay people, who create the “good” policy. As with the example of the inventor and the manufacturers, if we create savings, some of those savings can pay the PoliticalSheepdog.com participants for their innovation and support. Clearly, PoliticalSheepdog.com can provide potential for a win-win-win situation here.

Seventh, long term net health and financial savings for consumers in a changing economy could provide a rapid signals for a quicker prevention. As a result, PoliticalSheepdog.com could create a nimbler entrepreneurial public policy development and implementation of consumer protecting policies. This rapidity will also make the United States a more efficient international competitor.

Eighth, if there are any mistakes, deviants, or excesses in the PoliticalSheepdog.com system, creating excess costs for consumers, individual policy innovators would have the incentives to correct them, which could provide savings for consumers. As a result, the system would be self-correcting.

Finally, since long term savings also applies potential health and mortality costs, efficiencies for citizens implies protection of rights of ethnic and religious minority groups. Furthermore, the destruction of health could increase costs and destruction of protection of one group can result in the destruction of the rights for the next group until everyone is threatened, which can create severe inefficiencies for consumers throughout a nation. As a result,

PoliticalSheepdog.com could be used to protect at least some and possibly many rights of minorities.

If we are going to pay for good government in order to prevent threats to your family, how do we determine the lowest sustainable costs to gain that protection and yet compete with alternatives? To determine these lowest sustainable costs, are there any alternatives to markets or market equivalents? Markets have two other advantages:

1) An open system like a market would have more transparency and better policies because more participants would ensure more transparency and increase the pool of innovations.

2) Using markets for public policy could better integrate public sector costs and benefits into the general economy, which would provide more accurate profit signals for producers to provide better care for the consumers like you. As a result, we could better align business interests with your interests.

To improve this alignment, PoliticalSheepdog.com is an independent, non-partisan internet market and intellectual property system for policies that provide a net long term savings for consumers. These policies to protect consumers can come from anyone and any registered voter can lobby for those ideas through PoliticalSheepdog.com. As a result, PoliticalSheepdog.com is also a constituent driven lobbying system, designed to drive consumer protecting policies through legislatures. Its goals are:

- to provide health and financial savings or provide efficiencies for consumers throughout the entire economy, including government
- to provide constituents, who successfully lobby for legislation that provides greater financial and health savings for consumers with fair and competitive financial compensation,
- to increase the interest of constituents in legislation and, thereby, improve transparency,
- to improve the creativity of all people to create better laws,
- to improve the agility and quality of government,
- to invigorate democracy and transparency, while decreasing corruption with stronger relationships between constituents and their legislators.

The key components to this system are an internet market for lobbying constituents and an intellectual property system for innovators, who create public policies that provide long term net health and financial savings for consumers. The savings can create either government savings for tax payers as consumers of government services or consumer savings from the correction of vast inefficiencies in the entire economy. From these savings and from taxes on products and services that harm consumers will come the funds to pay and provide incentives the PoliticalSheepdog.com participants. These incentives could also encourage efficiencies to protect the people of the United States and other democracies from impending financial disasters, which could result from high Federal budget, Social Security and trade deficits with high consumer debt and increasing international competition to give greater security to you and everyone else.

The actual system of funding should change with each policy, because different policies will attack different inefficiencies, which will have different causes and with different beneficiaries.

While many people have told the author that the PoliticalSheepdog.com and its markets for public policy will never happen, this expression could become a self-fulfilling prophesy.

PoliticalSheepdog.com will certainly fail, if people fail to join and to participate. Are people concerned enough, intelligent enough, open-minded enough, educated enough, curious enough, smart enough, responsible enough to use PoliticalSheepdog.com to save themselves and humanity **OR** are people too preoccupied, too distracted, too suspicious, too superstitious, too narrow minded, too prejudiced, too ignorant, too apathetic, too stupid, and/or too negligent to save themselves and humanity, when there is an alternative to the current failing incentives, which could result in the extinction of humanity from multiple causes. Sometimes people get the government that they deserve. Does humanity deserve extinction?

Nelson Mandela once said that “It is always impossible until it is done.” Given the threat of infinite costs through extinction from climate change and other vicious circles, is there any other choice than PoliticalSheepdog.com, when it is the only system that can change the incentives driving risky choices?

In addition, given the large deficits in the United States, the United States must utilize a system that can promote savings on a massive scale to protect the climate, to increase security and to reduce the risk a financial disaster. Since PoliticalSheepdog.com could promote massive savings throughout the economy in all jurisdictions and in both the consumer and public sectors of the economy, the United States and other democracies probably have no other acceptable option. They must embrace the PoliticalSheepdog system as quickly as possible, because the alternatives will be so much worse. For example, if politicians and the public fail to utilize PoliticalSheepdog.com, humanity might face extinction. In addition, if United States politicians and the public fail to embrace PoliticalSheepdog.com, the United States could become poorer and less powerful. If the United States must yield its preeminence in power to countries like China, the world will be a riskier, more oppressive place. Whether one is worried about human extinction or the corrupt Chinese oppression, citizens and politicians really don’t have a choice. Politicians must allow experimentation with PoliticalSheepdog.com or risk the extinction of humanity or financial disaster. Such as disaster, would risking a world at the mercy of other less ethical, less democratic governments like China.

Chapter 2

A Simplified Example of the Process: The Credit Card Industry and PoliticalSheepdog.com

Who should read: All readers.

Chapter summary: This chapter will describe how the credit card through legal “tricks and traps” creates costs for consumers and the process by which PoliticalSheepdog.com could eliminate those costs through legislation and produce savings for consumers.

One example where PoliticalSheepdog.com might provide a substantial savings to consumers is the credit card industry. According to Elizabeth Warren¹, a law professor at Harvard, the credit card industry sets “tricks and traps” for consumers, which include “universal default, default rates of interest, late fees, over-limit fees, fees for payment by telephone, repeated changes in the dates bills are due, changes in the locations to which bills should be mailed, making it hard to find the total amount due on the bill, moving bill-reception centers to lengthen the time it takes a bill to arrive by mail, misleading customers about grace periods, and double cycle billing.”² Furthermore, Professor Warren notes that the terms of the credit card agreements are incomprehensible and that the language would be difficult for lawyers to understand.³ The result can be a real interest rates of 400% and higher.

Professor Warren notes that the credit card companies deliberately target the people, who are most likely to be unable to pay their pay all of their balances and thereby need to pay penalty fees. She also notes that loans in the credit card operations of Citi bank were 8 times more profitable than loans from the combined real estate mortgages, student loans, and car loans p.7. The profits for their credit card operations were 6.17%, while their margin for their real estate mortgages, student loans, and car loans is 0.79% with a difference of 5.39%. If we assume that this 5.39% is a percentage difference holds true of the entire credit card industry, then 5.39% of the \$109 billion⁴ or \$5.86 billion in profits of the credit card industry result from “tricks and traps.”

These tricks and traps are the result of an asymmetry of information, because the lawyers and marketing departments for the credit card industry have a much greater understanding of the

¹ Warren, Elizabeth, Harvard Law School, Testimony of Elizabeth Warren, Leo Gottlieb Professor of Law, Harvard Law School, before the Committee on Banking, Housing, and Urban Affairs of the United States Senate; Hearing:Examining the Billing, Marketing, and Disclosure Practices of the Credit Card Industry, and Their Consumers.

² Warren, p. 3

³ Warren, p. 4

⁴ Warren, p. 2

credit card agreements than the consumers. The result is a form of market failure called an information failure (see Chapter 5).

If there were a legislation that would eliminate these tricks and traps, the legislation could produce possible savings per year would be approximately \$5 billion and a savings over 20 years discounted at 7% would be approximately \$50 billion. If the PoliticalSheepdog provided the incentive to invent legislation, which could provide the savings, and could provide the incentives for political support necessary to overcome the credit card lobby or overcome the credit card companies before other political pressure might have overtaken them, then PoliticalSheepdog.com might provide as much as \$50 billion in savings to the consumer.

Let us assume now that a consumer advocate like Professor Warren invented a feasible plan to eliminate the tricks and traps of the credit card industry, which could provide a total conservative discounted savings to consumers of \$25 billion over 20 years. They would first describe and copyright the policy description, which would include a description of how to estimate its savings and an estimate of the savings. For example, the plan could be that credit card companies must only charge a single interest rate per customer and must compete on the basis of interest rates. Next, the consumer advocate would register the policy innovation with PoliticalSheepdog.com and pay fees to cover the cost of evaluations. The policy innovation would undergo an evaluation for uniqueness, probably from a patent attorney. Then, the policy innovation would undergo peer review by economist or accountants to ensure that the plan would probably provide savings and that the savings could be estimated fairly precisely.

PoliticalSheepdog.com would first send the plan to a peer (or peers) for review to determine whether or not the plan and its estimated savings were theoretically feasible. If the peers felt that there were potential savings and that the savings could be estimated reasonably, then the inventing consumer advocate would search for possible sponsoring legislators, who understood the need for fair compensation for policy innovators, for constituents to lobby for consumers in order to defeat the credit card lobbyists, and for the PoliticalSheepdog.com system. Let us also assume for now that that the inventing consumer advocate can find enough legislators to sponsor the legislation in the House and the Senate and would agree to fair compensation to the consumer advocate, who invented the policy, to constituents, who lobby to support the policy, and to PoliticalSheepdog.com. Let us assume that the sponsors negotiate with the inventing consumer advocate and PoliticalSheepdog.com agree on the fees or taxes necessary to compensate PoliticalSheepdog.com, the inventing consumer advocate, and lobbying constituents. If finding sponsors is difficult, PoliticalSheepdog.com has auctions (which we will discuss in later chapters 14) that can encourage legislators to become sponsors of legislation with the compensation for fair policy innovators and PoliticalSheepdog.com.

Now let us assume that a Congressional committee with seven members is going to review the legislation and vote on the legislation. PoliticalSheepdog.com would then start a separate auction for that committee.

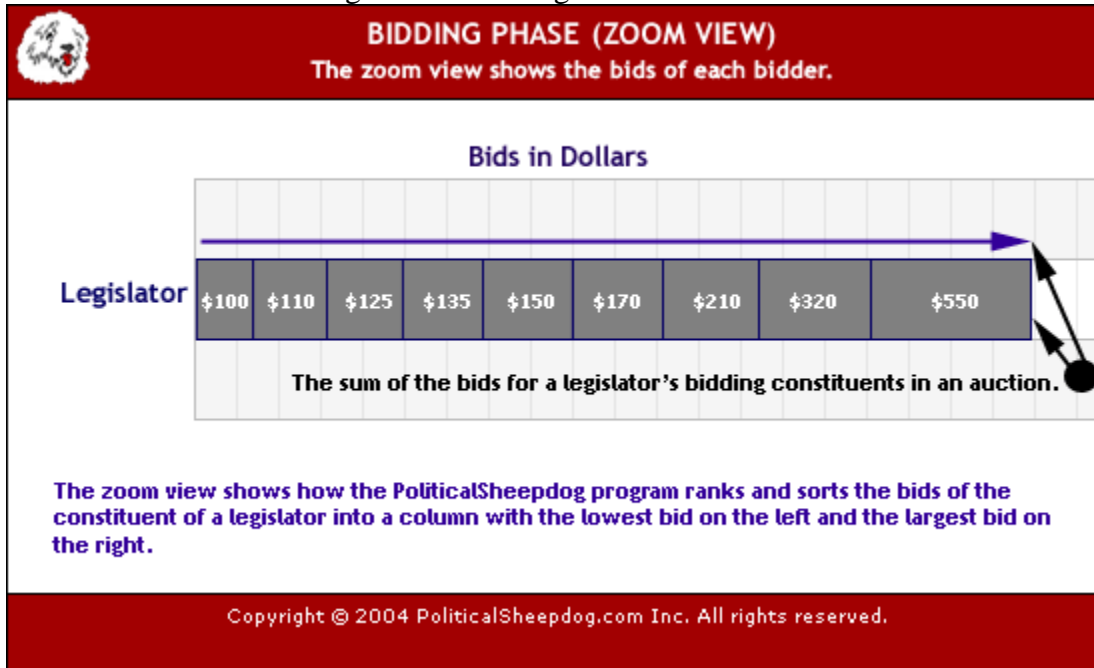
Before we discuss the committee auction further, we need to cover the goals of the auction. The PoliticalSheepdog.com auctions have three main goals.

- To provide health and financial savings for consumers and to make countries more efficient and healthy through public policy.
- To encourage greater fidelity of legislators to their constituents.
- To provide constituents who successfully lobby for legislation that provides greater financial and health efficiency for consumers with fair financial compensation.

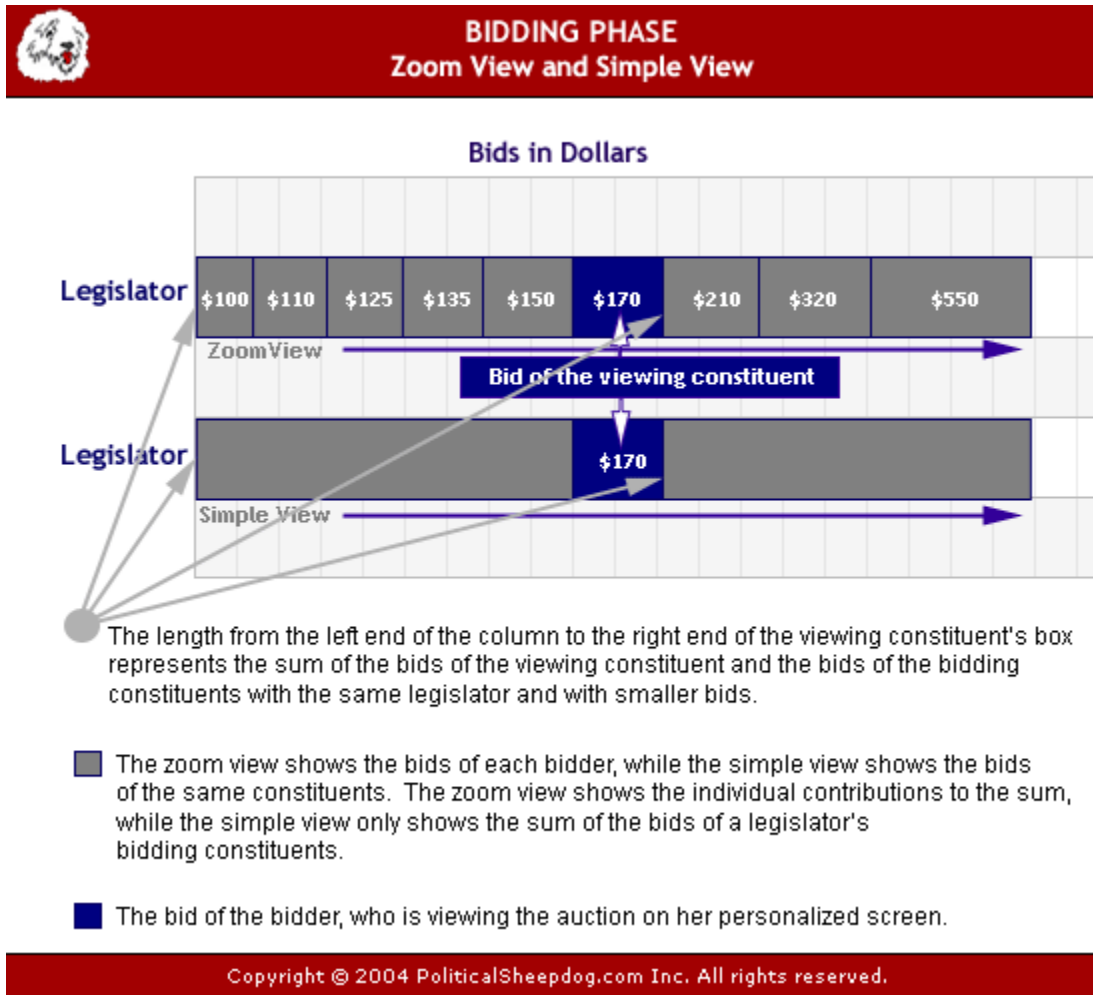
Central to the auction system is an auction process that determines financial compensation for the bidding constituents, when their lobbying efforts are successful. Since legislation must go through committee votes and through votes in lower and upper houses, there can be a separate auction for each committee vote and each house vote. This process requires multiple auctions allowing constituents to actively participate in several rounds of bidding. Each auction, however, has a similar basic format.

Each auction has two phases, a bidding phase and a lobbying phase. As a result, you can have a bidding phase and a lobbying phase for each committee vote and each floor vote in a legislative house. The bids in bidding phase determine the order of lobbying in the lobbying phase. Lower bids lobby earlier, because the goal of PoliticalSheepdog.com is to keep costs low in order to provide savings and efficiency for consumers.

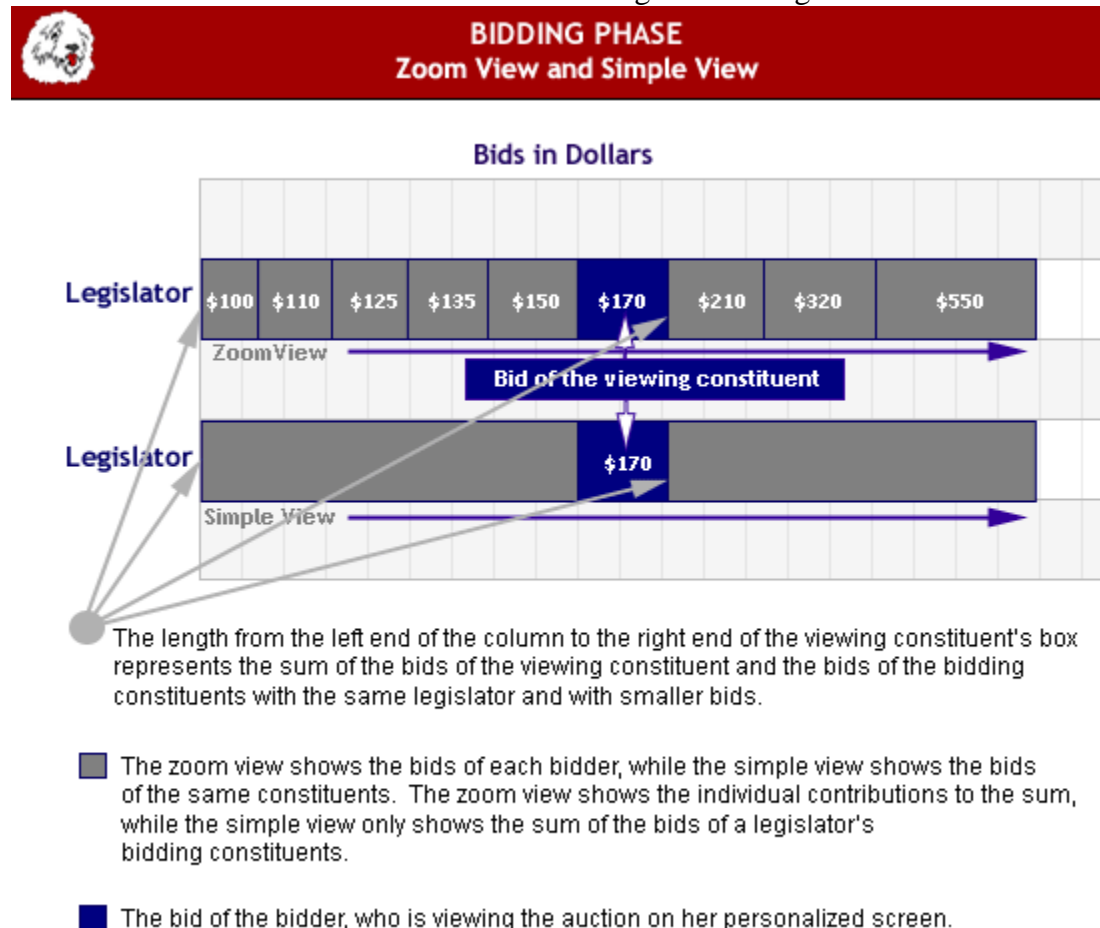
When a constituent in the bidding phase of an auction bids on a policy that PoliticalSheepdog.com supports, the PoliticalSheepdog program sorts the bid to the constituent's legislator. Next, it ranks all of the bids for the legislator's constituents, including the new bid, according to size. The program places the smallest bid in the left of a legislator's column and the largest at the right, as can be seen in the zoom view column (See below). The program inserts the new bid into its appropriate place in the column. The right end of the column represents the total of all of the bids of the legislator's bidding constituents.



In addition to the zoom view, screens will usually show another view, the simple view, which only shows the position of the viewing bidder and not the positions of the other bidders.



Once the auction is underway, constituents logging on to bid will be able to view their bids in relation to other bidding constituents. Their bid will appear as a block on the PoliticalSheepdog personalized screen that the PoliticalSheepdog program sends to every viewing constituent (See below). On the screen below, the viewing constituent's bid of \$170 has a special box with a pattern and/or color representing his or her bid. The left border of the column to the right side of the bidding viewer's box (See below) represents the sum of the viewer's bid and all of the inferior bids relative to the viewer for the viewing bidder's legislator.



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In the bidding phase, constituents bid

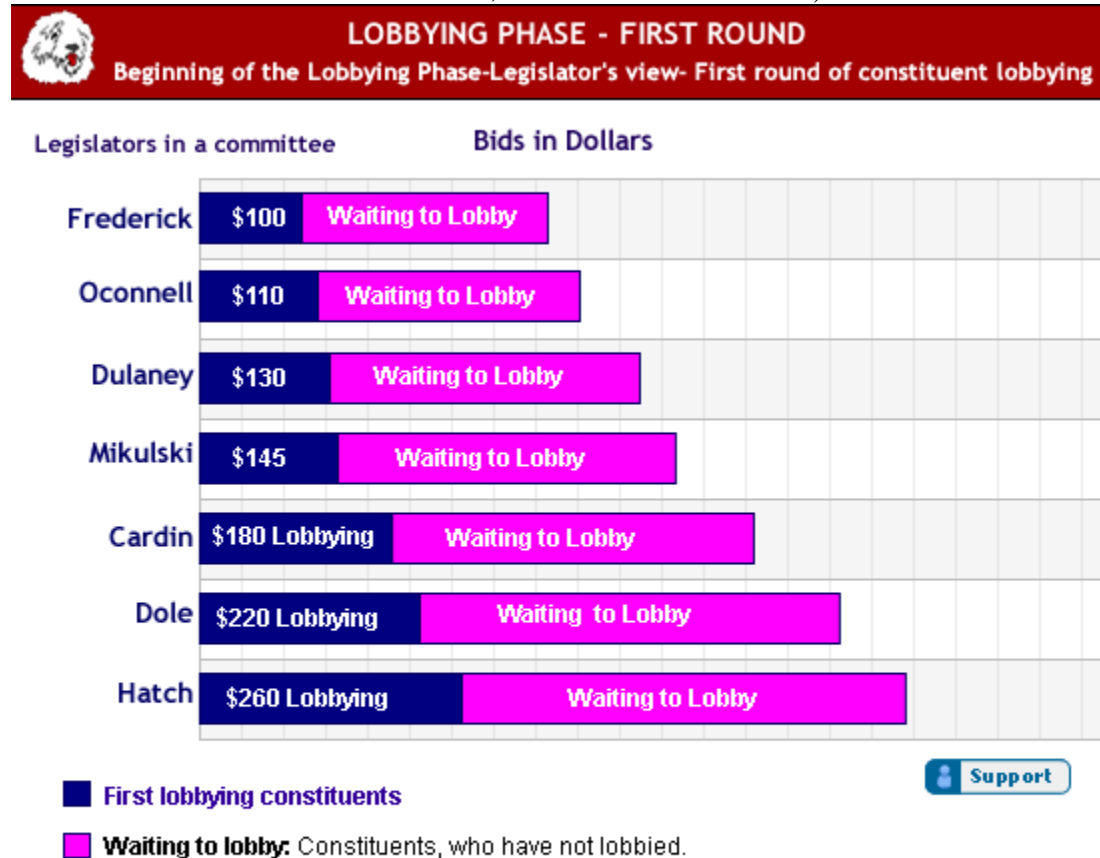
- ☐ to gain financial rewards from a share of the policy savings,
- ☐ to support legislation on moral grounds or
- ☐ to bid due to perceived financial or business benefits.

Bidding constituents compete for lower bids, because lower bids receive an earlier opportunity to lobby legislators, thus increasing their chances of winning. The constituents must try to moderate their desires for financial rewards with the competitive necessity to keep their bids low to compete with other bidders. As a result, greed versus competition will produce a fair market level of compensation.

Participating constituents can also change their bid as many times as they desire in a single auction during its bidding phase and can participate in any of the auctions for which they

qualify. The bidding phase terminates with enough estimated time for the constituents to lobby their respective legislators during the lobbying phase of the auction.

At the beginning of the lobbying phase, the lowest bidding constituent of each legislator (See below) is the first to lobby their legislator (See below). Lobbying constituents encourage their legislator to click the "Support" button. There is no box for the viewing constituent, because this screen will go to legislators and not constituents. (The following graphs are out of date, because the columns are now vertical, but the idea is the same.)



The lobbying constituents encourage their legislator to click the 'Support' button

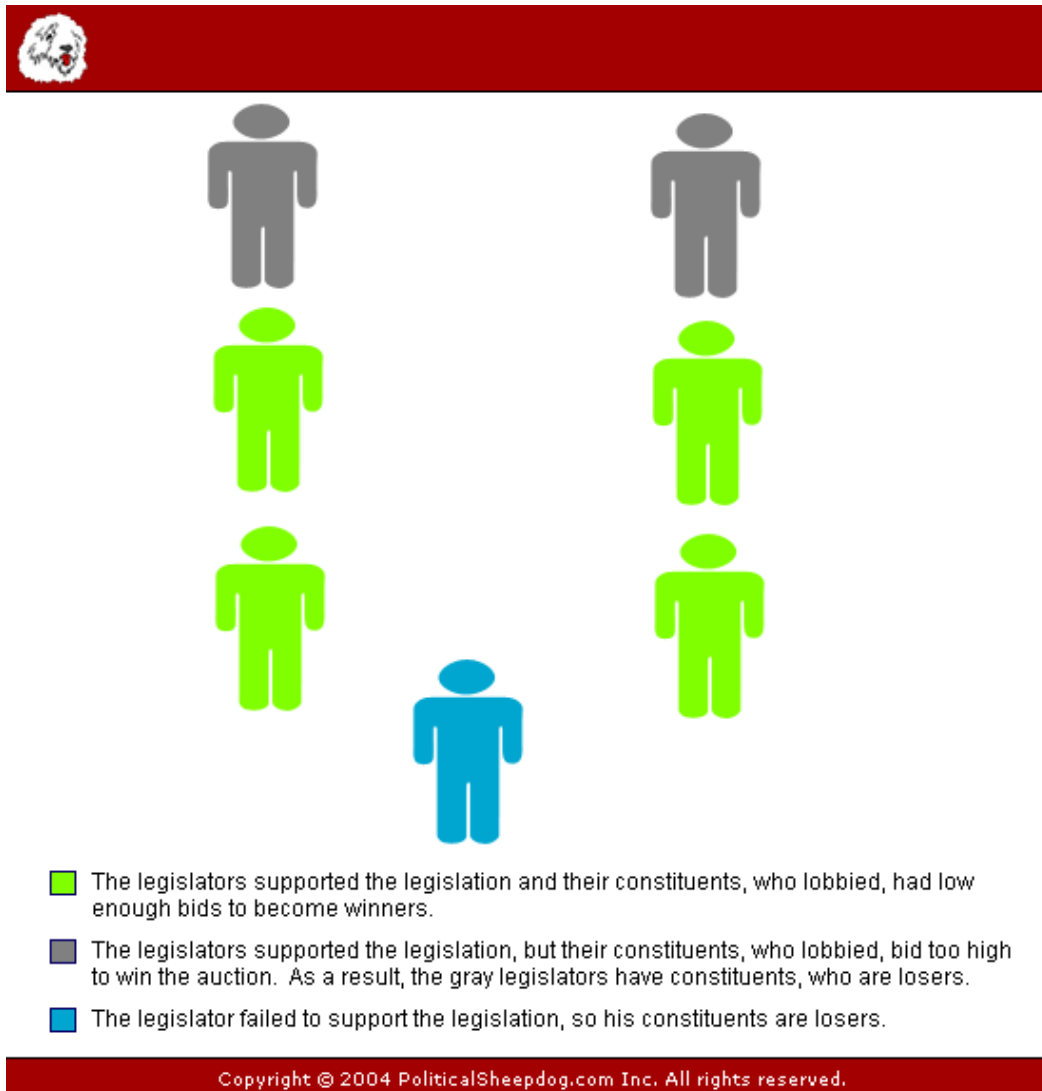
The legislator will choose the “Support” button for several possible reasons.

- The legislator approves of the legislation.
- The legislator aspires for reelection.
- Each bidding constituent actively participates and encourages several other voters participate in the democratic process.
- The lobbying constituent may be a campaign contributor.
- The legislator will want to protect the financial interests of her constituents.
- The legislator wants to end the lobbying by her constituents. Stopping the process allows the legislator to control whether their constituents, who lobbied, receive any possible compensation.

Since the purpose of PoliticalSheepdog.com is to produce savings for consumers, lower expenses can be maintained, if rewards are limited to...

- Constituents, who lobbied for a legislator.
- Constituents, whose legislator supported the legislation.

In an effort to provide more savings for consumers, the PoliticalSheepdog system eliminates constituent compensation for constituents of some supporting legislators, when the number of supporting legislators are larger than the minimum necessary for a majority, because the legislative protocol only requires a minimum majority. For example, if a committee has 7 members, only 4 committee members are necessary to pass the legislation. As a result, the PoliticalSheepdog system would reward the 4 lowest bidding groups of constituents, who lobbied and whose legislator voted for the legislation, even if 5 or 6 legislators voted for the legislation.

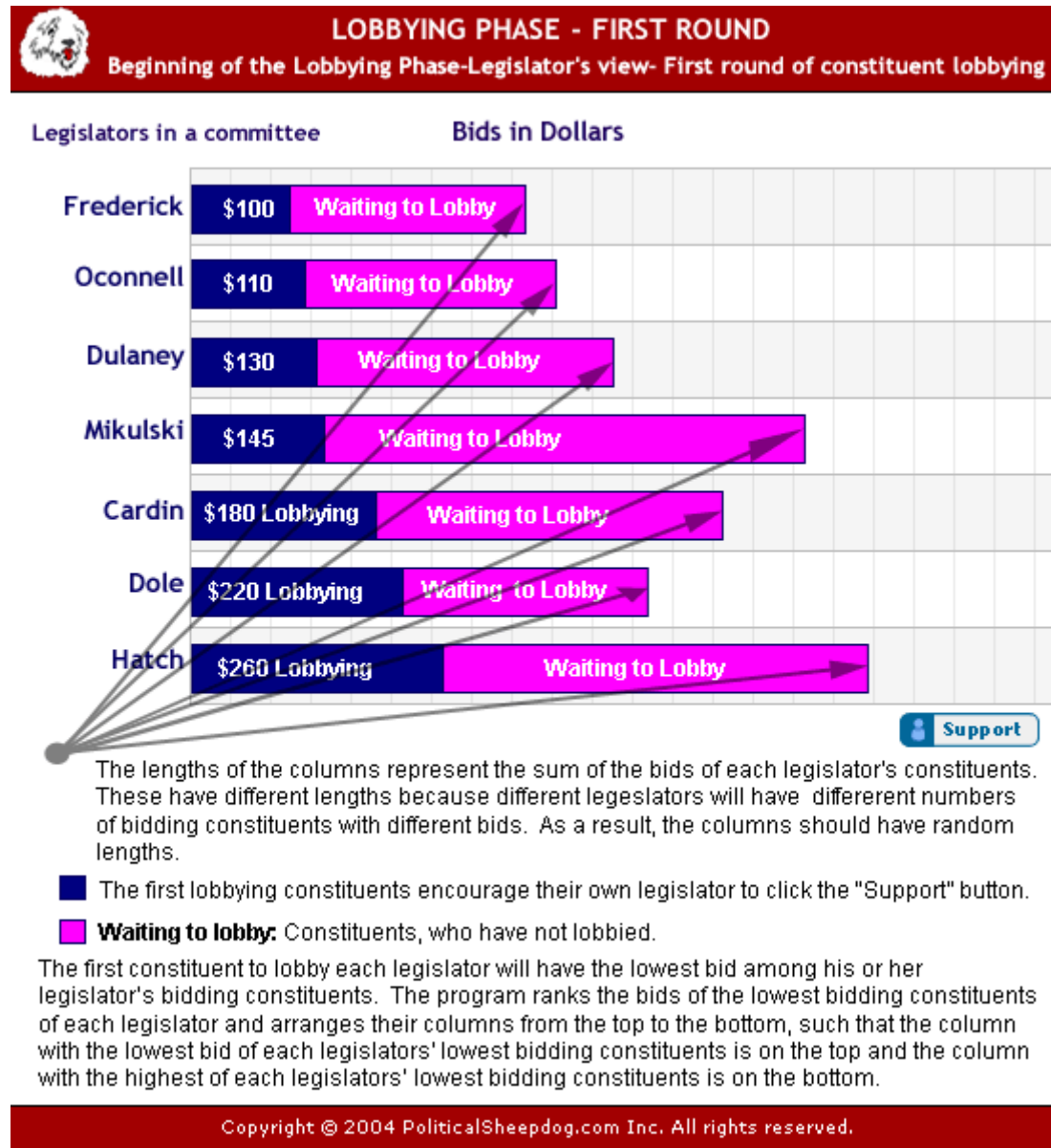


If there are 401 legislators in the lower house of a legislature and 201 are necessary for a working majority, but 250 legislators voted for the legislation, then there will be 201 legislators with winning groups of lowest bidding constituent, who will have winning constituents.

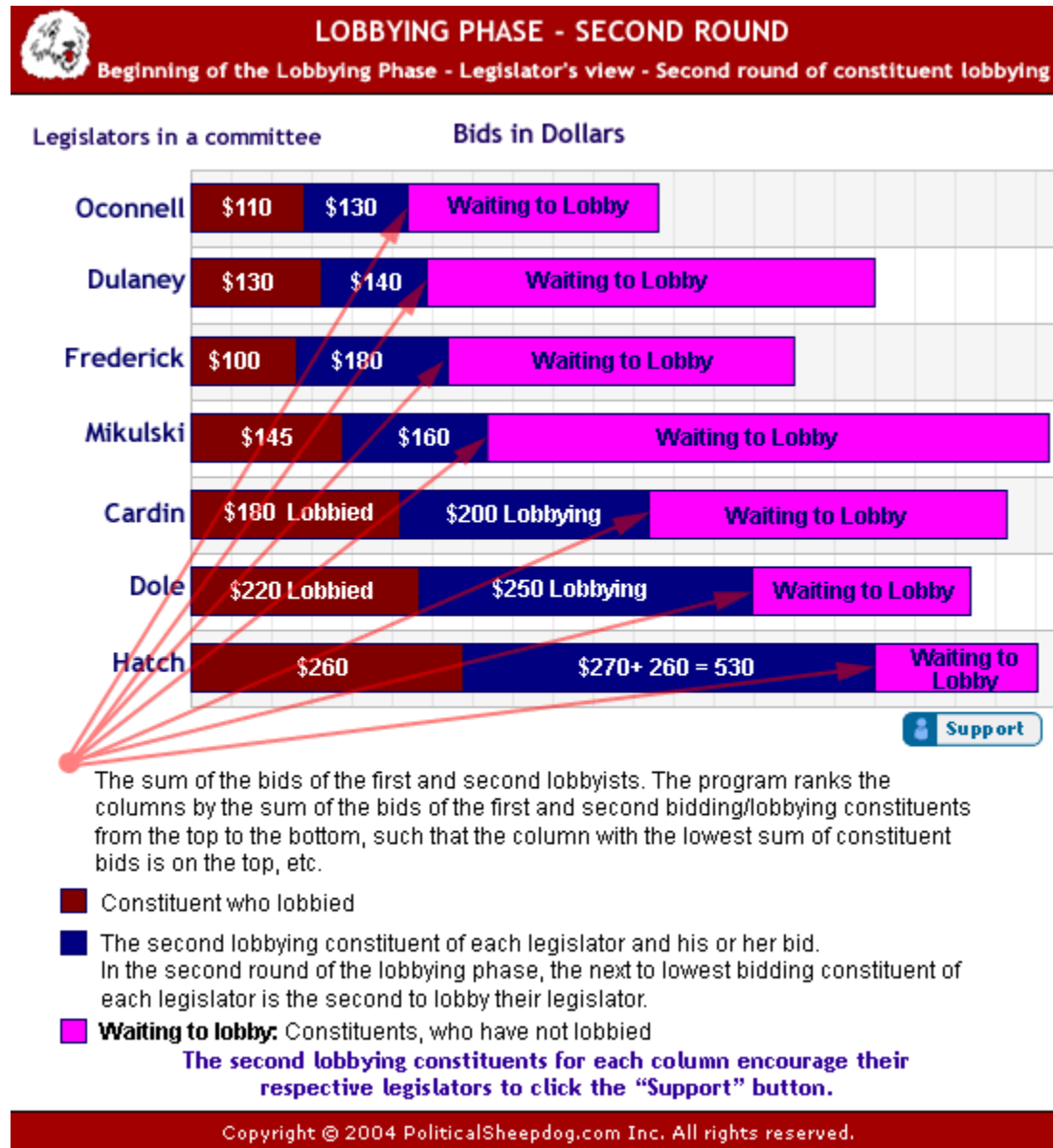
Competitive lobbying among constituents of a legislator occurs within the horizontal columns, while competitive bidding against the constituents lobbying other legislators occurs

between the columns. Legislators compete to allow their lobbying constituency to remain among a number of legislator's groups of lobbying constituents with lowest bids. This number equals to the number for the minimum majority like the lowest bidding 4 groups in a committee of 7.

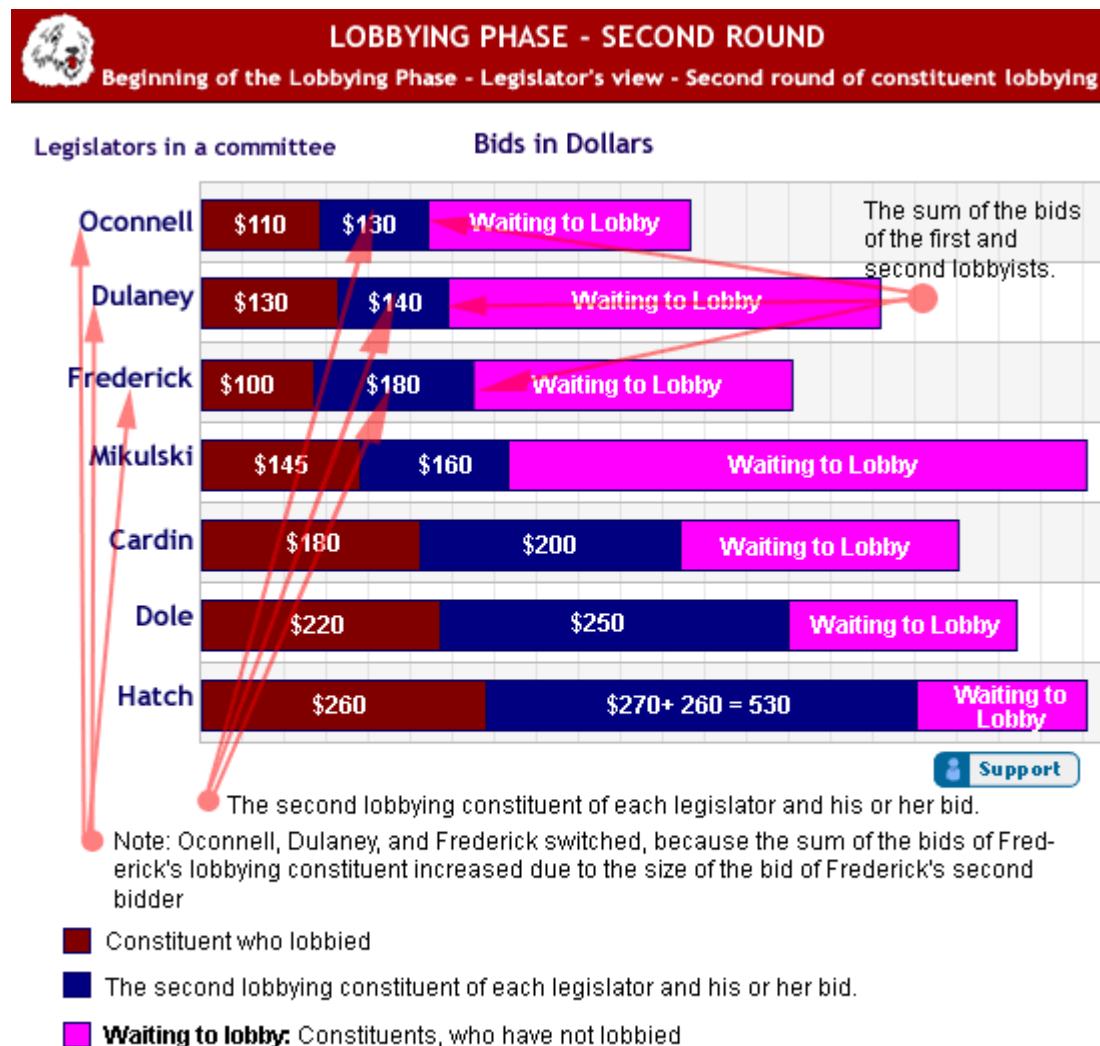
Since constituents must compete against the constituents of other legislators, the program ranks the bids of all lowest bidding constituents, who lobbied, and arranges columns from the top to the bottom to allow legislators to see how constituents are competing. The column with the lowest bid is on the top and the column with the highest bid is on the bottom (See below). Columns will attain random lengths, because each legislator will have a different number of bidding constituents with different bids (See below). (The following graphs are out of date, because the columns are now vertical, but the idea is the same.)



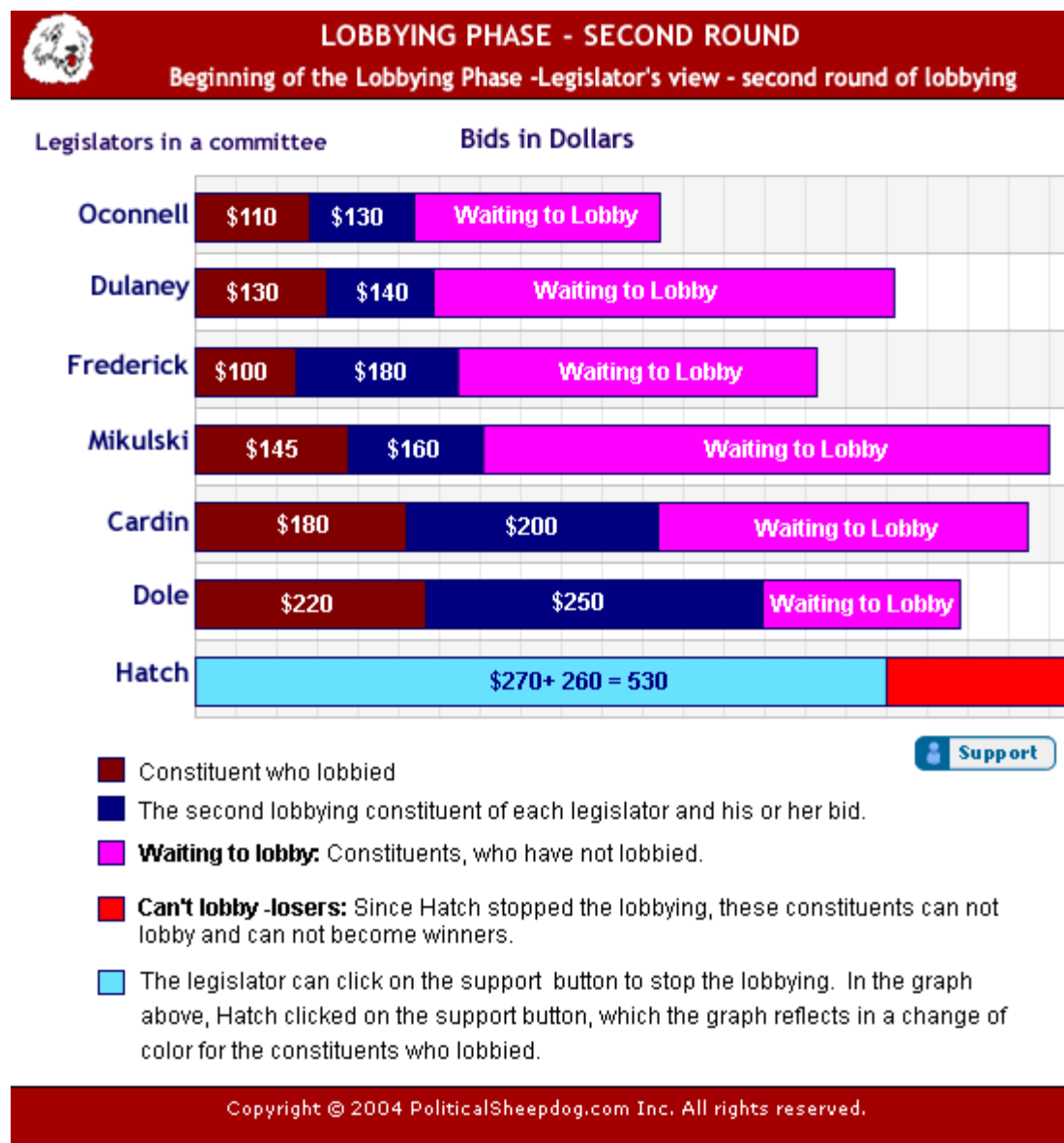
In the second round of the lobbying phase, the next to lowest bidding constituent of each legislator is the next to lobby their legislator (See the blue box below). The second lobbying constituent also encourages her legislator to click the "Support" button (See below). The program ranks the columns by the sum of the bids of the first and second bidding/lobbying constituents from top to bottom, such that the column with the lowest sum of lobbying constituent bids is on the top. (See below). (The following graphs are out of date, because the columns are now vertical, but the idea is the same.)



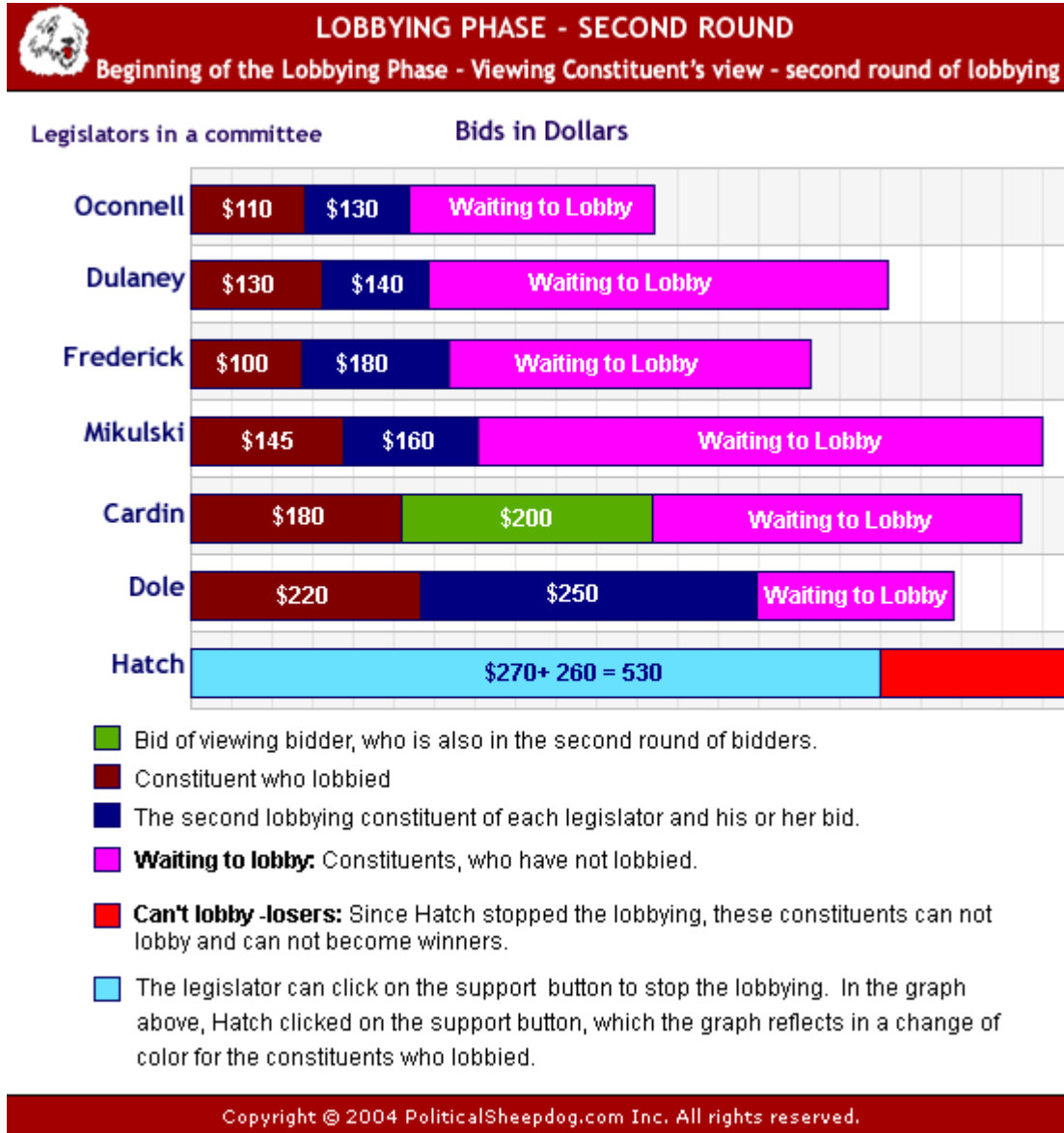
The second round or later rounds of the lobbying phase may alter the ranks of the sums of the bids by the constituents, who lobbied. These altered ranks will change the order of the legislators. For example, the ranks of Oconnell, Dulaney and Frederick changed in the second round of lobbying. (The following graphs are out of date, because the columns are now vertical, but the idea is the same.)



When the legislator clicks on the "Support" button to stop the lobbying, the graph reflects this action for other legislators with a change of pattern color in the portion of the column representing the two constituents who lobbied and the constituents who are waiting to lobby. In the graph below, Hatch clicked on the support button and the graph changed the color to light blue and red. (The following graphs are out of date, because the columns are now vertical, but the idea is the same.)



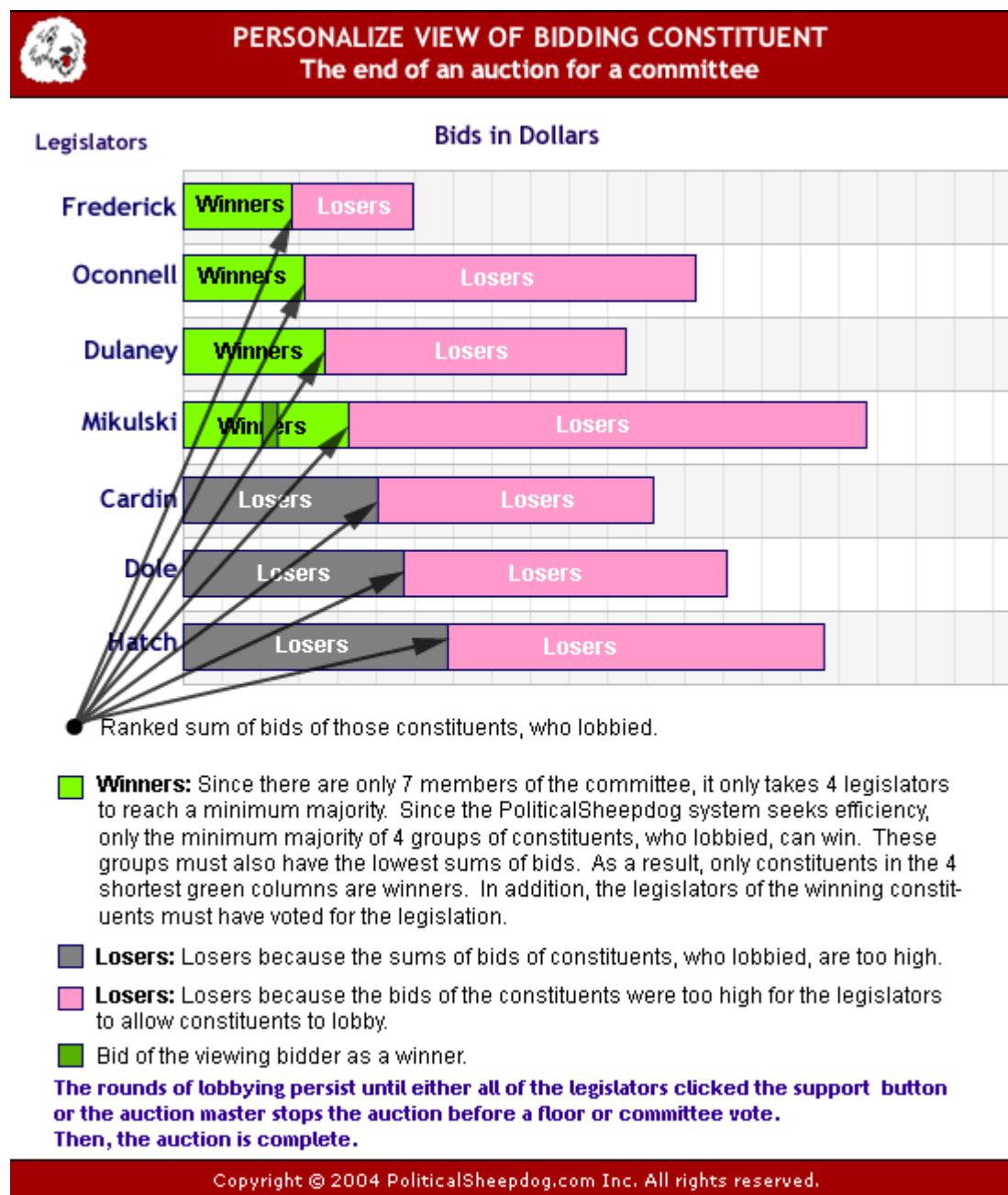
- During the lobbying phase, a constituent, who bid, may want to view the relative position of his bid in the auction. As a result the viewing constituent receives a personalized screen. The example of a personalized screen below shows the viewing constituent as the second bidder for Cardin and shows a green color to identify his bid. (The following graphs are out of date, because the columns are now vertical, but the idea is the same.)



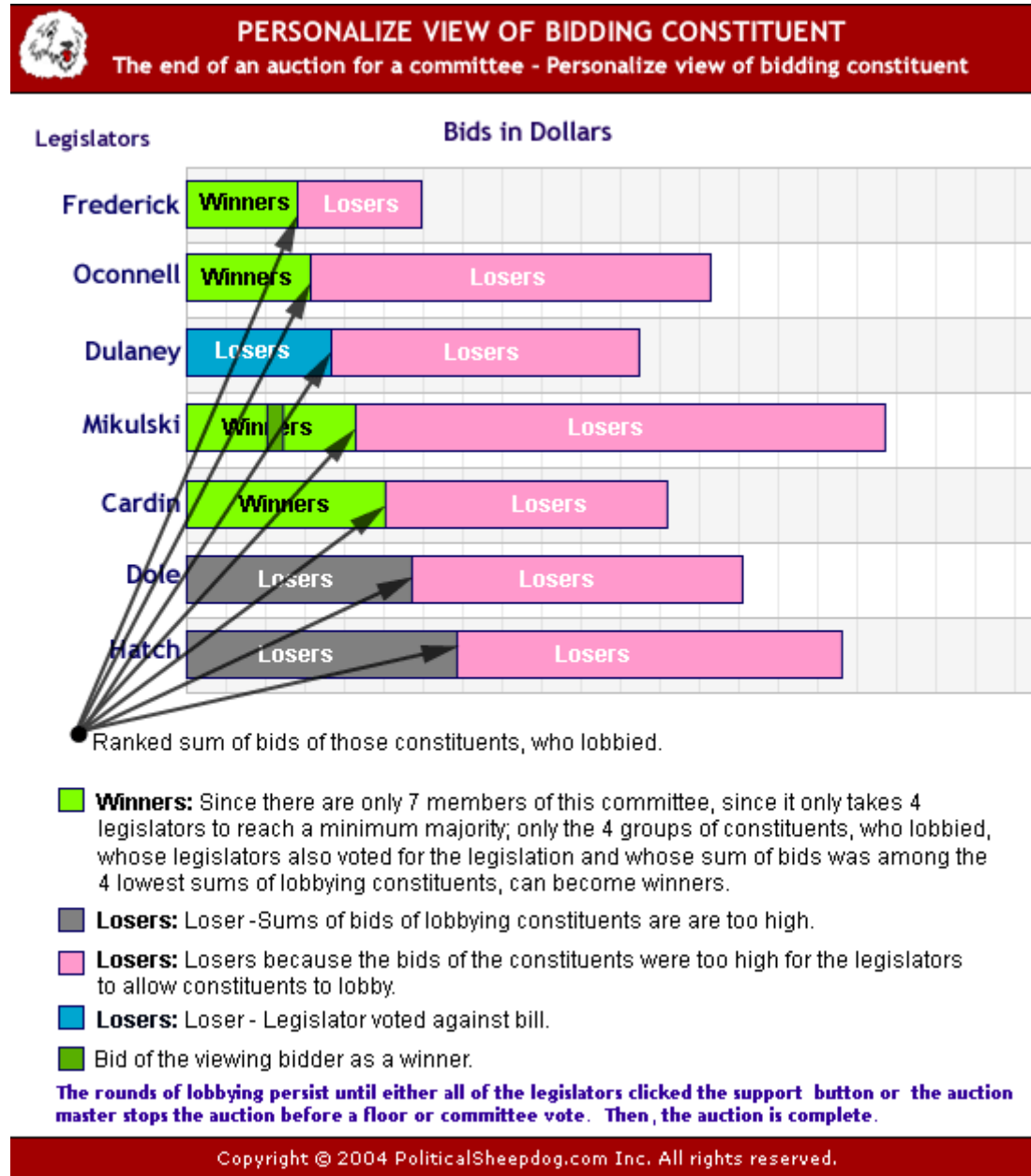
- The lobbying ends when either:
 - All of the legislators click the “Support” button
 - The auction master stops the auction prior to a floor or committee vote, thus completing the auction.

At the end of the auction, groups of constituents may only become winners (See below), if

- They have lobbied to be in their group,
- Their legislators voted for the legislation,
- A constituent group's sum of bids must be among a number of lowest sums of lobbying constituent groups. That number must equal to the minimum number to reach a majority as majority of 4 in committee of 7. (The following graphs are out of date, because the columns are now vertical, but the idea is the same.)



The following graph shows a slightly different situation. In this graph, Dulaney voted against the legislation. Thus, Dulaney has blue in his column, signifying a vote against the legislation. The gray, green, and blue colors represent the sum of the bids of the constituents who lobbied their respective legislators and the pink represents the additional sums of the constituents, who had higher bids and did not have a chance to lobby. The green represents the winners. The gray represents the losers, because the sum of the bids of the lobbying constituents was too high. The dark green box in the Mikulski column represents the viewing constituent's bid on his or her personalized screen. (The following graphs are out of date, because the columns are now vertical, but the idea is the same.)



Constituents can lose the auction for 4 reasons:

- Failure on the part of their legislator to support the bill (See the blue color below),

- The constituent's bid was too high and the legislator clicked the "Support" button before the constituent could lobby (See the pink color below),
 - The auction master ended the auction before the constituent could lobby (See the pink color below),
 - The sum of the bids of the lobbying constituent's lobbying group was too high (See the gray color).
3. Winning the auction is the initial step for constituents to win their bids as compensation. There are three additional steps.
- The legislation must pass through all appropriate committees and all appropriate house floor votes.
 - An executive such as a mayor, governor or President must enact the legislation.
 - The inventor of the legislation, PoliticalSheepdog.com, and the government must determine and agree that enacted legislation created actual savings for consumers and an estimate of those savings. For example, if the reduced profitability of the credit card companies could be used to determine the savings created from legislation designed to protect the credit consumer from predatory practices by the credit card industry.

Monetary compensation for inventors of the policy, lobbying constituents, and PoliticalSheepdog.com is based on fees or taxes connected with savings, such as taxes on credit card interest charges, since these consumers would receive the most savings. Now let us conservatively assume that the saved \$2.5 billion per year from the consumer advocate's policy and let us assume that negotiations and possible arbitration between innovators determines that the inventing consumer advocate was only 2 years ahead of other researchers, who were likely to have developed the policy (See chapter 8 on intellectual property). As a result, let us assume that the inventing consumer advocate would receive 50% of the total savings for 2 years or \$2.5 billion. (If, however, there were several policy innovators with different policies that could produce the same effect, their competition might result in far less compensation for them and the return for the consumers would be greater.) Furthermore, let us assume that PoliticalSheepdog.com receives 10% of the savings for 10 years of its patent or a discount \$1.75 billion. Let us also assume that it takes \$100 million for the constituents, who bid and lobbied to support the legislation and another \$1 billion for the government, PoliticalSheepdog.com and the inventing consumer advocate to collect the data and to negotiate and possibly arbitrate reasonable estimates of yearly savings. In return, the consumers would receive approximately \$20-22 billion in savings or a virtually risk free return of almost 400% more than the fees or taxes that the constituents would pay to support the system.

The fees and taxes must, however, be lower than estimated savings for the constituents to prevent corruption of the system. This requirement always ensures benefits for consumers. The PoliticalSheepdog system is a great deal for consumers.

Chapter 3 The Status Quo and Fixing It

Who should read: every reader of this book.

Summary: This chapter will cover the challenges that the United States faces and weakness in its current politico-economic system. It will also briefly attempt to explain how the PoliticalSheepdog.com internet market, designed to drive legislation through legislatures, could invigorate democracy and protect the United States from an impending financial disaster, resulting from high Federal budget, high Social Security and high trade deficits with high consumer debt, with expensive oil, with an aging population and with increasing international competition.

While paying the \$80 gas bill a U-Haul truck at a Vermont corner store in June of 2006, the clerk, who was a tall, white haired New Englander said that he was scared just to fill the tank of his car, when he filled it with \$30 of gas. He should have been scared. The United States was in trouble and still is in trouble.

The U.S. is like the frog in a folk warning that says, if you put a frog into boiling water, the frog will try to escape, but, if you put a frog into lukewarm water and raise the temperature slowly, the frog will cook. The U.S. is like the cooking frog, because we face a slowly percolating "Perfect Storm," consisting of high trade, high Federal budget, high Social Security, and high consumer deficits combined with potential extinction from climate change. What makes this debt worse is that we are entering in a new era with expensive oil, with an aging population, and with greater competition due to the trend toward market driven economies in countries like India and China, in which it will be harder to pay those debts. The U.S. is also in trouble, because special interest groups buy excessive influence in our representative democracy.

We have other costly problems. Illegal drugs cost their consumers in the United States \$65 billion in 2004⁵ If we add the medical and other indirect costs of drugs, the costs were \$114.2 in 1995 and probably more now⁶. Gambling costs consumers in the United States \$47.3 billion in 2005⁷.

Alcohol revenues in the United States were \$148.2 billion in 2006⁸. Of this \$148.2 billion, the top 5% of the drinkers drink are responsible for approximately 25-27% of the total

⁵ Tandy, Karen. Money Laundering: Current Status of our Efforts to Coordinate and Combat Money Laundering and Terrorism Financing. <http://drugcaucus.senate.gov/moneylaundering04tandy.html> 2004

⁶ Rice, Dorothy P., "Economic Costs of Substance Abuse, 1995," *Proceedings of the Association of American Physicians*, Vol. 111, No. 2, pp. 119-125

⁷ Zimmerman, Kevin. "Global Casino Gaming Revenues to Top \$100 billion by 2009." *The Hollywood Reporter*. 10/10/2005).

⁸ "Alcoholic Drinks in the United States": *Industry Profile*, December, 2006, p. 7.

and the top 20% of the alcohol consumers drinker are responsible for about 87-89% of the total⁹. As a result, since 20% of the drinkers probably include most alcoholics and most problem drinkers, approximately \$100 billion of revenue from alcohol is conservatively the result of alcohol abuse and alcoholism. If we add medical and other indirect costs, drug and alcohol abuse cost U.S. consumers \$245.7 billion/ year in 1992 with approximately \$97.7 billion due to drugs and \$114 billion due to alcohol¹⁰. The cost for alcoholism are probably more now due to growth in alcohol sales¹¹.

Cigarettes cost the consumers in the United States almost \$77.2 billion in 2006¹². If we include medical and other indirect costs of tobacco, tobacco cost the United States \$138 billion in 1995¹³.

As a result, alcohol, drugs, cigarettes and gambling costs adjusted for inflation probably cost consumers approximately \$414 billion or approximately 4% of the GDP each year. In addition, The War on Terrorism costs us approximately \$200 billion/year¹⁴. Katrina cost us more than \$200 billion¹⁵. With only 6 problems, we have almost \$800 billion in costs, equal to almost 8% of the GDP.

In addition to the above costs, the United State has had a total of \$5.3 trillion in negative current count balances since 1980¹⁶ when our estimated GDP for 2006 should be \$13 trillion¹⁷ 2006. As a result, Peter F. Drucker is concerned that this \$5 trillion dollar imbalance and continuing yearly imbalances will result in a loss of confidence and a monetary crisis¹⁸. Already, investors like Soros¹⁹ are selling the dollar short, expecting a large decline. A rapid devaluation of the dollar could make foreign goods much more expensive in the United States, increase inflation, and cause a decline in our standard of living. As a result, the trade deficit with the Social Security deficit, the Federal budget deficit, the increasing price of oil and increasing international competition are threatening a "Perfect Storm" of a financial crisis.

⁹ Greenfield, T.K. and Rogers, J.D. "Who Drinks Most of the Alcohol in the U.S.? The Policy Implications," *Journal of Studies on Alcohol*, 60(1): 78-89, 1999

http://www.ncbi.nlm.nih.gov/sites/entrez?Db=pubmed&Cmd=ShowDetailView&TermToSearch=10096312&ordinalpos=9&itool=EntrezSystem2.PEntrez.Pubmed.Pubmed_ResultsPanel.Pubmed_RVDocSum

¹⁰ Alcoholism National Institute on Alcohol Abuse and Alcoholism 1995 *Drug Control Strategy*, The White House Office of National Drug Control Policy, <http://www.nida.nih.gov/Infofacts/costs.html>

¹¹ "Alcoholic Drinks in the United States": *Industry Profile*, December, 2006

¹² "Tobacco in the United States": *Industry Profile*, Datamonitor Plc. 12/2006, p.9

¹³ Rice, Dorothy P., "Economic Costs of Substance Abuse, 1995," *Proceedings of the Association of American Physicians*, Vol. 111, No. 2, pp. 119-125

¹⁴ Combine the evidence from Bilmes, Linda and Stiglitz, Joseph E. *The Economic Costs of the Iraq War: An Appraisal Three Years after the Beginning of the Conflict*. http://www2.gsb.columbia.edu/faculty/jstiglitz/cost_of_war_in_iraq.pdf and Global War on Terrorism: Observation on Funding Costs, Costs, and Future Commitments, GAO-06-885T, <http://www.gao.gov/new.items/d06885t.pdf>, 7/18/2006

¹⁵ Katrina, "The Long Road Back," *Associated Press*, 9/10/2005, MSNBC, <http://www.msnbc.msn.com/id/9281409/>

¹⁶ Calculated from U.S. International Accounts Data, Bureau of Economic Analysis, U.S. Department of Commerce, http://www.bea.gov/bea/international/bp_web/simple.cfm?anon=71&table_id=1&area_id=3

¹⁷ CIA World Fact Book <https://www.cia.gov/cia/publications/factbook/print/us.html>.

¹⁸ Drucker, Peter, "Trading Places," *The National Interest*, <http://www.nationalinterest.org/Article.aspx?id=10486>, 01/03/05

¹⁹ David, Javier, Soros Selling Dollars, Hits US Policy and <http://www.globalpolicy.org/soecon/crisis/2003/0520soros.htm> Reuters, 5/20/03

In addition to a monetary crisis and the above costs, if the United States can reach \$800 billion with only 6 examples, there are probably many other smaller costs at the Federal, state and local levels throughout all sectors of the economy, which cumulatively may cost the consumers hundreds of billions and possibly trillions of dollars. We have these costs, because the political, socio-economic system has some intrinsic flaws like undue influence of special interest groups and consumer psychological weaknesses. If consumers and the political-economic system in the United States didn't have flaws, then how could United States get into such a mess?

In addition, Common Cause, a nonprofit, nonpartisan citizen's lobbying organization promoting open, honest and accountable government has been around for almost 40 years and we still have corrupt legislation. If their assumptions behind their and their fellow "good" government foundations were valid, special interest groups would probably have less influence. The basic flaw of Common Cause and other similar "good" government organizations is the assumption that we can get good government for free, that donations, which allow free riders, will be adequate to fight corruption and/or that we can trust our politicians to do the right thing. These assumptions are so naïve and so obviously absurd that they are both humorous and tragic.

These absurd assumptions are challenged by PoliticalSheepdog.com. The PoliticalSheepdog.com assumption is that you can not get good government for free. PoliticalSheepdog.com assumes that we need competitive markets to find the lowest fair price to pay for the best policies and the best government. These markets can reduce costs for the consumer and signal what types of policies we need a help prioritize legislation.

Since costs of waste and lost savings for consumers may be in the trillions of dollars, these costs can create tens and possibly hundreds of billions of dollars in opportunities for policy innovators and constituents in a similar way as the previous example with the inventor, who could save the manufacturer \$1 million in return for a share of the savings. For example, if we made prevention of alcoholism profitable, we might save \$114 billion, while providing opportunities to entrepreneurs and constituents. If PoliticalSheepdog.com, its associates, and policy inventors provide net dynamic savings for the consumers in exchange for a share of the savings, then we have a win-win situation for the policy inventors, PoliticalSheepdog.com, its associates, and the consumer. This win-win situation is even better, because it sends a signal to future inventors that savings for consumers is important, which will increase competition and lower costs. Everybody becomes wealthier through less waste and greater efficiency. This efficiency could apply to every jurisdiction, because PoliticalSheepdog.com could operate in every jurisdiction and in all sectors of the economy, because policy can apply to all sectors of the economy. In addition, if there were greater efficiency, efficiency improvements can protect the environment.

If United States and its consumers could decrease the above costs and increase the efficiency of the entire country by 10%, we can create savings to pay debts. The United States could also increase the competitiveness of the entire country.

Before the United States can take advantage of these opportunities, the leaders in a state must provide courageous leadership and be the first state to recognize the need for policy markets and for intellectual property protection to inventors of public policy that provides net dynamic savings for consumer in order to prove the potential of these systems. The first state that recognizes PoliticalSheepdog.com as a market and intellectual property system would not only have risks. It will also have enormous first mover advantages. First, the earliest state, whose

officials developed new policies and who accepted PoliticalSheepdog.com, could sell policies to other states and have royalties from those policies. These royalties could reduce taxes.

Second, policy inventors in the first state would have property rights and profits from other states for the easiest and most obvious innovations, whatever they will be. Third, the state that has the first policy inventors would be relatively more competitive than other states due to its greater efficiency, because the PoliticalSheepdog.com promotes savings and efficiency. Fourth, their citizens would reap the benefits of better, less corrupt government, because corruption creates costs for consumers. Since PoliticalSheepdog.com promotes savings and decreases costs, it would act to reduce corruption, which would provide greater savings for its citizens. Fifth, the state that has the first policy inventors would have a priority claim to support a policy “patent” office for the Federal government in their state. This policy “patent” office would provide jobs in their state, because the first state would have the citizens, who had experience working with the PoliticalSheepdog.com intellectual property system. As a result, states are really in a race to be the first to embrace the PoliticalSheepdog.com system.

Not only would states benefit, but individuals would benefit. Once the nation embraces the need for a market and intellectual property system for public policy, hundreds of billions and possibly trillions of dollars in opportunities will be available to anyone with access to the internet. These opportunities can be taken by entrepreneurs, who can develop new efficient policies more quickly. These efficiencies will enable the United States to compete more effectively against other nations.

Since PoliticalSheepdog.com system promotes savings for consumers in **all** aspects of our economy, PoliticalSheepdog.com is probably the only single concept able to provide the savings to calm the financial “Perfect Storm.” In addition, when we have a system with profit that encourages more constituents to participate and contribute to campaigns, their greater interest will result in greater transparency, greater accountability and less corruption by special interest groups.

Chapter 4

History of PoliticalSheepdog.com

Who should read: Those who want to understand the history and the motivation behind PoliticalSheepdog.com.

Summary: This chapter gives a short history of PoliticalSheepdog.com and what motivated Dr. Gamble to develop it.

While in the seventh grade in 1961 and watching the sun set during the intermission of a wonderful rendition of the musical, Oklahoma, at my Quaker high school, the author wondered why Elvis Presley made so much money and why his private middle school teachers did not, when teachers seemed to create more value. It seemed to him that the person, who did the most good, should make the most money, but Elvis did not appear to him to do as much good as his teachers, but Elvis made more money than his teacher did. The result is a paradox, which the author calls, The Elvis-Educator Paradox.

The author probably became concerned about the paradox, because his father, a professor at Johns Hopkins Medical School, complained that teachers and other academic professionals tended to make relatively less money than their counterparts in business. The father's complaints were the foundation of the author's belief that the monetary values of goods and services in our country frequently fail to signal the values necessary to maximize the well-being of our country.

While in medical school in Miami in the early 1970s, the author took a course in behavioral psychology with Dr. Pennypacker, in which he guided the author in research in how to apply behavioral psychology to train medical students. In this course, the author studied how psychologists train pigeons to peck levers based upon the frequency and the immediacy of rewards after a behavior. While pondering the basic variables like the type of reward and the timing of the rewards and walking past a Lumm's, a fast food franchise that sells beer, the answer to an Elvis-Educator paradox occurred to the author. It occurred to him that the timing of the rewards (which will be discussed in much greater detail in Chapter 9, entitled, "Psychological Market Failure") was a major cause of the paradox.

In order to try to develop an economic theory regarding the Elvis-Educator paradox in the late 1970s, the author enlisted the help of an economist in Michigan without success.

In the early 1980s, the author tried to patent a system of taxation based on the timing of delivery of a purchased product, but the patent law prevented the tax at that time, because it would be considered a way of doing business.

In the mid 1980s, author started working with Dr. Tom Zak of the U.S. Naval Academy, who taught author welfare economics and helped him develop the basic reasons, why psychological states like alcoholism encourage suboptimal choices and distort the playing field our economic system. Although the author wrote several papers on psychological economics, he was unable to publish them at the time.

In the late 1980s and the early 1990's, the author's family summered in Maine, while the author was working in Baltimore. During his time alone, he researched rationality and later

intellectual property theory in the McKeldin Library at the University of Maryland campus in College Park, Maryland. The author greatly enjoyed these library searches and discovering new ideas. He also gave several talks to the Society for the Advancement of Behavioral Economics. Two professors, Schlomo Mital Ph.D. and Daniel Fusfeld Ph.D., were particularly encouraging for my talks on rationality.

In the early 1990's, the author began studying intellectual property and rationality theory with the economist Dr. John Leonard. The author believed that the nation needed a patent system for public policy that was more efficient than the current patent system, if our country was to level the economic playing field and create an environment that would reduce the economic distortions resulting from psychological states.

By 1997, the author had come to realize that economists' problems with rationality resulted from their definition of rationality, because their definitions for rationality would use a dependent parameter like an individual's "choice" or "preferences," which depend upon independent psychological phenomena like alcoholism. If the alcoholism results in suboptimal choices or preferences, then to define someone as rational, because their choices followed their alcoholic preferences, would be a logical fallacy, because the choices or preferences may both be irrational due to the alcoholism. The author finally published in the *Atlantic Economic Journal* in 9/97, which poorly describes this fallacy.

In 1998, the author gave a talk on rationality at the Atlantic Economic Association meeting in Philadelphia. During the talk, some of the economists understood his logic and helped defend his case. Others, who were more obstinate, seemed flustered and then defeated. It was fun to see logic crush their arguments. The talk was entitled, "Sacred Cows Make the Best Burgers." After the talk and the discussion, the moderator said something like it was hard to enjoy burgers in the temple, but the author thought to myself, "The burgers tasted fine."

The name Political Sheepdog comes from public television broadcast on dogs and was the result of a conversation with John Wonderlich, who encouraged a funny, non-threatening name. The public television special described the practice of raising English sheepdog puppies with sheep to give the puppies the impression that the sheep are their pack. As a result, the name PoliticalSheepdog symbolizes that participants in the PoliticalSheepdog system were the sheepdogs or "sheep" with fangs, ready to protect the sheep like public from attacks by the political wolves, coyotes and foxes.

In the late 1990's, the author tried to patent an intellectual property system for public policy. The patent attorney told me that I could only patent the intellectual property system, if I connected in some way to a computer. As a result, he designed the PoliticalSheepdog.com market and auctions. While developing the auctions, the author did not realize their potential. Little by little, however, he discovered that the auction system would drive everything and would also be of critical importance to our country. To his surprise, every discovery of its potential only seemed better.

Alex Poonen advised the author on the need for game theorist. Elaine Catalina Ph.D., a game theorist, worked on the game theory and presented it in a conference. Dr. John Nash, the economist, attended her presentation without criticizing it.

Much of the support of PoliticalSheepdog.com came from my mother and a gift from my Grandfather.

Chapter 5

Policy Markets and Corruption

Who should read: Prospective candidates, legislators, and those individuals, who are concerned about corruption and who believe that political process should be cleaner.

Summary: The section explains why the current political system is intrinsically corrupt and why markets for public policy are necessary to reduce corruption.

“To Corrupt,” according to the *Random House Webster’s College Dictionary*²⁰, means “to cause to be dishonest, disloyal, etc., esp. by bribery; to become corrupt.” As a result, if someone or something does something to make another person lie, steal or become disloyal, or, if someone is dishonest or disloyal, corruption has occurred. The most important word in that definition, when considering legislators, is “disloyal,” because constituents, who can vote for a legislator, are hurt when their respective legislators are disloyal, but we might not consider that a legislator is “corrupt,” if she lies occasionally to protect the interests of her constituents. As a result, if a sufficient number of small donors, who were East Coast environmentalists, encouraged a legislator from an Oregon timber district to abandon the interests of his or her constituents, we could still have corruption under Campaign Finance Reform. Therefore, legislative corruption occurs when legislators are disloyal to their constituents. This approach is better than the definition of corruption by Transparency International, which defines corruption as “the misuse of entrusted power for private gain,”²¹ because the term, “misuse,” is not clear. In addition, if legislators provided net gains for consumers, would private gains be inappropriate, when private gains for legislators might provide better government and less misuse of power under an appropriate incentive system.

Major propagators of corruption are not constituents of legislators to whom they contribute and are members of special interest groups, who encourage disloyalty and corruption with their contributions and lobbying efforts. While the profits made through corrupt contributions and lobbying efforts are extremely costly to consumers as a whole, the costs to individual consumers are so thinly spread that individual consumers would lose, if they attempted to block the special interest group. As a result, consumers can’t individually challenge the special interest groups without losses and the special interest groups send a signal to the legislators that their form of “good” government is more important than the well-being of their constituents. Examples include the multi-media companies like Disney and Knight Ridder, who lobbied Congress for \$70 billion in DVD radio rights²² and the \$15 billion in agricultural subsidies in 2005²³. Indeed,

²⁰ *Random House Webster’s College Dictionary* 2nd. Edition, Random House, New York, 1998

²¹ Transparency International http://www.transparency.org/news_room/faq/corruption_faq#faqcorr1, Nov. 11, 2007

²² “Channeling Influence: The Broadcast Lobby & the \$70 Billion Free Ride,” 1997 Common Cause” in “Your Master’s Voice,” *Wired Magazine* Issue 5.08, August 1997

²³ Morgan, Dan, Cohen, Sarah; and Gaul, Gilbert M. *Powerful Interests Ally to Restructure Agriculture Subsidies* washingtonpost.com <http://www.washingtonpost.com/wp-dyn/content/article/2006/12/21/AR2006122101634.html>, 12/22/2006

the power of the special interest groups is so strong that even the Republican Congresses couldn't limit special interest group corruption²⁴ when Republicans usually advocate fiscal restraint.

If consumers, who are usually disorganized, try to fight the special interest groups, there will usually be free-riders, who do not pay to fight. If there are free-riders, the situation is a little like payments for national defense. For example, we can't tell Kim Jong-il of North Korea to nuke only John Jones in Seattle, because Mr. Jones did not pay his taxes. Since we can not exclude free-riders like John Jones from the protection of national defense, defense is what economists call a "non-exclusive good." If a non-exclusive good exists, free-riders depend on conscientious citizens to pay the costs for the good. The result will usually be that society will purchase an inadequate or suboptimal amount of the good, which economists call a "market failure" (see the Chapter 7, entitled, "Quick Review of Welfare Economics,"). To prevent this market failure for defense goods, governments usually pay for defense.

Like defense, fighting corruption without government support can also be a non-exclusive good. For example, if only those who paid to fight corruption reaped the financial reward from their payments, the payments would appear corrupt. As a result, fighting corruption is also a non-exclusive good and can also have free-riders. Free-riders exist with fights against corruption, because the corruption fighters would appear corrupt, if only those, who fought against corruption, benefited. As a result, everyone must benefit from a successful fight against corruption, even if only a few people pay. If only a few people pay, fights against corruption can have free-riders and these fights are frequently market failures. Thus, 1) governments must pay to fight corruption to obtain an optimal amount of resources to fight corruption.

In addition to government support, a system to fight corruption has many other requirements. Such a system would require a 2) definition of what is good government and a way to measure "good," otherwise one person's good government will be another's corruption. Here, we are going to define "good government" as government that provides the optimal benefits to its consumers (See Chapter 7 for a more thorough discussion), as measured with net dynamic savings or efficiency for consumers. These benefits can come as more goods, services and health, called productivity²⁵, or providing goods, services, and health at less costs, called efficiency. If a benefit is productivity, production should be maximized subject to cost constraints. If the benefit is efficiency, costs should be minimized subject to fulfilling a specific contract or need. Efficiency or savings for consumers should be a necessary requirement for the definition of good government in order to give it measurable parameters. Since the savings can include financial valuations of health savings like those used in the valuation of less pollution, the efficiencies that PoliticalSheepdog.com will use will not be an accountant's efficiency. Since we are all consumers and since economists use net dynamic savings or efficiency for consumers to identify a market failure, net dynamic savings is a convenient and conventional measure of

²⁴ Zakaria, Fareed, *The Future of Freedom, Illiberal Democracy at Home and Abroad*. W. W. Norton & Company, Inc., N.Y. 2003. pp. 175-176

²⁵ While efficiency is usually good, because it frees resources for other purposes; productivity is more complex, because an increase in production of something bad like cocaine can reduce consumer welfare (See "The Quick Review of Welfare Economics" chapter 7). As a result, if circumstances do not cause inefficiencies, then legislatures and markets, but not the PoliticalSheepdog system, should determine whether or not the production is good and how much production is appropriate for now.

“good government.” Someday, other measures might also be helpful (See the Chapter 7, “Quick Review of Welfare Economics”).

Net dynamic *savings* can also help reduce corruption, because corruption like agricultural subsidies *costs* consumers, and a system that promotes net dynamic savings for consumers is likely to reduce the costs of corruption. Since net dynamic savings like the savings to reduce HIV can measure good government, net dynamic costs to consumers from legislation supported by special interest groups can identify and measure corruption like the previously noted lobbying to obtain \$70 billion of DVD radio spectrum by the multimedia companies. Net dynamic savings for consumers is also relatively 3) non-partisan, because we are all consumers.

In addition, to a definitions of good government and corruption, a system to fight against legislative corruption should be 4) independent of the government, because the government officials have conflicts of interest from their many different voters. Since government officials have conflicts of interest, a system to fight corrupt must be separate from legislators and must have the protection of consumers as its sole focus.

The system should be 5) constituent driven and provide an incentive for 6) constituents to contribute to candidates in order to reduce the financial dependency of candidates on corrupting special interest groups and to improve loyalty of legislators to their constituents. These contributions by constituents would reduce corruption, because candidates need money, and because money from non-constituents can cause corruption.

The system should also be 7) dynamic and 8) self-correcting, because someone will always try to “game” the system. The system must be able to 9) rapidly organize the constituents and concentrate their actions like a magnifying glass focusing the sun’s rays, instead of the normal disorganization facing most consumers. The system must also find the minimum number of constituents necessary to fight corruption effectively for the 10) minimum costs. Since governments must to pay to fight corruption, governments and a system to fight corruption require 11) competition in order to minimize favoritism and 12) require a market to determine how much to pay to fight corruption. The markets must 13) limit costs to less than the net savings from the policy in order to control costs, and must guarantee 14) net savings for consumers before any of its participants like the innovators and lobbying constituents in the PoliticalSheepdog.com system profit to ensure that the system does not become corrupt and exploit consumers. The system would be more successful, if constituents could provide more money to candidates than the corrupting special interest group, because money is the mother’s milk of politics and because more funds would give constituents 15) an advantage. The system must heighten 16) the interest of constituents in legislation in order to increase 17) transparency. Whenever possible, a system should try to 18) eliminate incentives for corruption, rather than use punishment to stop corruption, which only encourages subversion. Finally, the system must be 19) open and provide opportunities to anyone with a policy concept that has a reasonable chance to provide net dynamic savings (the total long term savings minus the long term costs) for consumers, instead of the current situation lead by an elite of politicians, pundits, and think tanks. This approach would allow a broader range of expertise and experience frequently with greater competition from any creative individual to provide the best policies to reduce costs.

Failure to develop a system by Congress, which can meet all of the above requirements, explains why we still have corruption, despite multiple attempts like Campaign Finance Reform to stop corruption. Campaign finance reform is probably failing, because it assumes that we can get good government for free and does not thus provide profit incentives for good government. Campaign finance reform is probably failing, because it requires legislators to monitor

themselves. Campaign finance reform is probably failing, because campaign finance reform is static or frozen and can not change easily to meet the changing political environment. Campaign finance reform is probably failing, because it does not utilize an effective market. Campaign finance reform is probably failing from a psychological perspective, because it relies on punishment, rather than the destruction of incentives, which psychologists have shown is usually more successful²⁶. Finally Campaign Finance Reform is inferior to the PoliticalSheepdog.com policy markets, because its focus is narrower, while internet policy markets can apply to a broad array of challenges beyond corruption in all jurisdictions.

In addition, since good government groups like Common Cause have failed to stop corruption, their business models must have intrinsic flaws. “Good government” groups and “good government” legislation like campaign finance reform will be more likely to fail as long as non-constituents can create greater influence with their contributions than constituents can. As a result, the special interest groups will influence legislators away from their responsibility to their constituents and the current political process will remain intrinsically corrupting. In addition, efforts to stop corruption through penalties are fatally flawed from a psychological perspective as long as these efforts emphasize punishment over the destruction of incentives.

Finally, since the current system is intrinsically corrupt, it will favor the rise of the more corrupt politicians to positions of leadership. For example, Tom Delay²⁷ have been indicted, Jim Wright²⁸ resigned under suspicion, and Dan Rostenkowski²⁹ pleaded guilty to mail fraud.

Because the PoliticalSheepdog.com system meets all of the above requirements to fight corruption, it is potentially the best system for the fight. The PoliticalSheepdog.com system requires government to pay to fight corruption. It uses net dynamic savings to measure “good government,” which is relatively non-partisan approach, because we are all consumers. It is constituent driven, which encourages the legislators to be loyal to constituents. It is an independent corporation with a single focus – net dynamic savings for consumers. It is a dynamic, competitive market, which can rapidly organize constituents through the internet and determine the minimum costs. It is self-correcting, because, if someone tries to corrupt legislation or pushes it too far in one direction, which would create costs for the consumer, an entrepreneur could profit developing legislation to reduce corruption costs and returning the government to a direction that maximizes savings for the consumer. It can provide a profit incentive for contributions from constituents. To provide an incentive for constituents to contribute to campaigns and provide greater campaign support for candidates, PoliticalSheepdog.com has auctions for elections to encourage constituents to contribute to candidates, called primary and general election auctions (see Chapter 14, Session Level, Primary Election, General Election, Sponsorship and Cascading Auctions: General Descriptions). In these auctions, constituents, who make contributions during primary and general election campaigns, can bid during the respective campaigns and then lobby for legislation, supported by PoliticalSheepdog.com, later during the legislative sessions, if their candidates win and become legislators. In the primary and general election auctions, if a contributor donates more money or

²⁶ Ferster, C.B., Culbertson, Stuart, Boren, Marry Carol Perrott. *Behavioral Principles*, second edition, Prentice-Hall, Inc. N.J., 1975, pp. 167-168

²⁷ Smith, R. Jeffrey, washingtonpost.com, September 29, 2005, p. A01, <http://www.washingtonpost.com/wp-dyn/content/article/2005/09/28/AR2005092800270.html?nav=hcmoduleay>

²⁸ “IMPEACHMENT; In a Scandal Climate, Speaker's Chair Has Become a Seat of Controversy,”

NewYorkTime.com, <http://select.nytimes.com/gst/abstract.html?res=F40C1FF83C580C738EDDAB0994D0494D81>

²⁹ http://en.wikipedia.org/wiki/Dan_Rostenkowski

possibly more time to a campaign, the contributor would receive more bidding units. With more bidding units, the contributors will have more potential for profits or at least a return of some of their contribution, if their candidate wins and if some or all of their units have winning low bids. This potential for profits should encourage greater interest in campaigns, greater contributions to candidates from potential constituents and greater interest in legislators once elected into office. As a result, the PoliticalSheepdog system would encourage greater transparency and a “cleaner” source of contributions for candidates with a market that can find the lowest costs. It is correct and necessary for political contributors to profit from their contributions, when they support “good” candidates, who provide “good” government, because a system that fails to support “good” government sends a signal to the public and to policy innovators that we want bad government. Instead, nations need to signal that we need good government. As a result, profits for contributions for good government are ethical and necessary.

Since PoliticalSheepdog.com can supply “clean” profit incentives for potential contributors, if recognized by states as a market, and thereby provide a clean source of funds for candidates, candidates should be interested. Furthermore, since PoliticalSheepdog.com could run a virtual debate and can connect donors to candidates, based on the candidates’ positions, PoliticalSheepdog.com could provide an easy source of funding for candidates and reduce the need of candidates to beg for contributions from special interests and to compromise their integrity.

The PoliticalSheepdog.com system also has limits on the total profits available to participants, which equals net dynamic savings for consumers from the policy, and requires its innovators through its contract with them to guarantee net benefits for consumers before any of its participants benefit. Profits from instituting efficient policy can increase constituent interest and thus transparency of the political scene.

The PoliticalSheepdog system could frequently provide a funding advantage to consumers relative to corrupting special interest groups. To understand this advantage let us consider, the cigarette industry as an example. In addition to the health costs of cigarettes, consumers squander their funds on a product that results in smoke, ashes, and death due to an addiction to nicotine. As a result, there were large costs for consumers associated with cigarettes. If those costs had ended earlier, there would have been large savings for consumers, which the PoliticalSheepdog.com system could have used to finance a fight against the cigarette industry. The total direct cost of cigarettes to consumers is equal to revenue for the cigarette companies, their supply chain and distribution network, from which they derive profit. Since the profit is usually smaller than the revenue and since the PoliticalSheepdog.com system could apply any savings from the reduction in consumer costs and thereby the reduction of cigarette company revenues to fight the cigarette companies, PoliticalSheepdog.com system could frequently supply more funds to fight corrupt lobbying by the cigarette industry than the cigarette industry could. More funds could change the dynamic in favor of the constituents and consumers, who should win more frequently (if all else is equal), while saving lives.

Since profit incentives for constituents from the PoliticalSheepdog.com system to fight corruption will probably make efforts to corrupt legislatures less successful and riskier, these profit incentives will increase the risks for corrupting special interest groups. These greater risks will also decrease and possibly eliminate the incentives of special interest groups to corrupt legislatures.

In addition to increases in the risks for the special interest groups, the PoliticalSheepdog.com system is open to policies that pass its evaluation with the exception of policies like abortion.

These policies are so contentious that involvement may risk the legal survival of PoliticalSheepdog.com. PoliticalSheepdog.com has incentives to promote as many good policies as possible, because all policies that provide net dynamic savings to consumers are potential profit centers and because good policies will protect the PoliticalSheepdog.com brand name. These incentives and openness should also tend to increase access to power, to decrease corruption, and to provide the best policies for the least cost.

Finally, the PoliticalSheepdog.com system should decrease corruption, because the policy markets could provide checks and balances on legislatures, while legislatures and government officials provide checks and balances on PoliticalSheepdog.com.

Appendix to Chapter 5
Answer to Critics

Net Dynamic Savings for Consumers as a Measure of “Good” Government

Who should read: all readers.

Summary: This appendix defends the use of net dynamic savings for consumers as a measure of “good” government.

While some people might like to think that legislation reflects the will and needs of the “people,” many citizens and frequently most citizens do not vote for legislators. Furthermore, the United States Senate vastly overrepresents the views of underpopulated states. As a result, legislative representation will probably fail to reflect needs of the citizenry and is probably worse than net dynamic savings for consumers. Certainly, combining net dynamic savings for consumers through policy markets like PoliticalSheepdog.com with legislative representation would provide a better reflection of the will and need of the citizenry.

One of the objections that people have to PoliticalSheepdog.com is that it is difficult to measure the savings for consumers. To these objections, I would like to make the following replies. First, while it will be difficult to create accurate estimates of savings for many policies, because the necessary measurement parameters are too complex and beyond the capability of current techniques of analysis, it will be far easier to identify the costs and saving related to other policies. For example, the savings from fights against corruption might be far easier than measuring the costs of government infringement on individual liberty to fight the terrorists.

Second, even if the reader can’t imagine how to create estimates of savings that are accurate enough to be useful for reasonable estimates, there will frequently be other smarter or more experienced people, who can. We have over 300 million people in the United States and over 3 billion in the world. Among these multitudes, there will be many, many intelligent, creative people, who can create accurate approaches to determine adequately accurate estimates of savings for consumers. These people only need incentives, which an intellectual property system for public policy like the system in PoliticalSheepdog.com can provide.

Third, innovators will develop new, more accurate techniques to measure savings as our understanding of policy markets improve.

Another problem that government officials seem to have with legislation that provides savings for consumers is that it does not create new funds. It should be obvious however, that either there are savings within the existing budget, which could be used to pay the PoliticalSheepdog.com constituents, lobbyists and innovators, or the government would need an additional tax or fees, for which the voters should not complain, because the policies, supported by taxes or fees, would eventually provide savings for the voters.

Another problem some people have with savings for consumers as a measure of good government is that legislation frequently has other nuances, which savings for consumers do not reflect. To these critics, I reply that savings for consumers are still a good and accepted measure of “good” government, which should not be discarded, because it does not completely conform to the critic’s version of utopia. Providing some benefits is better than providing no benefits and we shouldn’t throw out the baby with the bathwater. In addition, the author believes that many nuances can probably be measured financially, if approached by someone with enough ingenuity.

Finally, if anyone can find a better, more feasible measurement tool for “good” government, there is no reason why the PoliticalSheepdog.com auction system would not work for that measurement tool.

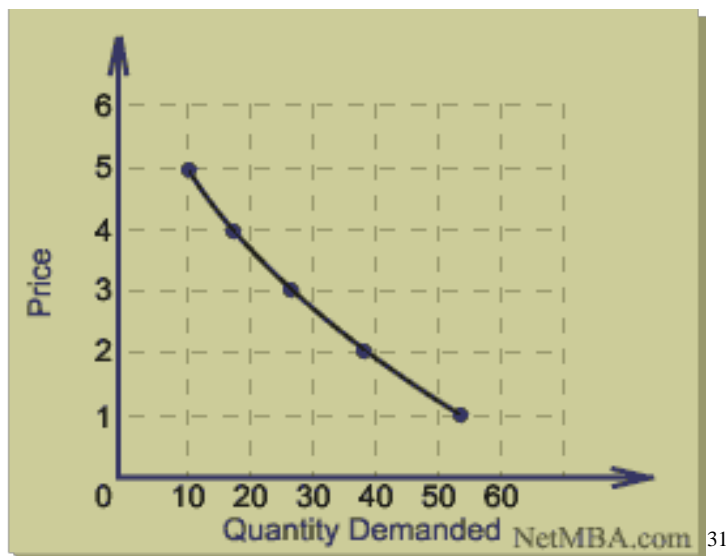
Chapter 6

Review of Basic Economics

Who should read: all readers

Summary: This section provides a review of supply and demand curves, market benefits for consumers, and fairness in a market economy.

In order to understand policy markets and PoliticalSheepdog.com, the reader must first understand some basic economics and some basic definitions. While most people have probably heard of a supply and demand curves, we will review them here. To understand a demand curve, we need to understand the concept of “diminishing returns.” Diminishing returns for consumers implies that the benefits of a good are usually diminished with each additional item. For example, if you were eating strawberry short cake and you were very hungry, you would probably enjoy the first strawberry short cake a great deal, but, if you ate six strawberry short cakes, your enthusiasm for strawberry short cake would wane. Since your enjoyment of the strawberry short cake would initially be high but fall with each additional short cake, your personal demand curve for short cake would start high and then gradually fall. “Diminishing returns” is thus defined as any rate of production, profits, or benefits, etc. that beyond a certain point fails to increase proportionately with added investment, effort, or skill³⁰.



³⁰ *Random House Webster's College Dictionary* 2nd. Edition, Random House, New York, 1998

³¹ Reprinted by permission of NetMBA. NetMBA: Business Knowledge Center

http://images.google.com/imgres?imgurl=http://www.netmba.com/images/econ/micro/demand/curve/demandcurve.gif&imgrefurl=http://www.netmba.com/econ/micro/demand/curve/&h=217&w=268&sz=4&tbnid=pKYCC_1CytOWPM:&tbnh=91&tbnw=113&prev=/images%3Fq%3Ddemand%2Bcurve&start=1&sa=X&oi=images&ct=image&cd=1

Economists call this “the law of diminishing marginal utility”³².

The demand curve for goods and services for a group of people like a nation or state usually falls with each additional unit. The benefit or utility of each additional good or good at the margin is called the “marginal utility.” As a result, the marginal utility falls with each additional good. For example, if there were only one Teflon frying pan in the world, someone might be willing to pay \$5 million for it. If there were two Teflon frying pans in the world, the next consumer might be willing to pay \$1 million for it. The \$5 and \$1 million are the marginal utility of those frying pans, when supplies are severely limited.

Where the demand curve meets the supply curve, the point is called an equilibrium, which creates a price. When the price equals the cost of the last produced unit like a Teflon frying pan, the producers can no longer provide the good without sustaining a loss. Since the producer profits until price equals costs, this is the point of maximum profit and is called the “maximum profit equilibrium.” Since the produced units like the Teflon frying pans are relatively interchangeable equivalents, the price for the last unit at the maximum profit equilibrium is the price for all of the equivalent units of production. For example, if producers produce millions of Teflon frying pans, the value of the frying pan to the last person to buy one becomes the price for all of the pans, e.g., if the value to the last person is \$15, then the price of all equivalent frying pans becomes \$15.

If the price of the frying pans is \$15, then the consumer, who would have paid \$5 million for his or her frying pan receives \$4,999,985 worth of frying pan for free. The next consumer, who would have paid \$1 million for the frying pan, receives \$999,985 worth of frying pan for free. This value of what those consumers received for free is called “consumer surplus” by economists. Consumer surplus measures “the difference between the total value consumers receive from consuming a particular product and the total amount they pay for it”³³. It is a most important concept, because it explains the success of market economies and how markets create wealth for consumers, because they receive something for nothing.

Producers can also have a surplus, producer surplus. The producer surplus is “the difference between the amount that a producer of a good receives from the sale of her product and the minimum amount that she would be willing to accept for the good. The difference, or surplus amount, is the benefit that the producer receives for selling the good in the market”³⁴.

Producers have a similar situation with diminishing returns for employees as consumers have for frying pans. For example, for each additional employee hired in a shoe factory with the same machinery, the employer will frequently reach a point in which each additional worker will produce fewer and fewer additional shoes and the cost of the shoes will become too high to sell profitably. As the producer uses more and more additional employees or inputs to create a product, each additional unit of input will yield less and less product. The amount of product that the employee or other input produces is called the “marginal product” by economists. As a result, “the marginal product of a productive factor like a laborer is the extra product or output added by one extra unit of that factor, while other factors are held constant”³⁵. As a result, the marginal product of X, used in producing Y, equals (the change of Y)/(the change of X). Then,

³² Samuelson, Paul A., *Economics*, Ninth Edition, McGraw-Hill Book Company, New York, 1973, p.164 footnote and p. 431

³³ msn. Encarta http://encarta.msn.com/dictionary_561546702/consumer_surplus.html, 12/18/07

³⁴ Answers.com, <http://www.answers.com/topic/producer-surplus?cat=biz-fin>, 12/7/07

³⁵ Samuelson, Paul A., *Economics*, Ninth edition. McGraw-Hill Book Company, New York, 1973. pp. 537-538

the marginal product of a productive factor like labor would be the extra product that the most recently hired employee produces.

If we multiply the extra or marginal revenue from the additional product, which the most recently hired employee created, by the additional or marginal product that the most recently hired employee created, we would have the marginal *revenue* product of the last employee or the marginal revenue product of the last unit of labor. For example, if the most recently hired employee produced 100 shoes per day and the employer received an addition \$10 beyond other non-labor costs for each of those 100 shoes, the marginal revenue product of labor for the shoes is \$1,000 for the last or marginal laborer. The marginal revenue product, according to Samuelson, is the marginal (physical) product times the marginal revenue³⁶.

Since all similar units like laborers are competing and are replaceable and since employers must profit to remain solvent, employers only need to pay all similar units like similar employees the lowest marginal revenue product of the last unit of input, such as the last hired employee at the maximum profit equilibrium. This lowest marginal revenue product of the last unit becomes the standard of fairness or market price for the wages of all other inputs, such as the same type of labor.

The marginal revenue product of the last unit is a crucial concept to understand, because it is the standard of fairness in a market economy. Standard of fairness is a concept, which Ury and Fischer described in *Getting to Yes*³⁷ a book about negotiating strategies. An example of standards of fairness might be in the division of an estate. The parent and creator of the estate could either divide her assets in one way such that each of her children receives an equal share of the parent's assets or in another way such that the difference in wealth among her children will be equalized. If her children had large differences in wealth, then the poorer children could receive much larger shares of assets. Since both of these solutions are fair, what is fair in a situation depends on the standard of fairness.

Since the marginal revenue product of the last unit at profit equilibrium is the price of all of the units of the productive factor, and since the marginal utility in a similar way the price of all similar products and services, we shall for this book use the term, fair market compensation, to mean either the marginal revenue product of the last unit before profit equilibrium or the marginal utility, if we talk about marginal revenue product for a person or marginal utility for a product or service.

Since we want the economy to be efficient in order to improve consumer surplus and consumer wealth, the fair market compensation and not equality of wages is the standard of fairness for the payment of labor in the market economy. For example, when an employee wants a raise, the most amount of money that another employer is willing to pay for his/her services - and not what the employee believes is fair - is the fair compensation. The fair market compensation - meaning the marginal revenue product and marginal utility - is probably the most important, least understood, concept in our society, because it describes why your wage or salary and the price on goods or services is fair.

The market price for a laborer is the profit for that laborer. The profit for a business is price of a product minus its costs. In addition, profits "signal"³⁸ what needs to be produced³⁹.

³⁶ Samuelson, Paul A., *Economics* Ninth edition. McGraw-Hill Book Company, New York, 1973. p. 544

³⁷ Fisher, Roger and Ury, William. *Getting to Yes: Negotiating Agreement without Giving In*, Second Edition. Penguin Books, 1991

³⁸ Riley, John G., "Competitive Signaling." *Journal of Economic Theory*. Vol. 10, 174-186 (1975)

Since these signals come from billions of people making trillions of choices throughout the world in a global economy, profit signals measure the priorities of an incredibly complex arrangement into an extremely simple form. The same is true for commerce within a country, because the many, many people each make many choices that evolve into the price of a good or service. Since the evaluations of human wants are so complex, the Nobel Laureate and Cambridge University Professor, Friedrich A. von Hayek, argued in *The Road to Serfdom*⁴⁰ that human wants are too complex for any group of government planner to understand what the economy should produce through government invention without markets. Hayek also notes that, if a government favors one group over others and usurps market outcomes, the leader of the government would probably use the coercion powers of the government make unethical choices. For example, Stalin stole from the Kulaks and Hitler's Brown Shirts vandalized the shops and homes of the Jews in Krystal Nacht. As a result, when the populace fails to appreciate markets and supports leaders who fail to support markets, the most unethical individuals can rise to the top. This thesis appears to have substance, when we consider the rise of Hitler, Stalin, Pol Pot, Mao Tesung, Milosivich, etc.

Hayek's insights were expanded by Daniel Yergin in his book, *The Commanding Heights*⁴¹. The title, "*The Commanding Heights*," was borrowed from Lenin, who called the large industries in a nation like steel mills, large banks, and the railroads, the commanding heights. *The Commanding Heights* is a history of the trend toward socialism after World War II and the subsequent trend away from socialism to markets since approximately the 1960's. The cause of the trend toward market economies was that the governments in the socialist economies had too many competing interests, which required political patronage with other people's money. These economies had corrupt and stifling bureaucracies that discouraged improvements. The government industries also had little or no competition and the government officials were reluctant to discipline workers in those industries, who were their constituents. For example, Yergin noted that workers would not come to work regularly in some government factories in India. The result of the absence of competition with government industries was inefficiency, smaller gains in consumer surplus, and a lower standard of living, which reversed dramatically when India switched to a more market driven economy.

In addition, the government is better as an unbiased judge and cop, than as a judge, cop and entrepreneur, because, when the government is an entrepreneur, it can destroy competition with its judicial and policy powers, creating inefficiency and destroying consumer surplus. For example, if you are a business owner, who has a conflict with another business in a market economy, then you should be more likely to assume that your judge will be fair and unbiased in a court of law. But, if you are a business owner, who has a conflict with government owned business in a socialist economy, then you face the potential of a biased judge and a police force, which can destroy your business.

In addition, since Communism attempted to use material equality as its standard of fairness, we can use it to market economies as an example of the difference between material equality to fair market compensation as standards of fairness. Material equality has two disadvantages when compare to fair market compensation or price as a measure of fairness. First, the means to

³⁹ Baumol, William. *Business Behavior, Value and Growth*. The MacMillan C., New York, 1959. pp. 57-59

⁴⁰ Hayek, Fredrick. *The Road to Serfdom*. Books on Tape. Buffalo, New York, 2000

⁴¹ Yergin, Daniel. *The Commanding Heights: The Battle between Government and the Marketplace that is Remaking the Modern World*. Books on Tape. Buffalo, New York, 2002

measure the value of equality is not clear, while measuring the fair market compensation of a product or service requires only a comparable market. Second, equality does not signal what to produce, while the fair market compensation does.

Since the centralized policies of Communism and Socialism could not provide accurate signals about what to produce, since they frequently destroyed competition and efficiency, since they frequently created inefficiencies with political patronage, and since they had frequently unscrupulous, brutal, corrupt leaders; communism and socialism frequently failed. The market economies were more successful according to Yergin, because competition requires efficiency, which, in turn, produces consumer surplus, consumer wealth and a rising standard of living, while Leonard⁴² noted that the massive killing in Communist countries like Cambodia created a loss in consumer surplus.

Since most of the assets of the wealthy are in factors of production, which generally increases the amount of products and decreases the costs to the consumer, taxing the rich in the push toward material equality can become self-destructive and cannibalizes the productive assets or future productivity for the poor and average person. The debate between these two standards of fairness, material equality and the fair market compensation, has been one of the great debates in our legislatures with the Democratic Party in the United States championing material equality and the Republican Party championing the fair market compensation (meaning marginal revenue product) and prices.

In summary, the fair market compensation and prices are a better standards of fairness than material equality, because it provides more accurate priorities, greater efficiency, greater consumer surplus and, therefore, greater wealth for consumers.

⁴² Leonard, John. "A Note on Optimality and Efficiency," *Indian Economic Journal*, vol. 37, April 1990 pp. 129-132

Chapter 7

Quick Review of Welfare Economics

Who should read: talk show hosts and anyone, who wants to understand the purpose of government.

Summary: This section will cover some economic concepts concerning welfare economics (maximization of a country's living standards) and market weaknesses. These weaknesses result in from failure to maximize citizen well-being and are called market failures. This analysis will emphasize certain goods and services, from which market structures fail to exclude free riders.

Welfare economics has relatively little to do with welfare payments by the government to the poor and disabled, so the reader should not confuse welfare economics with welfare assistance. Welfare economics "attempts to maximize the level of social welfare by examining the economic activities of the individuals, who comprise the society." Welfare economics is concerned with the well-being of individuals, as opposed to groups, communities, or societies, because it assumes that the individual is the basic unit of measurement. It also assumes that individuals are the best judges of their own well-being, that people will prefer better well-being to worse well-being, and that well-being can be adequately measured either in monetary terms or as a relative preference⁴³. In another definition, "welfare economics is the branch of economic thought that deals with economic welfare, including especially various propositions relating competitive general equilibrium to the efficiency and desirability of an allocation"⁴⁴.

One of the pioneers in welfare economics was an Italian mathematician, named Vilfredo Pareto, who created the concept of the Pareto Optimality. The Pareto optimality occurs at an equilibrium where there is no possible change that could make everyone better off⁴⁵. The Pareto optimality is the gold standard and Holy Grail of welfare economics, because the Nobel Laureate, Kenneth Arrow with his impossibility theorem⁴⁶ showed that the Pareto optimality would be difficult to verify. As a result, one measure of well-being might be the sum of the consumer surplus plus and the producer surplus⁴⁷. If the well-being is deficient due to an inefficient allocation of resources, that deficiency is called a dead-weight loss⁴⁸, which economists can measure through measurements in the net changes in consumer and producer surplus. While improvements in the total well-being, which would include producer surplus,

⁴³ Wikipedia http://en.wikipedia.org/wiki/Welfare_economics

⁴⁴ Deardorff's Glossary of International Economics, <http://www-personal.umich.edu/~alandear/glossary/w.html#WelfareEconomics>

⁴⁵ Samuleson, Paul A., *Economics*, McGraw-Hill, New York, p. 460, footnote

⁴⁶ Arrow, Kenneth J., *Social Choice and Individual Values*, 2nd ed. New York: Wiley, 1951; 2n ed. 1964

⁴⁷ Perlogg Jeffrey M., *Microeconomics*, Addison Wesley Longman, Inc. Reading Massachusetts. 1999, p. 310

⁴⁸ The Free Dictionary by Farlex, <http://financial-dictionary.thefreedictionary.com/Dead+weight+loss>, 12/13/07

might be a theoretically preferable parameter relative to net dynamic savings for consumers for PoliticalSheepdog.com, PoliticalSheepdog.com should probably use net dynamic savings for consumers for the following reasons. First, these improvements consumer and producer surplus would probably be more difficult to measure and, thus, less feasible than net dynamic savings for consumers, which will, also, frequently be too difficult to measure.

Second, since producers are frequently fewer, they are frequently better organized than consumers. As a result, better organized producer special interest groups relative to consumers bias antitrust government agencies⁴⁹ toward producers and is commonly recognized to bias legislatures against consumers. Due to similar reasons, PoliticalSheepdog.com might become biased against consumers, if it used reductions in dead weight losses as its measurement parameter. PoliticalSheepdog.com, however, may be able to reverse the bias against consumers and provide better balance, if it used net dynamic savings for consumers as its parameter of society's well-being.

Third, while net dynamic savings may not measure reductions in the deadweight loss and improvements in the well-being of society, the reductions in the deadweight loss and the improvements to the well-being of society may not be possible without an exchange of a portion of the producer surplus to PoliticalSheepdog.com and its participants. As a result, the use of net dynamic savings for consumers by PoliticalSheepdog.com should be especially appropriate, when a producer is acting in a self-serving way that hurts consumers, because, much of the improvements in consumer surplus and the producer surplus for PoliticalSheepdog.com would be transferred from the ill-gotten producer surplus, if PoliticalSheepdog.com used net dynamic savings for consumers as a parameter for "good" government. Thus, while net dynamic savings might not strictly measure improvements in total well-being of society resulting from the PoliticalSheepdog.com supported policies, it a feasible and useful tool. It would also increase the size of the potential compensation and incentive by policy entrepreneurs and participating constituents, which should add more bias to the system in favor of the consumer and help it survive without a net loss in the well-being of society. For these reasons, PoliticalSheepdog.com intends to use net dynamic savings as its principle parameter of "good" government and improvements in the well-being of society. If, however, total well-being and reductions in deadweight losses become more feasible to measure and/or if PoliticalSheepdog.com pushes the pendulum too far toward the consumer, PoliticalSheepdog.com reserves the right to switch to total changes in consumer and producer surpluses as a parameter for "good" government and its objective.

It is the intention of PoliticalSheepdog.com to account for the potential surpluses of consuming producers as an addition to consumer surplus, which result from a policies that improve the well-being of consumers, as a consumer surplus. As noted earlier, PoliticalSheepdog.com also intends to account for saving monetized savings in health, consumer time, and mortality as consumer surplus. Hopefully with this accounting, the PoliticalSheepdog.com market will achieve a more optimal distribution of resources.

When the distribution is a sub-optimal situation exists, someone could have better well-being without a loss in well-being by anyone. When markets fail to allocate goods and services efficiently, we have a market failure, which "occurs when externalities, oligopolies, oligopsonies, or some other force causes the theoretically beneficial properties of a free market

⁴⁹ Pittman, Russel. "Consumer Surplus as the Appropriate Standard for Antitrust Enforcement."
<http://www.usdoj.gov/atr/public/eag/225696.htm>

equilibrium to break down. Equivalently, a market failure is the failure of the market to allocate resources to the point where marginal social benefits equal marginal social costs”⁵⁰. There are four main causes of market failure; “abuse of market power; failure to account for externalities; the provision of public goods; and asymmetry of information, that is, where one actor knows more about market values than other actors in the sector”⁵¹.

Please note that a market failure is not a stock market crash. One example of a market failure and abuse of market power is a monopoly. Monopolies cause market failures, when they sell too little of a good at a price, which is too high, relative to a competitive equilibrium. As a result, there is a loss of consumer surplus, because consumers must pay an above market price and their income will not buy as much and because they can not enjoy an adequate supply of the good.

Another example of a market failure is a public good. A public good is “a good that is both nonexcludable and nonrival. A good is nonexcludable, if it is not possible to prevent anyone from consuming the good once it has been made available to the public. A good is nonrival, if one person’s consumption of that good does not reduce the quantity available for consumption by someone else”⁵². An example of a non-rivalrous good would be a sidewalk, because many people can use it without reducing the quantity available to others. If one or a hundred thousand people use a sidewalk on a given day, it does not make much difference. In addition, it would be too expensive to place a toll booth on every corner too ensure that people pay to use the sidewalk. Since it would be inefficient for users to pay tolls for sidewalks, we would have a market failure without government intervention. As a result, governments usually pay for sidewalks.

An example of a non-exclusive good can be national defense like the example of John Jones and the North Koreans in Chapter 5. If a non-exclusive good exists, free-riders can also exist, who don’t pay for their share of the benefit. As a result, there is a danger that too little of a non-exclusive good like defense would be produced under purely market environment. Since the market would produce too little of the non-exclusive good, it is frequently necessary for the government to produce a more optimal amount of the good. For example, governments usually provide national defense.

Another example of a necessary non-exclusive good would be efforts to fight corruption. If a situation occurred in which only those people who contributed to Common Cause in the fight for Campaign Finance Reform actually profited from Campaign Finance Reform, their profits would probably still appear self-serving and corrupt. As a result, the fight against corruption must protect everyone and not only those, who paid to fight corruption. Thus, many people, who did not contribute to Common Cause or other “good” government organizations could still benefit from Campaign Finance Reform (if there are any benefits). As a result, Campaign Finance Reform had free riders. We can, therefore, consider the efforts to fight corruption as a non-exclusive good. Efforts to fight corruption are probably also non-rivalrous and there therefore what economists would call fights against corrupt a “public good.”

Another example of a market failure would be what economists call information asymmetry. An information asymmetry occurs when different parties have different information about a

⁵⁰ PennState AG EC 450, http://450.aers.psu.edu/glossary_search.cfm?letter=m

⁵¹ Renewable Energy and Energy Efficiency Partnership: Sustainable Energy Regulation Network, Draft, Bridget Woodman, Centre for Management under Regulation, Warwick Business School, University of Warwick, Coventry, United Kingdom www.reeep.org/media/downloadable_documents/9/0/SERN%20Glossary.doc

⁵² PennState AG EC 450 http://450.aers.psu.edu/glossary_search.cfm?letter=p

product, which distorts the market price. An example of an information failure is when a used car salesperson withholds information from a consumer that the car is a lemon or was in a crash. The consumer buys the car at a higher price than the consumer would have paid, if the consumer possessed the negative information about the car.

Another example of a market failure is occurs when two parties transact business that effect a third party, who was not part of the transaction. For example, pollution from an Ohio electric utility selling to Ohio consumers creates acid rain, which damages the lake and streams of New Englanders, who are the third party. Economists call this type of market failure, an externality. Acid rain would be a negative externality. An example of a positive externality might be private undeveloped woods, which provide scenic views for those, who live next to or near the woods.

In summary, the main points of this chapter are: 1) Markets can fail to provide an optimal, efficient distribution of resources. 2) Net dynamic savings is a feasible was to measure “good.” 3) Fighting corruption is a non-exclusive good. 4) Markets can fail to maximize well-being. 5) When markets are inadequate, a non-market intervention like government intervention can help provide a more optimal utilization of resources.

Chapter 8

Intellectual Property Theory

Who should read: Politicians, intellectual property professionals, PoliticalSheepdog.com innovators and policy entrepreneurs and anyone, who wants to understand why we need intellectual property for public policy or wants to understand PoliticalSheepdog.com better.

Summary: Intellectual property such as patents and copyright is theoretically necessary and appropriate, because intellectual property can provide more new products, earlier products, and infinite benefits for temporary costs. Intellectual property could either reflect the fair market compensation of the inventor's innovation or be high enough to encourage a culture of innovation.

Another example of market failure would be the losses that might occur without intellectual property. Intellectual property includes patents, trademarks and copyrights. Patents were first devised in Venice in the 1400s to attract the best and the brightest to Venice for a trade advantage⁵³. In England, the first patents were established to encourage inventors to reveal secret processes⁵⁴. Since information about a new technology is frequently difficult to conceal, noninventor could compete without the investments of their time, ingenuity and money. Innovation is therefore frequently a non-exclusive good and an inventor may not be able to obtain the fair market compensation or marginal revenue product for his innovativeness. As a result, he would not be able to reclaim any of his or her investment⁵⁵ in research, development and marketing⁵⁶ adjusted for risk⁵⁷ without protection with intellectual property rights. Since intellectual property gives the inventor a monopoly or greater control over their innovation and competitors, who did not have the expense of developing it and could compete freely without intellectual property, appropriate intellectual property can allow the inventor to collect a premium that reflects the fair compensation for the inventor's innovativeness. This premium sends a signal to potential inventors that innovation is important. Without intellectual property rights, there would be no profits for inventiveness to signal to inventors and innovators that new and better products are important to the national well-being. This premium signal also

⁵³ Machlup, Fritz, 1958 p.7, "An Economic Review of the Patent System." Subcommittee on Patents, Trademarks and Copyrights, Committee on the Judiciary, U.S. Senate, Study no. 15. Washington, D.C.: U.S. Government Printing Office p.7

⁵⁴ (Machlup p.21).

⁵⁵ Sherwood, Robert M., "Why a Uniform Intellectual Property System Makes Sense for the World" in *Global Dimensions of Intellectual Property Rights in Science and Technology* edited by Mitchel B. Wallerstein, Mary Ellen Moege, Roberta A. Schoen, National Academy Press, Washington D.C. 1993. p. 74

⁵⁶ Kitch, Edund W. "The Nature and Function of the Patent System," *The Journal of Law and Economics*, Vol. 20, 2, pp.265-290, p. 277

⁵⁷ Mansfield, Edwin. "Intellectual Property Rights, Technological Change and Economic Growth," in *Intellectual Property Rights and Capital Formation in the New Decade*, Ed. by Charles E. Walker and Mark A. Bloomfield. University Press of America, Lanham, Maryland, 1988, pp.3-33, p. 11

encourages innovators and venture capitalists to develop products and services that would never have been developed or would have had delayed development. As a result, the absence of intellectual property rights would also result in lost or delayed opportunities for consumers to use new products like a computer and the lost or delayed job opportunities to make new products like medical scanners. These lost opportunities would create costs like a higher mortality rate and would thus create the failure of the society to reach the maximum social well-being that could have been reached with intellectual property rights. In addition, Josh Lerner found that “wealthier nations are more likely to have patent systems” and “to allow patentees a longer time to put their patents into practice”⁵⁸. This evidence suggests, but by no means proves, that patents and especially patents with longer protection help create wealth and surpluses in a nation.

Compensation for innovation should reflect an optimal balance between the inefficiencies from monopolistic control over the innovation and from the infinite opportunity costs (possibly discounted) of lost benefits of innovations that were never realized or were delayed, because the profit potential was inadequate to send an adequate signal. The costs of lost benefits can be infinite, because information can have an infinite life. (While the benefits might be discounted, what rate of discount rate would be appropriate? The mortality rate? Would any be appropriate?) As a result, while it is desirable to have limited protection of innovations, these limits should be generous to the innovators and provide greater compensation than what might be their true fair market compensation. Generosity in the favor of innovators is probably necessary for two reasons. Favoring innovators is probably necessary, because innovators might over estimate the risks to develop their innovation and thereby fail to proceed with the development of their innovation⁵⁹. Favoring innovators is probably necessary, because nations with long patent rights appear to be wealthier⁶⁰, possibly because longer patents create a culture of innovation and maximize the infinite benefits from innovation.

It is probably impossible for a government to determine the optimal balance between the costs of compensation for inventors and the infinite benefits of innovation, because we won't know what additional innovations would be developed with a more generous compensation for innovators. But, attempting to use fair market compensation is a logical start, because it is the standard of fairness for markets.

While intellectual property is important source of efficiency and productivity, the structure of current patent system can result in inefficiency^{61 62}. One source of the inefficiency is because it is a winner-take-all system. The result is secrecy⁶³, because, if the inventor shares an improvement to an idea and helps a second inventor, the second inventor may patent first and sharing inventor might lose the opportunity to profit due to his or her openness. Without a free

⁵⁸ 150 Years of Patent Office Practice, <http://www.hbs.edu/research/facpubs/workingpapers/papers2/9900/00-040.pdf>

⁵⁹ Mansfield, 1988, p.11

⁶⁰ (Lerner),

⁶¹ Scherer, F.M. and Ross, David. Industrial Market Structure and Economic Performance, Third Edition, Houghton Mifflin Company, Boston, 1990

⁶² Machlup, Fritz, 1958 p.21, “An Economic Review of the Patent System.” Subcommittee on Patents, Trademarks and Copyrights, Committee on the Judiciary, U.S. Senate, Study no. 15. Washington, D.C.: U.S. Government Printing Office

⁶³ Malchup p.25

flow of ideas, there are delays in innovation, which results in inefficiency. As a result, secrecy creates inefficient delays and duplications in research⁶⁴.

Another source of inefficiency in the current patent system is the duration of the patent. One of the theories behind patent protection is to give the patent holder a monopoly for a time as an incentive for the inventor to reveal his or her secrets⁶⁵. The problem with the secrecy justification for the patent system is why should an inventor want to apply for a patent, when the inventor can obtain better protection from the secrecy than from the patent? The patent system would be useless. As a result, granting patents to encourage inventors to reveal their secrets is a weak justification for temporary monopoly protection from patents.

Another weakness of the current patent system is the duration of the patent. Originally in England, the duration of a patent monopoly was approximate twice the length of an apprenticeship or fourteen years⁶⁶ and the market determined the value of the innovation. Now, the duration of a patent is 20 years due to international convention⁶⁷. The duration of a patent should, however, be related to the fair market compensation of the inventor, instead of uniformly set at 20 years, to align the patent system with the rest of the economy, because this fair market compensation is the standard of fairness in a market economy. If only one inventor could have invented an invention during an interval, then that inventor should receive a monopoly for that interval. That monopoly interval should theoretically only last until the next inventor might have invented it to reflect his fair market compensation (or marginal revenue product).

If the patent system attempted to determine, who might have been the second or third inventor and the date when they might have invented the innovation, a system would have to have certain things. First, the innovators in public policy need an accessible, open method that would make information and evidence available to everyone and would record dates to set priorities to define who discovered what and when they discovered it. This openness could be accomplished with applications of innovation descriptions to the U.S. Copyright. The copyright application would encourage transparency and eliminate secrecy in the inventing process and its costs of delays and duplications of research.

Second, since there would be a great deal of uncertainty about the relative contributions of various innovators and when potential innovators might have discovered the innovation, there is a need for a system that would make a reasonable estimate of its benefits or savings. To encourage reasonable estimates about the relative contributions of various innovators and when potential innovators might have discovered the innovation, a system of negotiations between innovators would be necessary. The system would also maintain the possibility of arbitration with appeals, if the negotiations were unsuccessful. During the arbitration, the arbitrator would penalize the most unreasonable party and accept the position of the most reasonable party based on evidence from the descriptions with copyrights. The threat of penalties should encourage reasonable and fair negotiations.

Third, the negotiation/arbitration system could use negotiations to determine whether or not the copyrighted description was an improvement on a previous policy, an entirely new policy, or

⁶⁴ Malchup p.50-51

⁶⁵ Machlup, Fritz, 1958, "An Economic Review of the Patent System." Subcommittee on Patents, Trademarks and Copyrights, Committee on the Judiciary, U.S. Senate, Study no. 15. Washington, D.C.: U.S. Government Printing Office, p. 21

⁶⁶ Devaiah, Vishwas. "A History of Patent Law." Alternative Law Forum.

<http://www.altlawforum.org/PUBLICATIONS/document.2004-12-18.0853561257>

⁶⁷ <http://www.uspto.gov/web/offices/com/doc/uruguay/uruguay.html>.

steps toward a new policy with the potential to discover a new policy that another inventor discovered with appropriate compensation for each situation.

The fourth requirement could use negotiation/arbitration system to determine the approximate date when a potential subsequent innovator might have discovered an invention, if the researcher had copyrighted descriptions to show that the researcher had the potential to discover the new policy. Potential subsequent innovators should ONLY be those researchers with copyrights on descriptions of their research, which show to other initial and potential innovators of a policy or to arbitrators that they might have been able to discover a new policy that was discovered by another policy inventor. The descriptions with copyright should be evidence to prove that the potential innovators were researching the subject and document their rate of research progress relative to the rate of the original innovator. The negotiations/arbitration system could then determine when potential subsequent innovators could have invented the invention through a comparison of the rate of progress of the original inventor with the rate of the potential innovator. This determination of the lead of the initial or earlier inventors is necessary to determine when only the initial could have invented a new policy and when next and then the next inventors would have developed the policy. The difference between the initial and the next potential inventor would determine the length of patent monopolies. The length between earlier innovators and later potential innovators would determine the length of grants of competitive oligopolies in order to determine their fair market compensation of the initial and potential inventors. For example, the patent office should not have granted Alexander Graham Bell, the inventor of the telephone, a 17 year monopoly, but should have grant Alexander Graham Bell a short monopoly to reflect his short lead over Elisha Gray, his competitor, and then an oligopoly with the two inventors competing, because Alexander Graham Bell discovered the telephone almost simultaneously than Elisha Gray⁶⁸. Then, their two inventors and their companies could had competed for the development of the telephone.

In another example, if the negotiators or arbitrators determined from descriptions with copyrights that a researcher or inventor might have discovered a patented process within two years of the original claim, then the original inventor should have a monopoly for only two years and not twenty. If a third potential subsequent innovator could have invented the innovation by a certain date like two additional years later, as determined by negotiations or arbitration, then the initial and first potential innovators would have an oligopoly for two year until the third innovator could have invented it. These cycles would continue until the fifth innovator could have invented the invention, at which time there would be no need for intellectual property protection, because five providers would probably provide enough competition to have the same results as an open market.

Since it might be difficult to predict from research records when a potential inventor might have invented and innovation, if the invention might have occurred more than 5 years later, but less than 15, then these inventors should be included into an oligopoly of less than five inventors at the tenth year, giving the earlier inventors and potential inventors a 10 year oligopoly.

Since the current patent system does not provide protection based on the lead of the original innovators and, thus, does not provide fair market compensation, the current patent system could theoretically provide inaccurate signals about how much innovation is needed.

⁶⁸ Bellis, Mary. The History of the Telephone, Alexander Graham Bell, Elisha Gray and the Invention of the Telephone.About.com: Inventors. <http://inventors.about.com/library/inventors/bltelephone.htm>

Sometimes the patent signal will provide too much patent monopoly time for inventors with relatively obvious inventions like a patent on an internet auction, which would have been obvious to auctioneers. If the patent monopoly is too long, it will result in inefficient monopoly costs to consumers. The patent signal can also be too great, when the research environment is competitive. For example as noted earlier, Alexander Graham Bell was only a few hours ahead of the next inventor of the telephone, Elisha Gray⁶⁹, and should have only received a short period of monopoly protection. Instead, the two should have shared an oligopoly.

Sometimes the current patent signal will provide too little monopoly protection for inventors, whose thinking is way ahead of their time. Innovators could determine their lead through negotiations with a government intellectual property office. During the negotiations between a government intellectual property office, the innovator could use the absence of copyrights in the inventor's field or art and the complexity of the innovation as evidence to support his or her lead. The negotiations might have the threat arbitration with potential penalties for the government or innovator. If negotiation or arbitration showed that the innovator's innovation was truly unique, then the inventor should receive thirty years of monopoly protection and not twenty. More than thirty years, however, would probably be unwise for even the most unique invention, 1) because thirty years is a long time, 2) because current developments may have provided the impetus for the innovation, reducing the potential lead of the initial innovator, and 3) because evaluators would have difficulty determining such a long lead.

While it might be difficult to determine the exact time that one inventor was ahead of another, it is only necessary to have an approximate time to be better than the current patent law, because an approximate time would be more accurate reflection of fair market compensation than arbitrarily allowing 20 years.

The potential weakness in this approach is that it would probably shorten the length of most patents, while Dr. Lerner's previously noted study suggested that longer patent protection might create greater wealth. Greater wealth may develop, possibly because innovation generally creates social returns⁷⁰ or possibly because a system that provided greater rewards for inventors also created a culture of innovation. This culture might be more important than greater efficiency in the patenting process and alignment of the patent system with the rest of the economy through the application of the fair market compensation. As a result, it might be inappropriate to abandon the current patent system for a patent system based on the lead of inventors over other inventors for most inventions.

Never-the-less, an intellectual property system, based on the lead of innovator, might be an advantageous intermediate patent system for public policy innovations, because these innovations currently have no intellectual property system and there can be little disadvantage from a shorter length of patent protection. A system for public policy would need, however, an additional step to the negotiations described above. The system would require a market, which PoliticalSheepdog.com has patented, that could provide a fair market compensation, when only two or a few innovators existed for a single policy. The market would determine the sharing arrangement of the innovators that would provide a fair market compensation to the innovators and yet provide the enacting government with the lowest price for the policy.

⁶⁹ Bellis, Mary. The History of the Telephone, Alexander Graham Bell, Elisha Gray and the Invention of the Telephone. About.com: Inventors. <http://inventors.about.com/library/inventors/bltelephone.htm>

⁷⁰ Mansfield, p.7

Now let us consider a different problem. The reader might still wonder why monopolies that result from market power *cause* market failure, while monopolies are necessary for intellectual property to *prevent* a market failure. Monopolies created from market power are inefficient and cause market failures, because the monopolies usually restrict the supply in order to raise the price. As a result, monopolies can hurt consumers two ways: 1) reduced availability and opportunities to use a product and 2) increased costs for the product.

Intellectual property, however, helps consumers several ways. First, monopolies are inherently appropriate as intellectual property, because they reward innovation and protect fair market compensation of the inventor, when that inventor was the only person, who could have developed the invention. As a result, appropriate monopolies can send the most accurate signal to the market and to other inventors about how much innovation and what innovation is necessary for the economy to prosper. This protection is desirable, because ideas and the development of those ideas create consumer surplus and the resulting superior welling-being and wealth⁷¹. In addition, more new products provide more competition for the existing products, which should frequently lower costs of those products. As a result, consumers can give purchasing signals to obtain the most accurate signal about how much and what innovation the consumers need.

The second way that intellectual property monopolies can help consumers is because information can have an infinite life (with possibly discounted values) as previously noted. As a result, temporary monopolies associated with intellectual property can provide infinite benefits for temporary costs. The third way that intellectual property helps consumers is to give an incentive for new innovations and to increase the number of new products for consumers, as well as the opportunities and jobs associated with those products. The fourth way that intellectual property helps consumers is that these monopolies in intellectual property can increase the speed of innovation, which again increases opportunities to enjoy and to manufacture the product and decreases opportunity costs.

An example of how intellectual property can provide major benefits to consumers and producers is the growth of the software industry in India. Before the 1990's, India had a strong copyright system⁷², but a weak patent system. Since the copyright system protected program software and since Indians know English, Americans and European software companies sent software for development to India, which probably cut costs for these manufacturers and their consumers. The computer programming industry thrived in India, while the rest of the economy languished.

Now that India has embraced the market model with strong patents, it has become an economic powerhouse⁷³. The example of India implies that intellectual property can create wealth in a country, which supports the conclusion that the presence of intellectual property can create wealth. The conclusion implies that the absence of adequate intellectual property can result in a suboptimal utilization of resources and a market failure. As a result, temporary

⁷¹ Gilder, George, *Wealth and Poverty*, Bantam Books, New York, 1981

⁷² Sherwood, Robert M., "Why a Uniform Intellectual Property System Makes Sense for the World" in *Global Dimensions of Intellectual Property Rights in Science and Technology* edited by Mitchel B. Wallerstein, Mary Ellen Moguee, Roberta A. Schoen, National Academy Press, Washington D.C. 1993

⁷³ Yergin, Daniel. *The Commanding Heights: The Battle between Government and the Marketplace that is Remaking the Modern World*. Books on Tape. Buffalo, New York, 2002

monopolies from patents are probably necessary to prevent market failures, while monopolies that businesses create through market power can create market failures.

Summary: Intellectual property is theoretically necessary and appropriate, because intellectual property can provide more new products, earlier products, and infinite benefits for temporary costs. Intellectual property should reflect the fair market compensation of the inventor's innovativeness, but intellectual property systems should err in favor of the innovator, because innovation has the potential for infinite benefits.

Chapter 9

Psychological Market Failure

Who should read: Anyone who wants to understand why markets fail to produce optimal results. Talk show hosts, politicians, economists, psychologists, students.

Chapter Summary: We will review rationality. We will also explain how psychological states can result in market failure and why businesses must prey on psychological weaknesses.

In economics and other social sciences, an important concept is rationality. Rationality⁷⁴ is “the assumption that people behave in such a way as to maximize some (subjective) function of all costs and advantages operating in a situation”⁷⁵. In another definition, “individuals or organizations are often called rational, if they tend to act somehow optimally in pursuit of their goals,” but an individual’s goals are “taken for granted and not subject to criticism, ethical or otherwise”⁷⁶.

Both of these definitions have problems from the perspective to the scientific method, which require “operational definitions of relevant qualities”⁷⁷. Such a definition describes or defines the quality in a way that it can be measured, “as opposed to some more vague, inexact or ‘idealized’ definition”⁷⁸. Since the first definition talks about an “assumption” and “some (subjective) function,” there is nothing measurable in that definition. In the second definition, the goals can not be criticized and, therefore, do not need to be measured, even though the goal may be irrational like the goal of an alcoholic to continue to drink and thereby destroy his or her health.

If someone is going to measure something, the measuring instrument or parameter must also be independent or can not be influenced by the thing to be measured. Example, if one is going to

⁷⁴ Disclaimer: A thorough current, academic review on the subject of rationality is beyond the scope of this book. The author did a thorough review of the subject of rationality in the early 1990’s. Even so, a cursory on-line review on the subject of rationality appears that little has changed. As a result, the following discussion of rationality is not meant to be a current authoritative discussion of the economists’ and, to a much lesser extent, the psychologists’ views of rationality, but the current impressions of the author’s view of economists’ views of rationality.

⁷⁵ Lea, Stephen, E. G., Tarpy, Roger M., Webley, Paul. *The Individual in the Economy, A Survey of Economic Psychology*. Cambridge University Press, New York, 1987. p. 105

⁷⁶ (en.wikipedia.org/wikipedia.wog/wiki/Rationality)

⁷⁷ http://en.wikipedia.org/wiki/Scientific_method 12/18/07

⁷⁸ http://en.wikipedia.org/wiki/Scientific_method 12/18/07

measure the growth of a child, one does not measure the growth of a child with the child's hand, because the child's hand is growing. Instead, we would use a ruler.

In order to measure and understand rationality in economics and purchasing behavior, the observer must measure the purchasing behavior associated with various psychological states. Psychology studies states of mind like drug addiction, alcoholism, depression, etc., which are called phenomena. A phenomenon is "an occurrence of fact that is perceptible by the senses"⁷⁹. An example of the perceptible (if possibly, non operable) definition of an addiction to alcohol as a phenomenon is when a person has an obsession with alcohol and when the person must drink a great deal of alcoholic beverages to the extent that this behavior interferes with the alcoholic's normal personal, family, social, or work life⁸⁰.

Since psychologists study states or phenomena like drug addiction, alcoholism, and depression, and since these phenomena affect consumer purchasing behavior, it is essential that economists understand the psychology behind these behaviors in order to determine how to maximize the well-being of society. As a result, to understand these phenomena and to understand how to maximize the well-being of society, observers must use independent measurement parameters. Thus, economist must use definitions of rationality with measurement parameters that are independent.

If, however, the definitions use a dependent parameters like preferences, which depend on an independent psychological phenomenon like alcoholism, the dependent parameter will change as the independent psychological phenomenon or variable changes. Another dependent variable is utility. Utility is a "measure that is to be maximized in any situation involving choice"⁸¹. For example, if you are an alcoholic, you will have a high utility or preference for alcohol and will therefore choose alcohol, even though most of the public would consider alcoholism as suboptimal and most physicians consider alcoholism as a disease. The public and physicians would consider alcoholism as irrational behavior. As a result, economists or psychologists should be careful to avoid saying something like someone is rational, if their choices follow their preferences or utility functions, because choices, preferences and prevailing utility functions are dependent upon other independent psychological phenomena like alcoholism. (Stability in preferences⁸² or price sensitivity does not necessarily imply total rationality, if the preference for the product is driven by a powerful psychological phenomena like addiction that results in choices that the consumer would not have made without the influence of the powerful phenomena.)

An independent parameter, which the scientific method also frequently utilizes to measure things like diseases or behaviors, is a control group⁸³. The control groups could be compared with the experimental group against a social parameter like spouse abuse, a health parameter like liver enzymes, and a financial parameter like bankruptcy to measure the rationality. As a result, a more operable definition of rationality in the face of alcoholism might state that an alcoholic is rational if the alcoholic beats his or her spouse the same number of times per year or loses her or his job and declares bankruptcy the same number of times in a year, maintains the same levels of

⁷⁹ *Reader's Digest Illustrated Encyclopedic Dictionary*, The Reader's Digest Association, Pleasantville, N.Y. 1987

⁸⁰ Wikipedia, en.wikipedia.org/wiki/Alcoholism

⁸¹ WordNet, Princeton University wordnet.princeton.edu/perl/webwn

⁸² Becker, Gary S. and Murphy, Kevin M. "A Theory of Rational Addiction," *The Journal of Political Economy*, Vol. 96, No. 4 (Aug., 1988), pp. 675-700

⁸³ http://en.wikipedia.org/wiki/Scientific_method

liver enzymes relative to when they don't drink or relative to non drinkers. To use the difference in spouse abuse, bankruptcy, liver enzymes between experiment and control group as independent variables to identify what is optimal and rational, the observer must make some value judgment like spouse abuse can reveal an irrational behavior. As a result, to adhere to the scientific method with independent parameters, economists must make value judgments about whether or not the behavior like a level of heavy alcohol consumption will hurt the subject financially, socially or physically. Economists must determine whether or not a subject could have made better choices, which can be defined in a measurable way. If the choices are less than better choices, they will be sub-optimal, sub-maximizing and irrational, based on the psychological phenomena that appear to drive the behavior.

The scientific method as reflected in the epidemiologic criterion of causation also frequently requires repeatable consistent results from experiments or observations and coherence with the existing information⁸⁴. For example, when Einstein published his theory of relativity, the theory lacked both consistent experimental results and coherence with the existing information with the exception of the mathematics, because no one had lived at the speed of light. Later experiments with consistent results showed that light bent as it passed the moon during a solar eclipse⁸⁵, thus making Einstein's theory coherent with existing information. Evidence for the Theory of Relativity accumulated and scientists created the atomic bomb, based on Einstein's formula.

Since science can not read the minds of consumers, it may be difficult to agree on what is maximizing. Never-the-less, scientists could probably develop a consensus about the most suboptimal purchasing behavior, when powerful psychological phenomena drive the behavior like the purchase of cigarettes driven by an addiction to nicotine. Then, the scientists and economist can refine procedures to identify less extreme behaviors, which are also suboptimal. This approach would still allow personal choice to prevail as rational, except when psychological phenomena generally show that the choice would not have been made without the influence of the sub-optimizing psychological phenomena. For example, we could compare an alcoholic's purchasing choices while addicted and after adequate treatment to determine which choices are truly rational. As the psychological instruments improve, we can steadily improve our parameters of irrational behavior to narrow the definition what is rational, optimal behavior. If experimental subjects under the influence of a powerful psychological phenomenon statistically exceed the limits of parameters relative to the same limits for controls, then the psychological phenomenon results in irrationality. Simply showing that addicts have stable preferences in the face of price fluctuation⁸⁶ does not mean that those preferences are rational. In summary, the approach to the study of rationality should be to study individual choices associated with psychological phenomena, while comparing the experimental subjects to control groups.

If a psychological phenomenon causes irrationality and suboptimal purchasing choices like an alcoholic spending money on alcohol instead of his family, then the psychological phenomenon create inefficiency. If the purchasing inefficiency effects market choices and makes them inefficient, the result is a market failure – a psychological market failure.

⁸⁴ Mausner, Judith and Bahn, Anita K. *Epidemiology: An Introductory Text*, W.B. Saunders Company, Philadelphia, 1974, p.101-102

⁸⁵ Peter Coles, "Eclipse that Changed the Universe – Einstein's Theory of Relativity, First Science.com http://www.firstscience.com/home/articles/big-theories/eclipse-that-changed-the-universe-einstein-s-theory-of-relativity-page-4-1_1214.html, 5/29/1919

⁸⁶ Becker, Gary S. and Murphy, Kevin M. "A Theory of Rational Addiction," *The Journal of Political Economy*, Vol. 96, No. 4 (Aug., 1988, pp. 675-700

Examples of psychological phenomena that may cause irrational choices and result in psychological market failure include addictions like alcoholism. They might include sexual psychology as with pornography, or even intelligence, including too much or too little. Another example of a psychological phenomenon that may cause irrational choices and result in psychological market failure is the human tendency to seek immediate gratification, known in economics as high internal discount rates or the desire to buy now and pay later with the overuse of credit. High internal discount rates can be irrational, if the individual's choices results to bankruptcy or inadequate savings for retirement.

Another example of a psychological phenomenon that may cause irrational choices and may result in psychological market failure is cognitive framing, a concept for which Kahnemmn won the Nobel Prize. Kahnemmn and Tversky (Tversky, Amos, and Daniel Kahneman, 1981. "The Framing of Decisions and the Psychology of Choice." *Science* 211: 453-458) would ask subjects between situations with the same risk, but stated differently. In cognitive framing, the subject responds differently to essentially the same situations, based on upon different presentations of the same risks. Cognitive framing, however, is part of advertising, which could, therefore, result in suboptimal and irrational purchasing choices and psychological market failure.

Another example of a psychological phenomenon that would result in irrational choice and psychological market failure could include decisions based on operant conditioning, developed by B. F. Skinner. An operant is something that acts on the environment like a pigeon pecking on a lever or a consumer purchasing a hamburger⁸⁷. A reinforcer⁸⁸ is an event that increases the frequency of a behavior that it immediately follows like presenting candy to a child, who has been quiet to encourage the child to be quiet. A reinforcement⁸⁹ is when a reinforcing stimulus follows a behavior like providing corn for a pigeon that has pecked a lever, or a beverage for a consumer who has paid her or his tab. Conditioning⁹⁰ occurs when a change in a reflex or behavior is the result of reinforcement, like training a hungry pigeon to peck a lever by providing rewards of corn for pecks, which the trainer desires. In humans, conditioning might occur when a customer returns to Starbucks as a result of his reinforced return to satisfy his/her craving for caffeine. Operant conditioning is changing the behavior of an operant as the result of reinforcement like training a pigeon to peck a lever or rapid courteous service to induce customers to return⁹¹. Operant behaviors are all behaviors that can be increased in frequency by reinforcement.

Operant conditioning can result from several basic sequences or schedules of reinforcement⁹². There are several reinforcement schedules. A fixed ratio schedule (see the graph below) exists when the reinforcement of operant performance occurs immediately after a required, fixed number of behaviors. Two examples might be the payment of a laborer by piece work or the possession of a product after the consumer's over-the-counter purchase.

⁸⁷ (Fester, C. B.; Cobertson, Stuart; Boren, Mary Carol Perrott. *Behavior Principles*. Prentice-Hall, Inc. Englewood Cliffs, N.J. 1975, p. 16).

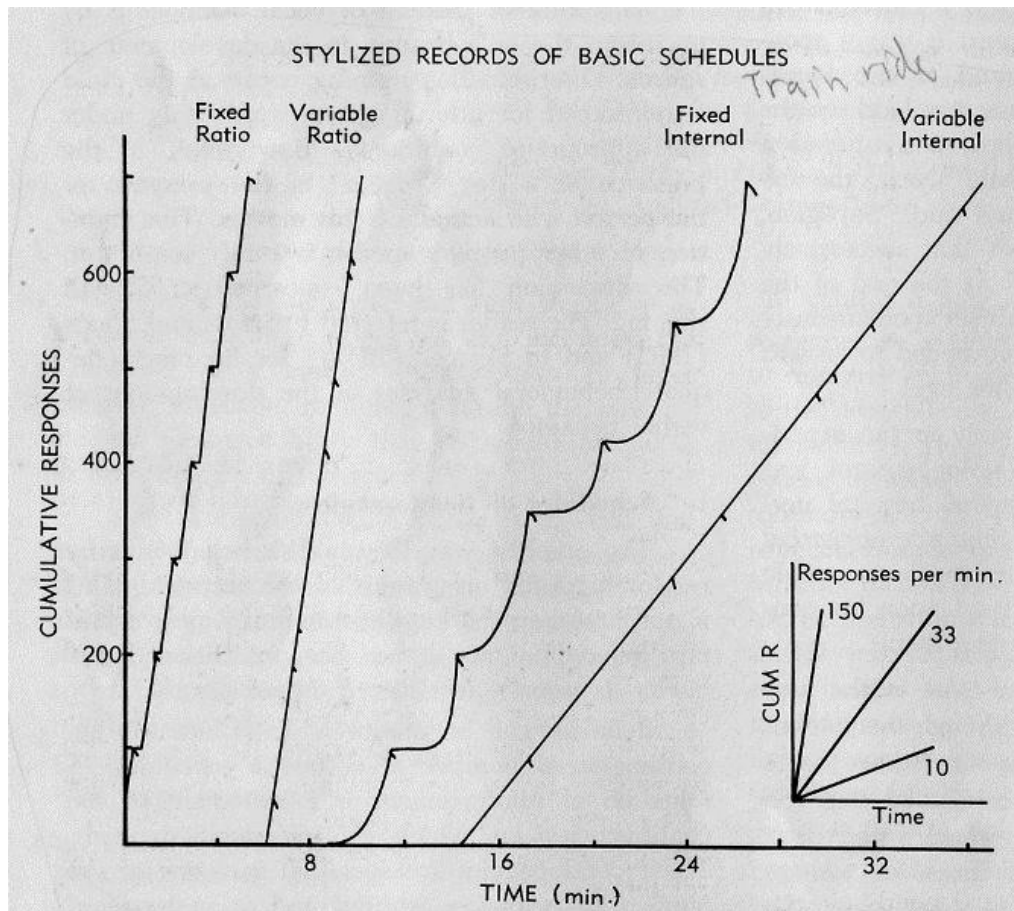
⁸⁸ (Fester, p. 45)

⁸⁹ (Fester, p. 46)

⁹⁰ (Fester, p. 49)

⁹¹ (Fester, p. 48-49)

⁹² Fester, C. B.; Cobertson, Stuart; Boren, Mary Carol Perrott. *Behavior Principles*. Prentice-Hall, Inc. Englewood Cliffs, N.J. 1975, p. 48



(Reese, Ellen P., *The Analysis of Human Operant Behavior; Introduction to General Psychology: A Self-Selection Textbook*. Wm. C. Brown Company Publishers, The McGraw-Hill Companies, Inc. Dubuque, Iowa. 1966. p. 16)

A fixed interval schedule, which is like a weekly salary, occurs when reinforcement occurs when the operant emits the behavior after a required unvaried length of time. A variable ratio schedule like gambling or day trading occurs when a randomly changing number of performances of a behavior are required for reinforcement. A variable interval reinforcement schedule like insurance or education occurs when a reinforcement occurs after the operant emits the desired behavior after a varied period of time. The differing slopes of the lines in these types of idealized reinforcement schedules suggest that different schedules of reinforcement influence behavior have different strengths.

Since the above operant conditioning schedules all have the noted examples in commerce, it is also possible that different schedules of reinforcement could cause psychological market failures, as obviously occurs with gambling and variable ratio reinforcement schedules. While contemplating the variables in reinforcement schedules and also walking past a Lumm's, a fast food box like restaurant that also sold beer, in the 1970s, the author realized as noted in Chapter 4 that schedules of reinforcement could explain the Elvis-Educator paradox (Why did Elvis make more money than private middle school teachers, when the middle school teachers seemed to create more value). It appeared that the people standing in line and paying food in the Lumm's were like pigeons pecking a lever for food. Schedules of reinforcement and their difference in strength also appeared to explain why Elvis made more money than my middle school teachers.

The solution to the paradox appears to be the difference in the strength of the reinforcement schedules for the purchase of private middle school education and the purchase of rock and roll records. For the private middle school education, the parents must pay, the children have the inconvenience and worry of school, and there may be a 20 year delay before the benefits of education occur. Finally, when the benefits occur, the grown children may not realize the benefits of their education and appreciate the amount of money that their parents paid for the education two decades earlier.

For Elvis and his records, the child pays for the record, receives the records immediately and plays the records soon, possibly with friends. As a result, the reinforcement schedule for Elvis appears quicker and more powerful than the reinforcement schedule for the private middle school. This difference in the powers of the reinforcement schedules appears to explain much of the Elvis-Educator Paradox.

Economists might counter with an alternative explanation, the Water-Diamonds Paradox. The Water-Diamond Paradox asks “Why water is cheap, when it is so useful and has an immense consumer surplus, while diamond jewelry is so expensive, when it is relatively useless with a much smaller consumer surplus?” The economists’ answer is that diamonds are scarce and water is plentiful or that Elvis is relatively scarce compared to teachers.

On further examination, however, the scarcity explanation is lacking, because it appears quite reasonable that, if only parents could buy the Elvis records, if the children had to stay in solitary confinement for 6 hours after record purchases, if the records were not delivered for 20 years, and, when they were delivered, the children would not realize that the parents paid for them twenty years previously, then Elvis would probably have earned a great deal less money. In addition, since education is what economists call exclusive (others can be excluded) and rivalrous (only one person can use it) and since exclusive and rivalrous goods usually survive well in a market economy, the market should be able to supply most children with an appropriate education. But, it probably would not adequately educate more children, which is reflected in the fact that government supports most education. This evidence adds support to the implication that a psychological market failure exists and that the preceding analysis is correct. As a result, it appears that reinforcement schedules, and not scarcity, are a major, and possibly the primary, source of the disparity between the wealth of teachers and Elvis.

Another phenomenon that can probably causes psychological market failure are the limits or bounds of people to evaluation complex situations like probability, as noted by the Nobel laureate, Herbert Simon⁹³. In addition to Simon, Kahneman, and Tversky⁹⁴ noted that humans are poor judges of probability. Since an understanding of probability is necessary to understand gambling and since humans are poor judges of probability, then gamblers are more likely to make incorrect, inefficient, suboptimal choices associated with gambling. When combined with the observation that reinforcement schedules can result in psychological market failures and the variable ratio reinforcement schedules associated with gambling is powerful, the work of Simon,

⁹³ Simon, Herbert A. “Theories of Bounded Rationality.” *Decision and Organization*, edited by C.B. Radner and R. Radner, pp. 161-176. Amsterdam: North-Holland Publishing Company, 1972 in *Model of Bounded Rationality*, Vol. 2, *Behavioral Economics and Business Organization*, The MIT Press, Cambridge, Massachusetts, 1982

⁹⁴ Kahneman, Daniel, Slovic Paul, Tversky, Amos. *Judgement under Uncertainty: Heuristics and Biases*. Cambridge University Press 1982

Kahneman, Tversky and B. F. Skinner all point to irrationality and psychological market failure with almost all gambling.

Other psychological phenomena that cause psychological market failure are addictions from drugs, alcohol and cigarettes and intoxications from drugs and alcohol.

Another psychological phenomenon that can cause a psychological market failure is manic depression, especially in the manic phase. Manic depression is a psychiatric illness in which the patient has wide mood swings. During the manic (hyperactive) phase, the patient may spend wildly with disastrous results⁹⁵.

Another psychological phenomenon that may cause psychological market failure is sexual psychology, especially in the form of pornography. Sexual psychology developed to encourage procreation and unless pornography actually helps with procreation and the care of their children, the men who buy pornography, when they would have made other choices without the influence of power sexual urges, are probably victims of business people preying on sexual psychological weakness of men. The female equivalent of pornography for men is probably the romance novel. In addition, sexual psychology in the sale of cosmetics and fashion may also result in psychological market failure, if the cosmetic manufacturer is selling only “hope”⁹⁶, as Charles Revson the founder of Revlon corporation noted, when the situation is hopeless and the fashion or cosmetics will not help the women sustain their relationships with their mates or improve their social standings. If the fashion or cosmetic fails to attract or maintain a suitable partner, the women, who buy cosmetics, fashionable clothes or romance novels become victims of businesspeople, who prey on their sexual psychological weaknesses, because the cosmetics and fashionable clothing won’t deliver the desired results and because romance novels might not promote the well-being of their progeny.

In addition, since businesses must use the most powerful psychological phenomena in the purchase of the products to maximize profits and survive in a competitive market, businesses must use every advantage that will help them succeed. As a result, if businesses have an opportunity to legally prey on the psychological weaknesses of consumers, competitive pressure will require that they exploit those weaknesses and use the most powerful psychological phenomena at their disposal. Businesses in the present commercial environment can not afford to be “thy brother’s keeper” to consumers. Businesses, who want to stay competitive, must use the most powerful psychological phenomena possible to encourage consumers to buy their products. This situation encourages businesses to frequently prey on the consumer’s psychological weaknesses. While business people may not want to intentionally harm consumers, but must harm consumers to stay competitive, the fault for predatory business behavior is more likely the result of the current economic system than the intentions of business people.

In addition, if an industry like education can not utilize the stronger psychological phenomena, then that industry will have a handicap and will be less likely to compete, even when the product is what economists call exclusive (other people can be excluded from using the product) and rivalrous (only one person can use it for a set cost).

To understand when an industry has a handicap, when business people prey on psychological weaknesses, and when a psychological market failure exists; economists and psychologists must study whether or not the psychological phenomena causes suboptimal or irrational choices.

⁹⁵ Read, Kimberly and Purse, Marcia <http://bipolar.about.com/cs/mania/ht/bl-ht-mania.htm>

⁹⁶ http://thinkexist.com/quotes/charles_revson/

During these investigations, investigators, either economists or psychologists, may want to consider whether or not genetics, the environment or a combination of the two control the psychological phenomena to determine the appropriate control groups. For example, addictions and intoxications require substances, while operant conditioning needs a reinforcement and cognitive framing needs information. As a result, addictions, intoxications, operant conditioning and cognitive framing are more likely to be under environmental control and experiments could use the same subject as the experimental subject and as the control, but in different environments, to determine rationality. The investigators should probably also look at health parameters like live enzymes, social parameters like wife beating and financial parameter like savings to evaluate irrationality and potential savings.

Phenomena like manic depression may be primarily under genetic control and subject may need to have three types of controls to determine the effect of the genetic phenomena in the presence of the environmentally driven phenomena. For example, identical twins could serve as their own controls to study a genetic psychological phenomenon like manic depression, such that one twin would have an environmental exposure like one purchasing reinforcement schedule and the other wouldn't have the exposure. A third persons without manic depression could serve as their control with different purchasing reinforcement schedules.

If the investigators could use these experiments to identify when psychological phenomena resulted in irrational, suboptimal purchasing choices, they could determine when the phenomena created psychological market failures and costs for consumers. Once investigators reach a consensus of when psychological phenomena create psychological market failures with costs for consumers and a solution to those costs that requires public policy, the innovator of the policy can use the PoliticalSheepdog system to help promote legislation to prevent the psychological market failure. PoliticalSheepdog.com could then turn these psychological market failures into opportunities and savings for consumers. For example, if PoliticalSheepdog.com could make the prevention of alcoholism and drug addiction profitable, the potential savings for alcoholism and drug, if estimated at \$245.7 billion/ year in 1992⁹⁷, could provide enormous incentives, opportunities and jobs to reduce or end these plagues.

In summary, some psychological phenomena probably cause psychological market failures and business people must prey on these weaknesses to stay competitive. PoliticalSheepdog.com could potentially prevent these psychological market failures through policies and turn costs into savings and opportunities.

⁹⁷ Alcoholism National Institute on Alcohol Abuse and Alcoholism 1995 *Drug Control Strategy*, The White House Office of National Drug Control Policy, <http://www.nida.nih.gov/Infofacts/costs.html>

Chapter 10

Government Failure and Politicalsheepdog.com as Remedy

Who should read: Everyone

Chapter Summary: This chapter explains reasons why governments can create inefficiency and why PoliticalSheepdog.com could probably reduce that inefficiency.

The several authorities who developed the concepts behind the distribution of resources in the public sector are the Nobel laureates, Kenneth Arrow, James Buchanan and Gordon Tullock⁹⁸. One of the concepts that evolved from their work was the concept of government failure. Government failure occurs “when public policy is undertaken even though it promotes inefficiency”⁹⁹.

One of the causes of government failure is the failure of the politico-economic system to join the self-interest of the politicians with the public interest. For example, legislators can buy political advantage, spending other people’s money inefficiently, which creates a tendency toward profligate spending. One potential example might be “rent-seeking” political behavior. “Rent seeking is the term used by economists when referring to actions taken by individuals and groups seeking to use the political process to plunder the wealth of others”¹⁰⁰. Rent-seeking produces inefficiency, because individuals spend more resources and “time organizing and lobbying politicians and less time producing goods and services”¹⁰¹. The PoliticalSheepdog.com system would reduce this tendency, because it promotes savings for consumers rather than expenditures for taxpayers and provides the incentives for its constituent participants to provide a political counter weight to the purchase of inefficient political support with public funds.

Another example of the purchase of political support with public funds and the tendency toward profligate spending would be pork-barrel spending. “Pork-barrel legislation bundles together a set of projects benefiting regional interests (for example, water projects, dredging of harbors, or expenditures on military bases) at the expense of the general taxpayer”¹⁰². Pork-barrel spending occurs when politicians align themselves with the most powerful, best organized, richest special interest groups, regardless of the costs to their constituents. In some situations, the rich special interest group can provide campaign contributions and political pressure on some legislation designed to provide the group with profits, which would cost unorganized individual

⁹⁸ Gwartney, James D., *Economics: Private and Public Choice*. Academic Press, New York. 1976, p. 61

⁹⁹ Gwartney, 1976, p. 549

¹⁰⁰ See the classic work of Charles K. Rowley, Robert D. Tollison, and Gordon Tullock, *The Political Economy of Rent Seeking*. Boston:Klwer Academic Publisher, 1988, for additional details of rent seeking (Gwartney, James D., Richard L. Stroup, Russell S. Sobel, David A. Macpherson *Microeconomics: Private and Public Choice* 10th edition, Thompson Southwestern, Manson, Ohio 2002, p.142)).

¹⁰¹ Gwartney, 2002 p.142

¹⁰² James D. Gwartney, Richard L. Stroup, Russell S. Sobel, David A. Macpherson *Microeconomics: Private and Public Choice* 10th edition, Thompson Southwestern, Manson, Ohio 2003, p. 139)

constituents too much relative to the savings that could be generated, if the unorganized constituents won the fight. As a result, the special interest groups face inadequate opposition and impose their inefficiency on constituents. This inefficient influence becomes corrupt and is aggravated when the special interest group consists mostly or largely of non-constituents. For example, the Federal government subsidized rice farmers with \$1.3 billion in 2003 and \$16.9 billion from 1986 to 2004 from the extension of a “temporary” emergency measure during the Great Depression¹⁰³. As a result, the special interest groups line their pockets and fleece the general public through political pressure, which only encourages greed, irresponsibility and a grab-as-much-as-you-can- take mentality in politics, instead of a system that encouraged people to focus on the common good.

PoliticalSheepdog.com can provide a solution, 1) because it is constituent driven, 2) because it focuses on net dynamic savings for consumers, which would change the focus to the common good, and 3) because PoliticalSheepdog.com could provide special auctions during the primary and general elections, which would provide profit incentives for constituents to give to candidates, reducing the need of candidates for contributions from self-serving special interest groups, and increasing the group risks of failure. As a result, PoliticalSheepdog.com would act to counter the influence of the special interest groups and to decrease the corruption that occurs when legislators vote against the interests of their constituents.

Another cause of government failure is information failure. For example, “most citizens recognize that their vote is unlikely to determine the outcome of an election. So they have little incentive to spend much effort seeking the information needed to cast an informed ballot. Economists refer to this lack of incentive as the “rational ignorance effect”¹⁰⁴. In addition, candidates may have hidden agendas. As a result, voters may not be well informed about the candidates.

The PoliticalSheepdog.com system would reduce this tendency, because the drive for profits by the constituent participants in the PoliticalSheepdog system would create more interest in the candidates and greater scrutiny of their positions and character among voters and create a familiarity with incumbents throughout their terms. These interested constituents would probably help inform their friends, many of whom would be voting constituents and some of whom would take political action.

Another example of information failure in government relative to markets occurs because votes are indivisible and can not be divided among candidates according to their positions. As a result, the votes for candidates during infrequent elections are not accurate reflections of constituent preferences, which reduce the accuracy of the legislator’s perception of their constituents’ preferences. The PoliticalSheepdog.com system would reduce this tendency, because the bids of constituents and the numbers of constituents, who participated in the PoliticalSheepdog.com auctions, would provide a more signals and more objective signals from the consumers to the legislators about specific bills that would add insight to legislators’ perceptions about constituent preferences.

A third example of informational government failure is the ignorance of politicians, relative to the technical experts, in various fields like computers, internet, accounting, or medicine. Politicians are experts in the business of public opinion and public relations, but

¹⁰³ Matzner, Franz. “From Rice to Riches: Subsidies Cost Taxpayers Billions.”

<http://www.taxpayer.net/agriculture/learnmore/factsheets/rice.html>

¹⁰⁴ Gwartney, 2002 p. 133

frequently do not have the technical competence to create good legislation. The PoliticalSheepdog.com system would reduce the risk of this failure, because its intellectual property system would provide profit incentives for experts to bring their concepts forward for debate and legislative action.

A third cause of government failure is the absence of any systematic process to provide a relatively objective and accurate prioritization of constituent benefits on each policy, because most prioritization is probably subjective. The PoliticalSheepdog.com system would reduce this failure, because the inventors of the policies that the PoliticalSheepdog.com supported would supply an estimate of the savings for consumers and because constituents would bid on and lobby for policies. The estimate of the savings for consumers, the numbers of participants, and the size of their bids would all provide more objective evidence for the prioritization of policies for the leaders of the committees and legislative houses.

A fourth cause of government failure is the enactment of untested policies, after which the public becomes the guinea pigs for political social experiments. One disastrous example was Prohibition¹⁰⁵. To avoid the disasters of untested policies with the PoliticalSheepdog.com system, policy entrepreneurs could recruit towns to test policies in exchange for a share of their profits.

A fifth set of causes of government failure is regulatory delays and costs. The PoliticalSheepdog.com could prevent these delays and costs, when they result in net dynamic costs for consumers, because policy entrepreneur would identify these costs, create legislation to eliminate these costs, and bring them to PoliticalSheepdog.com quickly. PoliticalSheepdog.com could then rapidly promote them, which should reduce the delays in the development and implementation of good policy.

A sixth group of causes of government failure is the psychology of candidates and legislatures, which can result in a psychological government failure. Since human beings including politicians have a tendency toward immediate reward, called the short-sightedness effect¹⁰⁶ or high internal discount rates, since human beings are poor judges of probability, and since protection from disasters like Katrina requires a long term institutional commitment to events of low probability, it appears that the inability of the governments of Louisiana or the United States to prevent the Katrina disaster may have resulted at least in part from these psychological phenomena and psychological government failure. Another example of psychological government failure and the shortsightedness effect would be the need of candidates to make promises during elections due to short term pressures of an election, resulting from a near sighted perspective or high internal discount rates that may compromise their integrity or the well-being of their constituents later. For example, a candidate may support Social Security, even though they realize that the current Social Security system may become insolvent. Since markets look ahead, when it is profitable, and since some of the best methods to predict outcomes would be to utilize large groups of people that a market can utilize¹⁰⁷, PoliticalSheepdog.com as a market could institutionalize farsighted incentives to reduce the risks of disasters like Katrina and the potential disaster of Social Security.

A seventh cause of government failure is the failure to recognize that government is a technology, because it is an invention of human beings to solve problems. Since government is a

¹⁰⁵ Thornton, Mark. Prohibition was a Failure <http://www.cato.org/pubs/pas/pa-157.html>

¹⁰⁶ Gwartney, 2002 p. 141

¹⁰⁷ Surowiecki, James. *The Wisdom of Crowds*. Double Day. New York. 2004

technology, it should be treated like a technology with intellectual property for policies that provide a net dynamic savings for consumers. Since government is currently not treated as a technology and there are no intellectual property rights for public policy, we probably delay or lose valuable opportunities, which may have existed, if we had had intellectual property for public policy. PoliticalSheepdog.com system has an intellectual property systems for public policy that could reduce or eliminate these loses.

In summary, government, the structure of government and the interests of officials can result in inefficiencies and government failure, which PoliticalSheepdog.com could probably reduce.

Chapter 11

Justification, Synthesis and Promise

Preview: This chapter will try to weave the theory to justify and explain why PoliticalSheepdog.com is appropriate.

Who should read: Those who would like to understand an integrated theoretical and practical understanding of the PoliticalSheepdog.com system and understand why PoliticalSheepdog.com is necessary.

Review of the situation

The United States has a high Federal budget deficit, a high Social Security deficit, a high trade deficit and a high consumer deficit. It also has increasing competition due to the international trend toward markets from socialist economies in countries like India and China. It also faces an increasing price of oil and the threat of global warming. It is fighting terrorism. Its population is aging. Psychological problems like addiction to drugs, alcohol, and gambling probably cause inefficiencies and market failures on a massive scale. The United States also has political problems, including short sighted policies and excessive influence by moneyed special interest groups, which results in a diminished faith in democracy.

These problems either result from market and government failures or will cause government or market failures. These failures have costs. If we can cut these costs, we will have savings, which can reduce our deficits. These savings will create profits for many players, protect consumers and ensure that our problems are solved.

Since net dynamic savings for consumers is a feasible way to define “good” and since we are all consumers, net dynamic savings for consumers can serve as a relatively neutral measure of “good” government. Net dynamic savings is better than equality, because we can measure net dynamic savings relatively easily, while we can not measure the value of equality easily. In addition, while there is an assumption that equality is always good, the attempt to enforce material equality under communism resulted in inefficiency, lost opportunities, brutal governments, oppression and relative poverty. Material equality resulted in poverty, because efforts to destroy markets destroyed the ability of market prices to identify and prioritize what needs to be produced. As a result, material equality as a goal for public policy is not without negative consequences and risks.

Net dynamic savings should be better than equality as a goal for the well-being of society, because legislators and government officials can and should be able to estimate savings from measurable parameters. As a result, it can provide a more accurate and less brutal method to

determine the priorities of society. Legislators in the PoliticalSheepdog.com system would have an estimate the potential for savings before the passage of the legislation. Objectively determined estimates could be made through experiments with small jurisdictions, which participated in experiments in return for a share of the profits from the policy entrepreneurs. Later, government officials and policy entrepreneurs would evaluate the occurrence of savings through measurement of parameters, identified in the enacted legislation.

To develop the best savings quickly through problem solving, a large independent, decentralized and diverse group of people like the nation or the world will be more likely to include those people with the intelligence, expertise and creativity to solve problems, than a smaller, more homogeneous, more dependent group like a legislature or even a bureaucracy¹⁰⁸. For example, President Bush might have been able to find a more successful and cheaper strategy for the Iraq War, if the PoliticalSheepdog system had been available and could have attracted ideas from throughout the world with its intellectual property system. Instead, President Bush relied on a small, relatively insular group of neo-conservatives and a relatively homogeneous, dependent Congress. As a result, to obtain the best net dynamic savings for consumers and to obtain the best government, we must be able to draw from the best, most diverse, most decentralized, most independent people in the nation and the world, instead of the elected or appointed few.

How do we obtain the interest in the best people from the globe? How do we provide the incentives for the best people to risk their time, energy and resources to maximize the well-being of society? How do we provide the incentives for others to lend their capital and support good government?

To provide these incentives, one alternative is intellectual property. Intellectual property can provide an incentive to anyone with an idea. Intellectual property rights for the proper duration can provide incentives equal to the marginal benefit of the inventor's invention as occurs with most markets. Intellectual property for a limited duration and for limited costs can provide infinite benefits, because the life of information is infinite.

In addition, the temporary costs of intellectual property will be usually be less than its potential infinite benefits, because infinity is greater than all finite numbers and because there is no free trade unless both sides benefit. As previously discussed in Chapter 1, if you were a business owner and if an inventor could cut your costs to save you \$1 million with a new invention, it would be in your self-interest to pay the inventor \$500 thousand to reduce those costs, especially if you paid the inventor out of your income, because your net profit would still be \$500 thousand greater than the present profit. If it is in the self-interest for a business owner to improve profits through payments to inventors who provide savings to the businessman, it should also be in the self-interest of consumers to pay inventors, who provide savings through public policy, such as decreases in HIV infection via testing programs or who identify and fight legislation that fleeces the public and subsidized special interest groups like rice farmers¹⁰⁹.

Not only is it in the self-interest of consumers, but also it is ethical to reward those who do good works and improve the general well-being, i.e., those who improve the general well-being

¹⁰⁸ Surowiecki, James. *The Wisdom of Crowds*. Double Day. New York. 2004

¹⁰⁹ Matzner, Franz, Taxpayer for Common Sense,
<http://www.taxpayer.net/agriculture/learnmore/factsheets/rice.html>

should receive fair compensation. It is also ethical to send an accurate signal that good works are necessary to future entrepreneurs.

But, what is fair compensation? If consumers are going to pay to reduce their costs, then how much should consumer pay? What could be fairer than to have buyers like the government and sellers like lobbying constituents or policy inventors agree on a fair price out of their free will or arbitration and only free markets can provide this type of fair compensation. Fair pay in markets is equal to the marginal revenue product of the last unit. As a result, markets can provide more accurate signals about what public policy is necessary through estimates on the amounts of savings from a policy. Markets for policies that provide a net dynamic savings for consumers can create incentives for policy inventors to create efficient policy and for constituents to lobby for greater efficiency. This greater efficiency can use a market to improve the consumer surplus from government choice and, thereby, improve the wealth and standard of living for consumers. Such a market for public policy would be a market designed to counter market failures and government failures.

A market for public policy would be an extension of an existing trend as noted by Dr. Carol Graham, Ph.D. of the University of Maryland and the Brookings Institute in her book, *Private Markets for Public Goods*¹¹⁰. In this book, Dr. Graham discusses the markets for education and social security in other countries like Chile. Other markets for public goods include auctions for road construction. Since one public good is legislation and since PoliticalSheepdog.com is a private market to promote better legislation, PoliticalSheepdog.com is a market for public goods and is simply an extension of the existing economic trends noted by Dr. Graham.

In addition, since *The Commanding Heights*¹¹¹ shows that there is a trend away from government control to market control of economies throughout the world, this trend indirectly supports the credibility of policy market like PoliticalSheepdog.com, because, if greater market influence can create more wealth and greater improvements in the well-being of societies than government supervision of an economy, then why shouldn't greater market influence develop better legislation than legislator supervision of legislation? Since markets, which promote net dynamic savings, would provide estimates of savings, these estimates can help prioritize legislation more accurately than the subjective whims of the dominant legislators or their more vocal constituencies.

While policy markets should be able to provide better policies than legislators, there are dangers with policy markets. One of the dangers of a policy market without limits on potential costs to consumers would be that the bids could rise to infinity. As a result, the bids and the costs to enact and transact the policy must always be less than the net dynamic savings for the consumer to ensure that the consumer always benefits and the system does not become corrupt. Net dynamic savings for consumers should, however, include health savings, when appropriate, because economists use health savings when they study market failures like pollution and because economists can frequently estimate value of life and health as noted by Victor Fuchs in *Who Shall Live*¹¹².

Estimates of these values of life, death and many other costs might be difficult to estimate, because the events might occur in the future, because the probabilities are uncertain, and because

¹¹⁰ Graham, Carol, *Private Markets for Public Goods*. Brookings Institution Press, June 1998

¹¹¹ Yergin, Daniel. *The Commanding Heights: The Battle between Government and the Marketplace that is Remaking the Modern World*. Books on Tape. Buffalo, New York, 2002

¹¹² Fuchs, Victor. *Who Shall Live?: Health, Economics, and Social Choice*, Basic Books, Inc., New York, 1975

there will frequently no market for certain goods like public goods like the value of protection from a naval aircraft carrier. As a result, PoliticalSheepdog.com has a system of arbitration as a means to develop a fair estimate of these uncertain values. This approach is appropriate, because a policy may have value and produce savings, even if there is no market to obtain an exact value. While an exact value may not be possible, a reasonable value probably is possible and such a value is necessary to send the appropriate signals to policy entrepreneurs. Placing a value is important and necessary to limit costs for consumers and to help prevent the possibility of corruption from PoliticalSheepdog.com, because this value determines the limits to compensation for the innovators, constituents, who lobby to support good legislation. As a result, it ensures that consumers must benefit and helps ensure that corruption of PoliticalSheepdog.com is less likely to occur.

Chapter 12

Innovators, activist/organizers: PoliticalSheepdog.com Entrepreneurs

Who should read: Anyone who wants to profit from the creation, introduction, transfer or resurrection of policies that provide net dynamic savings for consumers.

Summary: The following discussion explains the differences between various innovator(s) and how they should be compensated. .

Innovations in public policy can occur whenever someone takes the existing knowledge and applies it in a new way. A policy innovator is any person or entity who perceives a need for a policy and who takes action to fulfill that need. The PoliticalSheepdog.com Contract on the PSD website calls “initial innovators” anyone or any entity, which invents a completely new policy. Other innovators are people who improve on an existing policy, which the PoliticalSheepdog.com Contract for Innovators on the PSD website calls “improving innovators.” Initial innovators and improving innovators could be anyone.

Additional innovators include people, who are researching a topic, who submit a copyright application at the U.S. Copyright Office on a description of the policy and who had the potential to become initial innovators at a later time. The PoliticalSheepdog.com Contract calls these innovators, “potential subsequent innovators.” Potential subsequent innovators will probably be academics from universities and from think tanks or policy entrepreneurs.

Another form of innovation is recognizing that a policy in the literature or a policy enacted in a jurisdiction should be brought to PoliticalSheepdog.com for rapid dissemination throughout the nation when the initial innovator fails to bring the policy to PoliticalSheepdog.com and pay for its evaluation. These innovators are called “initial reapplying finders.” Initial reapplying finders will probably be lobbyists, lawyers, political consultants, investors, venture capitalists, reporters and other politically oriented people.

Another form of innovator is the “enactor,” who finds an evaluated policy on the PSD website, pays the jurisdiction fee, and applies it to a specific jurisdiction. Enactors will probably be lobbyists, lawyers, political consultants, entrepreneurs and other politically oriented people with knowledge of the local political scene. Enactors promote policies at a local level, while initial reapplying finders and initial innovators pay PoliticalSheepdog.com for the evaluation of their policies. Initial reapplying finders and initial innovator(s) can choose to work at the local level and not use enactors. When the initial innovator(s) or initial reapplying finders choose to use enactors, the enactors work as agents in a fiduciary role towards the innovators in return for a share of the initial innovator’s income.

Another type of innovator either creates a completely new policy or finds a policy to thwart a policy of a special interest group in a jurisdiction. These innovators are “counter special interest group innovators.” The purpose of the counter special interest group innovators is to identify corrupt policies that special interest groups promote and that incur a net dynamic cost to consumers. The counter special interest group innovators will probably be political activists.

The last type of innovator is called a “resurrectionist,” because he/she initiates the reenactment of policies, which had previously provided savings for consumers, but has since expired. Resurrectionists will probably be lobbyists, lawyers, political consultants and other politically oriented people with local knowledge of the political scene.

The purpose of the initial reapplying finders, the enactors, the counter special interest group innovators, and the resurrectionist is 1) to increase the number of participants 2) to provide incentives for professional lobbyists, 3) to provide incentives for people with local political knowledge to participate 4) to provide capital and sweat equity, 5) to increase the speed of adoption of legislation that protects consumers.

Each of these innovators needs a slightly different form of compensation. The compensation of initial innovator will require negotiations and possible arbitration with sponsors and committee members or the use of sponsorship auction to determine the lead and the monopoly of the initial innovator. Preferably, this lead interval should apply to all jurisdictions that pass the legislation after the date in which the innovator applies for a copyright. This approach of the same monopoly interval for each jurisdiction, regardless of when the jurisdiction enacted the legislation, is very different from the current patent system, in which a monopoly is granted for twenty years throughout the world after the patent application. This approach is necessary, because the passage of legislation is difficult, because many legislatures have sessions of different lengths and do not have pass legislation throughout the year, and because inclusion of all jurisdictions will send a strong profit signal to potential future policy innovators that the well-being of consumers is an important national goal. This strong signal should increase competition and lower prices for some future policies or speed the development of policies and their benefits for consumers.

Improving innovators either must combine with an initial innovator, before the enactment of the initial innovator(s)'s policy in a jurisdiction, or must act as an initial innovator, if the original initial innovator(s)'s interval has already expired. Again, the improving innovator's interval should apply to all jurisdictions that pass the legislation. The potential subsequent innovators must negotiate when they might have discovered the innovation and then must bid in a PoliticalSheepdog.com innovator auction to determine their compensation.

Potential subsequent innovators negotiate and possibly arbitrate with the initial innovators or with the initial innovator and other previous potential subsequent innovators, when the potential subsequent innovators probably would have discovered the policy innovation. Once the potential subsequent innovators and initial innovators determine the appropriate intervals, they enter the innovator auction, which determines their fair market compensation.

PoliticalSheepdog.com system also has initial reapplying finders. The compensation for initial reapplying finders is a percentage like 50% of the savings created by the policy for an interval after enactment, which equals to the interval from copyright date or date of enactment in other jurisdictions to when the initial reapplying finder pays the initial search fee to PoliticalSheepdog.com. The compensation approach to these initial reapplying finders is a similar to a reverse Dutch auction. In the Dutch auction, the auctioneer starts at a high price to sell a product and lowers the price until the first buyer takes the bid and wins the auction. In the reverse Dutch auction, the auctioneer starts at a price of zero and bids up. The first seller, who takes the bid can sell their product to the buyer at that bid. This auction technique with variations will also be used for enactors, the counter special interest group innovators and the resurrectionists.

The reverse Dutch auction is like the compensation approach for finders, enactors, etc., because these policy entrepreneurs are paid a percentage of the savings for an interval. As a result, the interval and savings both start at zero and increase until the first policy entrepreneur comes forth with a solution to claim his or her share of the savings, which acts like a bid. In this

compensation approach for initial reapplying finders and the other finders, we start at nothing and go up during an interval until the first person pays some fees, which wins the bid.

The percentage of the savings that a policy entrepreneur can receive for an interval will probably not effect the final payment for these innovators, because, if a government decreases the percentage, the policy entrepreneurs will probably wait longer until their bids are adequate. As a result, decreasing the percentage compensation from an interval will only delay the solution promoted by the policy entrepreneurs, which will increase the costs for consumers. Since 50% sounds fair, it is probably the best place to start.

The compensation for enactors would be a percentage like 50% of the savings created by the policy in a jurisdiction for an interval after enactment, which equals the interval from the date placed on the PSD website to date when the enactor pays a fee to PoliticalSheepdog.com to promote the policy in that jurisdiction.

In addition, enactors, who bring a new policy or a new improvement on a policy to PSD after the contract for innovators is online, who pays the evaluation fees, and who negotiates compensation for a policy innovator with the initial legislature, when the innovator failed to bring the policy to PSD, should have 50% of the innovator's compensation. The other 50% should go into an escrow account, which the innovator has five years to claim. If the innovator fails to claim the compensation, then the enactor should have it.

The compensation for the counter special interest group innovators would be a percentage like 50% of the savings in a jurisdiction over an interval. The savings over an interval would be created by the enactment of a bill that negated previous corrupt legislation promoted by a special interest group that created net dynamic costs to consumers. The interval would be an interval after enactment in that jurisdiction of the anti-corrupting legislation, which would equal an interval from the date when a legislator put the corrupt legislation in the docket until the date when the innovator paid an evaluation fee to PoliticalSheepdog.com for that jurisdiction. As an alternative, the interval after the passage of the anti-corrupting legislation, which determines compensation for the counter special interest group innovator, should be of a duration that is equal to the start on the date that the government enacts the corrupting legislation and last until the date when the innovator paid an evaluation fee for that policy to PoliticalSheepdog.com. (Unfortunately, PoliticalSheepdog.com can not determine the likelihood that corrupt legislation would pass. As a result, the anti-corruption legislation must pass in a later or special session.)

The compensation for a resurrectionist would be a percentage like 50% of the savings created by the policy for an interval after reenactment of the resurrected policy, which equals the interval from the date that the policy expired to date when the resurrectionst pays PoliticalSheepdog.com and evaluation fee.

In the future, PoliticalSheepdog.com may have activist/organizers, who will serve the same function as a stock broker. The activist/organizers will recruit and organize cells of constituents, explain PoliticalSheepdog.com and its policies to their constituents, possibly bid for the constituents and then help organize their constituents to lobby for the PoliticalSheepdog.com policies in return for a share of the constituent's compensation. These activist/organizers would have an organization similar to Tupperware or Mary K Cosmetics.

Chapter 13 Chronological Example: HIV and the PoliticalSheepdog.com Process

Who should read: People, who want to become bidding and lobbying constituents. Policy innovators. Politicians. Anyone else who wants to understand the PoliticalSheepdog.com auction system.

Summary: PoliticalSheepdog.com could help combat HIV and other diseases with a win-win-win situation, which could save thousands of lives and save billions of dollars for consumers. Some of those financial savings could and should be used to compensate PoliticalSheepdog.com, the inventors of policy designed to prevent HIV, and the PoliticalSheepdog lobbying constituent for their efforts to rapidly develop and implement the preventing policy. This compensation would signal to future policy entrepreneurs that good government pays.

Let us start with an example to explain how PoliticalSheepdog.com might function to support a policy necessary to fight the HIV/AIDS virus. HIV prevention is impacted by several psychological government failures. The psychological government failures are the inability of exposed citizens to understand the risks of HIV infection, the ignorance of HIV, and the denial of infection. These ignorant and delusional exposed individuals create an ineffective, unorganized special interest group, who will be unable to promote HIV prevention measures. As a result, there is a need for a special interest group, who will advocate for HIV prevention. Since the prevention of other diseases probably suffer from the same psychological government failures, consumers need a special interest groups, who will promote disease prevention. This promotion could be promoted by the PoliticalSheepdog system.

First, let us quickly review the basic concepts about HIV/AIDS. It costs \$200,000 (discounted at 3% in 2003 dollars)^{113 114} to treat a patient with HIV for the rest of his or her life. The chances that an infected person will transmit an infection to another person in a year falls from 10.79% to 1.7%², when the infected individual learns that he or she carries the HIV virus. In addition, Glynn and Rhodes¹¹⁵ estimated that 300,000 infected individuals are unaware that they carry the HIV virus. If a policy of government testing could half the number of patients, who don't know that they carry the HIV virus, we might reduce the number of new infections per year to 13,500¹¹⁶ individuals and save a present value of \$2.7 billion per year in treatment costs, as well as 13,500 lives. The nation could therefore still save money and lives, if we could reduce the number of new HIV infections by 50% for less than an additional \$2.7 billion per year or we

¹¹³ Holtgrave, David R. and Curran, James W., "What Works, and What Remains to be Done HIV Prevention in the United States, *Annual Review of Public Health*, 2006, 27:15.1-15.15

¹¹⁴ CDC. Epidemiology of HIV/AIDS --- United States, 1981—2005 *MMWR Weekly*, June 2, 2006/55(21); 589-592

¹¹⁵ CDC. Epidemiology of HIV/AIDS --- United States, 1981—2005 *MMWR Weekly*, June 2, 2006/55(21); 589-592

¹¹⁶ $10.79\% - 1.7\% \sim 9\%$; $(0.09)(1/2)(300,000) = 13,500$; $(13,500)(\$200,000) = \$2,700,000,000$

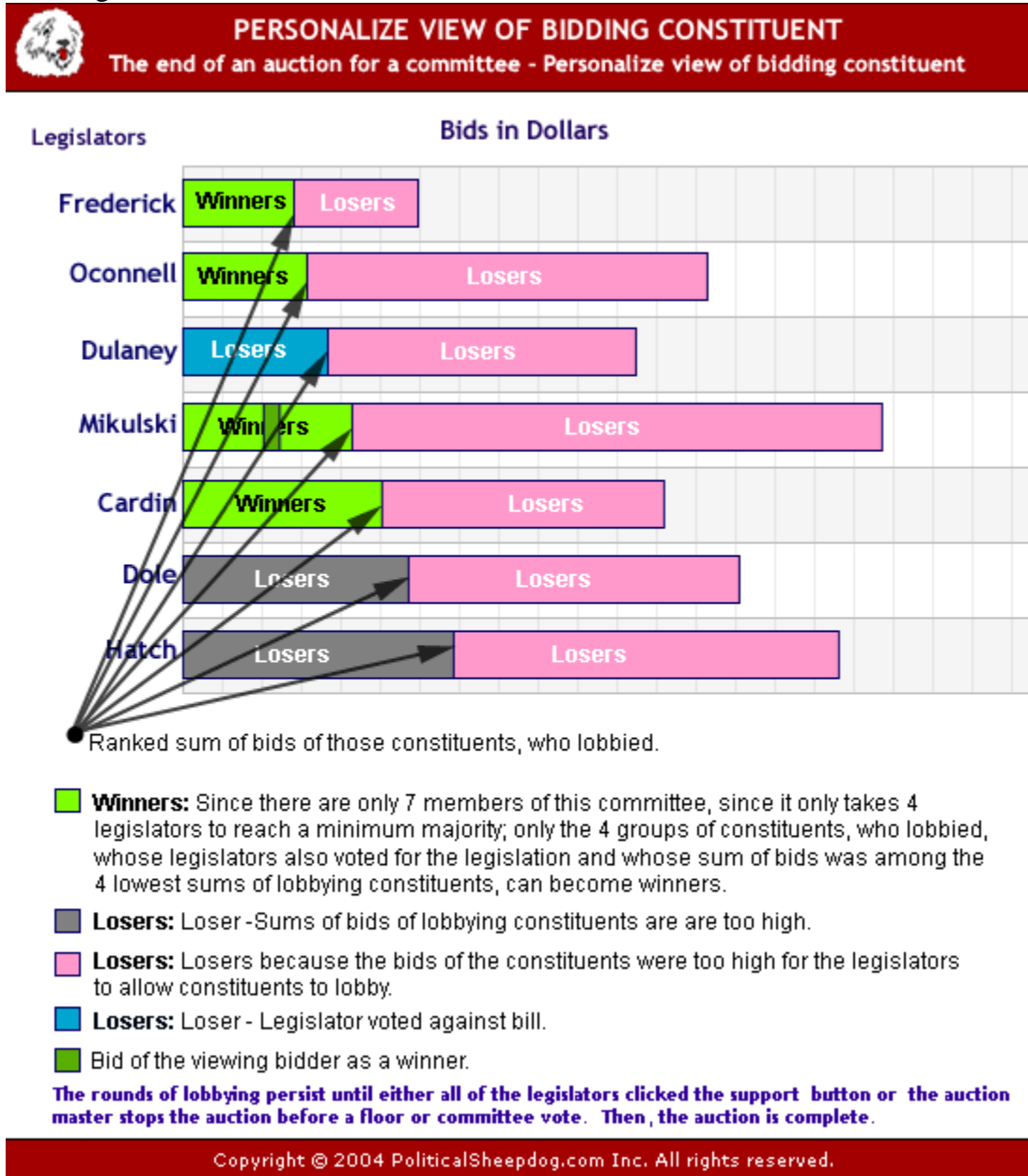
could spend up to \$2.7 billion per year on HIV prevention before we sustained a net loss, if we could reduce new HIV infections from people who did not know that they had HIV by 50%.

Since we only pay \$5,000-\$50,000² per prevented case of HIV and we could spend additional \$200,000 per case, our nation has under-funded the fight against HIV from a purely financial perspective. If an inventor created a policy to reduce the transmission of HIV by 50% through testing everyone in large cities, where an estimated 13%^{3 117} of the population are unaware that they have HIV, the inventor would first copyright a description of the policy and its estimated savings with the U.S. Copyright Office. Then the inventor would register the policy with PoliticalSheepdog.com and pay fees to evaluate the policy for originality, for the likelihood of savings, and the feasibility of savings measurement (see the PoliticalSheepdog.com Contract). If the evaluation through peer review showed that the policy was original and would provide measurable savings, then the innovator would search for a Congressional sponsor, with which PoliticalSheepdog.com could help with a special auction designed to encourage legislators to volunteer to become sponsors. The sponsor and the innovator would write legislation describing the policy and the funding. Since different policies would have different beneficiaries, negotiations between policy innovators and sponsoring legislators would determine the source of the funding, either from the beneficiaries or the general public.

The sponsor would then embed these arrangements, as well as the arrangements to pay PoliticalSheepdog.com and the policy innovator, into the legislation. Next, PoliticalSheepdog.com would start the policy auctions on its website for every committee and floor vote through which the legislation would have to pass. Most of the auctions would be similar to the following processes. Each auction would have two phases as previously described in Chapter 2, a bidding phase and a lobbying phase. Again, since legislation must pass through committee votes and through vote in a lower and upper body of legislators, there would probably be a separate auction for each committee and each house vote. As a result, there would be multiple auctions for the entire process. In the bidding phase of the auction process, the constituents would come to the PoliticalSheepdog.com website and bid as many times as they desire in as many auctions as they desire. Bidding constituents would compete for lower bids, because constituents with lower bids in an auction would receive an opportunity to lobby their legislators earlier in a schedule in the second and lobbying phase of the auction process. The bidding phase would close with enough time for the constituents to lobby their legislators during the lobbying phase of the auction.

¹¹⁷ CDC. Epidemiology of HIV/AIDS --- United States, 1981—2005 MMWR Weekly, June 2, 2006/55(21); 589-592

To understand the bidding phase and the general auction process better, it is easier to understand if you understand the intended result. The following graph represents the end of the auction in a committee of 7 members. It also represents two simultaneous games of musical chairs with multiple winners. In one game, there is competition between a legislator's lobbying constituents within a column. When a constituent bids, the program ranks the bids of the constituent's legislator to determine the bidder's slot in the lobbying schedule. The graph below represents the constituents, who lobbied with the gray, green, and blue portions of columns. These constituents had lower bids than constituents, who did not lobby, represented by the pink portions of columns. As a result, they compete with these higher bidding constituents of the same legislator.

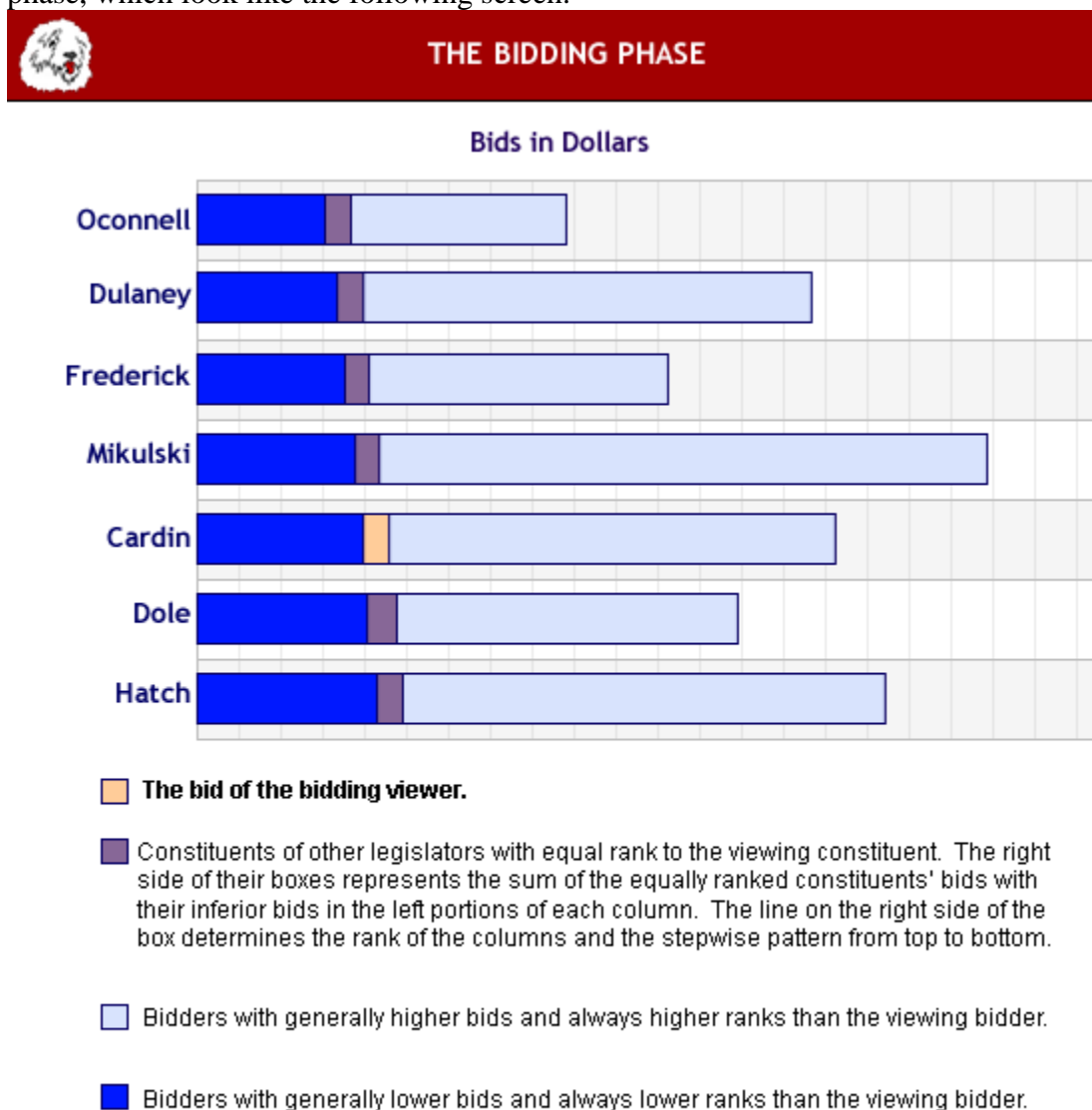


The other game of musical chairs is the competition between the sums of bids of constituent groups who have lobbied their legislators. These sums are represented by the right end of the gray, green, and blue portions of the columns. The program ranks the sums of bids of the constituents who lobbied. This ranking results in a gradual increase from top to bottom of the green, blue, and gray bars.

Multiple winning constituents (represented by the green bars) are necessary, because legislators require group support for policies they advocate.

When a constituent logs on and bids in the bidding phase, the viewing constituent will need to understand how he compares to the bidders of other legislators with the same rank, because bidders can only control the outcome of an auction, when the lobbying phase ends in a round while they lobby. Since the winners at the end of the lobbying phase will be determined by the sums of the bids of the last constituents to lobby with their respective inferior constituents, who lobbied and who had inferior bids; the viewing constituent must know how his or her bid compares to the bids of other bidding constituents with similar ranks.

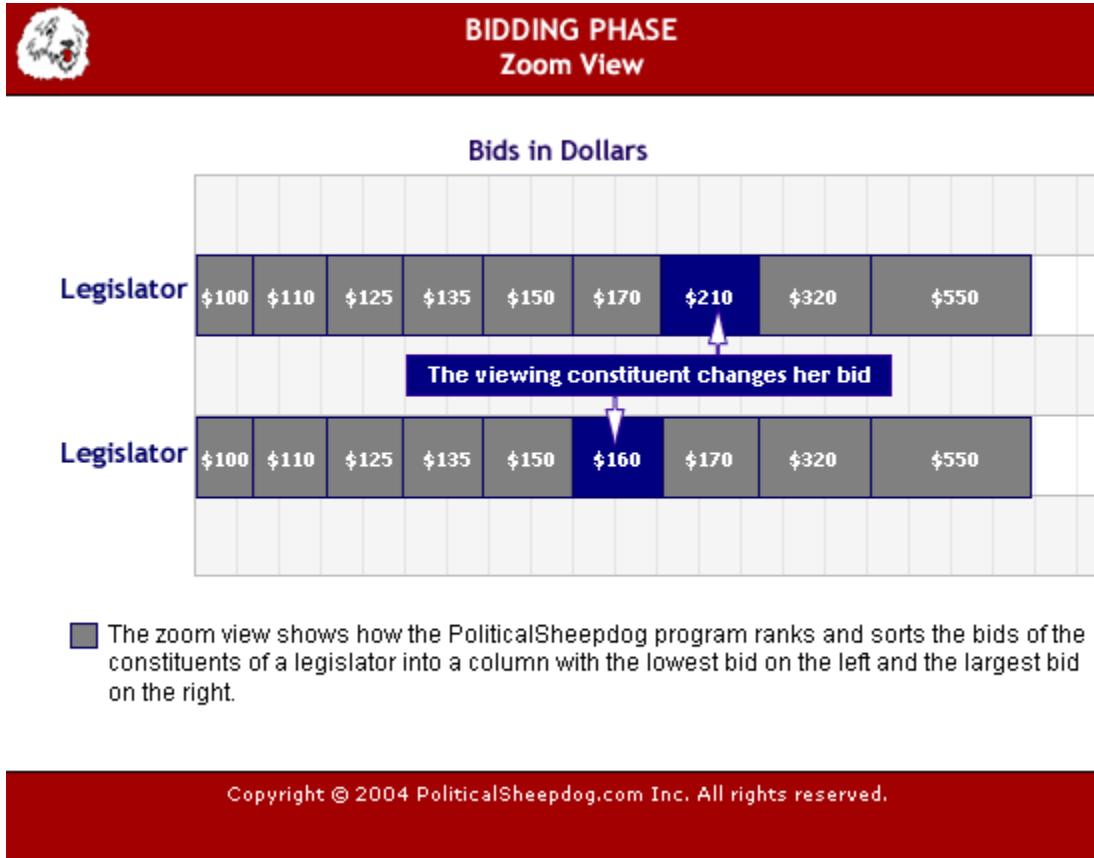
As a result, PoliticalSheepdog.com provides views of bidders of the same rank in the bidding phase, which look like the following screen.



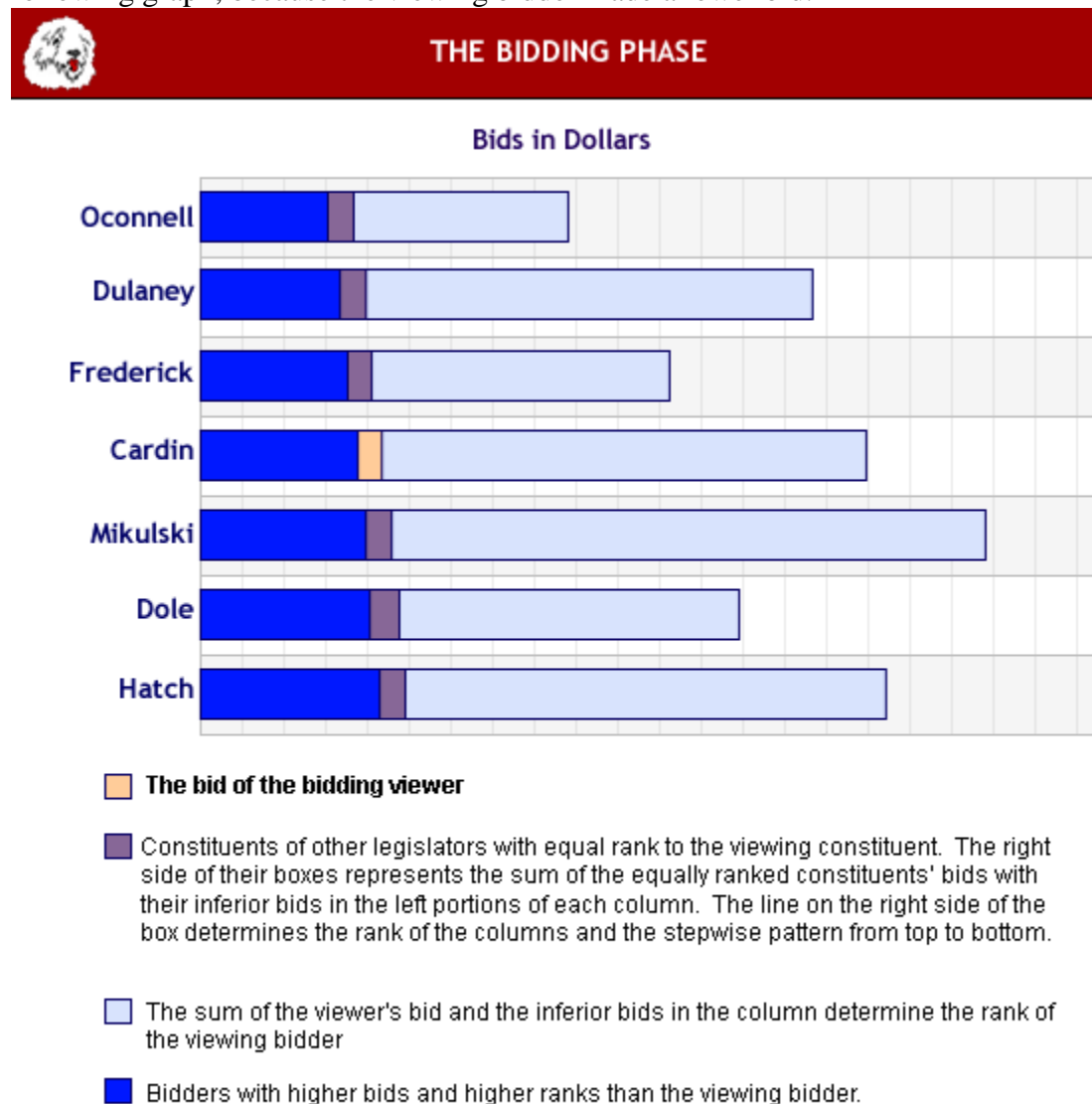
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The constituents lobby their respective legislators according to a schedule, starting with the lowest bidders and progressing to high bidders. They lobby their legislator to support the legislation and to click on a “Support” button on the legislator’s personalized screen from PoliticalSheepdog.com. The lobbying ends for a legislator’s.

If a bidder changes her bid in the bidding phase, then his or her dark blue square might move left or right in her legislator's column in her personalized screen. The bidder's dark blue square goes left or right in the column, because the bidder's rank within the column may change in her bid.

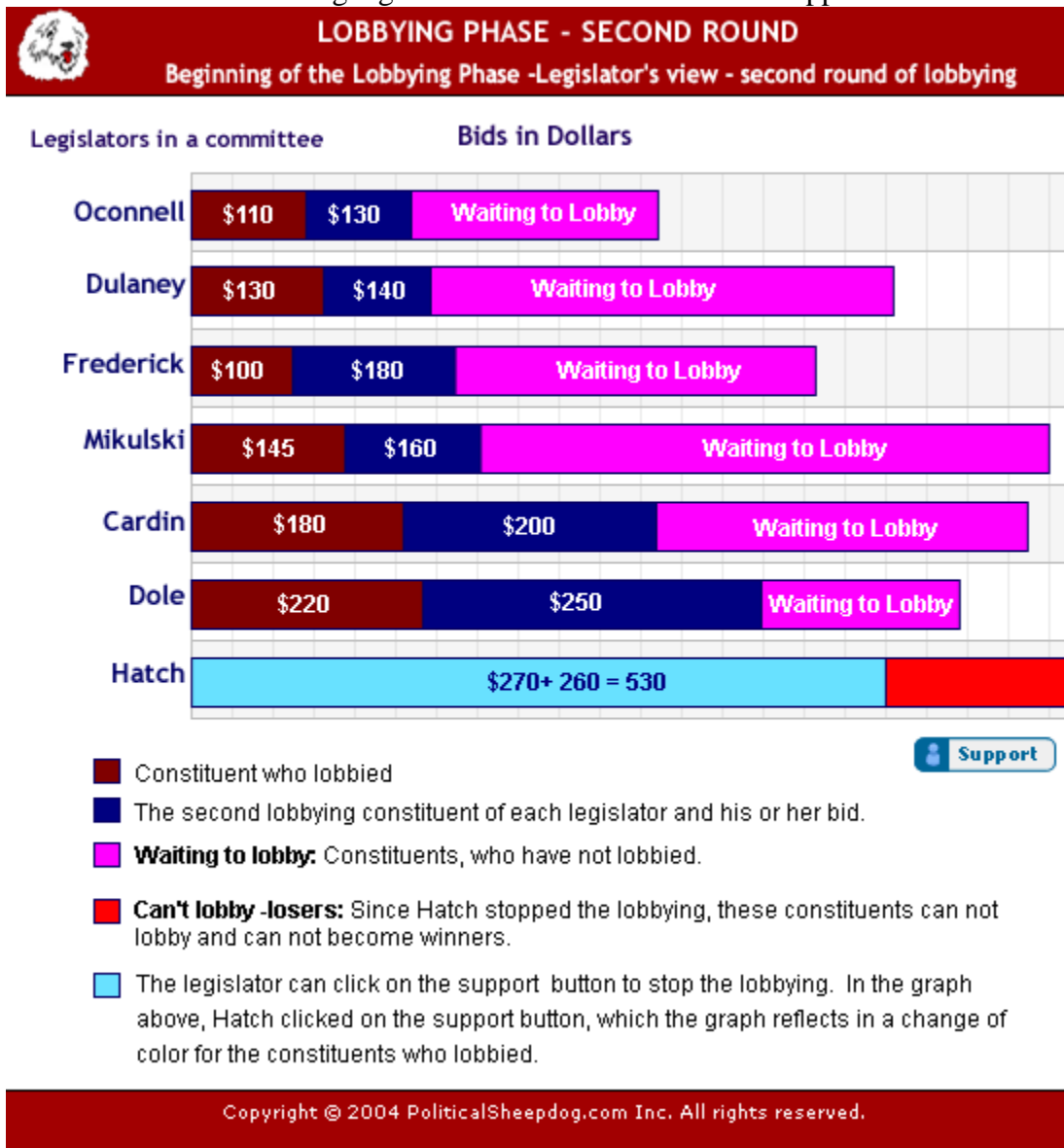


If a bidder changes her bid in the bidding phase, then the bidder's column might also move up or down. The columns move up or down, because a change in a bid might change the sum of the bids of the bidding constituent with the sum of the inferior bids of constituents for the same legislator. Since the sum of bidding constituent's bid and bids of constituents with smaller bids within the bidder's column has changed, its rank may also change relative to the rank of the sums of similarly ranked bidders of other legislators and their respective inferior bidders in other columns. As a result, the bidder's column may move up or down as Cardin moved up in the following graph, because the viewing bidder made a lower bid.

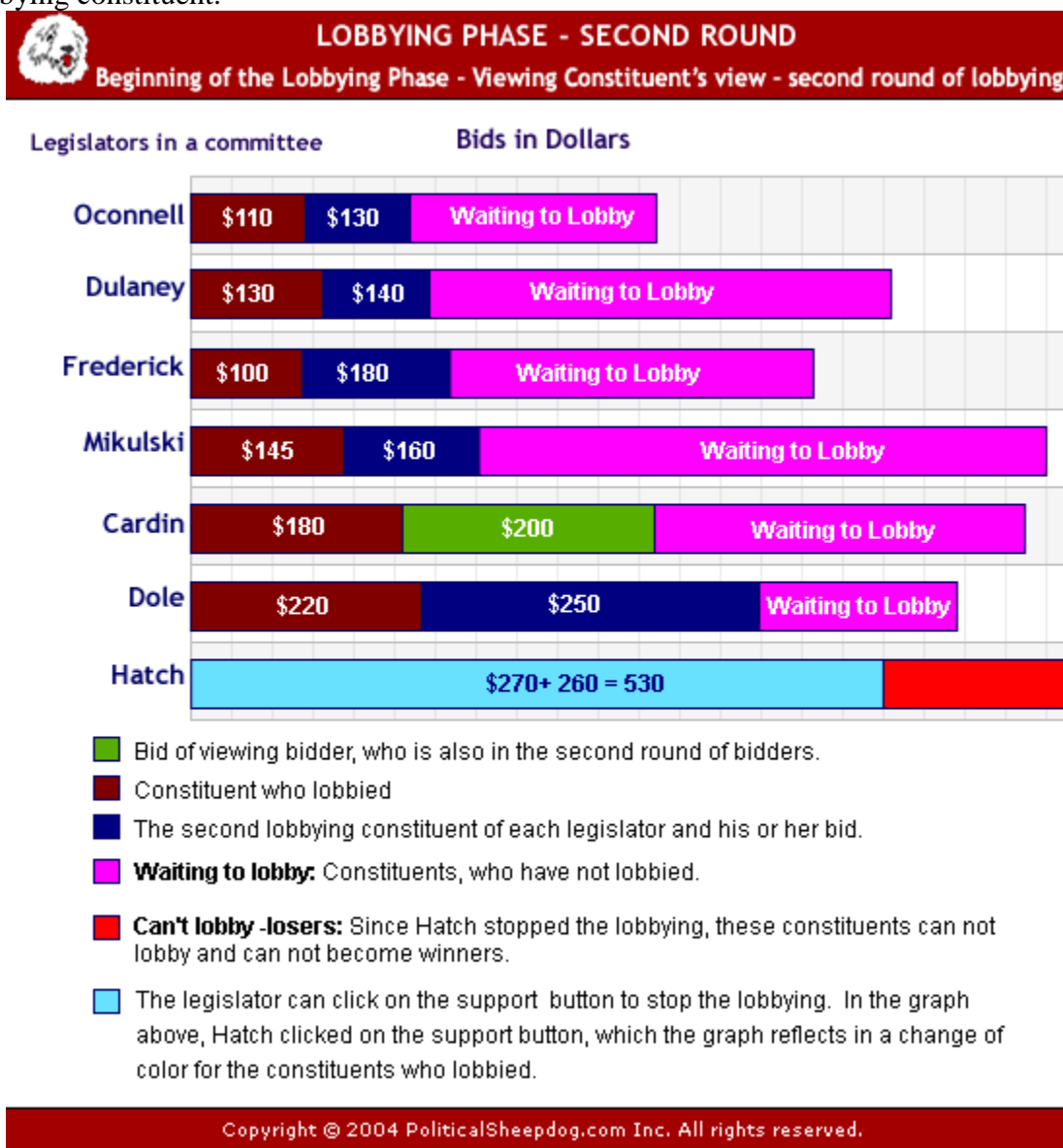


When the bidding phase ends to allow time for lobbying, there is a lobbying phase, represented by the following graph, which was seen earlier in Chapter 2. There are two versions of the lobbying phase. The version below would go to legislators and represents the second

round of the lobbying phase, in which the second lowest bidder of each legislators lobbies. The right side of the blue represents the sums of the bids of the constituents who lobbied. The pink represents the bids of constituents, who are waiting to lobby. The blue and red portions of the Hatch column tells the viewing legislator that Hatch clicked the “Support” button.



During the lobbying phase, the lowest bidding constituent of each column will initiate the lobbying of their legislators by telephone, encouraging support for legislation and clicking on the “Support” button. If the legislator complies, the program will stop the lobbying process for constituents of that legislator. If the legislator fails to click the “Support” button, the constituents with the next higher rank will repeat the lobbying process. The version below is the version that a constituent, who bid and who is lobbying might receive. The green block represents the lobbying constituent.



The PoliticalSheepdog.com lobbying process will repeat rounds of lobbying for participating constituents of a legislator until one of the following events occurs.

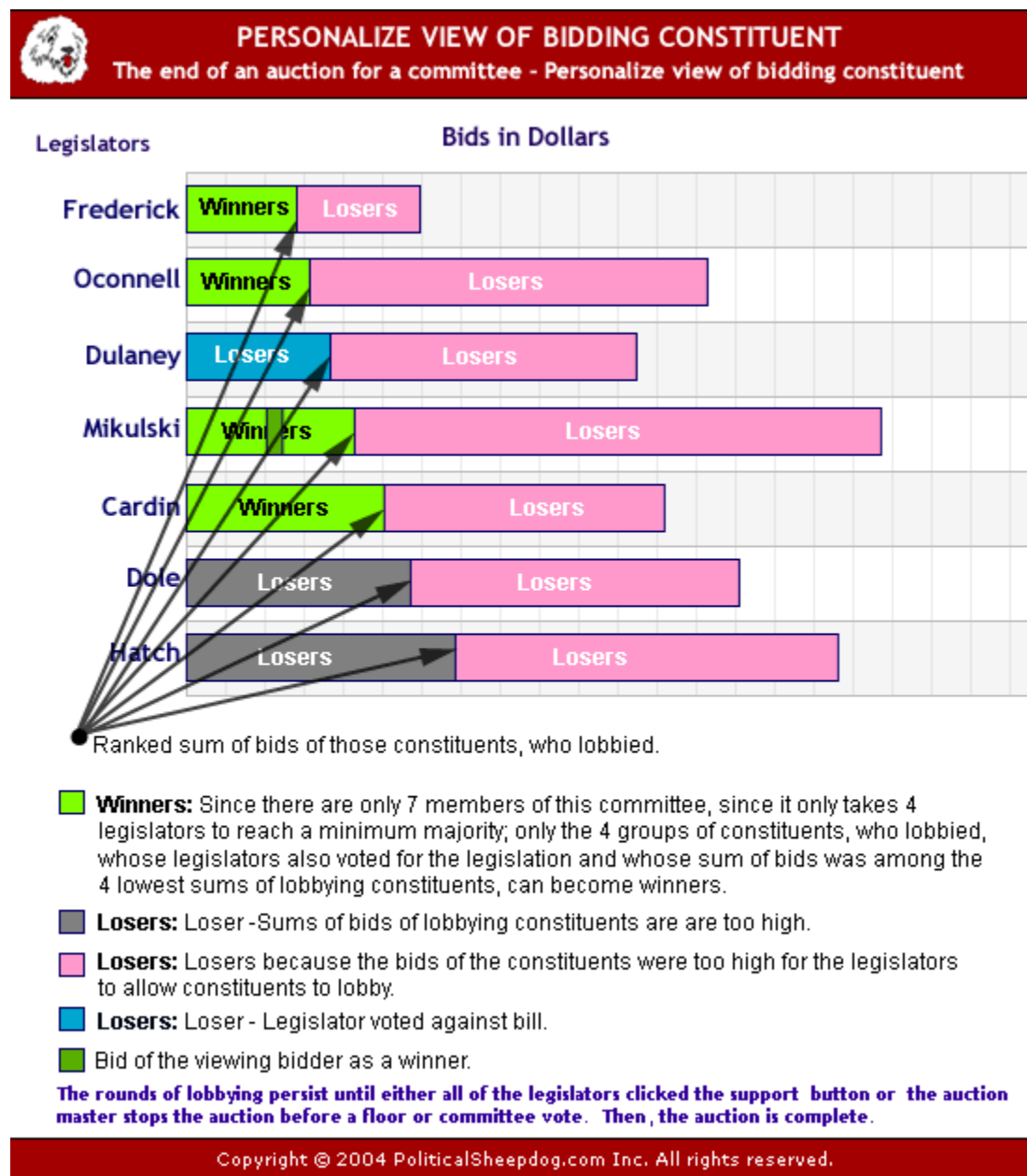
- ☐ The legislator clicks the “Support” button.
- ☐ All of the participating constituents for the legislator have lobbied.
- ☐ The auction terminates due to time limitations before a committee or floor vote on the legislation.

During the lobbying phase, legislators will allow as many of his constituents to lobby and profit from the auction as possible, while limiting the number of lobbying constituents to ensure the sum of their bids remains small enough to compete with lobbying constituents of other legislators.

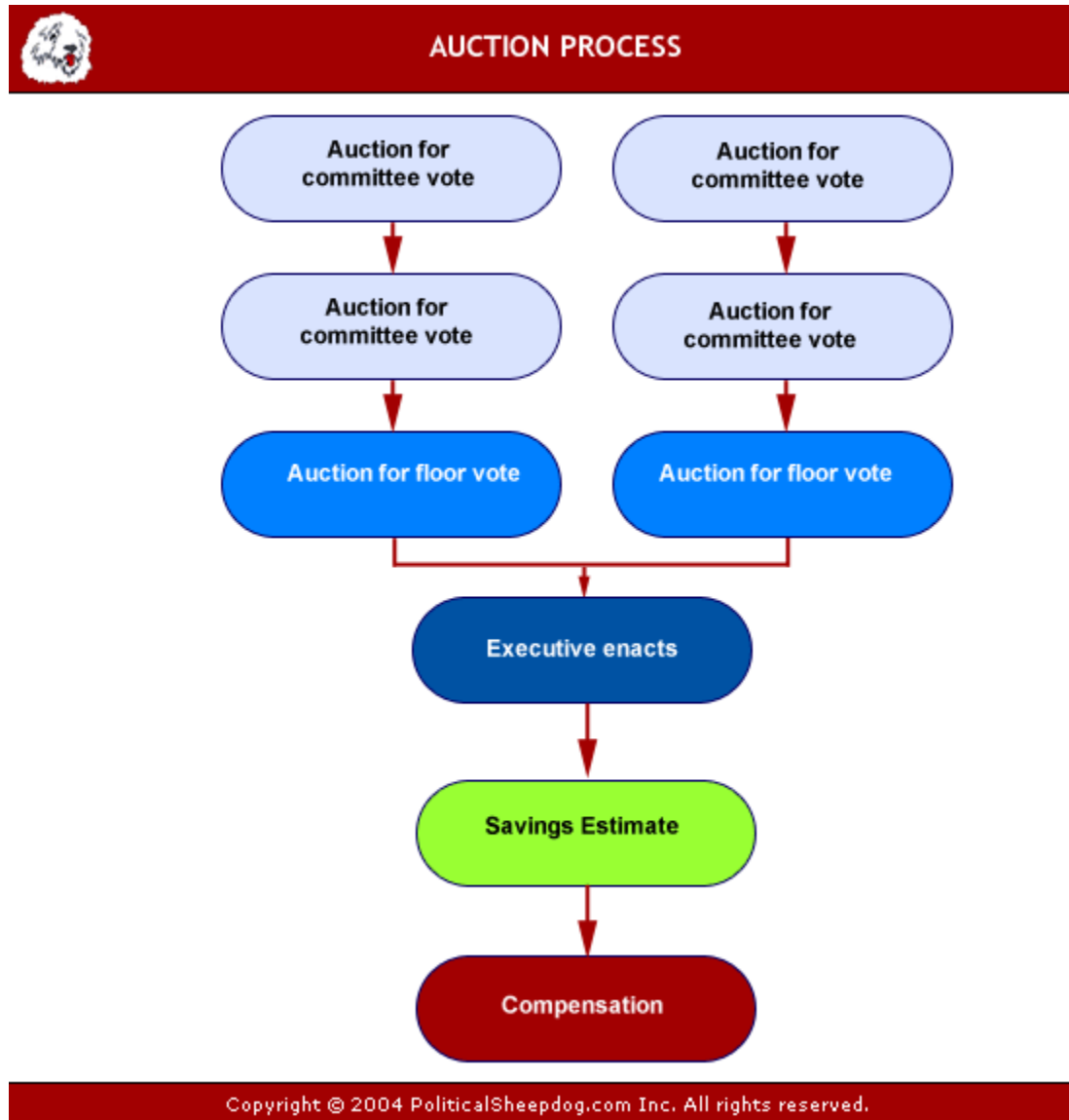
Strategy for Legislators:

1. Controversial legislation will probably provide larger compensation for participating constituents, because more compensation will be required for more support.
2. If the sum of the bids of a legislator’s constituents is too high and the legislator’s column is too close to the bottom of the columns, then the legislator must click the “Support” button to give her constituents a chance to win. If the other legislators allow their constituents to continue lobbying and do not click on the “Support” button, the total bids of the other legislators’ lobbying constituent may raise enough to allow the clicking legislator’s constituents to win.

As noted earlier, PoliticalSheepdog.com will terminate active lobbying before the vote. Then, the committee or legislative body votes and the legislation either passes or fails to pass. If the legislation passes, the following graph reflects the end result of the auction.



The auction process repeats for every committee and floor vote through legislature, if necessary.



To win compensation:

- ☐ The constituent's legislator must vote for the legislation.
- ☐ The legislation must pass through all appropriate committees and all appropriate house votes.
- ☐ The executive, such as a mayor or governor, must enact the legislation.
- ☐ The total bids for a legislators' lobbying constituents in an auction for a committee or floor vote must be among a number of lowest totals of lobbying constituents for other supporting legislators. This number must be equal to the minimum number of legislators needed to reach an appropriate majority for passage of the bill through the respective house or committee.

- Finally, after the bill has been enacted, the inventor of the legislation, PoliticalSheepdog.com and the government must determine that the legislation created savings for constituents.

If the executive (or legislature through an override) enacts the legislation, then PoliticalSheepdog.com, the innovator and the jurisdiction evaluate and estimate the net savings attributable to the policy. If the policy produced adequate savings, then the constituents receive compensation, which is equal to their bids, and the innovators and PoliticalSheepdog.com receive their negotiated compensation. For a further explanation, click on the “Registration” button on the left and read the contracts.

The end result is a win-win-win situation for everyone. The PoliticalSheepdog.com process speeds the development and adoption of policy. It will also ameliorate the passage of policies that are currently ignored. The policy will save 13,500 additional lives each year from HIV/AIDS. The constituents communicate with their legislators and receive fair payment through a competitive system, strengthening the bond between legislators and constituents. The inventors of the policy receive fair compensation for their insights. PoliticalSheepdog.com receives compensation for the development of its auction system. The cost of testing might be \$1 billion per year. If the policy inventor was three years ahead of the next researcher, the policy inventor might receive 50% of three years of the \$1.7 billion in net yearly savings or \$2.5 billion. This figure might be a great deal less, if there were competing policies from other policy innovators. PoliticalSheepdog.com might receive 10% of 10 years worth of savings during the remaining years of its patent or a net present value of \$1.7 billion. The taxpayer would receive a reduction in their future taxes HIV to pay for HIV health expenses over 20 years at a 7% discount rate of \$13.7 billion. As a result, taxpayers would receive a 100% return from savings from future taxes that they would not have pay as a result of the taxes that they would pay for testing, for PoliticalSheepdog.com, for its policy inventors and for its constituent lobbyist. This return would not reflect the value of saved health and lives. Furthermore, if the estimates of the percentage of lives saved through early intervention is incorrect and the number of additional new cases of HIV does not fall, then consumers would have lost a portion of the costs of the initial testing or \$1 billion, reflecting a reward/risk ratio of about 13 to 1.

While the benefit of \$2.5 billion for the policy innovator might seem extreme, extreme rewards will provide incentives for more competition to provide better policies sooner, which will allow more marginal policies to provide savings and reduce costs further for taxpayers. Since the constituents, who lobby are also taxpayers, since lobbying constituents have priority in the system by contract, and since the compensation for PoliticalSheepdog.com and the innovators is limited by contract, taxpayers always win when the policy produces savings.

Finally, PoliticalSheepdog.com could provide a new tool to promote disease prevention and save lives.

Chapter 14

Session Level, Primary Election, General Election, Sponsorship and Cascading Auctions

General Descriptions

Who should read: Most readers. People who do not understand how PoliticalSheepdog.com can overcome the inertia of the present system.

Summary: The following chapter discusses various types of auctions and how they can work together into a cascade.

The basic auction design, discussed in Chapter 2, would start the bidding phase before or during the session for the legislation and the bids would apply in the lobbying phase during a specific legislative session. It would therefore be called the “session level auction.” Anyone, who registers and signs the PoliticalSheepdog.com contract can participate as a constituent in the appropriate session level auctions.

In addition to the session level auction, PoliticalSheepdog.com also can provide the “primary” and “general election auctions.” The primary election auctions and general election auctions are designed to encourage constituents to contribute to the campaigns of candidates of the constituent’s own legislative districts. As a result, constituents must make contributions to candidates before the respective primary or general elections to enter these auctions. The bidding phase of the primary election auction occurs before the primary election and the bidding phase of the general election auction occurs before the general election and after the primary election (for more details, see Chapter 15). If their candidate wins and becomes a legislator, then candidates’ constituents, who contributed to their candidates and who bid in the bidding phase of their candidate’s primary or general election auction, can enter the lobbying phase of his respective primary or general election auction for each session during the term related to election for which the constituent contributed.

In addition to the primary and general election auctions, PoliticalSheepdog.com can provide auctions designed to encourage legislators to sponsor legislation, which we call “sponsorship auctions.” These sponsorship auctions might be especially necessary in the introduction of PoliticalSheepdog.com in order to encourage the acceptance of PoliticalSheepdog.com, when politicians do not fully understand the need for policy markets. The sponsorship auctions are somewhat different than the basic auction design, because it does not require a majority of legislators to sponsor a bill. It will only require the number of legislators, specified by a legislature’s rules or by law, to sponsor a bill. As a result, only constituents, whose legislators actually sponsor the legislation, can become winners.

Since legislation must be sponsored, must pass through committees, and must pass through floor votes; there can be a primary and general election auctions and a session level auction to sponsor a bill. There can also be primary and general election auctions and a session level auctions to support legislation in each committee vote and again for each floor vote. As a result, there can be many levels of auctions, which work in a cascade.

The first auctions might be the bidding phase of the primary and general election auctions, where they are legal, which would occur before the respective primary and general election

auctions. These bids would be frozen and apply to all PoliticalSheepdog.com supported legislation for the term of each constituent's candidate, if the candidate to whom the constituent contributed was successful and became a legislator. Next, there might be the bidding phase of the session level sponsorship auctions, run for non-contributors, which might run before or during each legislative session. Then during the legislative session, there could be the lobbying phase of primary and general election sponsorship auctions in which contributors could encourage legislators to sponsor the PoliticalSheepdog.com supported legislation, based on their frozen bids from the bidding phase of their respective primary or general election auction, which apply for the term of the elected candidate. There could also be the lobbying phase of the session level sponsorship auctions for non-contributors, which would run with the lobbying phase of the primary and session level auctions.

In the next set of auctions, contributing constituents would use the frozen bids from the bidding phase of the primary and general election auctions in a lobbying phase of the primary and general election auctions for each committee vote to encourage committees to pass legislation. This lobbying phase would occur when or before the legislative committees would vote on PoliticalSheepdog.com legislation during the sessions of the elected candidate's term. PoliticalSheepdog.com could also run a bidding phase of a session level auction and then a lobbying phase of the auction for non-contributors during the legislative sessions to further encourage legislators to pass legislation through committees.

Finally, PoliticalSheepdog.com could use the same frozen bids of the primary and general election auctions in the lobbying phase during the legislative session votes and both bidding and lobbying phases of the session auction for the floor votes. The result is a cascade of auctions designed to provide many opportunities to win for many constituents and to help drive legislation through legislatures that provides a net dynamic savings for consumers.

Chapter 15

Primary Election, General Election and Sponsorship Auctions: A Detailed Description

Who should read: People who intend to participate seriously in the PoliticalSheepdog.com system like potential or current policy innovators or constituent lobbyists. People who do not understand how PoliticalSheepdog.com can overcome the inertia of the present system.

Summary: The following explains the sponsorship, primary and general election auctions in still greater detail.

We discussed the primary and general election auctions earlier, but we will cover them in more detail here. The primary election auctions and the general are slightly different than the basic session level auction, which might occur during the session, and are run for constituents, regardless of whether or not the constituent contributed to a campaign. The bidding phases of the session level auctions occur before or during a legislative session and will probably apply only to the bidding phase of a specific bill supported by PoliticalSheepdog.com.

The primary and general elections auctions are different than the basic session level auction, because constituents must make a contribution to a candidate to bid in the primary or general election auction. In addition, the bidding phase in the primary and general elections auctions occurs before the respective primary election or the general election. The bids for the primary and general election auctions are then frozen. Constituents can only enter the lobbying phase of a primary or general election auctions, if the candidates, to whom the constituent contributed, win their elections. The lobbying phases of the primary and general election auctions occur during the legislative sessions, but the frozen bids can as noted previously potentially apply to all of the legislation that PoliticalSheepdog.com would support for the term of the legislator.

The size of a constituent's contribution for the primary and general election auction would be divided into several even increments. While each constituent only makes one bid, the bid of a larger contributor is counted several times according to the constituent's increments. The size of the increments would be selected by PoliticalSheepdog.com in consultation with the candidates. For example, if the increments were \$30 and a constituent gave a contribution was \$310, the constituent would get 10 increments of the same bid. If the constituent's bid was \$20, then the PoliticalSheepdog.com program would add \$20 with each round of lobbying in the lobbying phase of the auction and the contributing constituent would lobby in 10 rounds of the auction. If the auction stopped after only 5 rounds of lobbying, the constituent would receive \$20 for each of 5 rounds or \$100. If the auction stopped after 10 rounds of lobbying by the constituent, the constituent might receive \$200, if the bill were enacted.

The bidding phase of the primary and general election auction should close before their respective primary and general elections in order to reflect the risks that candidates may not be elected, but could be run after elections, if a law were necessary to make the primary and general election auctions legal. The bids could then be applied to the lobbying phase of auctions for

legislation. It would allow contributors, who supported the PoliticalSheepdog.com process to have an opportunity to profit from their contributions once laws were passed to recognize that the PoliticalSheepdog.com policy markets were legal markets and not lotteries. The PoliticalSheepdog.com markets are not lotteries, because the contributions to candidates in the PoliticalSheepdog process do not go into the lottery pot and because PoliticalSheepdog does not simply redistribute wealth, but instead creates new wealth through savings and efficiency.

The Sponsorship Auctions

In addition to the primary and general election auctions, PoliticalSheepdog.com has a version of the auction process, which can encourage legislators to sponsor legislation. Sponsorship auctions might be necessary, because the innovator may find it difficult to find legislators, who want to support the bill and/or want to support the concept of intellectual property for public policy, especially early in the implementation of PoliticalSheepdog.com, because they don't understand the need for policy markets. Before the sponsorship auction starts, the innovators and PSD must write the legislation. They must include their desired compensation in the legislation, which should be limited to less than 60% of total savings for consumer to ensure that consumer benefit from the legislation. (The limit of 60% does not need to include the compensation for the bidding constituents, because they are also consumers.) The provision of this limit also decreases the risk of corruption of the PoliticalSheepdog.com process, because it ensures that the consumers always save and do not face the net costs of corruption.

The session level sponsorship auction starts with a bidding phase, which might occur before or during the legislative session. During the lobbying phase of the auction, the constituents lobby their legislator according to the rank of their bid, and starting with the lowest bidder of each legislator as occurs in the basic auction design. The basic difference for the sponsorship auction for other auctions is that only one or a few sponsors like three are necessary to sponsor a bill for the sponsorship auctions, while a minimum majority is necessary to pass legislation for the other auctions. As a result, only the bidding constituents of legislators, who sponsor PoliticalSheepdog supported legislation, can become winners. If only a specific number of legislators, according to the rules of the legislature, can sponsor legislation, then only the constituents of legislators, who sponsored the legislation could be come winners, if those constituents lobbied before the legislator registered to sponsor the legislation and their legislator registered to sponsor the legislation early enough to sponsor the legislation. This might require a PoliticalSheepdog.com representative to monitor the registration of sponsors.

If more than the minimum number of legislators necessary to sponsor legislation can sponsor the legislation, according to the rules of the legislature, and if more than the minimum number of legislators sponsor the legislation before a certain time, then the winning constituents 1) would have legislators who sponsored the legislation, 2) would have lobbied their legislator, 3) would be in a group of constituents, who lobbied their legislator and whose total bids would be among the lowest number of total bids of groups of constituents, who bid and lobbied, when the number was equal to the minimum number of legislators necessary to sponsor a bid in a house. For example, if a House of Delegates requires three sponsors to introduce legislation and if four legislators sponsored the legislation before a certain date, then the three groups of constituents, who lobbied and who had the three lowest total bids for their lobbying groups, would become the winners in the sponsorship auction, if the bill were enacted.

Since only one or a few legislators can sponsor a bill, instead of a majority, this auction should be more competitive than the committee or floor auctions.

Like the previous primary and general election auctions, there can be primary and general election sponsorship auctions, which use the same frozen bids from the bidding phase that occurred before the respective primary and general elections, in the lobbying phase that occurred during the terms or during the sessions of the elected candidates terms.

If the savings are inadequate to pay all participants, there are adjustments in the PoliticalSheepdog.com Contract, which can be reached, if the reader clicks on the “Registration” button on the PoliticalSheepdog.com home page.

Chapter 16 Preserving Integrity

Summary: A foundation will be necessary to oversee policy markets and maintain their integrity.

Who should read: Those, who still have concerns about the integrity of the PoliticalSheepdog process.

The integrity of the PoliticalSheepdog.com will depend of the definition of net dynamic savings for consumers and possibly other definitions. To preserve the integrity of the system, there will be a need for a foundation, whenever there is enough money to start the foundation, with a governing body to preserve the integrity of the definition of net dynamic savings. The foundation should protect the definition for “net dynamic savings for consumers,” but allow flexibility in the definition. Before a person can become a member of the governing body of the foundation, however, the potential members should be required to recognize that they must accept the potential for inefficiency in consumer choices resulting from psychological phenomena.

The members should consist of 6 representatives from PoliticalSheepdog.com, Inc., 2 appointed by the PoliticalSheepdog.com board, one representative elected by the PoliticalSheepdog.com innovators, one representative elected by the PoliticalSheepdog.com finders, one representative elected by the PoliticalSheepdog.com constituent lobbyists. In addition, there should be 2 economists: one economists from each of two national association of economists. There should also be one accountant elected by a national association of accountants, one physician elected by a national association of physicians, a psychiatrist or psychologist elected by a national association of psychologists or psychiatrists, one lawyer elected by the American Bar Association, one appointed representative each from 2 or 3 “good government” non-profits, one U.S. Senator, elected by the Senate; and one Representative, elected by the U.S. House of Representatives.

Chapter 17

Savings for Debts

Preview: PoliticalSheepdog.com is probably the best single solution that can protect consumers from the potential for a financial disaster resulting from debt.

Who should read: All readers.

As discussed earlier, policy markets like PoliticalSheepdog.com are probably the best way to prevent corruption. In addition, however, policy markets like PoliticalSheepdog.com could also help reduce the debt burden in the United States and other countries. PoliticalSheepdog.com could reduce the debt, because PoliticalSheepdog.com market provides incentives for constituents to encourage legislators to create savings, and to reduce the compulsion toward profligate spending with other people's money. For example, The Energy Policy Act of 2005 supplies \$4.8 billion in subsidies for nuclear power, when a serious accident could cost \$600 billion to clean up¹¹⁸. Farm subsidies cost \$20 billion annually¹¹⁹. The elimination of a fighter could save \$50 billion¹²⁰.

In addition, policy markets could create massive savings to pay off the debts, because policy markets are applicable in so many situations like fighting HIV, terrorism, the Iraq war, and waste in all levels of government and throughout the entire economy. For example, if PoliticalSheepdog.com had been functional and if the governments of Louisiana and the United States had allowed PoliticalSheepdog system to operate, the United States might have avoided the Katrina disaster as previously note, because governments tend to be reactive, while markets tend to be proactive. Wasteful psychological market failures like alcoholism and drug addiction might provide hundreds of billions in savings as noted earlier and this does not include waste from gambling and cigarettes. Further more, the economy is divided into three large fairly equal sectors – a government sector, a commercial sector and a consumer sector. The commercial sector is always trying to become increasingly efficient due to competition, but the consumer sector is not efficient because of psychological phenomena result in inefficient choices and the government sector is not efficient because of corruption by non-constituent special interest groups and by other government failures. As a result, the easiest gains in efficiency would come in the consumer and government sectors, for which the design of PoliticalSheepdog.com is uniquely capable to address. Since PoliticalSheepdog.com could promote efficiencies at all levels of the economy in all jurisdictions, PoliticalSheepdog.com could make the United States a devastating competitor. If the United State became more competitive, the dollar would probably rise, making the finance of the debt easier and less inflationary due to the lower price of imports. Thus, policy markets like PoliticalSheepdog.com are probably the best way to protect consumers from debt, terrorism, international competition, global warming, high oil costs, addictions, and

¹¹⁸ Tax Payers for Common Sense “Nuclear Subsidies in the Energy Bill: A Spending Explosion,
<http://www.taxpayer.net/energy/pdf/nuclearspending.pdf>

¹¹⁹ Alexander Ryan, Bold Reform Needed in 2007 Farm Bill, Tax Payers for Common Sense,
<http://www.taxpayer.net/TCS/letterstocongress/2007-02-08farmbill.html>

¹²⁰ Jettison a Jet Fighter, The WasteBasket: A Weekly Bulletin of Government Waste,
<http://www.taxpayer.net/TCS/wastebasket/nationalsecurity/2002-11-15fighters.htm>, 11/2002

probably many more challenges, while still embracing liberal democracy. PoliticalSheepdog.com is the best, the broadest and probably the only single concept, which might be able to correct these inefficiencies and provide greater savings to reduce debt.

Furthermore, PoliticalSheepdog.com could also help developing countries with an adequate infrastructure to support an internet market. Not only could it help them reduce their debt and their corruption, but it could also provide them with policy exports, if they adopted the PoliticalSheepdog.com system quickly.

Chapter 19

Summary

In summary, PoliticalSheepdog.com is an intellectual property systems and an internet market for constituents, who lobby their own legislators to support policies that provide a net dynamic savings for consumers. The market consists of a series of cascading auctions designed to drive the legislation through legislatures. When competitive markets are possible, they are usually the best and most ethical way to determine how much to pay for someone for something and to determine what to produce^{121 122}. Since it is ethical to pay people, who improve the well-being of society fairly, and since government is a technology, it is ethical and necessary to pay fair compensation to people, who improve public policy or who contribute to the enactment of those policies, for their time and effort. More than simply ethical, it is necessary to pay those, who improve public policy or who contribute to the enactment of those policies, fairly in order to provide a proper signal about what policies to produce in our market economy. To pay contributors fairly, however, we need a competitive market system that reflects the marginal revenue produce to participants and PoliticalSheepdog.com is probably the only such market for public policy. A policy market requires that each legislator's constituents compete internally against their own legislator's constituents and then externally against the constituents of other legislators. As a result, the governments should recognize that PoliticalSheepdog.com intellectual property systems and markets for public policy are a self-correcting necessity, which should be freed of remaining legal constraints, but should be carefully observed to ensure that it obtains its promise.

While many feel that the PoliticalSheepdog.com is politically impossible and will never exist, PoliticalSheepdog.com could promote savings throughout the economy in all jurisdictions and in both the consumer and public sectors of the economy, which are probably the least efficient sectors of the economy. As a result, PoliticalSheepdog.com is probably the least painful and best solution to provide the savings necessary to ameliorate the impending disaster that could result from the high Federal budget, trade, Social Security, and consumer debt in an era of increasing international competition due to the trend toward market economies and to increasing costs of energy. Not only could it reduce the debt burden in the United States, PoliticalSheepdog.com could make the United States into a devastating competitor, because it focuses on efficiency. It could also improve transparency and the accountability of its legislators and other public servants to their constituents.

If politicians and the public fail to utilize PoliticalSheepdog.com, the United States could become poorer and less powerful. If the United States must yield its preeminence in power to less ethical, less democratic countries like China, the world will be a riskier, more oppressive place. As a result, politicians really don't have a choice. Politicians must free policy innovators and PoliticalSheepdog.com from most legal constraints and accept the necessity of PoliticalSheepdog policy markets.

¹²¹ Friedrich A. Hayek, *The Road to Serfdom*, The University of Chicago Press, 1972

¹²² Yergin, Daniel. *The Commanding Heights: The Battle between Government and the Marketplace that is Remaking the Modern World*. Books on Tape. Buffalo, New York, 2002

