Who Lobbies Whom: Special Interests and Commercial Lobbyists

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Extended Abstract – First Draft in Progress

Abstract

We model which special interest groups (SIGs) lobby which policymakers (PMs) directly, and which employ professional intermediaries (CLs). We show that SIGs affected by policy issues that frequently receive high political salience lobby PMs directly, while those that rarely receive high political salience must employ CLs. This follows from the availability of repeated agency contracts between PMs and SIGs. SIGs that lobby on issues that frequently experience high political salience may be incentivized to truthfully reveal private policy relevant information to policymakers via the promise of a high probability of future political access. Those that lobby on issues less frequently of high salience must employ professional intermediaries to lobby on their behalf. These intermediaries are always in the "informational lobbying market" and can be easily incentivized by PMs to truthfully reveal private information. We also show that "insecure" PMs, those in vulnerable seats, tend to be lobbied by professional intermediaries. Also, PMs that are more time constrained tend to rely more on professional intermediaries for policy relevant information. We also consider SIGs and PMs with similar or opposite policy biases, the implications of lobbying success fees offered by SIGs to CLs for achieving policy outcomes, the generalization of payoffs with respect to gains and losses from enacted policies, as well as costly information acquisition by CLs.

We will test these predictions using a comprehensive data set of U.S. federal lobbying activity reports filed by professional lobbyists. First empirical results illustrate the predicted pattern of in-house lobbyists for SIGs' high-frequency lobbying activities and professional intermediaries for SIGs' low-frequency lobbying activities.

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Who Lobbies Whom?

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Preliminary and Incomplete – Please Do Not Circulate or Cite
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Introduction

Special Interest Groups	**Commercial Lobbying**
Group with unifying characteristic – occupation, trade, belief, etc.	Firms with expertise in legal or public affairs
Directly motivated by policy – incentives to misrepresent information	Not directly affected by policy – intermediation services for profit
P-A: PM is agent, SIG one principal	P-A: C $\leftrightarrow$ L $\leftrightarrow$ PM
Well developed economic literature	*Growing, predominant activities*
$\Rightarrow$ **Market for political access and influence**	$\Rightarrow$ **Second market for political representation**

LITERATURE I

Classics

- ▶ *Rent-Seeking:* Tullock (1967), Krueger (1974), Buchanan (1980).
- ▶ *Contest Success Function – "black box":* Tullock (1980).

Campaign Contributions

- ▶ *Menu-Auction Approach:* Bernheim, Whinston (1986); Grossman, Helpman (1994).
- ▶ *Citizen-Candidate Framework:* Besley, Coate (2001).

Strategic Information Transition

- ▶ *Cheap Talk, Costly Signals:* Crawford, Sobel (1982); Potters, van Winden (1992).
- ▶ *Biased Experts:* Krishna, Morgan (2001).
- ▶ *Information vs. Money:* Bennedsen, Feldmann (2006); Dahms, Porteiro (2008); Groll, Ellis (2014, WP2016).

LITERATURE II

Costly Access

- *Pay-to-Play/Present Information:* Austen-Smith (1995, 1998); Lohmann (1995); Cotton (2009, 2012).

Legislative Subsidies

- *Relaxing resource constraints:* Hall, Deardorff (2006); Ellis, Groll (2016).

Lobbying Connections

- *Empirics:* Blanes i Vidal, Draca, Fons-Rosen (2012); Bertrand, Bombardini, Trebbi (2014); Kang, You (WP2016).
- *Advocates and Intermediaries:* Dewatriport, Tirole (1999); Groll, Ellis (2014, WP2016); Hirsch, Montagnes (WP2015).

PROJECT I

Research Questions

- ▸ Direct lobbying by SIGs vs. indirect lobbying through CLFs.

- ▸ Policy topics that are lobbied for and policymakers who are lobbied.

- ▸ Conditions for truth-telling by SIGs.

- ▸ Empirical test.

Standard Model

- ▸ Many SIGs, commercial lobbyist/intermediary, policymaker.

- ▸ Information transmission – discrete state and policy space.

- ▸ Constrained access – relationships and policy salience.

PROJECT II

Theoretical Extensions

1. Side payments

2. Lobbying success fees

3. Continuous state of the world

4. Losses and payoff differences

5. Costly information gathering by CL

6. And more...

Empirics soon...

Model I

Agents

- ▶ Population: special interest groups, intermediary, policymaker.

Policymaker (PM)

- ▶ For any political issue, $i \in I$, policymaker chooses a policy denoted $p^i \in \{p_l, p_r, p_n\}$.

- ▶ For each political issue there is an issue specific state of the world denoted $\theta^i \in \Theta \equiv \{\theta_l, \theta_r\}$.

- ▶ Each state occurs with equal likelihood, $\rho_l = \rho_r = 1/2$.

- ▶ Policymaker's payoffs are state dependent and with salience s^i:

$$U^p(p_i, \theta_i) = \begin{cases} s^i & \text{if } \{p_j, \theta_j\} \text{ with } j = l, r \\ 0 & \text{otherwise.} \end{cases} \tag{1}$$

Model II

Policy Salience

- ▶ Policymaker's salience is a random variable drawn from distribution $g_i(s)$ with support on $[0, S]$.

- ▶ Issues are ordered according to first-order stochastic dominance: for any $s^* \in [0, S]$ $\forall i \in I$ we have $G_i(s^*) > G_{i+1}(s^*)$.

Special Interest Groups (SIGs)

- ▶ There is one SIG for each issue – i for issue and corresponding SIG.

- ▶ SIG has state independ. preference: payoff normalized to 1 for p_r^i.

Commercial Lobbyist (CL)

- ▶ Intermediary c is profit maximizer and charges fee of F per client/issue for presentation: cost normalized to 0.

Model III

Information and Messages

- Common knowledge

    - Probability distribution over states: $\rho_l = \rho_r = 1/2$ for every i.
    - Salience distribution function: $g_i(s)\ \forall i \in I$.
    - Salience s_i for every i once drawn.

- Private information

    - State θ_i known by SIG i and representing CL.
    - State θ_i not observed by PM before policy choice.

- Messages

    - Both SIGs and CL can send messages to PM – i.e., message $\longleftrightarrow$ lobbying:

$$m_i \in \{\Theta \cup 0\} \text{ or } m_c \in \{\Theta \cup 0\}. \tag{2}$$

MODEL IV

Expected Payoffs

- Policymaker's expected payoff from any issue $i \in I$:
  $\Pi_i = E[P_i(p \mid s, \theta)|m_i, m_c]$ and all additively separable.

- SIG's expected payoff from issue i: $\Omega_i = E[R_i(p)|m_i, m_c]$.

- CL's expected payoff from any presented issue i: $\Psi_i = E[F_i]$.

MODEL V

Order of Events

1. Nature draws an s^i for every i, then it draws a θ^i for every i.

2. SIG i observes θ^i.

3. SIG decides whether to send a message m_i or to employ a CL for the fee of F.

4. If chosen, the CL observes θ^i and receives F – *then* sends a message m_c to the policymaker.

5. Policymaker collects all messages from presenting SIGs and CL and chooses policies.

6. Payoffs are realized.

RESULTS: ONE-SHOT GAME I

One-Shot Game

- ▶ If SIG sends $m_i = \theta_r$, PM anticipates cheap talk incentive $\rightarrow$ **Babbling** $\rightarrow \Pi_i = s^i/2$ and $\Omega_i = 1/2$.

- ▶ CL has no incentive to misrepresent $\rightarrow$ **Truth-telling** $\rightarrow \Pi_i = s^i$, $\Omega_i = \{1 - F, -F\}$, $\Psi = F$.

    $\rightarrow$ SIG hires CL iff $F \leq 1/2$ and $\theta^i = \theta_r$;
    $\rightarrow$ PM infers $\theta^i = \theta_l$ if $F \leq 1/2$ and no CL;
    $\rightarrow$ SIG babbles if $F > 1/2$.

Issue or Access Constraint

- ▶ Policymaker's limited ability/resources/interest to receive messages or implement policies: cutoff of $0 < \bar{s} < S$.

Results: One-Shot Game II

Proposition

If $F > 1/2$, then for any i with

1. *$s_i < \bar{s}$ no lobbying and $p = p_n$;*

2. *$s_i \geq \bar{s}$ there is babbling by the SIG and PM mixes.*

If $F \leq 1/2$, then for any i with

1. *$s_i < \bar{s}$ no lobbying and $p = p_n$;*

2. *$s_i \geq \bar{s}$ and $\theta_i = \theta_l$ there is babbling by the SIG and PM chooses $p = p_l$.*

3. *$s_i \geq \bar{s}$ and $\theta_i = \theta_r$ there is commercial lobbying, CI sends $m_c = \theta_r$ and PM chooses $p = p_r$.*

$\rightarrow$ Informative lobbying by CL, partial information revelation by SIG.

$\rightarrow$ Intuition of "money burning" – costly CL provides credibility.

Results: Infinitely Repeated Game I

Infinitely Repeated Game

- One-shot game infinitely played with discount rate δ (PV, PM's seat security).

- PM plays grim trigger strategy towards SIGs and CL in equilibrium: no truthful message $\rightarrow$ no future access.

Proposition

A SIG will send truthful messages to a PM if (i) $\theta_{it} = \theta_r$ or (ii) $\theta_{it} = \theta_l$ and $F \geq \frac{2(1-\delta)}{\delta[1-G_i(\bar{s})]}$.

- *Truth-telling:* costly CL, greater likelihood of sufficient salience, discontinuation low.

Results: Infinitely Repeated Game II

Proposition

The count of the set of SIGs that send truthful messages is; (i) increasing in F, (ii) decreasing in $\bar{s}$, (iii) increasing in δ.

▶ *Truth-telling:* Issue/agenda constraint discourages truth-telling – likelihood of insufficient salience and access.

Corollary

SIGs $i \in \{1, 2, .., \bar{i} - 1\}$ employ CLs and do not lobby PMs directly. SIGs $i \in \{\bar{i}, ..., I\}$ directly lobby PMs and send truthful messages.

▶ Issue/access constraint $\uparrow \rightarrow$ truth-telling $\downarrow \rightarrow$ CL industry $\uparrow$.

Results: Ideology I

Policymaker's Ideology

▶ Suppose policymaker has ideologically driven preferences:

		Policy		
		p_l	p_r	p_n
State	θ_l	$a(s)$	$b(s)$	0
	θ_r	$c(s)$	$d(s)$	0

Purely Ideologically Motivated PM

▶ Left or right ideologue: $a = c = 0$, $b = d = 1$ or $a = c = 1$, $b = d = 0$.

▶ No incentive to lobby – PM does not respond to information.

Results: Ideology II

Partially Ideologically Motivated PM

- Left-biased or right-biased: $0 = b < c < a = d = 1$ or $0 = c < b < a = d = 1$.

- Effect on PM's choice if SIG babbles $\rightarrow$ like-biased PM not lobbied.

- Babbling SIG would only hire CL for oppositely biased PMs.

Predictions I

"Testable" Predictions

1. SIGs with consistently high levels of salience lobby directly.

2. SIGs lobby directly those PMs for which the issue is highly salient (constituency interests).

3. Secure policymakers are lobbied more by SIGs and less by CLs as the game is less likely to end.

4. If the CL industry is more competitive (lower F), then there will be more CL lobbying relative to SIG lobbying.

5. More fundraising or time constraints and thus higher salience cutoff $\bar{s}$ implies more CLs and less SIG lobbying.

Predictions II

Ideological Policymakers

6. Purely ideologically motivated PMs are not lobbied.

7. Partially ideologically motivated PMs are lobbied by SIGs for whom the issue has a sufficiently frequently high salience, and by CLs representing opposite biased SIGs if those SIGs would babble.

8. Same-biased SIGs babble, do not employ CLs, there is no lobbying, and the PMs choose policy according to their bias.

Theoretical Extensions

1. **Side Payments** – buying "attention/access"

   $\Rightarrow$ SIGs more likely to tell the truth; more lobbying in total.

2. **Lobbying Success Fees** – buying CL's message

   $\Rightarrow$ Truth-telling by CL is equilibrium condition (SIG can't or doesn't want capture).

3. **Continuous State of the World**

   $\Rightarrow$ Same testable predictions as standard model.

4. **Losses and Payoff Differences** – generalization of standard model

   $\Rightarrow$ Number of babbling SIGs increasing in differences; CL industry growing.

5. **Information Investigation by CL**

   $\Rightarrow$ *In progress...*

EMPIRICS

1. **Lobbying Data**
   - *Federal LDA reports:* SIG $\leftrightarrow$ CL – but not PM (agency/issue).
   - *Federal FARA reports* SIG $\leftrightarrow$ CL $\leftrightarrow$ PM – but diplomacy.
   - *Campaign contributions:* SIG $\leftrightarrow$ PM and CL $\leftrightarrow$ PM – but money.

2. **Policy Salience**
   - Public opinion: polls, news, Google, ?
   - Policymaker's agenda: statements, hearings, proposed/sponsored legislation, ?

3. **Congress Data**
   - Tenure
   - Safe vs. risky seats

CONCLUSION

Thank you!