LOBBYING AND LEGISLATIVE UNCERTAINTY

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I Introduction

In democratic countries, legislatures are the authoritative source of statutory law. The PFS model doesn't capture several general features of policymaking in this environment: (2) how uncertainty affects the incentives for lobbying and the associated prospects for ratification of trade agreements; and (3) how the voting intentions of multiple legislators, rather than a single agent, change in response to incentives.

In this vein, Saiegh (2011) identifies two major factors that shape lawmaking: the unpredictability of legislators' voting behavior, and whether buying legislative votes is a feasible option. The source of the uncertainty is the existence of cross-pressured legislators: in deciding how to vote, lawmakers consider a variety of influences, including their personal values, announced positions, the views of their constituents, and the preferences of their party leadership. Therefore, legislators' voting behavior can seldom be perfectly anticipated.

From an empirical standpoint, the project will contribute to our understanding of the political uncertainty that surrounds statutory lawmaking. We will introduce an innovative methodology for quantifying cross-industry political uncertainty, establish the relevance of the resulting measures for policy-making and make the data available for future use in a wide range of applications. For example,

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our measure could be used to study he impact of policy uncertainty on firm-level investment and employment.

I.I Related Literature

Related is Le Breton and Salanie (2003), which studies lobbying when the lobby is uncertain about the preferences of a unitary decision maker. Le Breton and Zaporozhets (2007) go a step further and replace the unitary decision maker with a legislature with multiple actors. Song (2008) is a model of endogenous lobbying with a ratification constraint in a context of unilateral policy making with no uncertainty, and Coates and Ludema (2001) study trade policy leadership in a model with endogenous lobbying in the presence of political uncertainty with imperfect monitoring.

As noted above, Saiegh (2009) argues that the uncertainty surrounding statutory lawmaking is in part related to governmental and political structure. Although they do not discuss uncertainty specifically, the cross-country empirical work of Gawande, Krishna and Olarreaga (2009) is the first to our knowledge that suggests that this kind of uncertainty plays a role in trade policy. They show that variables such as the number of checks and balances on the power of the legislature and the gap between the policy positions of the main political parties have predictive power for the PFS "welfare-mindedness" parameter. One of the objectives of this proposed project is to directly test the premise that legislative uncertainty indeed has an important impact on trade policy.

This work also relates to the canonical studies on endogenous regulation (cf. Stigler (1975), Peltzman (1976), Becker (1983), Laffont and Tirole (1994)), as well as the literature on vote-buying and legislative behavior in political science (Groseclose and Snyder (1996), Dekel et. al. (2005), Dal Bo (2007)).

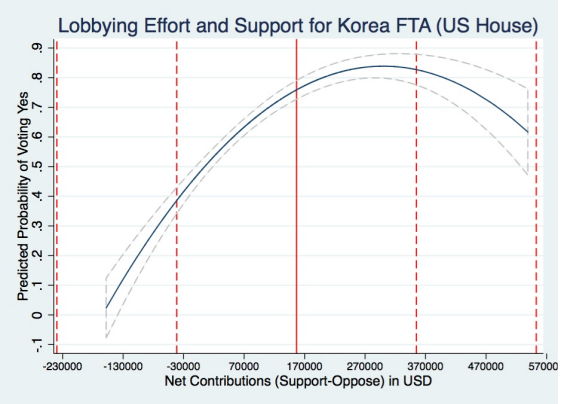

Figure 1: Lobbying Effort and Support for KORUS

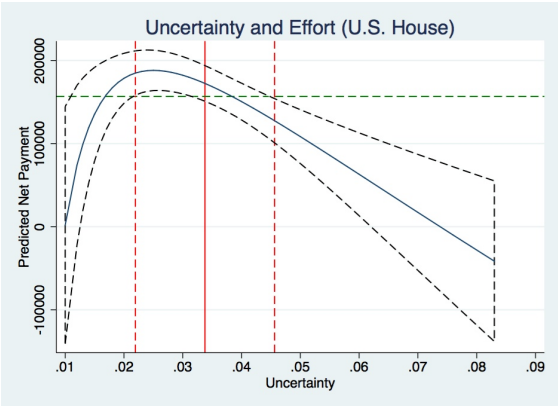

Figure 2: Net Campaign Contributions, KORUS

II The Model

III Some Theoretical Results

IV Estimating Legislative Uncertainty

V An Application to the U.S. House of Representatives

Figure 1 displays the relationship between lobbying effort and legislators' support for KORUS. The vertical axis represents the predicted probability that a legislator would vote "yes" on the agreement, and the horizontal axis shows the monetary contributions to each legislator by lobbies who supported the passage of KORUS minus the contributions from lobbies opposing the agreement. The solid vertical red line indicates the average net contribution in the sample, and the dashed lines a one-standard deviation increase/decrease from that sample mean. The data indicate that exporting industries are more likely to exert lobbying effort to enlist the support of additional legislators (extensive margin) rather than secure stronger support from a given set of legislators (intensive margin), as well as that there are decreasing returns to lobbying effort. To generate these results, we regressed a legislator's vote on his/her estimated ideal point as well as partisanship using a probit specification. Then we fitted a second-order polynomial to the predicted probabilities generated by the probit regression. The

contribution data for both this and the follow figure was obtained from Maplight.

Figure 2 displays the relationship between the unpredictability of legislators' voting behavior and lobbying effort. The vertical axis represents the predicted net contributions to members of the U.S. House of Representatives in 2012, and the horizontal axis shows the unpredictability of legislator's voting behavior measured using the 95% posterior confidence intervals of their ideal points estimated using Bayesian Markov chain simulation to scale all roll call votes taken in the 112th Congress (more details on the methodology below). The solid vertical red line indicates the average uncertainty in the sample, and the vertical dashed red lines indicate increases/decreases of one-standard deviation from the average. The horizontal dashed green line indicates the predicted net payment in the sample. The data show a very strong relationship between uncertainty at the level of the individual legislator and campaign contributions. To generate these results, we fitted a second-order polynomial to the data, and used monetary contributions to each legislator by lobbies who supported the passage of KORUS minus the contributions from lobbies opposing the agreement. While these data do not map perfectly onto our theoretical constructs, they indicate that there is strong preliminary support for our hypotheses making it highly likely that investment in data acquisition and analysis is worthwhile.

VI Conclusion

Appendix

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