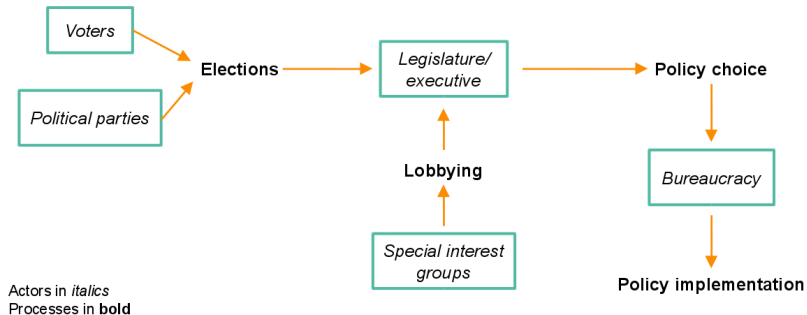


10. Interest Groups

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How is economy policy made?



Special interest groups

- ▶ Organizations that take political actions on behalf of a group of voters (Grossman and Helpman 2001).
 - ▶ large corporations
 - ▶ industrial groups
 - ▶ professional groups
 - ▶ labor unions
 - ▶ environmental groups
 - ▶ etc.

Lobbying in the USA

- ▶ Bertrand, Bombardini and Trebbi:
 - ▶ 37,000 lobbyists (for 535 legislators)
 - ▶ around 1% of lobbyists are former congressmen

Campaign finance

- ▶ United Kingdom:
 - ▶ no limits on donations, but £30K cap on campaign expenditures.
 - ▶ £31.1m spent in total during the 2010 general election
- ▶ United States:
 - ▶ there are caps on donations (\$2000 per race per donor), but no caps on expenditures.
 - ▶ Hillary Clinton spent over \$1 billion for 2016 campaign

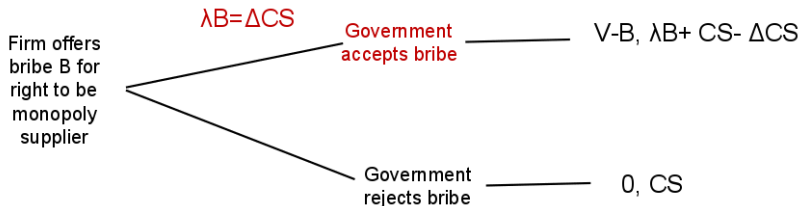
Informational lobbying

- ▶ Lobbying consists of advocating policies, as well as providing information to policymakers.
 - ▶ research and assistance during legislative drafting could result in better policies.

Is lobbying inefficient?

- ▶ Important distinction:
 - ▶ profit-seeking activities: resources directed toward production.
 - ▶ e.g., investment in more efficient taxi cabs
 - ▶ rent-seeking activities: resources directed toward creations of restraints on trade.
 - ▶ e.g., investment in lobbying to achieve taxi can monopoly
- ▶ An influential view is that most lobbying is rent-seeking, and therefore socially wasteful.

Bribery game



- ▶ monopoly would generate profit V for firm, but reduces consumer surplus by $\Delta CS > V$ (monopoly is inefficient).
- ▶ firm offers bribe B in exchange for monopoly; politician payoff is consumer surplus CS , plus λB if bribe is accepted (λ is value of bribe).
 - ▶ Assume $\lambda B > \Delta CS > V > B$: bribe is accepted, and there is decrease in surplus.

Two-Firm Bribery Game

1/2	Bribe	
Bribe	$V/2 - B, V/2 - B$	
No Bribe	$0, V - B$	

- ▶ If $B < V/2$, this is a Prisoner's Dilemma: bribe is a dominant strategy.
 - ▶ an amount $2B$ is wasted, or “dissipated” on lobbying.

Evidence on “Access” for donors

- ▶ Kallah and Broockman:
 - ▶ field experiment on effects of campaign contributions on access to policymakers in U.S. Congress, run in collaboration with real lobbying group.
 - ▶ lobbying group attempted to schedule meetings between 191 Congressional offices and active campaign donors in their districts.
 - ▶ randomly assigned whether it revealed to Congressional offices that prospective attendees had contributed to campaigns or were just voters.

Kallah and Broockman

Level of Official Group Met	Control Group ("constitutents")	Treatment Group ("active donors")
Member of Congress	2.4%	7.8%
Chief of Staff	0.0%	4.7%
Legislative Director or Deputy Chief of Staff	3.2%	6.3%

Bertrand, Bombardini, and Trebbi (2014)

- ▶ New database on all 37,000 lobbyists active at the US federal level between 1999 and 2008.
- ▶ **Lobbyists' connections** measured by personal campaign contributions:
 - ▶ A lobbyist is connected to a politician if the lobbyist has made at least one contribution to a campaign over the sample period (median donation: \$500)
- ▶ **Lobbyists' expertise** measured by specialisation:
 - ▶ A lobbyist is a specialist if s/he spends (in dollar terms) at least one-quarter of her time on the same issue (out of 76 issues)

Bertrand, Bombardini, and Trebbi (2014)

$$Y_i = \alpha + \beta_E E_i + \beta_C C_i + X_i' \gamma + \epsilon_i$$

- ▶ Y_i , price paid on lobbyist report i .
- ▶ $E_i = 1$ if at least one specialist in issues covered by report.
- ▶ $C_i = 1$ if at least one connection to a politician that works on an issue in report.
- ▶ X_i , controls.
- ▶ Results:
 - ▶ $\hat{\beta}_E = 3$ to 5 percent
 - ▶ $\hat{\beta}_C = 8$ to 10 percent
- ▶ Overall, both matter, but connections matter more