Dear Editor and Referees,

I really appreciate just how closely you have read the manuscript.

I am yet again grateful for your very constructive feedback on this manuscript. I have ...

What hasn't changed ...

There is one significant change that is not noted below ...

I have once again written a consolidated response. I have grouped your responses together where they are related and responded just once wherever possible, with my responses in italics.

With sincere gratitude,
Kristy

1 Clarify statement of lobby's incentive constraint

Referee 2 Point 3:
I believe (8) only need hold for $e_b \geq \bar{e}(\tau^a)$. I believe (8) would fail for $e_b = \bar{e}(\tau^a) - \varepsilon$, right? This seems confusing because (8) seems to be stated for any e_b.

Referee 2 Point 5:
I found the program on page 18 a little confusing. Equation (11) puts a constraint on e_b, essentially requiring that $e_b \geq \bar{e}(\tau^a)$ if I understand. Equation (10) seems to be directed toward a value for e_b such as $e_a(\tau^a)$; that is used on the equilibrium path. If we were to take the program as a mathematical object, (11) would seem to define the range of e_b that is to be considered in (10). I don't think that is what is intended. I think it might be easier to define the program using $\bar{e}(\tau^a)$ instead of waiting to define that function later.

Editor Point 2:
I think the way you write and analyse the lobby's incentive constraint is still not very clear. I would explain things in the following sequence: (a) the relevant level of e_b in constraint (8) is the best deviation effort, i.e. the optimal effort conditional on inducing a break of the agreement; (b) the best deviation effort is given by $\max\{e_{tw}, \bar{e}(\tau^a)\}$; (c) in order for a non-trivial agreement to be possible, there must exist some $\tau^a < \tau^{tw}$ such that $e_{tw} < \bar{e}(\tau^a)$; (d) to avoid any confusion, I would write constraint (13) evaluated at $\max\{e_{tw}, \bar{e}(\tau^a)\}$, rather than at $\bar{e}(\tau^a)$. Part of the reason I found the current exposition confusing is that your constraint (13) assumes $e_{tw} < \bar{e}(\tau^a)$, but this restriction is imposed and discussed only after writing constraint (13).

  - *I have done exactly as you suggest just following constraint (8) and I have written both constraint (11) and (13) evaluated at $\max\{e_{tw}, \bar{e}(\tau^a)\}$ to address Referee 2's suggestions as well.*

Referee 2 Point 6:
Equations (12) and (13) finally define the IC constraints using $\bar{e}(\tau^a)$. In comparison to (7) - (10), (12) replaces $\tau^R(e_b)$ with $\tau^b(\bar{e})$. Is there a difference between the τ^R and τ^b functions? If these are referring to the same functions, I suggest sticking with the former notation so as to minimize the burden on the reader. A similar remark applies to (13) in relation to (8) - (11).

  - *Done throughout, including appendices.*

2   Remove unnecessary commentary

Referee 1 Point 1:
The main drawback of the paper, however, is that it is not an easy read and the analysis is not presented well. For example, while presenting the formal model, the author inserts various informal discussions that are very lengthy and unnecessary. Most of these discussions are provided to justify the real-world relevance of the model's assumption. I think the author could greatly improve the presentation of the model by treating it as a purely theoretical model. For example, I don't think that the following paragraph from page 25 adds any insights to the theoretical discussion in section 5:

"A change in δ_L might reflect a change in firms' planning horizons, or even their operational horizonsalthough it is not entirely clear in which direction this might work for firms who are facing extinction without sufficient protection. The lobby's patience level might also change with a change in the administrative leadership of the lobby, or as a reduced form for changes in risk aversion in a model with political uncertaintya more risk-averse lobby would effectively weigh the future, uncertain gains less relative to the current, certain cost."

There are various paragraphs similar to this one that can be simply removed from the paper.

- *I*

3   Proofread thoroughly

Referee 1 Point 2:
The paper still has various typos and a thorough proofreading is needed.

- *I*

4   Add graph?

Referee 2 Point 3:
I suggest that the author consider adding a figure with τ on the y-axis and e_b on the x-axis, and with an upward sloping line corresponding to $\tau^R(e)$. The author could then depict τ^a and τ^{tw} in ascending order on the y-axis, and similarly $e_a(\tau^a)$, e_{tw} and $\bar{e}(\tau^a)$ in ascending order on the

x-axis. Given τ^a, we can find $e_a(\tau^a)$ off of the $\tau^R(e)$ curve, and similarly for τ^{tw} and e_{tw}. If the distance between $\bar{e}(\tau^a)$ and e_{tw} is large in comparison to that between e_{tw} and $e_a(\tau^a)$, then it can be seen that the cost to the lobby of going sufficiently above its ideal point, e_{tw}, could offset the future benefit of being eliciting $\tau^R(\bar{e}(\tau^a))$ and then τ^{tw} over the punishment phase. I may be mistaken, but I think this is the basic tradeoff that sits at the foundation of the analysis.

    - *I found this suggestion appealing and tried to implement it but it quickly became complicated, in particular because the lobby's payoffs are in terms of $\pi(\tau^R)$, not τ^R directly. This added to the issue of aggregating across phases of the repeated game meant that the graph seemed to confuse more than clarify.*