



# Dynamic legislative decision making when interest groups control the agenda <sup>☆</sup>

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## Abstract

We consider dynamic decision making in a legislature, in which in each period legislators vote between the status quo (previous period's policy) and a new bill. However, the agenda formation process is captured by interest groups, that is, the new bill on the agenda is determined by an all-pay auction among these groups. We show that convergence to the median voter of the legislature arises if interest groups are patient enough but not necessarily otherwise. We characterize the bound on the speed of convergence in a family of stationary equilibria in which policy bounces between right-wing and left-wing policies. We also show that convergence may be faster if organized interest groups represent only one side of the policy space, e.g., when only business and not consumer interests are organized.

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## 1. Introduction

The involvement of special interests and lobby groups in politics is well documented in the economics and political science literature.<sup>1</sup> In the United States these groups participate in almost

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<sup>1</sup> For a survey of this literature see Grossman and Helpman [24].

all stages of the political process, e.g., formulating bills, taking part in committee hearings and coordinating majorities in the ballot.

A recent trend is for interest groups to explicitly write down model bills to be introduced in state and federal legislatures.<sup>2</sup> A report drafted by the Centre for Media and Democracy documents the activities of the American Legislative Exchange Council (ALEC), “a conservative association, funded almost entirely by big business interests, that brings together some 300 corporate lobbyists and 2000 legislators to write model legislation that helps corporate bottom lines. ALEC is a corporate *bill mill*”.<sup>3</sup> According to this report, over 50 bills drawn by ALEC have been introduced in the Virginia General Assembly; at least three of ALEC bills were requested to be introduced by the Virginia Governor Bob McDonnell. According to ALEC’s self-reported 2010 Legislative Scorecard, 826 pieces of ALEC legislation were introduced in statehouses around the country in 2009 and 115 were enacted into law.

Another example of an interest group that is active in forming the agenda is the drug lobby, PhRMA. In 2005, 26 states were considering legislation guaranteeing provision of cheaper drugs, including Washington state, California, Ohio and Maine, where the latter two states have already approved discount plans for those with low-income. As a response, PhRMA negotiated in California both with Governor Arnold Schwarzenegger and with Democratic legislators to develop an alternative voluntary discount plan to be brought forward to the legislature, “in order to avert a ballot battle”.<sup>4</sup> Lobbying over the agenda is therefore considered to be cost effective compared with lobbying for votes in the actual ballot; it might be easier to influence a handful of agenda setters rather than a majority in the legislature.

In this paper we analyze how the capture of the agenda by interest groups affects dynamic policy choices in a legislature. We analyze an infinite dynamic game in which in each period, the Congress or state legislature (the floor) votes whether to accept a new bill or to retain the status quo (previous period’s policy) for that period. In keeping with previous literature we model the capture of the agenda by lobbyists as an all-pay-auction game among interest groups.<sup>5</sup> Specifically, the lobby that exerts more efforts or invests more resources places his favourite bill on the agenda. To isolate this particular effect, we assume that lobbyists do not influence the actual vote between the new bill and the status quo.

The ability of the floor to maintain the status quo allows the floor to retain some authority over decision making; the dynamic path of policy changes will therefore be a result of the interaction of this formal authority of the floor and the real authority of lobbyists over the agenda. One possibility is that the competition among extreme and strong interests on both sides (of the median) of the floor will imply that policy forever oscillates among the floor’s less favourable policies. This may arise as extreme lobbyists worry more about other extreme policies and this high intensity of preferences will induce them to bid more aggressively. On the other hand, to maintain their policies in the future, extremists will have to constantly exert pressure to fend off competition from other more moderate groups whereas once a moderate policy wins, future

<sup>2</sup> For some recent press coverage see the Op-Ed by Paul Krugman, “Lobbyists, Guns and Money”, New York times, March 25, 2012 and Editorial, “The Big Money Behind State Laws”, New York Times, February 12, 2012.

<sup>3</sup> From <http://www.progressva.org/alec/ProgressVA - ALEC in Virginia.pdf>.

<sup>4</sup> [http://www.sourcewatch.org/index.php?title=Pharmaceutical\\_Research\\_and\\_Manufacturers\\_of\\_America](http://www.sourcewatch.org/index.php?title=Pharmaceutical_Research_and_Manufacturers_of_America). PhRMA’s role in influencing the legislation on prescription drugs under medicare is also well documented. See Geer [22].

<sup>5</sup> See Becker [12]. In contrast with this literature, we assume that the lobbyists compete in an all-pay auction only for the *right* to put the policy on the agenda. See also Austen-Smith [4] where interest groups compete for access to politicians.

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