



# Interest-group size and legislative lobbying<sup>☆</sup>



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## ARTICLE INFO

### Article history:

Received 29 August 2012  
Received in revised form 6 May 2014  
Accepted 31 May 2014  
Available online 19 June 2014

### JEL Classification:

D72  
P16

### Keywords:

Interest groups  
Legislative lobbying  
Political economy  
Vote buying

## ABSTRACT

We develop a model of legislative decision making in which lobbying and public policy are jointly determined. We examine how policy outcomes depend on the sizes of the interest groups. While a larger size typically involves favorable effects on policy, we also identify threshold levels of interest-group size where a lobby will be harmed if it becomes larger. This may provide another rationale as to why some interests do not or not fully organize. Spending limits can remove adverse policy effects of interest-group size. However, this is not necessarily welfare improving. Moreover, we find that endogenous proposal making may turn a second-mover advantage in standard legislative lobbying models into a second-mover disadvantage.

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## 1. Introduction

Interest groups continuously try to influence legislative decision making regarding public policy. Typically proposal making and lobbying are both endogenous and interact with each other. Once a proposal has been made, interest groups will either support or target the proposal. In anticipation of such efforts the politicians will choose their policies. Traditionally legislative lobbying models treat policy proposals as exogenously given. This paper incorporates endogenous policy proposals into a legislative lobbying model where interest groups move once and sequentially and examines how policy outcomes depend on the interest groups' sizes.<sup>1</sup>

The basic version of the model considers only two types of individuals that differ in their preferences regarding policy and are organized into two interest groups of different sizes. Legislators are also of either of the two types. The interest groups' sizes determine which policies will be approved by the legislature (if introduced for a vote) and how large the associated payments to the legislators will be. We characterize the optimal policy proposal of the agenda-setter<sup>2</sup> and show that the

<sup>☆</sup> I would like to thank Christian Almer, Johannes Becker, Fernanda Brollo, Pierre-André Chiappori, Fabrice Collard, Sebastian Fehrer, Hans Gersbach, Volker Hahn, Hans Haller, Emanuel Hansen, Matthew Jackson, Kai A. Konrad, Marc Möller, Massimo Morelli, James Snyder, John Weymark, Ralph Winkler, participants of the MMM-Workshop 2011 (Bonn), the SSCW-Meeting 2010 (Moscow), the Lisbon Meetings (2010), and seminar participants at the Universities of Barcelona, Bern, and ETH Zurich for valuable comments. The standard disclaimer applies. An earlier version of the paper was titled "The Larger the Better? Interest-Group Size in Legislative Lobbying".

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<sup>1</sup> In the present paper, a larger size of a lobby means a larger budget. We do not consider negative effects of size such as increasing difficulties in preference aggregation or magnified public good problems within the lobby.

<sup>2</sup> Throughout the paper, we use the terms policy proposer and agenda-setter interchangeably.

policy outcomes do not depend monotonically on the sizes of the lobby groups. While typically an increase in size benefits a lobby in terms of policy, we identify threshold values of interest-group size which trigger adverse policy changes for the growing lobby.

The intuition behind these adverse effects of interest-group size on policy outcomes runs as follows. Suppose the lobby making payment offers first supports a policy change that the second-mover interest group opposes. A stronger lobby opposing the policy change involves higher payments to the legislators by the pro-change lobby to secure a majority in the legislature. Anticipating the additional payments associated with a proposal for policy change may lead an agenda-setter who initially favored the status quo to propose the change. In the opposite case where the lobby supporting the status quo moves first and the one in favor of a policy change moves second, a larger pro-change lobby increases the set of policy proposals that cannot be blocked, but also increases the payments to the legislators when the defender of the status quo is able to form a majority against a proposed policy change. If the second effect dominates, an increase in the size of the pro-change lobby can lead an agenda-setter with preferences for a policy change to introduce a bill that is not implementable – i.e., that will be defeated by the legislative vote, even though implementable (more moderate) policy changes could instead be proposed.

Our analysis reveals that when the interest groups move once and sequentially, only the interest group moving second can be harmed by an increase in its size but never the interest group moving first. An interesting implication of our results is that we can identify situations wherein the second mover possesses a disadvantage in the sense that he would have been better off moving first. By contrast, in standard legislative lobbying models where the policy proposal is exogenously given, the second mover possesses a clear advantage. Hence, the second-mover advantage may become a second-mover disadvantage when the policy proposal becomes endogenous.

We extend our model to allow for greater heterogeneity of policy preferences. Unlike in the basic set-up, we allow interest-group size to vary endogenously. That is, the policy proposal determines the composition of the interest groups, one of which is lobbying for the proposal and the other against it. Considering different proposals, it is the politically moderate individuals who are ‘swinging’ between supporting a policy change or the status quo. We show that it is precisely this ‘swinging’ between the interest groups depending on the policy proposal that can lead to extreme policy outcomes that are detrimental to the politically moderate. In fact, there are situations wherein the politically moderate will be better off if they do not organize into interest groups. This result may offer a new rationale why some interests do not organize.<sup>3</sup>

Our results are consistent with recent observations by Baumgartner et al. (2009), who followed 98 randomly selected policy issues in the U.S. Congress in which interest groups were involved over the years from 1999 to 2002. They found that a larger interest-group size will not always lead to more favorable policy outcomes, reporting that policy change can become more likely when there is a larger lobby opposing the policy change.<sup>4</sup> Hence, it may sometimes be beneficial for an interest group defending the status quo to remain small or inactive as the following observation suggests:

“A surprisingly large number of issues consist of a single side attempting to achieve a goal to which no one objects or in response to which no one bothers to mobilize. Ironically, the lack of counter-mobilization is a good predictor of failure.[...] One might think that with no opposition, those lobbyists working on behalf of the issues with only one side would rule the day in Washington. Reality is far from this, even when the “lobbyist” in question is the Defense Department.”<sup>5</sup>

In our model the adverse policy effects of interest-group size originate from the payments associated with some policy proposals becoming sufficiently large that the agenda-setter decides to go for the money rather than his own policy preferences when making the proposal. Consequently, if properly enforced, contribution limits that are sufficiently low can avoid adverse policy effects for a growing lobby. However, we show that this may not necessarily improve overall welfare. The welfare effects depend on the degree to which the different interests in society are organized. In fact, in the situation where the degrees of organization of the opposing interests are not too different, adverse policy effects of interest-group size, if they occur, will be welfare improving.

The paper is organized as follows. In the next section, we relate the paper to the existing literature. Section 3 introduces the model. We characterize the equilibrium of the lobbying subgame for a given proposal and the subgame-perfect equilibrium of the entire political game in Section 4. In Section 5, we examine the role of interest-group size on policy outcomes. There we establish our main results and provide a numerical example. We discuss several extensions and the robustness of our results in Section 6. Section 7 concludes. The proofs are relegated to the appendix.

<sup>3</sup> Usually the reason for some interests not being organized is either a collective action problem (Olson, 1965) or fixed costs of organization (Mittra, 1999). An interesting recent paper (Damania and Fredriksson, 2000) relates incentives of firms to form lobby groups to the degree of collusion in the industry.

<sup>4</sup> They argue that “although uncertainty no doubt increases when advocates face greater active opposition, it would be premature to conclude that policy success is less likely when there is greater opposition. Just as resources are not clear predictors of policy success, the presence of active opposition is likely to be a similarly inadequate predictor.” (Baumgartner et al., 2009, p. 76)

<sup>5</sup> Baumgartner et al. (2009, p. 57). 17 of the examined 98 cases ran into no active opposition. Baumgartner et al. (2009) provide summaries of the issues under examination on the website <http://lobby.la.psu.edu>.

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