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Informational lobbying and political contributions

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Abstract

Interest groups can potentially influence political decision-makers by offering contributions and by providing relevant information that sways the decision in the group's favor. What mix of these two instruments should an interest group choose, and how does the use of one instrument affect the effectiveness of the other? In this paper we identify an information externality that raises the cost of offering contributions and show that this indirect search cost reduces the group's incentive to gather information when contributions are allowed. Furthermore, we analyze how competition among lobby groups as providers of information and contributions affect the choice and effectiveness of the instruments. We show that the information externality rewards the group that can abstain from information search and focus its influence on contributions.

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1. Introduction

Interest groups participate directly in the political process in several ways; they provide substantive information to policy makers and, at least in the U.S., they offer financial incentives by contributing to politicians' campaigns.[1] In order to influence a political decision an interest group thus faces the choice of providing the decision-maker with information, lobbying via contributions, or doing both. The first part of this paper analyzes how the choices of acquiring

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[1] In addition to interacting directly with decision-makers, interest groups also provide information or cues to voters via issue ads or candidate endorsement. We ignore this (equally strategic) aspect of interest group behavior in this paper.

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information and providing it to the decision-maker and supporting her campaign interact, and under what circumstances an interest group uses one or both of these two different strategies. The second part of the paper studies how competition among interest groups affects the groups' choices and to what extent it changes the amounts of information and influence the decision-maker receives.

The framework of this paper is a follows: interest groups and a decision-maker are uncertain about some aspect of a policy decision; depending on the true nature of the uncertain aspect, the decision-maker prefers either an outcome that favors an interest group or one that harms it. The interest group has the ability to gather information that may reduce the uncertainty, and it may therefore be in the position to provide the decision-maker with useful information. Obviously, the interest group will only gather and transmit the information if it is in its interest to do so. Alternatively or additionally, the interest group may take advantage of the decision-maker's ignorance and induce her to choose the favorable outcome by offering campaign contributions.

Collecting information and deciding not to provide it to the decision maker is information in and of itself, and a rational decision-maker will make use of it. Independently of whether the interest group's search for information is observed by the decision-maker, the collection of information creates an informational externality when it leads the decision-maker to infer that the group is knowledgeable and is withholding its information. In conjunction with contributions, however, this information externality increases the cost of bribing the decision-maker ex post. We show in Proposition 1 that the information externality reduces a single lobby group's incentive to search for information.

It is often argued that competition among information providers increases the incentive to provide (truthful) information (see e.g. Austen-Smith and Wright, 1992 and Dewatripont and Tirole, 1999). This insight no longer holds without qualification when information providers can also use contributions. In Proposition 2 we first show that in the absence of contributions the introduction of a competing interest group leads to (weakly) more information search, which is consistent with the "conventional wisdom." Allowing for contributions, however, changes the picture somewhat. The information externality implies that searching provides benefits to the opponent. A group will try not to search, and the group with the less powerful information technology receives on average a rent, as it benefits from the information externality generated by its opponent. The results are robust in that they do not depend on the parametric assumptions of the model. This suggests that the interaction of information and incentive provision should be carefully considered in principal–agent models.

Campaign contributions as well as the strategic use of information to influence policy choice have been the subject of tremendous scholarly interest and research (see surveys by Schlozman and Tierney, 1986; Persson and Tabellini, 2000; Grossman and Helpman, 2001). A growing number of formal models assess the role of campaign contributions and party or candidate competition for interest group influence on policy outcomes (Austen-Smith, 1987; Baron, 1989, 1994; Snyder, 1990, 1991; Grossman and Helpman, 1994, 1996; Dixit et al., 1997; Besley and Coate, 2001). In these models, contributions serve as an incentive device with which interest groups induce policy choices. Following a fundamental result by Bernheim and Whinston (1986), the policy choice induced by contingent contributions maximizes a weighted sum of the interest of organized groups and that of the decision-maker, where the latter can be interpreted to reflect the preferences of the decision-maker's electoral constituents.

The second strand of literature relating to this paper addresses the role of strategic information provision. Information originating from interested parties is potentially biased; by using costly signals or sporadic verification of the information by the decision-maker, the interest group can