

Lobbying, Inside Out: How Special Interest Groups Influence Policy Choices



The People's Court: Lobbyists (credit: [outtacontext](#))

Stephane Wolton has been awarded one of the three **2016 Young Economist Awards** at the 31st Annual Meeting of the European Economic Association for his paper "**Lobbying, Inside Out: How Special Interest Groups Influence Policy Choices.**" In this blog post, Stephane describes his research project and what it entails for understanding the power of Special Interest Groups.

The influence of Special Interest Groups (SIGs)

The influence of Special Interest Groups (SIGs) is widely seen as pervasive in the United States. Their far-reaching power, as reported in the Press, ranges from the writing of bills, such as **arrangement of banks regulations** (even after the 2008 banking crisis), to the pressure exercised on more directly perceivable matters, such as **delays in the introduction of life-saving measures in railways and public transportations**. The academic literature, however, paints a more nuanced picture: It is well documented that legislators voting for (against) a bill receive contributions from groups supporting (opposing) the policy change, but these monetary transfers seem to have little effect on Member of Congress' voting decision. This perhaps counter-intuitive result can be explained by a simple observation: SIGs donate to elected politicians who share their policy preferences but refrain from sponsoring swing legislators.[1]

Scholars, nonetheless, have found that monetary transfers to representatives and/or "informative lobbying" (namely, the transmission of information rather than money, to Member of Congress) have some impact on a number of policies in domains as varied as trade tariffs, firm subsidies or taxes, federal research funds to universities, or the passing of energy bills.[2] How can we explain these apparently contradictory arguments? Is public perception wrong and the influence of SIGs rather limited, or are scholars failing to capture the full extent of SIGs influence?

Theoretical framework



Most empirical scholarly works have in common their focus on contributions and informative lobbying, referred to as inside lobbying. However, inside lobbying constitutes only one out of the many channels lobby groups employ to affect policy decisions. SIGs can also engage in outside lobbying, that is, activities meant to mobilize the public on some issues (such as those canalized by **grass roots movements**, **political advertising**, or even **protests**).^[3] My paper develops a game-theoretic model in which Special Interest Groups can affect the *content* of a bill with inside lobbying and the *fate* of a legislative proposal with outside lobbying. I show that researchers which exclusively focus on inside lobbying expenditures are likely to underestimate both the extent and strength of SIGs influence.

My theoretical framework models the interactions between a decision-maker and two interest groups: a pro-change lobby that shares the policy preferences of the decision-maker and an anti-change interest group that holds opposite preferences. For both types of SIGs, the policy choice of the decision-maker depends on her assessment of how willing the respective pressure groups are to engage in outside lobbying. Mobilization of the public serves different purposes depending on the group engaging in it. The pro-change interest group promises its support and help in the passing of a broad reform, whereas the anti-change interest group threatens to mobilize the public against the proposed change. Importantly, inside lobbying expenditures, in this framework, do not always mirror the outside lobbying capabilities of special interest groups.

Pro-change interest groups

When its resources are high, a pro-change interest group prefers to preserve its war chest for the upcoming defense of the decision-maker's proposal. This implies, in turn, that a pro-change SIG engages in inside lobbying only if it has little willingness to embark in outside lobbying. Inside lobbying expenditures serve the purpose of credibly pleading poverty and thus pressuring the decision-maker into compromising on her proposed reform. In short, because inside lobbying induces compromise, it is negatively correlated with influence. Empirical researchers can, however, recover unbiased estimates of pro-change SIGs influence by considering outside lobbying expenditures. Pro-change interest groups sway policy choices thanks to their promise to engage in outside lobbying, and promises are effective only if acted out.

Anti-change interest groups

For anti-change interest groups, I show that often enough, the mere threat of outside lobbying is sufficient to induce the decision-maker to compromise on her would-be reform. As such, even in the absence of inside lobbying expenditures, anti-change interest groups can have significant influence on policy choices. The empirical focus on inside lobbying expenditures thus severely underestimate the power of SIGs. Unlike promises, however, threats are effective when they are not carried out. Consequently, threats are observed only when the anti-change interest group fails to affect policy choices. Using outside lobbying expenditures, empirical researchers can thus only assess when special interest groups influence decision-makers' proposals, but not how and to which extent they are able to do so. My work, thus, does not only spots caveats in the empirical literature on lobbying, but it also highlights that there exist limits to our ability to understand the power of groups that oppose policy changes.

Summary

To summarise, my paper offers mixed messages for scholars or journalists interested in measuring SIGs influence. First, it clearly indicates that the empirical literature needs to look beyond inside lobbying expenditures. Second, it provides hope for an unbiased estimate of the power of groups favoring policy changes. Lastly, it suggests that researchers may be unable to correctly measure the influence of groups opposed to changes. This last conclusion is not without important implications. Groups blocking reforms have a **great** sway on the policy process in the United States, and failing to properly assess their power makes it difficult to design adequate policies to curtail their influence.



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References

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[1] For a review, see Ansolabehere et al. (2003).

[2] See Goldberg and Maggi (1999), Bombardini and Trebbi (2011), de Figueiredo and Richter (2014), Kang (2015).

[3] There are exceptions. For example, Bombardini and Trebbi (2011) propose a model in which firms can either contribute to a policy-maker or guarantee the vote of their employees. Other important works are cited in the author's paper.

Note: this article gives the views of the authors, and not the position of the LSE Department of Government, nor of the London School of Economics.

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