Chapter 1 : Lobbying competition over trade policy

Lobbying Competition Over Trade Policy Kishore Gawande, Pravin Krishna, and Marcelo Olarreaga NBER Working Paper No. May , Revised May

Overview[edit] Political scientist Thomas R. Dye once said that politics is about battling over scarce governmental resources: And the battling for influence has happened in every organized society since the beginning of civilization, whether it was Ancient Athens , Florence during the time of the Medici , Late Imperial China , or the present-day United States. If voting is a general way for a public to control a government, lobbying is a more specific, targeted effort, focused on a narrower set of issues. Painting by Liborio Prosperi. The term lobby has etymological roots in the physical structure of the British Parliament, in which there was an intermediary covered room outside the main hall. People pushing an agenda would try to meet with members of Parliament in this room, and they came to be known, by metonymy , as lobbyists, although one account in suggested that the application of the word "lobby" is American and that the term is not used as much in Britain. In this sense, anybody who tries to influence any political position can be thought of as "lobbying", and sometimes the term is used in this loose sense. A person who writes a letter to a congressperson, or even questions a candidate at a political meeting, could be construed as being a lobbyist. Lobbyists are intermediaries between client organizations and lawmakers: Others work for advocacy groups , trade associations , companies, and state and local governments. Lobbyists can be one type of government official, such as a governor of a state, who presses officials in Washington for specific legislation. An estimate from reported that more than 15, federal lobbyists were based in Washington, DC ; [13] another estimate from suggested that the count of registered lobbyists who have actually lobbied was closer to 12, For example, in , Taiwanese officials hired American senator-turned-lobbyist Bob Dole to set up a controversial phone call between president-elect Donald Trump and Taiwanese President Tsai Ing-Wen. Generally, lobbyists focus on trying to persuade decision-makers: Congress, executive branch agencies such as the Treasury Department and the Securities and Exchange Commission , [25] the Supreme Court, [26] and state governments including governors. Federal agencies have been targeted by lobbyists since they write industry-specific rules; accordingly, interest groups spend "massive sums of money" trying to persuade them to make so-called "carve-outs" or try to block specific provisions from being enacted. Federal agencies such as the State Department make rules such as giving aid money to countries such as Egypt , and in one example, an Egyptian-American businessman named Kais Menoufy organized a lobby to try to halt U. For example, in the Roe v. Wade decision, it ruled on the legality of abortion. A variety of forces use lobbying tactics to pressure the court to overturn this decision. An example is a former school superintendent who has been lobbying state legislatures in California, Michigan and Nevada to overhaul teacher evaluations, and trying to end the "Last In, First Out" teacher hiring processes; according to one report, Michelle Rhee is becoming a "political force. There is lobbying activity at the county [34] and municipal levels, especially in larger cities and populous counties. For example, officials within the city government of Chicago called aldermen became lobbyists after serving in municipal government, following a one-year period required by city ethics rules to abstain from lobbying. Pro bono publico clients offer activities to meet and socialize with local legislators at events like fundraisers and awards ceremonies. Single issue versus multiple issue lobbying[edit] Lobbies which push for a single issue have grown in importance during the past twenty years, according to one source. If a corporation wishes to change public policy, or to influence legislation which impacts its success as a business, it may use lobbying as a "primary avenue" for this purpose. Outside lobbying, or sometimes indirect lobbying, includes attempts by interest group leaders to mobilize citizens outside the policymaking community, perhaps by public relations methods or advertising , to prompt them to pressure public officials within the policymaking community. History of lobbying in the United States The Federalist Papers , in which Framers Madison, Hamilton and Jay strove to sway public opinion, could be considered according to current usage as an outside lobbying effort. The Constitution was crafted in part to solve the problem of special interests, today usually represented by lobbies, by having these factions compete. James Madison identified a faction as "a number of citizens, whether amounting to a minority or majority of the whole, who are united and actuated by some common impulse of passion, or of interest, adverse to the rights of other citizens, or to the permanent and aggregate interests of the community", [1] and Madison argued in Federalist No. There has been lobbying at every level of government, particularly in state governments [42] during the nineteenth century, but increasingly directed towards the federal government in the twentieth century. The last few decades have been marked by an exponential increase in lobbying activity and expenditures. These firms usually have some lawyers in them, and are often founded by former congressional staffers, legislators, or other politicians. Corporations[edit] Corporations which lobby actively tend to be few in number, large, and often sell to the government. Most corporations do not hire lobbyists. For example, aircraft manufacturer Boeing , which has sizeable defense contracts, pours "millions into lobbying": Of that sum, 53 percent went to Democrats. Like lawmakers, many lobbyists are lawyers, and the persons they are trying to influence have the duty of writing laws. Well-connected lobbyists work in Washington for years, know the issues, are highly skilled advocates, [60] and have cultivated close connections with members of Congress, regulators, specialists, and others. They understand strategy and have excellent communication skills; many are well suited to be able to choose which clients they would like to represent. When a client hires them to push a specific issue or agenda, they usually form coalitions to exert political pressure. As one lobbyist put it: Access is vital in lobbying. Here we had a hostile senator, whose staff was hostile, and we had to get in. Many lobbyists become campaign treasurers and fundraisers for congresspersons. This helps incumbent members cope with the substantial amounts of time required to raise money for reelection bids; one estimate was that congresspersons had to spend a third of their working hours on fundraising activity. At the same time, it is hard for outside observers to argue that a particular decision, such as hiring a former staffer into a lobbying position, was purely as a reward for some past political decision, since staffers often have valuable connections and policy experience needed by lobbying firms. Still, persuasion is a subtle business, requiring a deft touch, and carelessness can boomerang. A maxim in the industry is for lobbyists to be truthful with people they are trying to persuade; one lobbyist described it this way: As an indirect tactic, lobbyists can try to manipulate public opinion which, in turn, can sometimes exert pressure on congresspersons. Lobbying today generally requires mounting a coordinated campaign, using targeted blitzes of telephone calls, letters, emails to congressional lawmakers, marches down the Washington Mall , bus caravans, and such, and these are often put together by lobbyists who coordinate a variety of interest group leaders to unite behind a hopefully simple easy-to-grasp and persuasive message. These can be difficult and complex, take time to learn, require full disclosure, [60] and mistakes can land a lobbyist in serious legal trouble. Gifts for congresspersons and staffers can be problematic, since anything of sizeable value must be disclosed and generally such gifts are illegal. Lobbyist Gerald Cassidy encouraged other clients to give for causes dear to a particular client engaged in a current lobbying effort. This is essentially what happened in the Jack Abramoff Indian lobbying scandal. There was a concerned clientâ€”in this case, an Indian casino â€”worried about possible ill-effects of legislation on its gambling business; and there were lobbyists such as Jack Abramoff who knew how to exploit these fears. The lobbyists actively lobbied against their own casino-client as a way to ratchet up their fears of adverse legislation as well as stoke possible future contributions; the lobbyists committed other violations such as grossly overbilling their clients as well as violating rules about giving gifts to congresspersons. Numerous persons went to jail after the scandal. The following are factors which can make fraud a fairly easy-to-do activity: Evans, who was convicted of mail and wire fraud in in a case involving falsely creating a "fictitious legislative threat" against a client, and then billing the client to work against this supposed threat. On the state level, one study suggested that much of the lobbying activity targeted the offices of governors as well as state-level executive bureaucrats; state lobbying was an "intensely personal game" with face-to-face contact being required for important decisions. One study suggested this was particularly true for battles surrounding possible decisions by the Supreme Court which is considered as a "battleground for public policy" in which differing groups try to "etch their policy preferences into law". I had my clients understand that just as other clients who had nothing to do with them, would step up and give contributions to congressmen they needed to have some sway with, so similarly they needed to do the same. I went to every client I could, and rounded up every check we could for him. January Learn how and when to remove this template message Since government has grown increasingly complex, having to deal with new technologies, the task of writing rules has become more complex. For example, after months of protesting by the Occupy Wall Street , one lobbying firm prepared a memo to its clients warning that Republicans may "turn on big banks, at least in public" which may have the effect of "altering the political ground for years to come. Leading Democratic party strategists have begun to openly discuss the benefits of embracing the growing and increasingly organized Occupy Wall Street OWS movement This would mean more than just short-term discomfort for Wall Street firms. If vilifying the leading companies of this sector is allowed to become an unchallenged centerpiece of a coordinated Democratic campaign, it has the potential to have very long-lasting political, policy and financial impacts on the companies in the center of the bullseye.

Chapter 2 : Lobbying in the United States - Wikipedia

"Competition between opposing lobbies is an important factor in the endogenous determination of trade policy. This paper investigates empirically the consequences of lobbying competition between upstream and downstream producers for US trade policy.

This paper investigates empirically the consequences of lobbying competition between upstream and downstream producers for trade policy. The theoretical structure underlying the empirical analysis is the well-known Grossman-Helpman model of trade policy determination, modified suitably to account for the cross-sectoral use of inputs in production itself a quantitatively significant phenomenon with around 50 percent of manufacturing output being used by other sectors rather than in final consumption. Data from more than 40 countries are used in our analysis. Our empirical results validate the predictions of the theoretical model with lobbying competition. Introduction Interest-group theories of endogenous trade policy determination describe trade policy out- comes as resulting from the interaction between governments and special-interest lobbies. As lobbies representing different economic interests may each seek to move policy in a different direction, theoretical predictions regarding policy outcomes remain sensitive to the nature and extent of competition between lobbies. Consider, for instance, policy determination in the textbook, partial-equilibrium model of the market for final-good importables. Since trade barriers against imports raise profits of domestic suppliers, these suppliers have an incentive to lobby the government for such barriers to be imposed in their respective sectors; the more susceptible government policy is to special interest lobbying, the greater the pre- dicted departures from free trade. Thus, the degree of lobbying competition matters crucially and studying its scope and extent is important for understanding the determinants of the policies we observe. The approach we take here is a structural one. As a theoretical platform for our 1 While consumers are hurt by these barriers and may be expected to lobby against them as well, the analysis usually makes the empirically compelling assumption that consumers are not well organized into pro-trade lobbies. See Olson for potential explanations. The case against the steel duties brought together rival U. In GH, protection is thus sold to lobbies and the level of protection provided to any industry is derived as a function of certain industry characteristics such as the presence of lobbies, the import-demand elasticity and the import-penetration ratio and, importantly, the rate at which the government trades off welfare for political contributions. In addition to our intrinsic interest in the extent and consequence of lobbying competition, our study is motivated by a puzzle that has been identified in the empirical literature. Many empirical examinations of interest-group theory of trade policy determination using US data Goldberg and Maggi and Gawande and Bandyopadhyay have found evidence supporting the idea that trade protection is indeed for sale. This finding sits poorly with casual observations on the extent of lobbying and regulatory capture that appears to be taking place in most countries around the world and with specific findings in other studies albeit not related to trade policy that, if anything, policy distortions are being sold very cheap. However, our earlier discussion suggests that lobbying competition modifies the picture in important ways. Specifically, imagine that competition between lobbies leads to free trade as an equilibrium outcome 3 We should note that in GH, owners of capital in a given sector are able to lobby for lower protection on final goods that they consume. While this serves as a reasonable theoretical proxy for intermediates use in production, from an empirical standpoint this framework suffers from at least the deficiency that consumption preferences of producers are assumed identical across sectors while intermediates use in different industries is clearly considerably heterogeneous in practice. Accounting for lobbying competition is thus important for the evaluation of the welfare-mindedness of governments in setting trade policy. Two previous examinations of the Grossman-Helpman model, Gawande and Bandopadhyay and McCalman , have featured intermediates inputs. The primary motivation for including the use of intermediates in the Gawande-Bandyopodhyay and McCalman papers is to study the links between final goods tariffs and the tariffs on intermediate goods used in their production. In particular, these papers show that the higher the tariff on the output of the intermediate good, the greater is the tariff on its user. This is essentially a demonstration of the pass-through argument that has been well documented outside the political-economy context in the literatures on tariff escalation and effective protection. Our motivation, instead, is to advance a theory of lobbying competition by users of intermediates in order to formally model the natural opposition to tariffs on intermediates say, steel by users of those intermediates say, automobiles. Furthermore, in contrast to these earlier papers which feature a single intermediates goods sector, our theoretical structure allows for as many intermediate-good producing sectors as required. This is important from an empirical perspective: A brief look at the U. Overall, our framework is different from both these earlier papers in its motivation, its execution and finally, as will become clear, in its predictions as well. In our empirical implementation, we use data from more than 40 countries spanning a wide per capita income range. This is in contrast with most of the recent empirical studies on the endogenous determination of trade policy, which have focused on the United States. Our use of data from a wider range of countries enables a more robust evaluation of the role of 3 lobbying competition. Our findings are as follows. First, lobbying competition between upstream and downstream producers appears to be a statistically and quantitatively significant determinant of trade policy. This is a robust finding extending through nearly our entire sample of countries. These findings attest to the importance of lobbying competition in the endogenous determination of trade policy. The rest of the paper is organized as follows. In Section II, we describe briefly the theo- retical framework of endogenous protection with cross-sectoral linkages in production and lobbying competition. Section IV discusses results and Section V concludes. Theory This section presents the basic theoretical framework that guides our empirical analysis. We begin by describing endowments, preferences and production technology in a small open economy. Our framework is standard and borrows significantly from older contributions in the literature, most notably GH. In studying these linkages, our analysis draws on the earlier formulation of Cadot, deMelo and Olarreaga , who investigate trade policy determination with import duty drawbacks offered on foreign intermediates, and Duttagupta and Panagariya , who analyze how, in the presence of intermediate goods, the choice 4 of rules of origin alters the political feasibility of free trade agreements. Individuals in this economy are assumed to have identical preferences over consumption of these goods represented by the utility function: Goods in all non-numeraire industries sectors are produced perfectly competitively using sector-specific capital ki , mobile labor li and intermediates goods produced in potentially all other industries. Finally, the numeraire good is produced under constant returns to scale using only labor so that the wage rate w is fixed and normalized to one. Let p denote the n-dimensional domestic price vector. Specifically, we assume that the proportion of the population of a country that is represented by organized lobbies is small. They do not care about the prices of any goods they consume as final goods consumers or about the tariff revenue that is generated by the government. The surplus accruing to owners of capital in sector i, vi p , is simply the profit they earn from production: Thus, the only purpose for which sector i lobbies is to increase its profits. This allows for a clear and explicit consideration of counter-lobbying through intermediates use. Lobbying and Endogenous Policy Determination As in Grossman and Helpman , the government is assumed to care about both the political contributions that it receives from organized lobbies and about aggregate welfare; contributions being valued because of their use in financing campaign spending or in the direct benefits they provide to office holders and social welfare being of concern to the gov- ernment due to the higher likelihood of voters re-electing a government that has delivered a high standard of living. A linear objective function is assumed to represent these preferences: Clearly, the higher is a, the higher its concern for social welfare relative to its affinity for political contributions. It is worth noting that in 8 , we assume that all industries are politically organized. This assumption is made here for several practical reasons. First, the level of industry aggregation we will consider in the empirical section is the 3-digit ISIC level, implying 29 manufacturing sectors. At this level of aggregation, industry associations and other forms of political organization are pervasive across all industries and countries. For instance, in U. Furthermore, the United States is exceptional, even among the most developed nations, in the explicit reporting requirement of political contributions by firms and industries. Since political contributions, while pervasive, 7 are simply not publicly disclosed in any of the other countries that we consider in our analysis, this assumption relieves us of the burden of using ad hoc methods of determining the political organization of industries as have sometimes been used in studies involving US trade policy, where such data on political contributions is indeed available as we have indicated. Efficiency of interaction be- tween the government and organized lobbies dictates that the policy outcome is one which maximizes their joint surplus: Equation 11 is the final theoretical prediction that emerges regarding trade protection in the presence of lobbying competition. The interpretation of terms appearing in 11 is straightforward. Lobbying competition between upstream and downstream users to raise production profits is captured by the term in square brackets on right-hand side of the Pn equation. Equation 11 indicates that tariffs are lower the greater is a, the relative value that the government places on aggregate welfare, and the greater is the import-demand elasticity for the usual Ramsey-pricing reasons. Equation 11 allows for estimation of the country specific parameter a, measuring the welfare-mindedness of governments, taking into suitable account the extent of cross-sectoral lobbying competition in the economy. The following sections discuss the data we use to conduct this estimation analysis and also our empirical methodology and results. Data The econometric analysis that follows is based on the theoretically derived expression 11 , which describes the cross-sectional variation in trade policy with counter-lobbying. For this, we use data from over 40 different countries essentially all of the countries for which we were able to gather the requisite data. As such, this effect clearly obtains in settings where producers lack market power. However, when firms strategies are strategic complements as would be the case with price competition , it is possible when some further restrictions on demand are satisfied to have outcomes in which an increase in input prices results in an increase in firm profits. While we do not consider this explicitly theoretically, our econometric exercises not impose any prior restrictions on this effect. We simply allow the data to guide us on this point. The correlation between the two tariff series is greater than 0. Further, the direct and reverse regression coefficients are above 0. Across our sample of countries and industries, tariff data are available for an average of 7. Data are nearly complete for the higher income countries with lower-middle and low income countries sufficiently broadly covered to permit credible inferences about the model parameters. Import demand elasticities are estimated for each country at the 6-digit HS level using a revenue function approach by Kee, Nicita and Olarreaga Since the standard errors of the elasticity estimates are known, they are treated as variables with measurement error and adjusted using a Fuller-correction Fuller ; see also Gawande and Bandyopadhyay The country-specific input-output tables are taken from the GTAP database. Table I presents a summary description of the magnitude of intermediates use in our sample countries. The numbers are unweighted averages across manufacturing sectors of the proportion of sectoral output that is used as an intermediate 10 input to production in all sectors including the source sector itself. The using sectors are not just the manufacturing sectors. Services and agriculture are included as well. As is clear from the numbers, the extent of intermediates use of manufacturing output is significant, averaging nearly 50 percent in our sample countries. Section IV discusses results with al- ternate measures of intermediate use involving, alternately, intermediate use in production in just manufacturing sectors and intermediate use in production and in investment in all sectors taken together. Estimation Methodology and Results Taking observables in 11 to the left-hand side, we can express the tariff equation as: Specifically, while output and imports are both potentially endogenous to trade policy, they do not appear on the right-hand side and hence are not problematic. It is worth noting that 13 stands in contrast to earlier specifications in the literature which have all had to deal with the problem of endogenous regressors. Absent such lobbying competition, 13 reduces to: This should not, however, diminish the value of either the theoretical exercise or the estimation analysis that follows. The particular variables capturing lobbying competition and the form in which they appear in 13 and 14 can only be determined by a full derivation of the tariff prediction equation. Importantly, the quantitative relevance of lobbying competition can only be determined by analysis of the data. We should also note here that 13 and 14 have been derived under the assumption that producer contributions and thus profits from upstream or downstream producers are weighted equally by the government. This theoretical equality restriction will be relaxed later enabling a more direct test of the lobbying competition structure we have assumed here. Note also that 13 and 14 do contain any endogenous regressors see also Mitra et al.

Chapter 3 : EconPapers: Lobbying Competition Over Trade Policy

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Lobbying Competition Over Trade Policy Kishore Gawande, Pravin Krishna, and Marcelo Olarreaga NBER Working Paper No. May , Revised May JEL No. D72,D78,F12,F13 ABSTRACT Competition between opposing lobbies is an important factor in the endogenous determination of trade policy.

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Competition between opposing lobbies is an important factor in the endogenous determination of trade policy. This article investigates the consequences of lobbying competition between upstream and.

Chapter 5 : Lobbying Competition Over Trade Policy

Abstract. Competition between opposing lobbies is an important factor in the endogenous determination of trade policy. This paper investigates empirically the consequences of lobbying competition between upstream and downstream producers for trade policy.

Chapter 6 : Lobbying competition over trade policy - CORE

NBER Program(s):International Trade and Investment, Political Economy This paper employs a novel data set on lobbying expenditures to measure the degree of within-sector political organization and to explore the determinants of the mode of lobbying and political organization across U.S. industries.