

# Regulating Political Influence

Andrew Eggers

LSE

31 January 2014

# Plan

Last session: **collective action** – who manages to assemble resources to pursue a shared policy aim?

# Plan

Last session: **collective action** – who manages to assemble resources to pursue a shared policy aim?

This session: mostly **regulation of political finance**, which is one channel through which interest pursue policy goals.

# Plan

Last session: **collective action** – who manages to assemble resources to pursue a shared policy aim?

This session: mostly **regulation of political finance**, which is one channel through which interest pursue policy goals.

First, a bit more detail on **how lobbying works**.

# Plan

Last session: **collective action** – who manages to assemble resources to pursue a shared policy aim?

This session: mostly **regulation of political finance**, which is one channel through which interest pursue policy goals.

First, a bit more detail on **how lobbying works**.

## **Applications:**

- ▶ How should lobbying be regulated?
- ▶ How should political finance be regulated?

## What do lobbyists do?

### Political finance

- Survey of several systems
- Conceptual framework

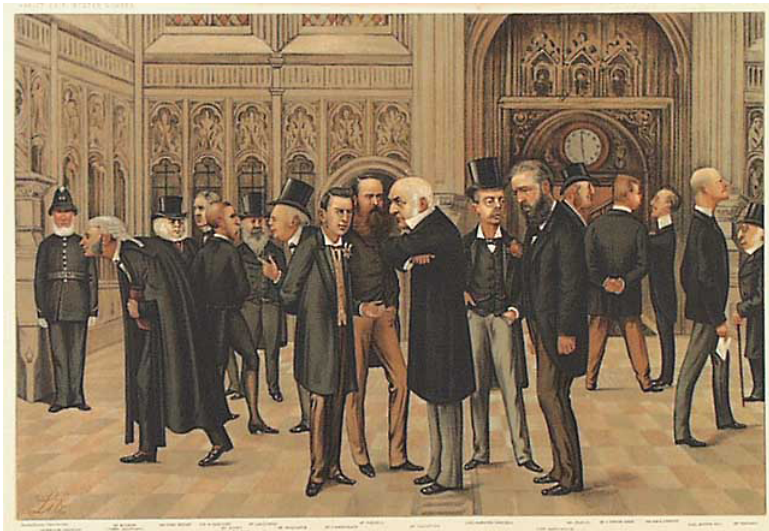
### Hall (2014): A recent paper on public funding of elections

- A brief introduction to RDD
- Design and findings

### Conclusion

## Etymology

House of Commons, Westminster



Vanity Fair, 1886

## Etymology (2)

### House of Commons, Westminster



Parliament website



## Etymology (3)

Willard Hotel, Washington, DC



Politico.com

## What is a lobbyist?

- ▶ **Who they work for:** inside vs. outside lobbyists

## What is a lobbyist?

- ▶ **Who they work for:** inside vs. outside lobbyists
- ▶ **What they call themselves:** government affairs, government relations, public affairs, public relations, etc.

# What is a lobbyist?

- ▶ **Who they work for:** inside vs. outside lobbyists
- ▶ **What they call themselves:** government affairs, government relations, public affairs, public relations, etc.
- ▶ **How they are defined in legislation:**
  - ▶ U.K. (Lobbying Bill, now in Parliament): focuses on “consultant lobbyists” – those who in the course of business and for a payment personally communicate with a Minister of the Crown or permanent secretary about any function of government
  - ▶ U.S. (Lobbying Disclosure Act, 1995): “The term ‘lobbying contact’ means any oral or written communication (including an electronic communication) to a covered executive branch official or a covered legislative branch official that is made on behalf of a client with regard to” legislation, regulations, policies, programs, grants, nomination.
  - ▶ Canada (Lobbying Act, 2008): anyone who tries to “communicate with a public office holder” about policy, grants, or contracts, or arrange a meeting between a public office holder and another person
  - ▶ E.U. (EP-Commission Transparency Register, 2011): activity/objective-based - “All activities carried out with the objective of directly or indirectly influencing the formulation or implementation of policy and the decision-making processes of the EU institutions, irrespective of the channel or medium of communication used”

## Lobbyists as information providers

The principal role of lobbyists is to provide information to policymakers.

## Lobbyists as information providers

The principal role of lobbyists is to provide information to policymakers.

**Stylized model** (e.g. Gilligan and Krehbiel, 1987):

## Lobbyists as information providers

The principal role of lobbyists is to provide information to policymakers.

**Stylized model** (e.g. Gilligan and Krehbiel, 1987):

Politician  $j$  has preferred outcome  $x_j$ . Outcome is policy  $p$  plus shock  $\omega$ :

$$x = p + \omega$$

Lobbyist knows  $\omega$  and politician does not.

(You've seen this before: "legislators lack information about the relationship between policies and outcomes", GV478, MT week 8.)

## Lobbyists as information providers (2)

This simple model is a neat way to formalize several roles lobbyists play:

1. Providing information about relationship between **policy** and **outcomes**:
  - 1.1 If you pass this regulation, the economic/environmental/social outcome will be \_\_\_\_\_. (Lobbyist is providing  $x|p, \omega$ )
  - 1.2 If you want to achieve  $x_j$  (e.g. more jobs), then the best way is \_\_\_\_\_. (Lobbyist is providing  $p^*|x_j, \omega$ )



## Lobbyists as information providers (2)

This simple model is a neat way to formalize several roles lobbyists play:

1. Providing information about relationship between **policy** and **outcomes**:
  - 1.1 If you pass this regulation, the economic/environmental/social outcome will be \_\_\_\_\_. (Lobbyist is providing  $x|p, \omega$ )
  - 1.2 If you want to achieve  $x_j$  (e.g. more jobs), then the best way is \_\_\_\_\_. (Lobbyist is providing  $p^*|x_j, \omega$ )
2. **A bit more broadly:** Providing information about relationship between policy and **political** outcomes:
  - 2.1 If you pass this regulation, the political consequences will be \_\_\_\_\_. (This could be a warning/threat!)
  - 2.2 If you want to pass this regulation, then the best way is \_\_\_\_\_ (e.g. "work with these partners", "use this draft legislation").

## Strategic information provision

A lobbyist is a **biased expert**. Why should a policymaker listen to him/her?

## Strategic information provision

A lobbyist is a **biased expert**. Why should a policymaker listen to him/her?

Two main answers:

- ▶ If they want similar outcomes (i.e. if  $|x_j - x_l|$  is small, where  $x_l$  is lobbyist ideal point)
- ▶ If the lobbyist has a reputation to maintain and the information is verifiable

## Influence through honesty

Having a lobbyist who lies effectively can obviously be useful (for a while anyway).

## Influence through honesty

Having a lobbyist who lies effectively can obviously be useful (for a while anyway).

Why hire a lobbyist who always tells the truth?

## Influence through honesty

Having a lobbyist who lies effectively can obviously be useful (for a while anyway).

Why hire a lobbyist who always tells the truth?

*To strengthen policymakers who already agree with you.* (See Hall & Deardorff (2006), "Lobbying as Legislative Subsidy")

## Influence through honesty

Having a lobbyist who lies effectively can obviously be useful (for a while anyway).

Why hire a lobbyist who always tells the truth?

*To strengthen policymakers who already agree with you.* (See Hall & Deardorff (2006), "Lobbying as Legislative Subsidy")

## Other roles for lobbyists

See Levine (2009) *The Art of Lobbying*.

- ▶ **Watchdog:** provide information **to their clients:** advance notice of threats, opportunities.
- ▶ **Unelected politician:** identify legislative opportunities, assemble coalitions, write legislation
- ▶ **Activist:** influence elections; cultivate grassroots public support for a position in order to push for change (“astroturfing”)



## Other roles for lobbyists

See Levine (2009) *The Art of Lobbying*.

- ▶ **Watchdog:** provide information **to their clients:** advance notice of threats, opportunities.
- ▶ **Unelected politician:** identify legislative opportunities, assemble coalitions, write legislation
- ▶ **Activist:** influence elections; cultivate grassroots public support for a position in order to push for change (“astroturfing”)



Houston Astrodome, with Astroturf

What do lobbyists do?

## Political finance

- Survey of several systems

- Conceptual framework

Hall (2014): A recent paper on public funding of elections

- A brief introduction to RDD

- Design and findings

Conclusion

# United Kingdom

**In brief:** **Spending** regulated (esp. at constituency level), not **contributions**

- ▶ Spending limits for candidates since 1883; for parties since 2000. (Also “third parties”: £500 per candidate-based campaign; about £1M for national campaigns)
- ▶ Disclosure required for donations above £**50** to a **candidate** since 1983, donations above £**7500** to a **central party** since 2000.
- ▶ Parties rely on big donors: individuals and corporations for the Conservatives, trade unions for Labour.
- ▶ Basically no public funding of parties (aside from media subsidies in campaigns)
- ▶ Total ban on paid political advertising on radio and television (but not internet)

*You do not have to spend very long within a government, and in the private conversations within government, to know how many policy areas are coloured by the dependence of the party on particular kinds of very wealthy individuals . . . I do not think it is any secret that governments have been influenced by the likely views of major donors.\* (Labour party advisor 1997-2004)*

\*Source: “Political party finance: Ending the big donor culture”, Committee on Standards in Public Life, Nov. 2011.

# India

**In brief:** Similar to UK – (some) spending regulated, not contributions

- ▶ Candidate expenditures capped since 1950s (including spending for candidate by party, since 2003) (but no cap for party's general campaign)
- ▶ (Weak) disclosure requirements of large donations
- ▶ Over time, alternation between banning corporate donations and making them tax deductible; currently banned
- ▶ Concerns about “black money” and use of government resources for campaigns

Source: Gowda and Sridharan (2012).

# United States (1)

**In brief:** Opposite of UK and India – **Contributions** tightly regulated, not **spending**

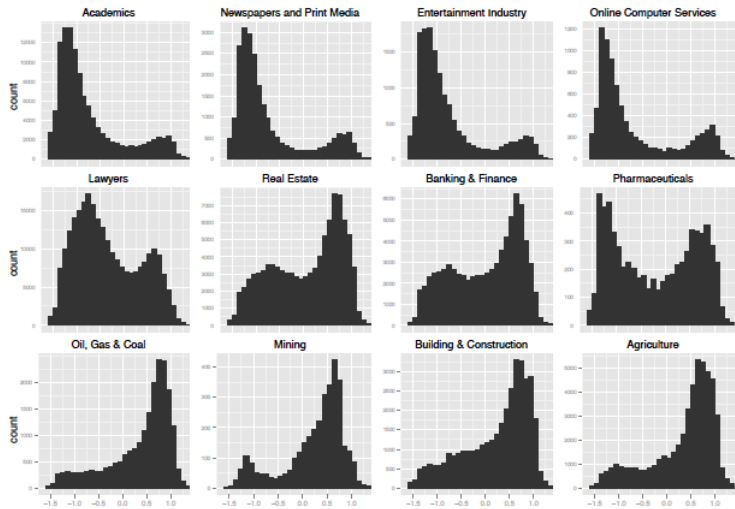
- ▶ Restrictions on **contributions** depends on source, destination:

		Destination	
		Party or candidate	Independent group
Source	Individual	Caps and mandated disclosure	Mandated disclosure with exceptions and loopholes
	Corporation, union	Only through PAC, with caps and mandated disclosure	Mandated disclosure with exceptions and loopholes

- ▶ Spending by parties, candidates, and outside groups **not** restricted
- ▶ Public funding minimal (available with spending cap for presidential races, but rejected)
- ▶ Paid political advertising by anyone is fully permitted (subject to disclosure requirements)

Sources: various.

## United States (2): extensive disclosure



**Figure 7: Ideological Distributions of Industries/Occupations**

Source: Adam Bonica (2012), "Mapping the Ideological Marketplace" (working paper).

# Brazil

**In brief:** Similar to US, in that contributions capped and disclosed but spending not limited

- ▶ Caps on individual and corporate donations to candidates (based on percentage of income); all contributions made electronically
- ▶ Detailed disclosure of campaign receipts and spending
- ▶ No limit on contributions to parties
- ▶ No spending caps, although they have been considered
- ▶ Political parties get public funding and free media time, depending on number of seats in legislature

Sources: Claessens, Feijen, and Laeven (2008), Samuels (2002) JOP.

# France

**In brief:** Contributions **and** spending tightly regulated

- ▶ Cap on contributions by individuals (to parties and candidates) similar to U.S.; total ban on contributions by corporations, unions, etc.; contributions tax-deductible for individuals
- ▶ Disclosure: campaign finance commission receives detailed, audited reports on party and candidate financing; publishes aggregated reports
- ▶ Caps on spending by candidates, depending on the office (no caps on **party** spending)
- ▶ Parties receive most of their funding from the state; amounts are based on previous results, number of candidates fielded, gender parity considerations
- ▶ No paid political advertising; requirement that presidential candidates receive equal media exposure

Source: Clift and Fisher (2004).



## Key dimensions on which regulations differ

- ▶ **Constraints on total spending** (tight in constituency races in UK, India, and France; non-existent in US, Brazil)
- ▶ **Constraints on contributions** (individual caps in US, France, Brazil but not UK and India; corporate bans in France, India and US – with PAC exception)
- ▶ **Disclosure regulations** (very detailed disclosure of donors in US; big donors only in UK & India; donor identity protected in France)
- ▶ **Paid political advertising** (banned in France, UK; dominant in US)
- ▶ **Public funding** (extensive in France and many other countries; not in others surveyed here)

## How much do campaigns cost?

Some comparisons:

- ▶ Spending in presidential/parliamentary elections:
  - ▶ Lok Sabha elections, 2009: estimates as high as \$3bn (*New York Times*, Centre for Media Studies)
  - ▶ Obama & Romney, 2012: \$1.2bn by candidates, \$660m by party committees, \$220m by primary super-PACs (*New York Times*)
  - ▶ Dilma Rousseff and José Serra, 2010: total announced budgets of about \$200m; estimates of total actual spending much higher (media reports)
  - ▶ Conservatives, Labour, Lib Dems, 2010: \$48m (UK electoral commission)
  - ▶ Sarkozy and Hollande, 2012: about \$42m (CNCCFP)
- ▶ Spending per (serious) legislative candidate:
  - ▶ US, 2001/2: \$450,000 (Grant, 2005)
  - ▶ Brazil, 1994: declared contributions \$200,000 (Samuels 2001)
  - ▶ India, 1999: spending caps around \$50,000; actual expenditures around \$200,000 (Gowda and Sridharan, 2012)
  - ▶ UK, 2001: \$5,600 (at constituency level only) (Grant, 2005)
  - ▶ France, 2012: spending limits about \$80,000 (CNCCFP)

## How much do campaigns cost?

Some comparisons:

- ▶ Spending in presidential/parliamentary elections:
  - ▶ Lok Sabha elections, 2009: estimates as high as \$3bn (*New York Times*, Centre for Media Studies)
  - ▶ Obama & Romney, 2012: \$1.2bn by candidates, \$660m by party committees, \$220m by primary super-PACs (*New York Times*)
  - ▶ Dilma Rousseff and José Serra, 2010: total announced budgets of about \$200m; estimates of total actual spending much higher (media reports)
  - ▶ Conservatives, Labour, Lib Dems, 2010: \$48m (UK electoral commission)
  - ▶ Sarkozy and Hollande, 2012: about \$42m (CNCCFP)
  
- ▶ Spending per (serious) legislative candidate:
  - ▶ US, 2001/2: \$450,000 (Grant, 2005)
  - ▶ Brazil, 1994: declared contributions \$200,000 (Samuels 2001)
  - ▶ India, 1999: spending caps around \$50,000; actual expenditures around \$200,000 (Gowda and Sridharan, 2012)
  - ▶ UK, 2001: \$5,600 (at constituency level only) (Grant, 2005)
  - ▶ France, 2012: spending limits about \$80,000 (CNCCFP)

Per elector, US has the most spending. Controlling for GDP, Brazil and India higher.

# How much should a candidate/party raise and spend?

Possible answers:

# How much should a candidate/party raise and spend?

Possible answers:

(a) As much as possible

## How much should a candidate/party raise and spend?

Possible answers:

- (a) As much as possible
- (b) More than opponent

## How much should a candidate/party raise and spend?

Possible answers:

- (a) As much as possible
- (b) More than opponent
- (c) An amount that optimizes net expected benefits, taking into account the effectiveness of the spending in affecting the probability of victory as well as the cost (in effort, opportunity cost, policy sacrifices) of raising the money

## How much should a candidate/party raise and spend?

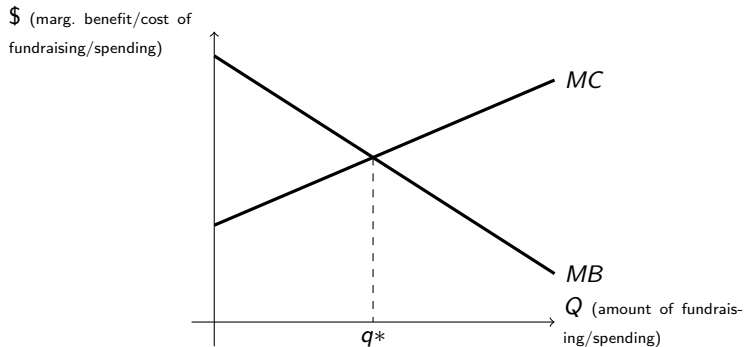
Possible answers:

- (a) As much as possible
- (b) More than opponent
- (c) An amount that optimizes net expected benefits, taking into account the effectiveness of the spending in affecting the probability of victory as well as the cost (in effort, opportunity cost, policy sacrifices) of raising the money

(Not claiming that every candidate/party always the exact optimal amount!)



# Fundraising/spending as optimization problem for politician



- ▶  $MC$  is marginal cost of fundraising to politician: effort, \$ required to raise unit of money
- ▶  $MB$  is marginal benefit of spending to politician: change in probability of victory  $\times$  value of victory for each unit of money spent

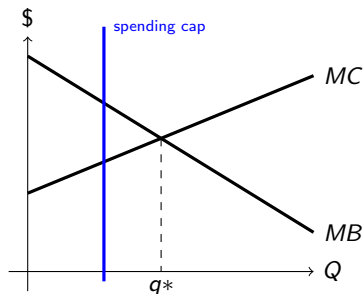
## Spending caps

Some spending caps bind (e.g. French presidential elections). Others don't (e.g. most UK constituency contests).

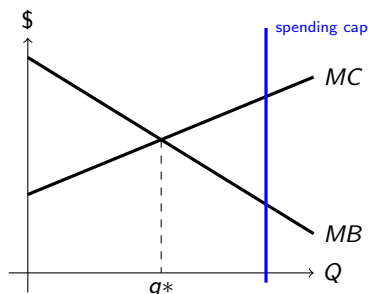
## Spending caps

Some spending caps bind (e.g. French presidential elections). Others don't (e.g. most UK constituency contests).

French presidential elections



(Most) UK constituency contests



## Spending caps (2)

### **Good things** about spending caps:

- ▶ Politicians spend less time raising money
- ▶ May act as “cease-fire” or “arms deal”: same political outcome with less campaigning

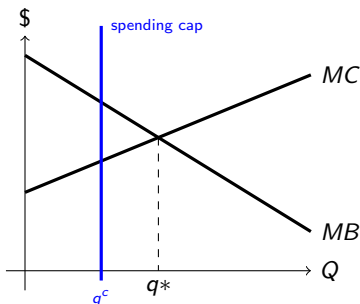
## Spending caps (2)

### Good things about spending caps:

- ▶ Politicians spend less time raising money
- ▶ May act as “cease-fire” or “arms deal”: same political outcome with less campaigning

### Open questions: with spending caps,

- ▶ are voters less knowledgeable or engaged?
- ▶ are incumbents less safe?
- ▶ do politicians pursue different policies?  
**or**, do they raise money from different sources?



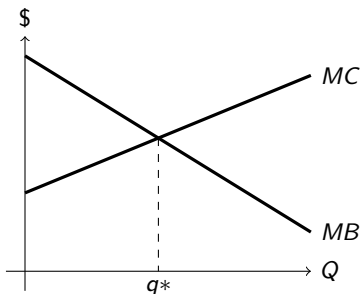
# Campaign technology

Many people say that the arrival of TV made campaigns more expensive.

# Campaign technology

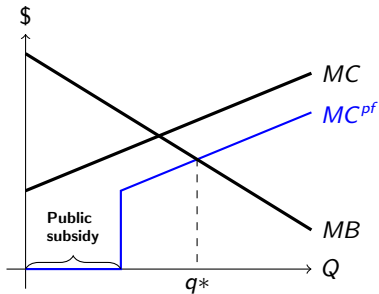
Many people say that the arrival of TV made campaigns more expensive.

1. How would you explain this in terms of the framework?
2. How would banning political TV ads affect spending, according to the framework?
3. How would banning political TV ads affect policy?

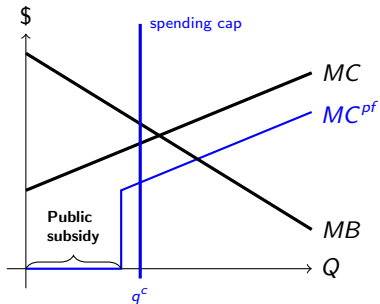


# Public funding

**Without** a spending cap:



**With** a spending cap:





## Public funding (2)

**Good things** about public funding (with spending cap):

- ▶ Same benefits as spending cap, plus
- ▶ Public money may help to educate and engage voters

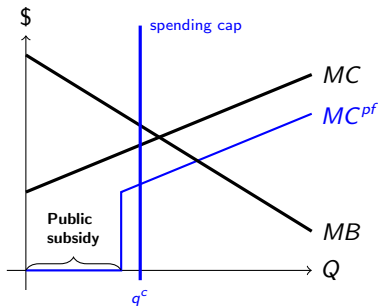
## Public funding (2)

**Good things** about public funding (with spending cap):

- ▶ Same benefits as spending cap, plus
- ▶ Public money may help to educate and engage voters

**Open questions:** with public funding,

- ▶ do politicians/parties lose connection with the public?
- ▶ do politicians/parties pursue different policies?
- ▶ does public funding discourage new parties from entering?



## Models of party funding (1)

**Mass party:** large, dues-paying membership; represents a well-defined group in society

## Models of party funding (1)

**Mass party:** large, dues-paying membership; represents a well-defined group in society

Examples:

- ▶ Historically, Labour in UK; socialist parties on the continent
- ▶ Conservatives in the UK, CDU in Germany viewed as “hybrid” between *mass party* and *emphcadre party*
- ▶ (None in USA)

## Models of party funding (2)

Hopkin (2004) views mass party model of party funding as unsustainable, given collective action problems.

## Models of party funding (2)

Hopkin (2004) views mass party model of party funding as unsustainable, given collective action problems.

### Alternatives:

- ▶ **Clientelistic mass party:** members pay dues and receive public sector jobs, contracts, housing, etc (e.g. US parties in 19th century, Latin American & Italian parties more recently)
- ▶ **Externally financed elite party:** corporations/interest groups fund the party and receive favorable policies
- ▶ **Cartel party:** the state funds the parties

## Models of party funding (2)

Hopkin (2004) views mass party model of party funding as unsustainable, given collective action problems.

### Alternatives:

- ▶ **Clientelistic mass party:** members pay dues and receive public sector jobs, contracts, housing, etc (e.g. US parties in 19th century, Latin American & Italian parties more recently)
- ▶ **Externally financed elite party:** corporations/interest groups fund the party and receive favorable policies
- ▶ **Cartel party:** the state funds the parties

Concern about **cartel party model** (Katz and Mair 1995): “colluding parties become agents of the state and employ the resources of the state (the party state) to ensure their own collective survival.”

What do lobbyists do?

Political finance

Survey of several systems

Conceptual framework

Hall (2014): A recent paper on public funding of elections

A brief introduction to RDD

Design and findings

Conclusion



## The RDD concept

A regression discontinuity design (RDD) is useful when a treatment is assigned at a **cutoff** of a continuous variable.

## The RDD concept

A regression discontinuity design (RDD) is useful when a treatment is assigned at a **cutoff** of a continuous variable.

For example,

- ▶ a scholarship is given to students who receive a score above 80
- ▶ a medicine is given to patients with blood pressure above 120
- ▶ the office is won by the candidate who receives over 50% of the votes.

## The RDD concept

A regression discontinuity design (RDD) is useful when a treatment is assigned at a **cutoff** of a continuous variable.

For example,

- ▶ a scholarship is given to students who receive a score above 80
- ▶ a medicine is given to patients with blood pressure above 120
- ▶ the office is won by the candidate who receives over 50% of the votes.

**Simple idea:** To measure the effect of the treatment, measure the subjects who were just below and just above the cutoff.

## The RDD concept, applied to incumbency

Are incumbent politicians **entrenched** (hard to remove)?

## The RDD concept, applied to incumbency

Are incumbent politicians **entrenched** (hard to remove)?

One way to check is to see if a party wins more votes at time  $t + 1$  if it barely won the seat at time  $t$  than if it barely lost at time  $t$ .

## The RDD concept, applied to incumbency

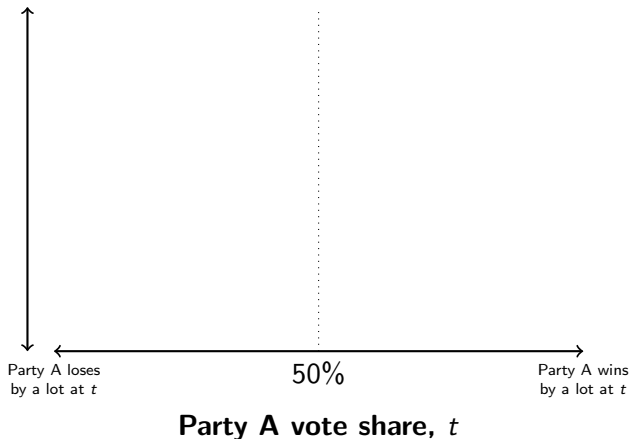
Are incumbent politicians **entrenched** (hard to remove)?

One way to check is to see if a party wins more votes at time  $t + 1$  if it barely won the seat at time  $t$  than if it barely lost at time  $t$ .

**RDD formulation:** What is the effect of getting just above 50% of the vote (vs. just below) at time  $t$  on vote share at time  $t + 1$ ?

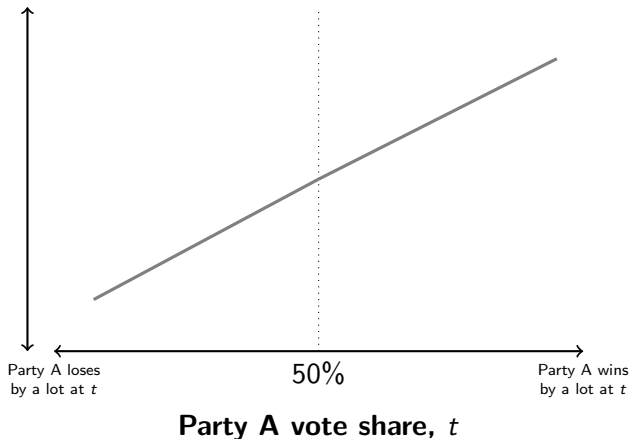
# Measuring incumbency effects using RDD

Party A vote share),  
 $t + 1$



# Measuring incumbency effects using RDD

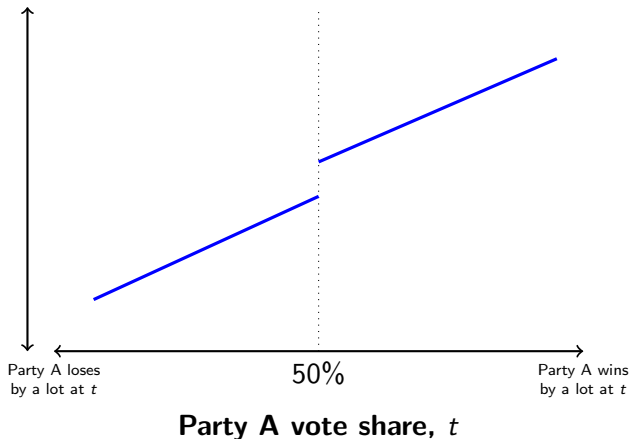
Party A vote share),  
 $t + 1$





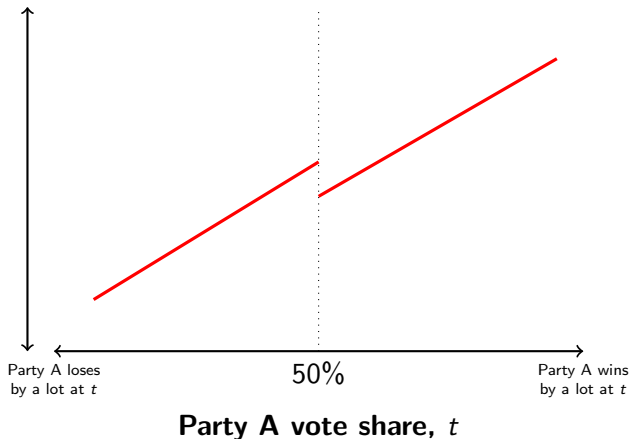
# Measuring incumbency effects using RDD

Party A vote share),  
 $t + 1$



# Measuring incumbency effects using RDD

Party A vote share),  
 $t + 1$



## Research design, Hall (2014)

Three US states (AZ, CT, ME) implemented “clean elections laws” allowing candidates to receive public funding by rejecting other funding.

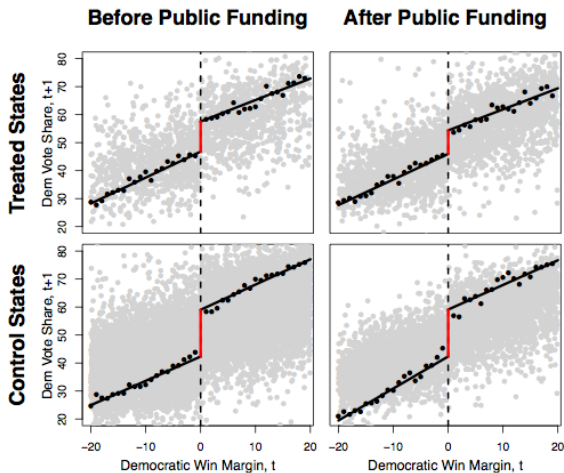
## Research design, Hall (2014)

Three US states (AZ, CT, ME) implemented “clean elections laws” allowing candidates to receive public funding by rejecting other funding.

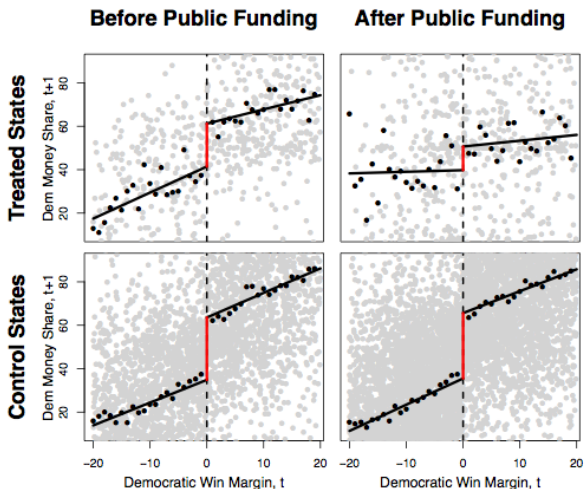
Hall studies effect of public funding on political competition and representation using both **RDD** and **Diff-in-Diff**:

- ▶ RDD to measure effect of winning office on subsequent fundraising, electoral success, and voting behavior of a district's representatives
- ▶ Diff-in-Diff to compare how these effects are affected by clean elections laws

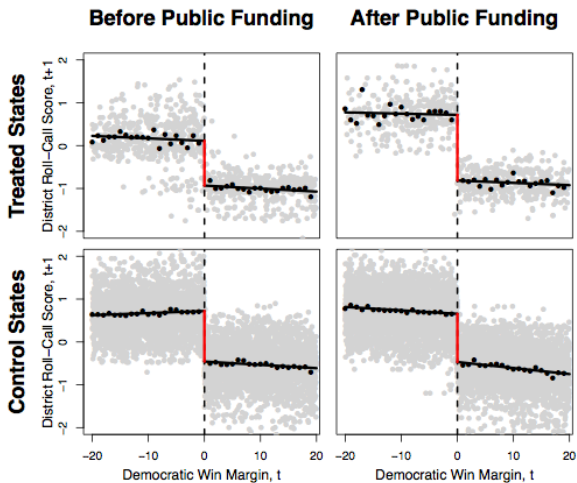
# Public funding reduces electoral advantage of incumbents



# Public funding reduces fundraising advantage of incumbents



## Public funding increases roll call polarization of incumbents



## Hall (2014) recap

- ▶ **Finding:** Public funding (plus funding cap) makes incumbents more vulnerable
- ▶ **Finding:** Public funding makes Republican and Democratic incumbents vote more differently
- ▶ **Claim:** The need to raise funds makes candidates adopt more centrist positions



## Hall (2014) recap

- ▶ **Finding:** Public funding (plus funding cap) makes incumbents more vulnerable
- ▶ **Finding:** Public funding makes Republican and Democratic incumbents vote more differently
- ▶ **Claim:** The need to raise funds makes candidates adopt more centrist positions

Other explanations? How generalizable?

What do lobbyists do?

Political finance

- Survey of several systems

- Conceptual framework

Hall (2014): A recent paper on public funding of elections

- A brief introduction to RDD

- Design and findings

Conclusion

## Wrapping up

**Today's focus:** How lobbying works, plus how political finance is regulated.

## Wrapping up

**Today's focus:** How lobbying works, plus how political finance is regulated.

**Not covered:** Regulating lobbying

## Wrapping up

**Today's focus:** How lobbying works, plus how political finance is regulated.

**Not covered:** Regulating lobbying

### Key ideas:

- ▶ Lobbying can be both (a) honest information provision and (b) effective at influencing policy
- ▶ Political finance (and regulations) can be analyzed as an optimization problem
- ▶ Many ambiguities: e.g. does restricting fundraising make parties more responsive to citizens?
- ▶ Some evidence that public funding levels the playing field, but may make politicians/parties less centrist.