

Lobbying & Political Finance

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LSE

Session 6, 7 January 2014

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

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This session: **lobbying** and **political finance** – how do organized interests shape policy?

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So, **means** vs. **methods**.

Thinking about **means of influence** particularly important for thinking about **regulating influence**.



Defining lobbying

What do lobbyists do?

Lobbying = bribery?

Relationships and the revolving door

Policy questions: Lobbying

Political finance: Introduction

Survey of several systems

Factors affecting amount of spending

Demand factors: value of office

Demand factors: productivity of spending

Supply factors: permissible fundraising techniques

Determinants of regulations

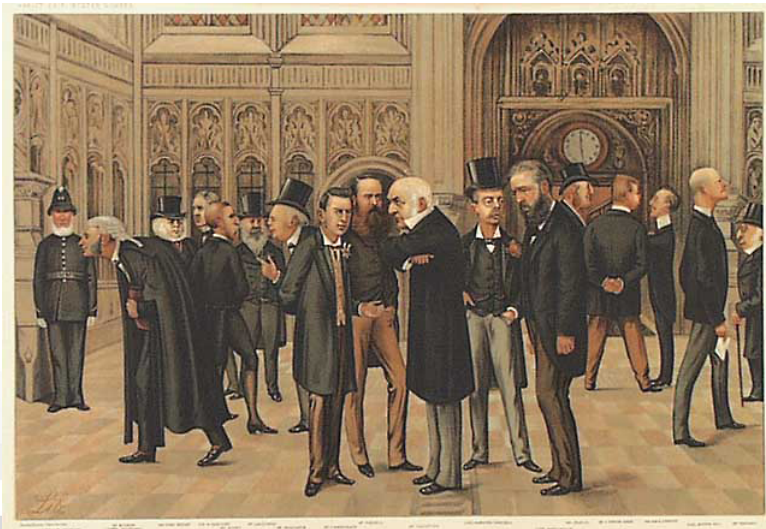
Politician preferences

Constitutional constraints

Campaign finance: wrapping up

Etymology

House of Commons, Westminster



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



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- ▶ **What they call themselves:** government affairs, government relations, public affairs, public relations, etc.

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- ▶ **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”



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Lobbying = bribery?



Wikipedia; Abramoff with Ralph Reed and Congressman Bob Ney in Scotland, 2002

Lobbying = bribery? (2)



Consistent with lobbying as bribery:

- ▶ In U.S., lobbyists are big political contributors and organizers of fund-raisers
- ▶ Lobbyists “wine and dine”
- ▶ The revolving door (*amakudari* in Japan)



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Inconsistent with lobbying as bribery:

- ▶ Lobbyists mostly lobby sympathetic politicians and officials
- ▶ Why do they talk so much?



What lobbyists do

- ▶ Lobbyists as **watchdogs**
- ▶ Lobbyists as **advocates**
- ▶ Lobbyists as **policy entrepreneurs**

Watchdogs



Lobbyists alert their clients/employers to potential problems.

Watchdogs



Lobbyists alert their clients/employers to potential problems.

This vigilance may avert problems.



photo from vaislying.com

Advocates



When a legislative/political issue arises, lobbyists advocate for their clients/employers.

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- ▶ Personal communications
- ▶ Briefing papers
- ▶ Prepared testimony, official evidence
- ▶ Grassroots lobbying (“astroturfing”)



Maurice Levy, lawyer for the Barksdale Organization in *The Wire* (photo from thehollywoodnews.com)



Policy entrepreneurs

In some cases lobbyists act like enterprising politicians:

- ▶ Identify a desired policy change
- ▶ Do background legislative work (e.g. writing proposed legislation, carrying out research)
- ▶ Find allies (inside and outside the legislature)
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Some of this activity has been described in the U.S. context as a “legislative subsidy” (Hall and Deardorff, 2006).



Problem with lobbyists' varied roles?



Politician is source



Politician is judge



Politician is partner



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The importance of relationships

- ▶ Worst case for “revolving door” lobbying, from public interest perspective: lobbying jobs as “delayed compensation”
- ▶ Usual defense: interest groups need legislative expertise.



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Evidence against a pure “expertise” story from U.S. Congress: revolving door lobbyists’ revenue depends on whether *their former boss* remains in office (Blanes i Vidal et al, 2012).

The importance of relationships (2)

Why would relationships be so important for lobbyists?

- ▶ Required expertise is *very specific*, e.g. “what kind of arguments does this MP like?”
- ▶ Need to establish credibility in dealing with time-starved politicians
- ▶ Generally, importance of trust given the difficulty/impossibility of monetary exchanges, detailed contractual agreements

See *The Art of Lobbying*, Levine, 2009.



The importance of relationships (3)

Is the importance of relationships unique to lobbying?

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Is the importance of relationships unique to lobbying?

Contrary to popular belief at many companies, legal agreements can't run the day-to-day business of an alliance or legislate human behavior. Formal processes are helpful, but they can't substitute for the hard work of getting to know people, developing connections, building trust. (pg. 72)

Relationships must be as carefully thought through and as well executed as any product plan. . . . [Y]ou must take the time to learn your partners' real goals and ambitions and to understand what really makes them tick, philosophically and culturally. Are they risk averse, while you're used to flying by the seat of your pants? Are they planners, while you're doers? (pp. 75-76)

Define a set of relationship roles and structures. . . . Make sure that these people get to know each other early on, both professionally and socially (pg. 78).

Steve Steinhilber (VP of Strategic Alliances at Cisco) *Strategic Alliances* (2008)



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The big questions

- ▶ Does lobbying lead to better policy? (What is the counterfactual?)
- ▶ Is it possible to eliminate lobbying?
- ▶ Is it possible/desirable to restrict the scope of lobbyists' activities (e.g. OK to have watchdogs and advocates, but not policy entrepreneurs)?
- ▶ Is there a way to “level the playing field” without
 - ▶ sacrificing the expertise and information provided by lobbyists?
 - ▶ violating citizens' rights to “petition the government” (First Amendment of U.S. Constitution) or express themselves (ECHR, Art. 10 and 11)



Policy instruments

- ▶ Transparency (e.g. lobbying disclosure requirements in U.S., disclosure of ministers' meetings in U.K., lobbying register in Canada)
- ▶ Restrictions on access (e.g. bans on contacting some U.S. executive branch employees)
- ▶ Providing legislative resources so that interest groups' "subsidies" are less valuable
- ▶ Structuring information provision via hearings, expert groups, etc.
- ▶ Restrictions on socializing, gifts, party/campaign contributions from lobbyists



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- ▶ What regulations would be feasible?



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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 of 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

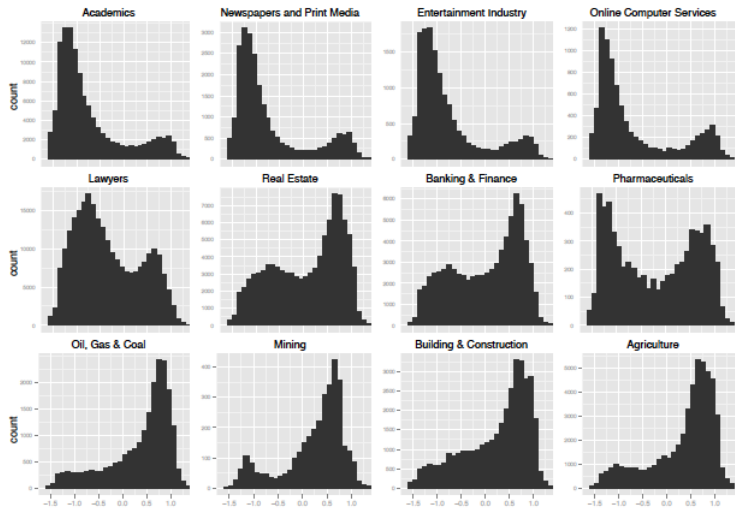


Figure 7: Ideological Distributions of Industries/Occupations

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



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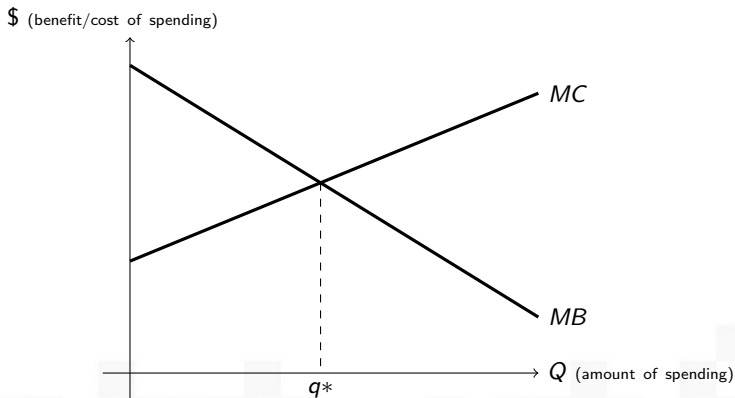
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Spending as optimization problem for politician



- ▶ MC is marginal cost to politician: effort, \$ required to raise money
- ▶ MB is marginal benefit to politician: $f'(q) \times B$, where (as in collective action lecture) $f(q)$ is the probability of winning as function of spending, $f'(q)$ is df/dq , and B is benefit of winning

Spending caps

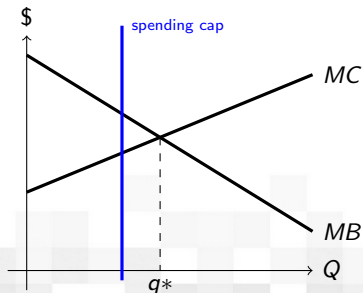


Some spending caps bind (e.g. French presidential elections). Others don't (e.g. most UK constituency contests).

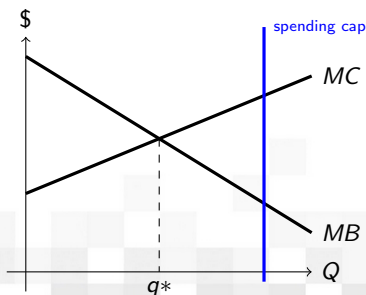
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French presidential elections



(Most) UK constituency contests



Determinants of costs and benefits to politician



Assuming non-binding spending caps, equilibrium amount of spending depends on ...

- ▶ ... factors affecting marginal benefits of campaign spending:
 - ▶ Value of office B
 - ▶ Marginal effect of spending on probability of winning ($f'(q)$), which depends on:
 - ▶ Permissible campaign techniques
 - ▶ Voter receptivity
- ▶ ... factors affecting marginal costs of campaign spending:
 - ▶ Permissible fundraising channels
 - ▶ Possibility of making deals with funders

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Let's talk about each of these.



Value of office

Depends on a lot of factors:

- ▶ Non-material motivations: ego, desire to help, etc.
- ▶ Material motivations, which depend on
 - ▶ Salary
 - ▶ Political power associated with office
 - ▶ Constraints on rent-seeking by politicians

Value of office (2)



How much are political officials paid?

TABLE 1. Political chief executives in four countries

	France	Sweden	United Kingdom	United States
President or Prime Minister's salary	\$80,000	\$130,000	\$270,000	\$400,000
Salary/GDP per capita	3.05	5.11	10.60	11.02
Salary(000s) per billion dollars of government expenditures	0.33	1.18	0.50	0.23
Salary(000s)/population (millions)	1.31	14.62	4.49	1.37

Sources: *Congressional Quarterly*, (www.cabinet-office.gov.uk), (www.sweden.gov.se), (www.telegraph.co.uk) (France), CIA fact book, OECD, plus author's calculations.

Source: Besley, 2004



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But salary is only a small part of financial rewards (and financial only part of total rewards!).



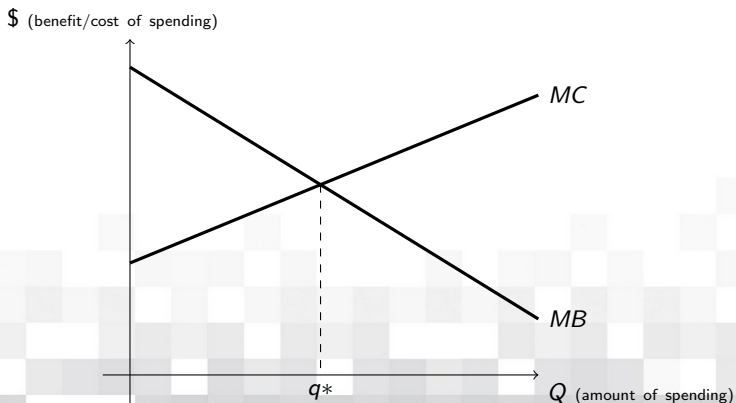
Permissible campaign techniques

Restrictions on types of spending (e.g. ban on paid advertising, ban on vote buying) must make each dollar spent (weakly) less effective and thus reduce the optimal amount of spending.



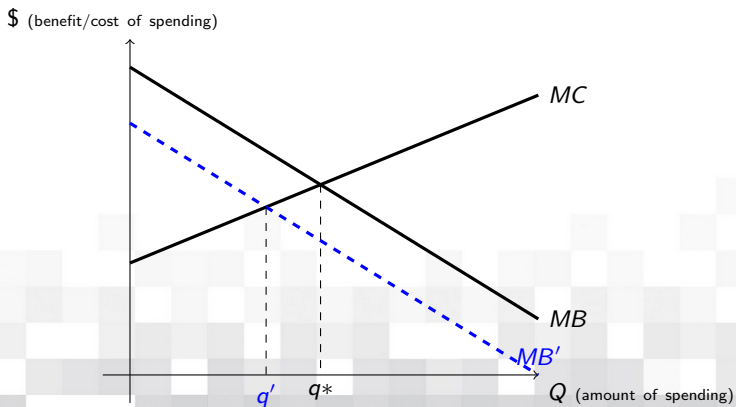
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Voter receptivity



For a fixed set of campaign techniques, many factors could affect how receptive voters are to campaign spending.

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- ▶ **Vote buying/turnout buying:** If offered money (or a drink/a sandwich/shoes) to vote (or to vote for X), will the voters respond?

Electoral system and voter attachments



One factor that affects whether voters can be swayed is what choice they are asked to make.

- ▶ In UK parliamentary elections (single-member district, plurality), voters have strong party affiliations, choose among parties (one candidate each)
- ▶ In Brazilian parliamentary elections, (open-list proportional representation), voters choose not just which party (where party affiliations are very fluid) but also which candidate(s) from that party's list. (Similar in Japan pre-1994, under Single Non-Transferrable Vote (SNTV) system.)

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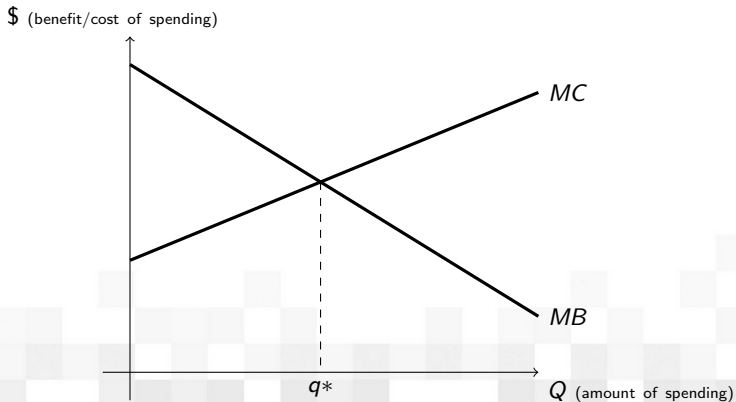
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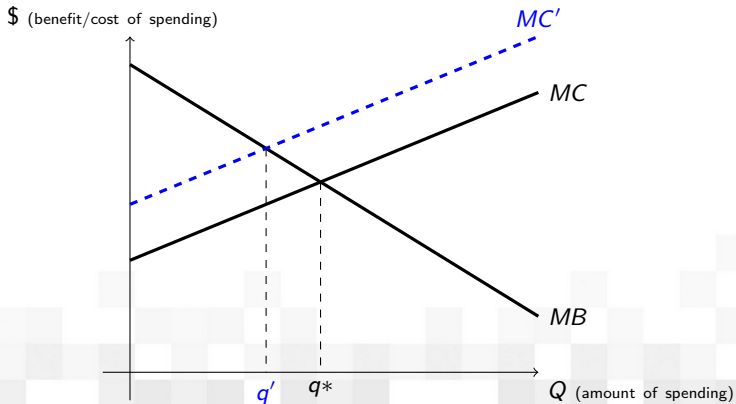
⇒ electoral system affects incentives to raise, spend money on campaigns

See Carey and Shugart (1995), "Incentives to Cultivate a Personal Vote: A Rank Ordering of Electoral Formulas"

Campaign finance restrictions raise the marginal cost of fundraising



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The cost of fundraising



Fundraising is costly.

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- ▶ Restrictions on exchange with voters and interest groups

Exchange between politicians and interest groups



Depends on:

- ▶ Political power of politician: can the politician affect anything?
Compare:

- ▶ a junior member of U.K. House of Commons: without a ministerial position she has no power to propose legislation; given absence of “personal” vote she could easily be de-selected for voting against the party (very few “rebels” in UK parliament)
- ▶ a junior member of U.S. Congress: her committee position gives her votes and proposal power in at least one area; her local power base may mean she does not depend on party for re-election
- ▶ Trust and reciprocity between politician and interest group: exchanges are unenforceable in court!

Section summary



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Benefits and costs of campaign spending depend on the political context and the regulations in force. Questions like:

- ▶ How valuable is it to win the seat?
- ▶ How susceptible are voters to campaign activities (e.g. advertising, vote buying)?
- ▶ Who can give money? How much?
- ▶ Does the politician have anything to “sell”?

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- ▶ Does the politician have anything to “sell”?

All of these depend on regulations. What determines the regulations?



Defining lobbying

What do lobbyists do?

Lobbying = bribery?

Relationships and the revolving door

Policy questions: Lobbying

Political finance: Introduction

Survey of several systems

Factors affecting amount of spending

Demand factors: value of office

Demand factors: productivity of spending

Supply factors: permissible fundraising techniques

Determinants of regulations

Politician preferences

Constitutional constraints

Campaign finance: wrapping up

Regulation of political finance as self-regulation



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- ▶ Partisan advantage
- ▶ Incumbent protection
- ▶ Cost reduction (cooperation/collusion)

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Let's discuss each.

Citizen pressure



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Examples:

- ▶ French reforms in 1988 followed major scandals in which corrupt financing methods were revealed
- ▶ Major U.S. reforms in 1970s followed Watergate scandal, general distrust of government

Partisan advantage



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Examples:

- ▶ Ban on corporate donations in India in 1968 by Indira Gandhi: due to concern about corporate donations to right-wing opponents?
- ▶ Proposals by UK Labour government to restrict big donations from individuals and corporations: due to fact that these donations disproportionately benefit Conservatives?
- ▶ Limits on spending in 1974 Federal Election Campaign Act (US): due to fact that Democrats typically raised and spent less money than Republicans? (see Abrams and Settle 1978)

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For example:

- ▶ Banning paid advertising
- ▶ Limiting the length of the campaign
- ▶ Reducing fundraising limits on candidates facing privately-funded challengers (“millionaire’s amendment” of BCRA (2002, US), struck down by Supreme Court)



Cost reduction

Can think of political campaign as a prisoner's dilemma:

		Candidate 2	
		Cheap campaign	Expensive campaign
Candidate 1	Cheap campaign	2,2	0,3
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Regulations can be thought of in this way as well:

- ▶ Expense limits introduced in U.K. in 1883 because campaigns were so expensive for the candidates
- ▶ U.S. Congress attempted to cap campaign spending in 1974 and 2002 because fundraising was dominating their jobs



Incentives for looser constraints

Of course, sometimes politicians want looser constraints, e.g. because of

- ▶ partisan advantage
- ▶ incumbent protections: if incumbents have a serious advantage in raising money, they may want to maintain it

Congress-vs-Supreme Court



Judicial review in US: Supreme Court can overturn laws passed by Congress.

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- ▶ Federal Election Campaign Act (FECA) 1974 established contribution limits, spending limits → Supreme Court overturned spending limits (*Buckley v. Valeo*)
- ▶ Bipartisan Campaign Reform Act (BCRA, aka McCain-Feingold) 2002 eliminated “soft money” loophole, restricted independent expenditures at elections → Supreme Court overturned all limits on independent expenditures (*Citizens United*)

Court recognizes the anti-corruption value of campaign finance restrictions (thus donation limits), but sets very high standard.

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One can debate extent to which Supreme Court judges are acting as partisans or as defenders of constitution.

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UK responded by raising limit on third-party expenditures in a constituency to £500.



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Electoral spending viewed as an optimization problem for politicians/parties, influenced by:

- ▶ value of office
- ▶ effectiveness of spending (which depends on technology, voters, electoral system, plus regulations)
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Politicians choose stricter regulations for various reasons:

- ▶ to respond to public demand
- ▶ to gain an advantage over other party
- ▶ to gain an advantage over challengers
- ▶ to make competition less punishing.

Campaign finance: wrapping up (2)



Questions to think about:

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- ▶ Is this the right way to think about how politicians/parties approach political finance?

Overall: Wrapping up



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- ▶ **Collective action:** In a pluralist society, powerful interests are not necessarily the most deserving
- ▶ **Means of influence:**
 - ▶ **Lobbying** (contact between interest groups and politicians) is not simply bribery; neither easy nor desirable to eliminate it completely
 - ▶ The amount of **political finance** depends on various factors; the effect of regulations on policy is subtle
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