

Lobbying, Between Economic Efficiency and Capture by Private Interests

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1 Introduction: What should we be thinking about lobbying?

Is lobbying the source of all evils, or on the contrary the guarantee of efficient political decision-making? Since (at least) Bentley's (1908)³ identification of the role of pressure groups in the political and economic game, the question remains highly debated, both at the level of theoretical analysis and in public opinion. A recent example of this was given in France by the revelations of the role played by Mr. Macron, then Minister of the Economy, in facilitating the entry of Uber into the French market. Is this a corruption of power by money, in defiance of society's interests, or a way for an economic innovation to impose itself despite the resistance of inefficient incumbents? The question is important, and determines the attitude that a sound political constitution should adopt towards the phenomenon of lobbying.

This note does not pretend to definitively answer the question. But it does propose to shed some light on the issues at stake, through a brief overview of the way this question

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³Arthur BENTLEY, *The Process of Government*. University of Chicago Press, 1908.

has been addressed in the economic literature, and of the insights provided by some recent works.

2 A short historical journey: From pluralism to pluralism

2.1 The background in liberal democracies: The pluralist view of politics

At the cost of over simplification, we can distinguish different stages in the way lobbying has been addressed. The background of the different conceptions is constituted by what is usually called the “pluralist view of politics” especially associated with the name of Robert Dahl (1961).⁴ In its descriptive dimension, this conception asserts that the best representation of political decision-making is that of a political decision-maker in the grip of a front of influences and pressures of all kinds, coming from all the groups whose interests are in one way or another affected by the decision at stake. Starting from the description of the functioning of the New Haven Council as a leading example, Dahl showed that such representation corresponds well to the functioning of liberal democratic societies.

While this view remains the basis of most studies of lobbying, the pluralist view is not limited to this description. Rather, while the stream of research that can be linked to Dahl has rarely presented its findings in a normative tone, often simply describing the legislative process, the often idyllic nature of this description nevertheless brings it closer to advocating a conception of politics conceived according to the views of the Chicago School. According to this view, insuring free entry and competition between potential interest groups is the best way of achieving socially effective decision-making.

On the theoretical level, this view is far from groundless. Take the example of whether or not a firm like Uber should enter the hitherto highly regulated cab market. If the gain in common surplus created by the liberalization of the market is greater than the profit loss to the incumbent operators, the entrant will be willing to pay more to obtain this liberalization than the incumbents to prevent it. The opening of a kind of market for political decisions, by revealing the intensity of the preferences of the different actors, allows for fine-tuning the multiple aspects of politics. Obviously, for this justification to be completely convincing, it is necessary that not only cabs and Uber make their voices heard: VTC drivers, users, and other potential stakeholders, should in turn be able to

⁴Robert DAHL, *Who Governs?* Yale University Press, 1961.

enter the game. Only then can the final decision be seen as a balance of all these forces, ensuring the best possible compromise between the different actors.

2.2 Olson's critique

Of course, this is where the problem lies, as Schattschneider already pointed out in 1960 in the Anglo-Saxon context: *"The flaw in the pluralist heaven is that the heavenly chorus sings with a strong upper-class accent."*⁵ Put another way, not everyone participates in the market of political decision making... so that the final decision will represent only a fraction of the interests who are actually concerned by the decision.

At a theoretical level, the work of Olson (1965)⁶ provides a powerful basis for such a critique. While both the Marxist and pluralist paradigms at work in his time assumed that a group affected by a policy and aware of its situation would automatically organize itself to influence the decision, Olson showed that this is far from self-evident. Indeed, to the extent that such influence is costly (in time, money, or other resources) and benefits all those who share a common interest, regardless of their own investment, everyone has an interest in letting others engage while benefiting from the fruits of their efforts. This "problem of collective action" or "free-rider" problem, linked to the public good dimension of this action, explains why some groups strongly affected by a policy may fail to organize and end up with very little influence in trying to change its contours.

According to Olson, this free-rider phenomenon will be all the more pronounced the larger the group and the more homogeneous the impact of the policy in question on its members. In smaller groups, or in groups where only a few individuals are strongly affected, at least some members will be willing to contribute significantly to the collective action. Conversely, in larger, homogeneous groups, the influence of each member is diluted, so that no one is willing to incur any cost to advance the common cause.

Returning to the Uber example, this analysis predicts that different stakeholders may have very different capabilities to influence the policy decision. Uber being the only company pushing for liberalization in this way, there is no free-rider problem on this side of the political market for influence. This problem could exist on the side of traditional cab drivers. But the strong union organization of the profession, favored by the existence of the license, enables them to translate to a large extent their interests into the political arena. The same is not true of at least two other groups: drivers working for Uber, and potential customers. A first analysis, based on the assumption that if Uber attracts

⁵Elmer Eric SCHNATTSCHNEIDER, *The semi-sovereign people*. New York: Holt, Reinhart and Winston, 1960, p.35.

⁶Mancur OLSON, *The Logic of Collective Action*. Harvard University Press, 1965.

customers and drivers, it is because they find it profitable, would suggest that this lack of representation leads to an underestimation, at the political level, of the value created by the liberalization of the market. But one might also argue that by breaking up the cab unions in favor of a situation where a single employer, namely Uber, contracts with a disorganized front of cab drivers, part of the company's gain actually comes from a reduction in those drivers' income.

In any case, we can conclude from this discussion that the set of actors able to influence the policy at stake alone is not sufficient to represent the full range of stakeholders, and the impact that this decision has on them.

2.3 Becker and the liberal synthesis

Paradoxically, attempts to reconcile, in a unified analysis, the arguments of the pluralist approach and the logic of collective action highlighted by Olson, have been rather rare. Among these, the important contribution of Gary Becker, winner of the Nobel Prize in Economics in 1992, should be noted. In two influential articles published in 1983 and 1985,⁷ Becker took note of Olson's lessons by modeling the capacity of a group to influence the decision-maker as a pressure function. This function depends, among other things, on the size of the group. Becker's results emphasize that, other things being equal, a group receiving state subsidies will be less effective as the cost to the economy of these subsidies increases. In other words, if the political game does not lead to a perfect aggregation of interests, we can trust the overall direction of the process: A government that favors the most politically powerful groups will also tend to respond efficiently to changes in the economic environment. If lobbying does not get us into paradise, it is at least a good way to manage purgatory...

In the case of Uber, we might understand these conclusions as follows: admittedly, not all actors are represented to the extent of the economic impact that the political decision would have on them. But as the surplus created by transport liberalization increases, so will Uber's capacity to influence the decision, and vice versa.

3 Taking the whole political landscape into account

There is real value in these liberal arguments, which it would be unwarranted to dismiss out of hand. Nevertheless, from Dahl to Becker, there is a shift in the argument that is not

⁷Gary BECKER, A theory of competition among pressure groups for political influence. *The Quarterly Journal of Economics*, 1983, vol. 98, no 3, p. 371-400 ; Gary BECKER, Public policies, pressure groups, and dead weight costs. *Journal of Public Economics*, 1985, vol. 28, no 3, p. 329-347.

without significance. From a vision of lobbying as allowing for the balanced consideration of all the interests at stake, the paradigm has moved to the recognition of an unbalanced game, but one whose oscillations go in the direction of the greatest economic efficiency.

To go further in understanding the political consequences of lobbying, it is important to be able to better understand this imbalance. While Becker’s analysis specifies for each group an influence function, independent of the political landscape in which it evolves, a better understanding of lobbying and its social consequences certainly calls for an analysis of cross-effects in the competition between groups. For example, does the entry into the lobbying “market” of Uber as an active interest group reinforce the capacity of cab drivers to organize their interests, or on the contrary, by making political action more costly, does it tend to diminish their representation?

We propose in two recent articles ways to move forward on this question, at two different levels. Both approaches assume that the information available to groups, whether at the time of their formation or in their interaction with the policy maker, is incomplete. Such an assumption, which has the merit of realism, is essential to generate frictions that allow a description of lobbying that departs from the “pluralist paradise”.

A first scenario consists in considering potential groups that have to organize themselves in order to be able to influence political decisions. One can think of all cab drivers and VTC drivers, and even more so of potential users of one or the other means of transport. In Lefebvre and Martimort (2020),⁸ we show that, on the one hand, it is quite possible that such groups will never manage to be represented in the political game, even though they would have much to gain from being able to do so. On the other hand, the interaction between the capacity to influence a group and that of its competitor depends in a fine-tuned way on the characteristics of each group. It is thus possible that as a group becomes more efficient in organizing itself, the voice of its competitor will be heard even less, and this, independently of the overall economic value associated with the decision.

In Lefebvre and Martimort (2022),⁹ we consider groups having already managed to get a representation in the decision process. We study how the influence of these groups depends on different characteristics of the political landscape. To some extent, Becker’s insights are also valid in this model: As the economic value of the decision lobbied for by a set of interest groups increases, the policy decision will also tend to favor these groups more at the expense of others. But our model also reveals other effects, directly in line with Olson’s analysis. First, as heterogeneity grows within a group made of agents with similar

⁸Perrin LEFEBVRE and David MARTIMORT, “When Olson Meets Dahl: From Inefficient Groups Formation to Inefficient Policy Making. *The Journal of Politics*, 2020, vol. 82, no 3, p. 1026-1043.

⁹Perrin LEFEBVRE and David MARTIMORT, *Reform for Sale: a Common Agency Model with Moral Hazard Frictions*, forthcoming in *Cambridge Elements in Law, Economics and Politics*.

interests, the ability of that group to influence the policy decision increases. Second, as the size of a group increases, while the economic value associated with that group remains constant, the ability of that group to influence the policy decision decreases. Finally, some groups will never be active in the political process, and their ability to make their voices heard depends on the overall landscape of groups, and whether they have congruent or conflicting interests.

In other words, an informational approach brings another perspective to the question of lobbying, one that is complementary to Becker's. While Becker is interested in variations in the economic effects of decisions with a constant political landscape, we can study the consequences of different organizations of the lobbying process with *constant economic effects*. The main lesson of our analysis is not only that lobbying does not generally allow for a faithful representation of the different interests at work in society, but that the structuring and composition of the different groups has a considerable impact on their capacity to influence political decision-making, and this independently of the economic value associated with their cause.

4 Conclusion: the importance of regulating lobbying

To the question “Is lobbying the source of all evil or the guarantee of efficient political decision-making?”, there is therefore no one-sided answer. There are good reasons, as we have shown, to assert that, *all other things being equal*, lobbying leads rather to an effective response to changes in the economic environment. The trouble is that these *other things equal* are usually themselves highly inefficient, and depend on factors that have little to do with economic value itself. In particular, the ability of concentrated and well-organized interests to impose their interests at the expense of larger and more homogeneous groups, regardless of the potentially very high value associated with the latter, seems to be the rule rather than the exception.

If it is not a question of crying wolf at the slightest trace of influence of an interest group on a political decision, a true regulation of the activity of groups seems to be a condition for the game of lobbies not to be synonymous with the capture of the political decision by a few well-structured interests. One could dream of a sort of equivalent of a Competition Commission for lobbying... Provided, of course, that the latter does not in turn become the preserve of a few more powerful groups than others.

A broader conclusion emerges from this analysis: An essential place remains for politics, understood as the exercise of power in view of a certain idea of the “common good of the society”, and based on the representation allowed by democratic elections. Reducing

political decision-making to a sounding board for the various forces at work in society not only leads to generally inefficient decisions, but also deprives us of the means to better organize the interplay of interest groups.