

Giovannoni, Francesco

Article

Lobbying versus Corruption

CESifo DICE Report

Provided in Cooperation with:

Ifo Institute – Leibniz Institute for Economic Research at the University of Munich

Suggested Citation: Giovannoni, Francesco (2011) : Lobbying versus Corruption, CESifo DICE Report, ISSN 1613-6373, ifo Institut - Leibniz-Institut für Wirtschaftsforschung an der Universität München, München, Vol. 09, Iss. 1, pp. 12-16

This Version is available at:

<https://hdl.handle.net/10419/167025>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



LOBBYING VERSUS CORRUPTION

FRANCESCO GIOVANNONI*

Lobbying and corruption – A general framework

Lobbying and corruption are important features of many societies and political systems as they constitute the main means, other than voting, through which private citizens can influence certain parts of the state apparatus. Yet, for all the vast literature in economics (Grossman and Helpman 2001; Potters and Sloof 1996; Aidt 2003) or political science (Treisman 2007) dedicated to each of these two phenomena, a clear understanding of the similarities and differences between them seems to elude us.

A possible explanation for this is that differences between lobbying and corruption, if any, are unimportant. Indeed, this is a view that has had some implicit backing from theoretical work in economics: its most successful model of lobbying (Grossman and Helpman 1994) could equally be a model of corruption. In it, lobbyists influence politicians' policy-making decisions by providing them with resources. The model only assumes that politicians care about these resources, but it does not need to specify what they are or why politicians are interested in them. In particular, these resources could equally be money that politicians use to finance their campaigns or, more simply, bribes.

A more plausible explanation, however, is simply that for most people the difference between lobbying and corruption lies in the fact that lobbying is a way of seeking influence which is accepted within the laws of a given country while corruption is illegal (see the discussions in Lambsdorff 2002 or Begovic 2005). In trying to understand the underlying differences between these two phenomena, the fact that something is legal or not, does not seem a useful distinction in itself, particularly as different legal systems will disagree on specific exam-

ples, but it does suggest that the underlying difference between lobbying and corruption might be in the means used to obtain influence.¹ Therefore, lobbying might be defined as a series of activities that influence the decision making of state representatives but which do not provide these representatives with direct gains. Corruption, on the other hand, consists precisely of those activities that provide direct gains. Thus, providing politicians with expert advice in order to influence their vote on a specific piece of legislation will be interpreted as lobbying while paying the same politicians to vote in a certain way will be defined as corruption.

Useful as this distinction may be, it is still capable of generating confusion. Going back to our previous example of campaign contributions versus straightforward bribes, one could ask to what extent campaign contributions really differ from bribes as they provide politicians with a direct benefit, especially if those politicians are really more interested in the power provided by the offices they are elected to than in the money.

If discriminating between lobbying and corruption by the means they employ can sometimes generate confusion (because in many cases it is not clear how different these means really are), another possibility is to distinguish lobbying from corruption by the targets of their rent-seeking activity. In recent work (Damania, Fredriksson and Mani 2004; Campos and Giovannoni 2007 and 2008; Harstad and Svensson 2010), the distinction proposed is one where corruption is defined as all of those rent-seeking activities directed at rule enforcers while lobbying is rent-seeking activity directed at rule makers. Of course, this distinction does not necessarily correlate well with a distinction based on the means employed in rent-seeking: it would be possible, for example, to define lobbying as paying bribes to politicians, which many would define as (political) corruption. The distinction proposed here is, however, very useful for several reasons, some con-

¹ Begovic (2005), however, emphasises that there are important consequences stemming from the fact that lobbying is legal while corruption is not. For example, the latter will require higher transaction costs, or be less transparent than the former. The distinction between what is legal and what is illegal, nevertheless, must be determined by the underlying characteristics of the two phenomena, not by the source of such characteristics.

* University of Bristol.

ceptual, others that relate to the possibility of resolving substantial issues in the empirical literature on both lobbying and corruption.

At the conceptual level, the distinction is important because it raises a natural question: if lobbying and corruption are both risk-seeking activities which operate with different targets, are they complements or substitutes? The argument that they should be complements (Damania, Fredriksson and Mani 2004) is based on the notion that lobbying is mostly directed at laws that undermine law enforcement, so as to make corruption easier. The argument that they should be substitutes (Harstad and Svensson 2010) relies instead on the idea that lobbying enables the lobbyist to change the rules, thus making corruption redundant.

In the final section, I will discuss the empirical evidence which provides some support to the notion that lobbying and corruption are indeed substitutes. In light of this, it is worth exploring some of the consequences of these findings. In the Harstad and Svensson (2010) framework, the choice between lobbying and corruption is driven by two contrasting forces. On the one hand, corruption is inherently cheaper because, for example, lobbying politicians to change a given tax law can be a significantly more expensive activity than paying bribes to a tax inspector. On the other hand, once lobbyists have succeeded in influencing politicians to their advantage, they can be confident that the law will be difficult to modify. Similarly, we can assume that a corrupt tax inspector will be probably be asking for another bribe at every opportunity. In other words, lobbying will be more expensive, but will also be more effective. The consequence is that lobbying will tend to be chosen over corruption by larger firms and in more developed countries. However, additional consequences of this substitutability can be explored by taking political institutions into account.

Lobbying, corruption and political institutions

Specific political institutions, by making it more or less difficult to pursue lobbying, will have an impact on rent seekers' decisions to lobby or choose corruption. This link between political institutions, lobbying and corruption (Campos and Giovannoni 2008) is of particular interest because it provides a new twist on the significant literature dealing with political corruption.

One of the main issues is that the most popular measure of corruption that are used in these studies (country-levels perception of corruption) can include both what we define as corruption but also what we define as lobbying.² The implication is that in many cases these previous studies cannot really address the question of whether political institutions matter for lobbying and corruption. This is because the measure of corruption utilised may not actually capture the ability of rent seekers to influence politicians but may instead be more related to lower level corruption. If rent seeking at the political and at the enforcement level are substitutes, then there is a significant risk of confusing the two issues because a particular institution which makes lobbying (or political corruption) more difficult might actually end up encouraging corruption at the law enforcement level. This leads to another advantage of the distinction between lobbying and corruption proposed here: by focusing on the level at which rents are being sought, it allows for predictions for the effect that political institutions have on lobbying and, through substitutability, on corruption.

One of the most important questions in the literatures that link lobbying and corruption with political institutions is whether the strength of the institutions themselves impacts on lobbying or corruption. In other words, how do the strengths and weaknesses of the democratic process interact with lobbying and corruption? At first, the answer to this question seems to be straightforward: stronger democracies have stronger checks and balances, voters are better able to monitor what happens at the political level, respect for the rule of law is stronger and so democratisation should help reduce both lobbying and corruption. It is easy to see, however, that there must be some caveats to this simple statement. In particular, one can make the argument that in the initial phase of democratisation, corruption might be encouraged because more democracy means less law enforcement effectiveness. Also, democracy might bring new forms of corruption, such as vote buying, which would be quite unnecessary in an autocratic regime. More generally, many have argued (Treisman 2007; Montinola and Jackman 2002; and Sung 2004 are just three examples) that the relationship between democratisation and corruption may be non-linear. To complicate matters further, the aforementioned issue of what type of

² Treisman (2007), who provides a summary of the empirical results with regard to the relationship between political institutions and corruption, discusses this issue.

corruption is really intended must be taken into account. With the distinction between lobbying and corruption as defined here, it is clear that these arguments tend to have more relevance for lobbying rather than corruption. Democratisation is more likely to have an impact on lobbying because this is the phenomenon where the relationship between firms and politicians is direct and more sensitive to democratic institutions: bureaucrats are only very partially accountable even in the most developed democracies, while the difference between accountable and unaccountable politicians has an enormous impact on their willingness and ability to receive rents from firms.

Another democracy-related variable of interest here is whether the country has a more or less independent media. Theoretical work (Besley and Prat 2006) has emphasised the positive effect of independent media on the level of political corruption. Empirical work (e.g., Brunetti and Weder 2003) finds evidence of that relationship. Here too, however, the country-level measures of corruption used so far do not capture the distinction between lobbying and corruption proposed in our paper. When this distinction is made, we would expect independent media to have a stronger negative effect on lobbying than on corruption as the former is the much more likely target for media interest.

It is clear that many of the issues that apply to the interaction between democratisation and lobbying/corruption also apply to the notion of the stability of the political system itself (Olson 1965). There is, however, a separate notion of political stability and that has to do with how much alternation between political parties there is in the system. As pointed out above with reference to the Harstad and Svensson (2010) framework, lobbying gains effectiveness whenever there is less alternation because then legislative commitments taken by ruling politicians are more reliable. Della Porta (2004) makes the point that in a system where party identification amongst voters is low, political corruption will tend to be higher. If these two observations are put together, one might identify two opposing effects: a political system where ideologies do not matter very much is inherently more favourable to lobbying, but if we assume (as is natural to do) that weak ideologies will lead to frequent change in personnel, this will lead to less lobbying, not more. Which of these effects will dominate is an issue for empirical analysis to resolve.

One particularly important class of institutions is that of government forms. Bennedsen and Feldmann (2002) argue that in congressional systems lobbying is easier because policy making is made by forming coalitions on a specific policy and lobbying might be useful in clarifying benefits and costs to different policy makers. The consequence is that it becomes easier for the policy supporters to set up a supportive coalition. In a parliamentary system, where there is a confidence procedure, it is much more difficult to set up ad-hoc coalitions for different pieces of legislation and so the information that lobbies may provide is less useful. Helpman and Persson (2001) study how the internal organisation of parliaments affects lobbying efforts. They argue that in (US-style) congressional systems, policies tend to be more unevenly distributed than in parliamentary systems and that lobbying reinforces this effect. To the extent that one can imagine lobbyists to be more likely to be the winners in the process of legislative bargaining, one can conjecture that congressional systems provide more incentives for lobbying. Kunikova (2006) and Persson, Roland and Tabellini (1997 and 2000) both address the impact of an independent executive (a president) on lobbying. The former argues that presidents are not accountable to a coalition because they cannot be removed by the legislature and because the legislature also needs their cooperation for the policy making process. Therefore, presidents can find it relatively easy to pursue rent-seeking activities. The latter, on the other hand, argue that checks and balances reduce the opportunities for lobbyists to seek special favours because i) they make it more clear to voters who is accountable for policy-making decisions and ii) they provide a process whereby it is more difficult for different politicians to collude at the general public's expense.

Another major institutional component that has been explored is the role of the electoral system. There is substantial literature documenting that the main mechanism through which electoral systems affect lobbying opportunities is again that of political accountability. Persson, Tabellini and Trebbi (2003) argue that decreasing district magnitude is associated with more lobbying because as district magnitude decreases, fewer and fewer parties can hope to challenge. This gives voters less choice and makes it harder to hold politicians accountable. At the same time, closed-party lists where voters do not have a direct choice of candidates and can only vote for a given party also reduce accountability and make lobbying relatively more effective. Kunikova and Rose-

Ackermann (2005) agree that closed-party lists are inherently more amenable to lobbying but also argue that in majoritarian systems politics is more adversarial and less consensual because of the small number of parties and so monitoring of one side by another is stronger. In other words, in majoritarian systems we are less likely to see parties covering each other's backs and therefore we are likely to have more accountability. Moreover, the large number of parties reduces accountability because it also makes it more difficult to attribute responsibility to specific parties or politicians. So, we should expect an unambiguously positive effect of closed lists on lobbying. Higher district magnitude (which correlates highly with proportionality) is expected to have a negative effect on lobbying if the effect highlighted by Persson, Roland and Tabellini (2003) dominates and a positive effect if the effect highlighted by Kunicova and Rose-Ackermann (2005) dominates.

A third major institutional characteristic is the level of (de)centralisation in a given country. The recent literature, both theoretical and empirical, has so far given contrasting results in analyzing the relationship between federalism on the one hand, and lobbying and corruption on the other. Once again, one of the main problems has been that the literature has not taken into account the distinction between factors that have a strong relationship with political institutions and factors for which this relationship is weaker because the counterparts are bureaucrats, not politicians. This is particularly important here because some arguments that have been put forward in discussing the relationship between federalism and lobbying or corruption, critically depend on this distinction. Thus, for example, one could argue that decentralisation has a negative impact because it reduces the quality of bureaucrats. Or one could argue that yardstick competition between different local entities has a positive impact. Clearly, the first theory is more relevant to what we have defined as corruption, which would be likely to increase, while the second theory would be more relevant to our notion of lobbying because politicians are more vulnerable than bureaucrats to pressure from voters if their locality is underperforming. Thus, we would expect a reduced ability to lobby. Furthermore, a decentralised system should make lobbying more difficult because a politician's ability to commit to certain policies is more limited when others up and down in the hierarchy can change things.

The evidence

We have already mentioned that Campos and Giovannoni (2007) show that the effect of corruption on lobby membership is very important and supports the notion in Harstad and Svensson (2010) that lobbying and corruption are substitutes. They do this in the context of the transition countries, so that countries at different levels of development are considered. The result that corruption and lobbying are substitutes can be reconciled with that of Damania, Fredericksson and Mani (2004), who suggest the opposite because they are unable to capture the impact of lobbying specifically and thus the link between political instability and corruption they discover may not be mediated by lobbying. In addition, Campos and Giovannoni (2007) can take advantage of data at the disaggregated level, while Damania, Fredericksson and Mani (2003) utilise country level data.

Campos and Giovannoni (2008) focus primarily on political institutions. They show that lobbying is more likely in democratic countries, where the media are independent and in contexts in which the overall political process is more democratic. The opposite scenario is true for corruption. Political instability does not have much of an effect on lobbying but it has a positive effect on corruption. If we consider the relationship between lobbying, corruption and political institutions, one of the main concerns is the impact that forms of government have on the choices firms can make in terms of lobbying and corruption. The evidence suggests that lobbying is favoured when the executive has fewer veto powers while corruption is more prevalent when the executive has greater veto powers. There is also evidence that federal or decentralised states favour lobbying over corruption. In general, lobbying seems to be more effective than corruption in pure parliamentary and presidential systems. The reverse is true in semi-parliamentary and semi-presidential systems. The most natural explanation for this phenomenon is that the latter systems are inherently less stable.

With respect to electoral rules, there is evidence that systems with closed lists reduce accountability for politicians and thus are more conducive to lobbying. But systems with closed lists are not less conducive to corruption. This case contradicts the hypothesis that corruption and lobbying are substitutes. For district magnitude, the results seem to be in line with Persson, Tabellini and Trebbi (2003), who emphasise the positive effect of district size on reducing lobby-

ing: these results again emphasise substitutability in that the effect on corruption is reversed. Finally, Campos and Giovannoni (2008) also show that firms in their sample systematically point to lobbying as the most effective way of exerting political influence.

Conclusions

Based on our discussion of the relationship between lobbying and corruption, we argue that the fundamental difference between these two phenomena has to do with where influence is being sought. In particular, we think lobbying is a rent-seeking activity aimed at rule makers whereas corruption is a rent-seeking activity aimed at rule enforcers. Our discussion emphasises the advantages of this distinction and, in particular, the fact that thus defined, lobbying and corruption are substitutes. The main advantage is that by focusing on this particular feature, it is possible to understand the relationship between lobbying and corruption on the one hand, and political institutions on the other.

References

- Aidt, T. (2003), "Economic Analysis of Corruption: A Survey", *Economic Journal* 113(491), F632–52.
- Begovic, B. (2005), "Corruption, Lobbying and State Capture", *CDLS Working Paper* no. 0106.
- Bennedsen, M. and S. Feldmann (2002), "Lobbying Legislatures", *Journal of Political Economy* 110(4), 919–46.
- Besley, T. and A. Prat (2006), "Handcuffs for the Grabbing Hand? The Role of the Media in Political Accountability", *American Economic Review* 96(3), 720–36.
- Brunetti, A. and B. Weder (2003), "A Free Press Is Bad News for Corruption", *Journal of Public Economics* 87, 1801–24.
- Campos, N. and F. Giovannoni (2007), "Lobbying, Corruption and Political Influence", *Public Choice* 131(1), 1–21.
- Campos, N. and F. Giovannoni (2008), "Lobbying, Corruption and Other Banes", *IZA Discussion Paper* no. 3693.
- Damania, R., P. G. Fredricksson and M. Mani (2004), "The Persistence of Corruption and Regulatory Compliance Failures: Theory and Evidence", *Public Choice* 121, 363–90.
- Della Porta, D. (2004), "Political Parties and Corruption: Ten Hypotheses on Five Vicious Circles", *Crime, Law and Social Change* 42, 35–60.
- Grossman, G. and E. Helpman (1994), "Protection for Sale", *American Economic Review* 84, 833–50.
- Grossman, G. and E. Helpman (2001), "Special Interest Politics", *MIT Press*, Cambridge.
- Harstad, B. and J. Svensson (2010), "Bribes, Lobbying and Development", *American Political Science Review*, in press.
- Helpman, E. and T. Persson (2001), "Lobbying and Legislative Bargaining", *Advances in Economic Analysis and Policy* 1(1), article 3.
- Kunicova, J. (2006), "Political Corruption. Another Peril of Presidentialism?", mimeo.
- Kunicova, J. and S. Rose-Ackerman (2005), "Electoral Rules and Constitutional Structures as Constraints on Corruption", *British Journal of Political Science* 35, 573–606.
- Lambsdorff, J. G. (2002), "Corruption and Rent-seeking", *Public Choice* 113, 97–125.
- Montinola, G. and R. W. Jackman (2002), "Sources of Corruption: A Cross-Country Study", *British Journal of Political Science* 32, 147–70.
- Olson, M. (1965), *The Logic of Collective Action: Public Goods and the Theory of Groups*, Harvard University Press.
- Persson, T., G. Roland and G. Tabellini (1997), "Separation of Powers and Political Accountability", *Quarterly Journal of Economics* 112, 1163–202.
- Persson, T., G. Roland and G. Tabellini (2000), "Comparative Politics and Public Finance", *Journal of Political Economy* 108, 1121–161.
- Persson, T., G. Tabellini and F. Trebbi (2003), "Electoral Rules and Corruption", *Journal of the European Economic Association* 1, 958–89.
- Potters, J. and R. Sloof (1996), "Interest Groups: A Survey of Empirical Models That Try To Assess Their Influence", *European Journal of Political Economy* 12, 403–42.
- Sung, H. E. (2004), "Democracy and Political Corruption: A Cross National Comparison", *Crime, Law and Social Change* 41, 179–94.
- Treisman, D. (2007), "What Have We Learned About the Causes of Corruption From Ten Years of Cross-National Empirical Research?", *Annual Review of Political Science* 10, 211–44.