

## Comment

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*This paper uses the Mayer-Mujumdar (2002) framework to study the lobbying response from both import competing and exporting sectors to changes in the terms of trade. Following standard practice in international trade, it does so from the perspective of a small open economy with two sectors. To start with, the authors caution against Grossman and Helpman's (1994) influence-driven approach of trade policy ('money buys politics') conventionally used. Following Olson (1965), they argue convincingly that, in general, agents with a common interest (like different firms within the same industry) lack incentives to act collectively as a lobby. Hence they call for a new paradigm in which collective action is not merely assumed, but ends up as an equilibrium feature in a setting in which the agents behave selfishly.*

*The paradigm the authors offer combines elements of Austen-Smith's (1991) assumption — namely, 'money buys access' and, given access, 'time buys policies', meaning that lobbies transmit information to politicians — with reasonable and rich features on the industry structure. These features are (i) non-cooperative individual lobbying, (ii) heterogeneous firms and (iii) an increasing marginal cost of lobbying. As an aside, it should be stressed that the combination of these assumptions yields testable empirical predictions.*

*In this context, larger firms have stronger incentives to lobby and firms of identical size lobby the same amount at equilibrium. Lobbying firms are more capital-intensive.*

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Next, with this setting at hand, the authors study the responses by the lobbies (one in the export sector, one in the import-competing sector) after a fall in the world price of imports, taking general equilibrium effects into account. In this thought experiment, the results are the following. In the sector the world price of whose output falls, each lobbying firm's size shrinks, whereas the sector's lobbying effort may increase or not (this ambiguity stems from general equilibrium effects). Also, due to general equilibrium effects, the other sector in the economy lobbies more. Hence 'winners lobby harder' whilst 'losers' may not.

I conclude with a few comments on the lobbying model put forth in this paper. Firstly, the authors assume that lobbies buy access to politicians which they then use to transmit information. In this paper, this process is left in a black box. The information the lobbies transmit in the Mayer-Mujumdar setting is not made explicit<sup>1</sup>. It is assumed that giving more money to the politician gives more access, and more access results into higher import prices. In this sense, the closed-form solution to this model and to Grossman and Helpman's influence-driven approach are observationally equivalent. Since there is more micro-structure in the present setting (various firms in a typical sector lobby because doing so it is in their private interest), Grossman and Helpman's setting (collective action is assumed from the beginning) could also be interpreted as a reduced form of this one.

Second, the CEO's managing and lobbying efforts both have a strong public-good flavour. In this context, firms have a strong incentive to merge. Finally, since the production function is characterized by constant returns in capital and labour, it a-priori is not very clear how the third factor — the CEO — and the 'specific factor' (capital) share the Ricardian surplus. This issue matters in so far as the CEO is assumed to be a profit-maximising agent (if she gets a constant fraction of the profit, then the CEO obviously behaves as a profit-maximiser, as stated in the paper).

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<sup>1</sup> For multi-dimensional information transmission in a 'cheap-talk' setting, See BATTAGLINI M., «Multiple Referrals and Multi-Dimensional Cheap Talk», *Econometrica*, vol. 70, no. 4, July 2002, pp. 1379-1401. It might be interesting to add a stage in which the referrals buy access.

*Comment*

*To sum-up, the lobbying model put forth by Mayer and Mujumdar (2002) displays some nice features that make it superior to most competing models<sup>2</sup>. Moreover, the current paper shows convincingly that the model can easily be extended to tackle interesting comparative statics exercises.*

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<sup>2</sup> Its few idiosyncrasies can probably be easily addressed.

REFERENCES

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