# Essays on endogenous economic policy

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# 1. Introduction

Redistributive policies often seem to disregard public welfare and favor instead specific narrow interests. A frequent explanation is that policies can be influenced by the strategic activities of specific interest groups, or lobbies. These groups, remarkably diffuse in advanced economies,[1] are undisputedly acknowledged to be important actors in the policymaking process of representative democracies.[2] Since the pioneering studies on interest groups by Olson (1965), Stigler (1971), Posner (1974) and Peltzman (1976) an impressive literature has arisen.[3] The analysis of special interest politics, which initially appeared in the theories of industrial regulation,[4] and international trade thereafter,[5] has been applied to a wide range of economic contexts. The diffusion of these models has relatively reduced the focus on the median voter in the investigation of endogenous policymaking. As pointed out by Saint-Paul (2000, p. 920): "the presumption remains that the median voter theory is probably the wrong approach to understand redistribution. Redistribution consists of a large number of programs, and the median voter is unlikely to benefit from these individual programs".

Along the years, the analysis has contributed to open the 'black box' of interest groups' influence, which characterized early models,[6] providing a micro-founded framework for

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[1] The agency *Lobbyists.info* provides a data set of 22 thousand professional lobbyists and lobbying firms active in the US. In the European Union (EU), the estimated number of accredited lobbyists is between 15 and 20 thousand (www.alter-eu.org).

[2] The heterogeneity of interest groups hinders a comprehensive general definition. Some groups are very broad and poorly organized (think of unemployed or pensioners); others pursue collective goods such as environment, peace, and civic rights (Browne 1998). The political economic analysis generally refers to interest groups, acting as single agents, which have already solved the free-riding problems concerning their formation and organization (Olson 1965). Coates *et al.* (2007), Dougan and Snyder (1996), Le Breton and Selanie (2003), Mitra (1999), Sadiraj *et al.* (2007) analyze the endogenous formation of interest groups. Aidt (2002) investigates the decision of existing groups to become politically active, while Felli and Merlo (2006) focus on the legislator's selection of the lobbies allowed to participate in policymaking.

[3] Several surveys focus on different issues concerning the political influence of lobbies, such as Austen-Smith (1997), Dal Bò (2006), Grossman and Helpman (2001, 2002), Leidy (1994), Mazza (2001), Mueller (2003), Nitzan (1994), Persson and Tabellini (2000, 2002), Potters and Sloof (1996), Sloof (1998), Spiller and Liao (2006), Tollison (1997), van Winden (1999, 2003).

[4] See also Becker (1983, 1985).

[5] See Findlay and Wellisz (1982), Hillman (1982, 1989), Magee *et al.* (1989), Mayer (1984).

[6] These models of interest groups concentrated mainly on the demand side, without indicating explicitly what activities determine the influence of interest groups, and how.

the determinants of political power of interest groups. In particular, these groups have three main instruments to influence policymaking: information transfers, pressure, and voting.

In the US politics, where the activities of interest groups are well documented, lobbies invest a substantial effort to promote their policy goals. Lobbying expenditures increased twofold through the last decade, from \$ 1.26 billion in 1997 to \$ 2.82 billion in 2007.[7] These sums can be used for several goals, such as organizing and/or attending meetings, hearings and public events involving the participation of politicians and public officials. In these occasions, interest groups have the opportunity to convey ***information*** in order to influence policy decisions. For instance, interest groups may provide information to politicians about issues relevant for their (re)election: preferences of the group, or of other groups of voters, outcomes of alternative policies, performance of public agencies. Also bureaucrats may welcome information, taking advantage of the expertise and technical reports provided by interest groups.[8] Clearly, public decisionmakers are aware that interest groups may not share the same objectives and, thus, have an incentive to misrepresent the truth. Different studies investigate, in a variety of contexts, under what conditions information transmission by interest groups may actually be influential. Typically, the credibility of a group increases when it bears some cost to convey the message.[9] Furthermore, an interest group may direct information to the public or to its own members. For instance, political endorsement by a group signals its preferred electoral platform and, thus, may influence the positions of the candidate (Grossman and Helpman 1999)[10].

Models including uncertainty and information transmission have contributed a large deal to our understanding of the incentives for lobbying. They have also provided explicit behavioral underpinnings for possible specifications of the objective functions of policymakers.[11] However, a main difficulty about information transmission concerns the difficulty to verify it empirically.

The essays presented here focus on the remaining two instruments of influence, namely pressure (through contributions) and voting. Lobbies can exert ***pressure*** through the use of ‘deeds’ generating opportunity costs related to the enforcement of various forms of threats − some legal (strikes, public gatherings, litigations) others not (terrorism or kidnapping)[12] − or to the offer of positive rewards. The latter case is more frequent, an example of which being campaign contributions to candidates and parties. This important phenomenon has

[7] Data are available at the Center for Responsive Politics (www.opensecrets.org)

[8] This appears to be the case in the European Union. Mazey and Richardson (1993, 208-209) affirm: “on the whole, the EC administration is open to the exterior. A principal reason for this openness is the fact that the Commission, despite being ‘technocratic’, is relatively small (…) and inexpert in the sense of lacking detailed technical knowledge (…). It is therefore reliant upon external evidence from groups or ‘experts’.”

[9] Austen-Smith (1997), de Figueiredo (2002), Grossman and Helpman (2001), Sloof (1998), van Winden (2003) offer surveys on this issue.

[10] Potters *et al.* (1997) combine endorsement through costly signalling with campaign contributions (see *infra*) investigating when a lobby would prefer one instrument over the other.

[11] See, for instance, Lohmann (1995) and Potters and van Winden (1990).

[12] The first category of threats may also imply information provision for the public. As for the second category, Dal Bó and Di Tella (2003) present a model where ‘nasty’ pressure groups may influence successfully a benevolent policymaker with personal threats. Dal Bó *et al.* (2006) consider the case when groups may attempt to influence policies using bribes in addition to threat.

been extensively investigated, again with a predominant focus on the US politics, where campaign contributions present a magnitude comparable to that of lobbying expenditures. According to the report *Influence Inc. 2000* by the Center for Responsive Politics: "in the 1999-2000 election cycle, nearly $3 billion was spent on federal elections, or $1.5 billion per year. At $1.45 billion, lobbying expenditures in 1999 were virtually identical to the annual average for campaign expenditures".[13] A similar amount of campaign contributions was given in 2006 (while lobbying expenditures reached $ 2.6 billion). In that year, the share of contributions from Political Action Committees (PACs) – which have the purpose of raising and spending money to support candidates – accounted for only $ 520 million, due to ceilings on contributions.[14] The empirical verification whether campaign contributions indeed influence policymaking is not univocal. However, there is a significant literature indicating that campaign contributions do influence legislatorial voting, especially when this concerns issues that are crucial for narrow and localized interests and the outcome has little visibility - as for protectionist measures.[15]

The literature attributes four primary goals to campaign contributions. First, they can be used to strengthen the credibility of an interest group message (Austen-Smith 1995; Lohmann 1995). Models allowing for multiple means of influence typically show that the use of one instrument causes an externality on the use of the other one.[16] Second, contributions may be useful to gain access. The policymaker could require them to sort out groups with valuable information, or to collect resources through meetings, or as a fee for her time.[17] Third, contributions could be given to affect the electoral outcome. Support models take the policy platforms as given and interest groups contribute to the preferred candidate (position induced contributions); then contributions are influential because candidates locate themselves exploiting the trade-off between the loss of votes and the

[13] See www.opensecrets.org/lobby/lobby00/summary.php.

[14] PACs face a limit of $5,000 per candidate committee per election and of $15,000 per year to any national party committee. However, virtually no limits exist on the contribution of 'soft-money' to parties that can spend it for their organization and for congressional and presidential elections, as long as the money is not allocated to the benefit of a single federal candidate. Ansolabehere *et al.* (2003) suggest that the large amount of individual contributions would make PACs less needed by politicians. They interpret individual contributions as an instrument for ideologically motivated subjects to engage in political participation.

[15] See Baldwin and Magee (2000), Gawande and Bandyopadhayay (2000), Gawande and Krishna (2005), Goldberg and Maggi (1999). See also Potters and Sloof (1996) and Morton and Cameron (1992) for surveys of previous studies in different contexts. PACs also show rational behavior in their choices of contributing, for instance adopting mechanisms that could prevent reneging by legislators; such as the choice of appropriate timing for giving (Stratmann 1992, 1995, 1996, 1998).

[16] Dahm and Porteiro (2005) illustrate that informational lobbying has a strategic effect on pressure activity: if informational lobbying is successful, this effect is positive, otherwise the effect is negative. Also Bennedsen and Feldmann (2006b) show that the collection of information by a lobby creates an information externality: it leads the policymaker to infer that information is withheld, and increases the amount of contribution required for influence.

[17] In Austen-Smith (1998) less informative groups have to pay a higher price of access. Ansolabehere *et al.* (2002) find evidence connecting campaign contribution to expenditure to collect information. Langbein (1986) suggests that contributions may be used to ration time assigned to a lobby, and observes that the congressmen who spent more time in meetings with lobbyists raised more PAC contributions during the 1975-76 election cycle. The estimated price schedule indicated a cost of $6,390 for 25 minutes of access.

increase in contributions.[18] Alternatively, exchange models assume that interest groups offer contributions as a *quid-pro-quo* to obtain favors (service induced contributions).[19] Fourth, contributions can buy influence over the decisions of a policymaker. Grossman and Helpman (1994, 2001, and 2002) provide a model, based on the common agency framework developed by Bernheim and Whinston (1986), where, in equilibrium, their lobbying endogenously augments the political weights of interest groups.[20]

Clearly, the idea that money is explicitly traded for votes by the congressmen seems questionable.[21] However, a vast array of exchanges (not always easy to detect) can be envisaged. Interest groups can offer to the policymaker (or people connected to her) anything that is costly for them and valuable for the policymaker, such as campaign contributions as well as future appointments ('revolving-doors'), in-kind services (perks, ghost writing, free holidays, etc.), gifts or even bribes.

The influence of an interest group may also depend on its ability to guarantee to a candidate the ***votes*** of its members. The report *Influence Inc. 2000*, previously mentioned, reveals that:

> "For some groups, campaign contributions and lobbying are only peripheral extensions of political power. For example, the Christian Coalition dramatically slashed its Washington presence from $8.0 million in 1997 to just $1.3 million in 1999. Since the Christian Coalition's real power lies in its ability to get its members to the polls on election day, a decline in lobbying spending hardly reflects a drop-off in the group's political power. Similarly, labor spending remained virtually constant from 1998 to 1999 despite a series of trade measures opposed by the unions. However, labor's power is in the votes its members possess and, to a lesser extent, in its campaign contributions. Thus, its lobbying expenditures bear little relation to its real power. Groups like the American Association of Retired Persons, the American Israel Public Affairs Committee, and the Sierra Club all fall into the category of groups whose lobbying power is greatly magnified by their membership base."[22]

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[18] Unfortunately, these moves may lead to convergence, in which case no group contributes. In order to avoid such a problem, various assumptions (such as ideological restraint) have been adopted in the literature (see Austen-Smith 1996, Potters and van Winden 1996).

[19] In Baron (1989) and Snyder (1990) candidates use their position to extract contributions from groups in exchange for services to be provided after election. The main inadequacy of these models is the lack of explanation about how contributions influence votes. Probabilistic voting models have contributed to shed light on this issue suggesting that candidates can use campaign contributions to inform voters and increase the probability of support (Austen-Smith 1987; Baron 1994; Coate 2004; Mayer and Li 1994; Grossman and Helpman 1996). For the different impacts of advertising versus persuasive campaign see Mueller and Stratmann (1994).

[20] The use of contributions to buy influence is considered in chapters 2 and 3.

[21] Austen-Smith (1991) opposes the hypothesis that contributions can buy influence over the legislator, because it would imply that voters fail constantly to recognize that campaign expenditures can be exchanged for redistribution at their expenses, as in the case of tariffs. Fremling and Lott (1995) reply arguing that it is reasonable to expect that voters have difficulties in identifying which variables are related, since even public choice scholars still debate about the effect of contributions on policies.

[22] See www.opensecrets.org/lobby/lobby00/summary.php

Probabilistic voting models[23] suggest that the homogeneity and organization of interest groups reduce the uncertainty of candidates about the voting behavior of their members. Thus, candidates may find beneficial, in view of their re-election, to propose policies that favor specific interest groups.[24] In Coughlin *et al.* (1990), for instance, electoral competition will lead candidates to maximize a ‘political’ welfare function, where the utility of each voter receives a weight positively influenced by the density of an idiosyncratic bias (e.g. due to ideology) and by the size of the group he or she belongs to.[25] Therefore, interest groups may influence public policies through their dimension and homogeneity.[26] Clearly, the influence highlighted by the probabilistic voting models can be complementary to the influence that groups may have because of other activities such as information transmission or pressure.

## Objectives and methodology

Notwithstanding the remarkable advancements of the literature, most models present a rather narrow view of the influence that interest groups may exert on policymaking. Persson and Tabellini (2000, p. 160) observe that: “although these approaches yield useful insights, each still gives only a partial answer to the question of which groups are the most powerful. A formal integration of the different approaches is only beginning to take shape”. The analysis has recently followed different directions to provide a more comprehensive approach.

One strand of research relaxes the common assumption of a single instrument of influence. This extension provides a more detailed description of the effective influencing ability of interest groups. The connected effects of multiple instruments on public policies lead to results that may differ substantially from those derived under a single instrument hypothesis (see van Winden 2003).

A different line of investigation, followed in Chapters 2 and 3, expands the aims of lobbies allowing for their direct influence on more decisionmakers.[27] Public policies are, in fact, shaped by the choices of more actors. They may interact at the same political or administrative tier – within one institutional body (as in the case of legislatures) or separately (e.g. different regions or states) – or across different tiers (e.g. central and local

[23] With probabilistic voting, candidates are uncertain about how individuals are going to vote in an electoral contest. It is then assumed that the probability that an individual will vote for a candidate will be an increasing function of the difference in the utilities promised by that candidate and the opponent. This entails that a candidate simply cannot be sure to obtain a vote from an individual in exchange of a policy promising a higher utility than that promised by the other candidate. See Borooah and van der Ploeg (1983) Coughlin (1992), Coughlin and Nitzan (1981), Coughlin *et al.* (1990), Lindbeck and Weibull (1987).

[24] Interest groups with low ideological motivations could also represent swing voters, crucial for winning the elections (see Persson and Tabellini 2000).

[25] It is interesting to note that these models produce an explicit objective function for the policymakers similar to that derived in Grossman and Helpman (1994), with the difference that political weights are now determined by the attributes of the groups and not by their pressure.

[26] Chapter 4 illustrates a similar model of influence.

[27] Few papers explicitly consider the existence of multiple channels of influence. See the Introduction of Chapter 2.

governments, legislators and bureaucrats). A plethora of decisionmakers obviously generates several different targets of influence for interest groups. On the contrary, most models arbitrarily restrict the influence of interest groups to a single agent. This assumption has some shortcomings. For instance, it limits the extent of competition. With multiple available targets, an interest group with uneasy access to one decisionmaker could prefer to shift lobbying to another, more favorable one. Therefore, the allocation of resources to seek influence will depend on the political authority of a decisionmaker and her leaning towards competing interest groups. Moreover, the relationships between different decisionmakers are likely to be affected by their respective exposure to lobbying. Then, multi-target lobbying models seem particularly appropriate for the analysis of the separation of political powers and decisionmaking in hierarchical organizations and governments.[28]

The latter topic is addressed by the first two essays of this study that account for multiple channels of influence. Chapter 2 presents a political economic model of redistributive policy resulting by the combination of the separate and sequential decisions of two decisionmakers. A legislator defines the size of revenue and an executive agency, a bureaucrat, determines the allocation of the public budget to two projects accruing to groups with different interests. Both decisionmakers are subject to the influence of interest groups. Influence is analyzed according to the menu-auction model of common agency with perfect information developed by Bernheim and Whinston (1986). This approach has been adopted in many political economic studies, starting with the influential study of lobbying for tariffs by Grossman and Helpman (1994).[29] In their model, interest groups act

[28] Limiting lobbying to one decisionmaker may lead to contrasting interpretation of the influence of lobbies. An instructive example is offered by the theory on delegation of political authority to bureaucracy. On one hand, some models assume that bureaucratic agencies are subject to the capture of interest groups, causing different forms of reaction of the legislator to reduce this phenomenon (Bennedsen and Feldmann 2006a; Laffont and Tirole 1993; Spiller 1990). On the other hand, 'fire alarm' models suppose that interest groups are, for the legislator, a source of information helpful to strengthen control over bureaucracy (Banks and Weingast 1992; Epstein and O'Halloran 1995; Lupia and McCubbins 1994; McCubbins and Schwartz 1984). Therefore, it remains difficult to ascertain how interest groups affect the relationship between legislature and bureaucracy. If interest groups are indeed like Janus Bifrons, looking at one face will tell you only half of the truth.

[29] See also Grossman and Helpman (2002) and Coate and Morris (1999) for other application of the model to the political economy of trade. In the same vein, Levy (1999) extends the model in order to confront the organized interests of the import-competing industries against those of the exporting industries. Bennedsen (2000) investigates lobbying in state owned enterprises. Dharmapala (1999) analyzes the capture of committees for spending programs. Dixit (1996b) studies the endogenous decision on consumer and producer taxes and subsidies. Dixit *et al.* (1997) generalize the Bernheim-Whinston model to the case when utilities are not transferable in order to incorporate the income effect useful for the evaluation of fiscal redistribution. Besley and Coate (2001), Grossman and Helpman (1996) and Prat (2002) apply this model to electoral competition where contributions are used to improve the probability of success, while Bardhan and Mookherjee (2000) extend that analysis to investigate whether central or local electoral competitions will be more easily captured. Testa (2005) introduces upper and lower bounds on redistribution as additional instruments of influence. Helpman and Persson (2001) examine when a majority rule legislature is lobbied and each interest group offers contribution to a single congressman. Damania et al. (2004), Le Breton and Selanie (2003) and Mitra (1999) take into account the endogenous formation of organized groups. Persson and Tabellini (1994) study lobbying in a federal context. Rama and Tabellini (1998) present a model where capital and labor compete by lobbying the government for trade and wage policies. Bebchuck and Neeman (2007) investigate how public companies and investor intermediaries can influence regulation for investor protection, whereas Marceau and Smart (2003) show how lobbying for tax differentials among industries

as principals precommitted to a menu of policy contingent contributions offered, simultaneously and noncooperatively, to a common agent: an incumbent policymaker. Successively, the latter chooses a policy that maximizes her objective function including the sum of contributions and social welfare.[30] In a subgame perfect Nash equilibrium, contribution schedules and policy are such that, for every group, they are the best response to the contribution schedules offered by the other groups. The policy selected maximizes the objective function of the agent taking into account the optimal contribution schedules offered by the groups. The interest group influence is micro-founded because it derives from the outcome of the game. In fact, under some assumptions,[31] in a 'truthful' equilibrium[32] the policymaker maximizes a political welfare function, where the utility of each contributing group is weighted more than it would be in absence of contributions.[33] Another remarkable result of the menu auction model is that competition among interest groups reduces the influence that a single lobby may exert. Thus, in the extreme case when all groups are organized, the policymaker chooses the same policy that would be selected without lobbying from any group.[34] Moreover, the truthfulness refinement allows the calculation of equilibrium contributions of lobbies. This proves to be useful for comparing the welfare effects of different institutional and lobbying conditions.

The model in Chapter 2 extends the menu-auction model by introducing two decisionmakers, acting as separate common agents of the interest groups. Both are lobbied in a sequence (first the legislator and then the bureaucrat) through the offer of policy contingent contribution schedules.[35] In addition, a hierarchical relationship is assumed

may favor the owners of sunk capital. Aidt (1998), Conconi (2006) and Fredriksson (1997) examine the influence of environmental groups on policy-making. Bellettini and Berti Ceroni (2008) take into account the pressure of entrepreneurs on immigration policy.

[30] The problem of non- enforceability of contracts between policymaker and interest groups is generally assumed to be solved by the reputation created by the repetition of interactions.

[31] The utility functions of the lobbies are assumed linear in the payments and the policymaker maximizes the sum of contributions and social welfare.

[32] A disadvantage of the menu auction approach is the existence of many equilibria potentially inefficient. To avoid this problem, Bernheim and Whinston (1986) apply a refinement selecting equilibria that implement efficient actions. They refer to equilibria arising when (globally) *truthful* contribution schedules are offered to the agent. These are schedules revealing the willingness to pay for any change in the policy selected. It is shown that truthful strategies do not imply any cost for the principals because the set of best responses to any strategies played by opponents includes a strategy that is 'truthful'. In addition, truthful Nash equilibria have the appealing characteristics of being coalition-proof [cf. Bernheim, Peleg and Whinston (1987)].

[33] This powerful result is further strengthened by Grossman and Helpman (1996) where a similar function results to be the optimal strategy for candidates using contributions to affect voting of less informed individuals.

[34] The term lobbying is often used to refer to influence attempts based on information transmission. This study adopts a broader interpretation of lobbying that includes also the supply of campaign contributions (e.g. as in Persson and Tabellini 2000).

[35] In line with Grossman and Helpman (1994), contributions can include "anything that can be used to sway the specific choices or the strategies of another individual" (Dahl 1961, p.226) and implies a cost for the lobbies. In Grossman and Helpman (1994) compensating transfers offered by the lobbies can also be interpreted as plain bribes. Few recent studies make a distinction between lobbying and bribery in order to verify the differential impact of complementarity (Harstad and Svensson 2006) or substitutibility (Damania *et al.* 2004; Giovannoni and Campos 2007).

between the legislator and the bureaucrat, in the sense that the latter may disregard the objectives of the former at some cost that can be compensated by interest groups. The combination of sequential decisionmaking and lobbying implies that the interaction between the agent at one tier and the interest group(s) depends on the exchange between the same interest group(s) and the agent at the other tier. The results, concerning the effects of multi-tier lobbying and legislatorial oversight, substantially qualify conventional wisdom related to one-tier lobbying. The potential advantages of a double opportunity to influence decisionmaking are confronted with the disadvantages of extra lobbying expenditure and separation of powers. A key indication is that the existence of multiple opportunities of lobbying may benefit neither the interest groups nor the decisionmakers. The reason is that the policymaker at the upper hierarchical tier tries to discourage lobbying at the other tier by reducing the budget to distribute, and may make lobbying wasteful even when there is no competition from other lobbies. Regarding the effect of multi-tier influence on legislatorial oversight, it is shown that this can be perfectly substituted by competitive lobbying at the bureaucratic tier. Moreover, extensions of the model indicate its usefulness for the analysis of decisionmaking in other multilevel governance structures, like federations or firms.

In Chapter 3, the same model with two-tier influence is applied to the analysis of the effects of political centralization within the EU. It is feared that a process of further integration would favor powerful interest groups able to lobby the EU policymakers. Persson and Tabellini (1994) argue that political centralization will increase the size of the government because of free-riding incentives created by federally funded programs with localized benefits. To better capture the EU institutional framework, the analysis applies the two-stage budgeting process described earlier to a federal context, where national interest groups compete for the allocation of funds budget. The Council chooses the size of the budget at one stage, while the Commission chooses the share of the revenue going to two different states at the next stage. State communities may seek influence at both tiers of decisionmaking.

It is shown that separation of powers in the budgeting process restricts free riding and, therefore, reduces the incentives to exert influence. Therefore the size of the budget is unaffected by centralization, in which case interest group influence is restricted to the legislator. Furthermore, also two-tier influence does have an impact. If both policymakers can be influenced by the state interest groups, then the size of the public sector may actually *reduce* under centralized policymaking.

The final essay addresses an issue often neglected in the literature, namely the dynamics in the composition of interest groups. Although most models assume a given size and organization of interest groups, they can be influenced by different forces, such as economic and/or demographic changes. This study investigates the impact of immigration on the political influence of interest groups in a two-country political economic model of income redistribution with internationally mobile labor. The political economic model differs from that used in the previous chapters, because it does not account for lobbying through contributions. Political influence is determined by the size and homogeneity of groups, in view of electoral support[36] and pressure (strikes, public gatherings, etc.)

[36] This assumption is in line with the probabilistic voting outcome illustrated previously.

Migration can be exogenous and/or endogenous (i.e. determined by labor income differentials) and has an ambiguous impact on the ability of a group to influence policymaking. On one hand, large group size may imply more votes for the politician and thus enhance the political power of that group. On the other hand, excessive size may encumber interior organization and trigger free-riding, weakening the ability of the group to successfully pursue the common goals of its members. It is shown that, when the positive effect dominates, immigration can increase the transfers to, and the income of, the mobile group. Moreover, migration regulation, tax-transfer policy competition and coordination and, finally, coordination of regulation policies are investigated. It results that the selection of any of those regimes will depend on the distribution of political influence among the relevant groups in the two countries.

This study is organized as follows. Chapter 2 presents a model of hierarchical decisionmaking with two-tier lobbying. Chapter 3 investigates the impact of centralization on the size of the public sector. Chapter 4 examines the effects of immigration on redistribution when migrants affect the political influence of labor in the host country.