SITUATIONAL HITTING: STRATEGIC LOBBYING IN A STRATEGIC LEGISLATIVE ENVIRONMENT

A Thesis

by

ALEXANDER MORIN

Submitted to the Office of Graduate Studies of
Texas A&M University
in partial fulfillment of the requirements for the degree of

MASTER OF ARTS

December 2010

Major Subject: Political Science

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Approved by:

Chair of Committee,	James Rogers
Committee Members,	Joseph Ura
	Gina Reinhardt
Head of Department,	James Rogers

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ABSTRACT

Situational Hitting: Strategic Lobbying in a

Strategic Legislative Environment. (December 2010)

Alexander Morin, B.A., University of Pittsburgh

Chair of Advisory Committee: Dr. James Rogers

Policy-minded legislatures have a number of tools to implement policy at their disposal. On the one hand, they can write specific legislation and ensure that their policy wishes are accurately carried out. On the other hand, legislatures can delegate this authority to administrative agencies, and, with broad authority, allow them to formulate policy in a manner consistent with the preferences of the agency. This "delegation game" has received significant scholarly attention, and scholars have noted that the political context within which legislatures make this decision affects whether or not delegation will occur. Scholars have also examined the role that interest groups play in this game, yet studies at the interest group level are few in number. Interest groups are strategic actors that formulate strategies of lobbying in a manner that maximizes their potential influence per their resources. As such, interest groups should formulate lobbying strategies that take into consideration the delegation game that legislatures play when formulating policy.

In this paper, I develop a game-theoretic model of legislative delegation and examine interest group lobbying strategies within that context. The equilibria from the game that I present: (1) Confirm previous studies of legislative delegation that argue legislatures delegate in a strategic manner given differing political conditions and (2) Suggests that indeed interest groups are strategic actors who develop lobbying strategies based on the expected actions of the legislature.

For my parents, Maureen and Paul

and my three brothers, Nick, Jon and Sam

ACKNOWLEDGEMENTS

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1. INTRODUCTION

> "Congress is doing this in broad strokes... where the rubber meets the road is in the regulatory process"-Scott Talbot, Lobbyist, Financial Services Roundtable (Appelbaum 2010).

In a recent New York Times article analyzing the at-the-time-pending Restoring American Financial Stability Act of 2010, Binyamin Applebaum chronicled Richard Hunt, president of the Consumer Bankers Association, as he prepared his organization for the second step in their strategy to influence the implementation of sweeping federal regulations of the financial industry following the recession of 2008. Hunt directed his team of lobbyists to shift their focus to the rule-making process in the federal agencies charged with rule creation and implementation, and the Board of Directors followed with increased budget for the administrative lobbying arm of the organization.

This paper highlights a critical decision that lobbying organizations are forced to make on a daily basis. That is, which venues to lobby? Lobbyists are constrained by their resources yet face a multitude of avenues by which they can seek to alter policy in their favor. Lobbying organizations can focus attention and resources on one venue or several, and their decisions will impact their success at realizing their policy goals. Lobbying organizations must be strategic in this decision, given that the other relevant actors - specifically the legislature, the executive and the courts - are equally as strategic in pursuing their own policy goals.

Given that the legislature is a first-mover regarding new, substantive legislation in most cases, the decision to lobby begins in the legislature. The legislature can write specific legislation on its own, or delegate this authority via the rule-making process to the bureaucracy. Given delegation, interest groups face a second decision: whether or not to lobby a

This thesis follows the style of the *American Political Science Review.*

given agency. Given the costs associated with lobbying, a strategic interest group should anticipate the delegation strategies of the legislature so as to maximize their influence per dollar. If interest groups can anticipate delegation, then minimal resources should be spent on lobbying the legislature and more should be spent on lobbying the rule-making agency that the legislature tasks with formulating and enforcing some policy.

Scholars have studied delegation strategies of legislatures and have identified conditions under which legislatures are more or less likely to delegate rule-making authority. An inclusion of interest groups and their lobbying strategies vis-á-vis the delegation strategies of the legislature in this calculation is a critical puzzle for scholars of both interest groups and bureaucratic/legislative interaction. I develop a game-theoretic model demonstrating conditions under which lobbying organizations lobby two different bodies: the legislature and/or the bureaucracy. I present a set of equilibrium that confirms the previous literature's beliefs about conditions under which legislatures either write legislation directly or delegate this process to a rule-making agency. These equilibrium also suggest the conditions under which lobbying organizations will lobby either the legislature and/or the agency.

The paper continues as follows. I first present the extant literature on both legislative delegation strategies and interest group lobbying strategies. I then develop and present an original game-theoretic model of legislative-agency-interest group interaction and present a set of equilibria. I then situate the results of the model in the previous literature and discuss its implications.

2. LEGISLATIVE DELEGATION

Theories of legislative delegation - that is, the power to formulate specific policy rules and regulations - draw on economic theory to explain when legislatures will write specific provisions themselves and when they will delegate that authority to a third party agency. Specifically, the idea of transactions costs play a central role in this decision. Transactions costs are the costs associated with implementing a decision or as Dixit defines, “anything that impedes the specification, monitoring, or enforcement of an economic transaction” (Dixit 1996). In the present case of writing legislation directly, these include contracting and enforcement costs, fact-finding and impact analysis, and others. In contrast, the costs of delegation primarily include bureaucratic drift and bureaucratic non-capacity. A cost-benefit analytic framework would then suggest that a legislature would delegate when the transactions costs of doing so are less than those of writing legislation directly.

The basic decision that legislators face is on its face rather simple: to delegate or not to delegate. Benefits of delegation include policy expertise by the agency, focused attention on more pressing legislative matters, shirking blame for failed policy, and mitigating the problems associated with policy commitment within the legislature (Krause 2010; Fiorina 1989; Moe 1987). Potential costs of delegation surround primarily the notion of bureaucratic drift - that is, self interested bureaucrats with an agency implementing policy in a manner divergent to the preferences of the delegating agency (see McNollgast 1987, 1989; Macey 1992; Shepsle 1992). The crux of this argument is that the multiple actors in the policy delegation problem (agency, legislature and potentially peripheral figures such as the president and median committee member) are self-interested and can seek, if given the opportunity, to move policy closer to their ideal point at the expense of the wishes of the delegating legislature.

Tools exist that allow for delegating legislatures to check the actions of bureaucrats. Procedurally, legislatures maintain budget authority, and the legislative veto (Moe 1989).

Legislatures also maintain direct authority over agencies and can call for investigative hearings at their leisure (Davidson et. al. 2004). Scholars have also developed theories of legislative control of bureaucracy through the lens of third parties - specifically interest groups. McCubbins and Schwartz (1984) suggest that interested third parties can act as “fire alarms” if an agency veers too far off course with a specific policy and alert Congress. Additionally, McNollgast (1987) developed their “deck-stacking” thesis arguing that “. . . political actors [Congress] stack the deck in favor of constituencies who are the intended beneficiaries of the bargain struck by the coalition which created the agency” (261). While this thesis has been critiqued by numerous scholars (see Bawn 1995; Epstein and O’Halloran 1994; Hamilton 1996; Hamilton and Schroefer 1994; Balla 1998), it essentially argues that delegating legislatures can ensure compliance with legislative wishes by forcing agencies to engage in procedures that allow for favored third party interests to influence the final outcomes, with subsequent policy at or near the ideal policy preferences of the legislature.

Despite these procedural and political control mechanisms, legislatures still maintain the ability to write specific legislation that will limit the ability of third parties including agencies, courts and other actors from shifting policy away from its ideal point. Bureaucratic drift is limited when the legislature decides to write and enact policy on its own.

Given this, the political conditions that legislatures face are an important consideration in the delegation calculus. Epstein and O’Halloran (1999) developed a comprehensive transactions cost approach to the puzzle of legislative delegation applying an economic transactions cost framework to the delegation of power. Through the development of an extensive formal model, the authors describe political contexts within which different legislative delegation strategies will develop. Their model posits the strategic interaction between the median floor member of a legislature, the president (representative of the agency) and the median member of a legislative committee with an informational advantage. The authors conclude three primary results from their model: (1) The closer the preferences of the committee median to the median floor member, the more likely the legislature will delegate; (2) The closer the preferences of the president to the median floor member, the more likely the legislature will delegate; and (3) The more uncertainty about a specific bill or policy, the more likely the legislature will delegate.

These three conclusions provide an intuitive framework within which to consider the problem of delegation. If favorable agencies exist, legislatures should delegate more (thus getting preferred policy at a reduced cost) and if unfavorable agencies exist, write legislation directly to avoid bureaucratic drift. Epstein and O'Halloran (1996) make this point specifically in the context of divided government, and find that during times of divided government, legislatures delegate authority less often with significant policy consequences. If a large amount of uncertainty exists surrounding a specific bill or policy, legislatures should delegate to expert agencies who can engage in more extensive fact-finding and background research. Volden (2002) tested the uncertainty hypothesis and confirmed the findings of Epstein and O'Halloran using a study of AFDC (Aid to Families with Dependent Children) payments by state agencies.

Subsequent studies of legislative delegation identify other political circumstances and contexts within which the delegation calculus changes. Huber and McCarty (2004) suggest that bureaucratic capacity can play a role in the delegation calculus. Specifically, the authors argue that low-capacity agencies are less able to implement the policy preferences of the legislature, thus potentially making the legislature *worse off* despite convergent preferences. This suggests that delegation to a like-minded agency is more complex than a simple ideological comparison of policy preferences.

Lastly, the role of the Courts has been noted as an element of the delegation calculus. In many ways, courts act as venues of last result and maintain final authority on laws and public policy. The power of the courts suggests two things: (1) That legislatures can *use* the courts as an ally and shift implementation of statutes to them (Fiorina 1982; Stephenson 2006; Tiller 1998;) or (2) be forced to alter their behavior for fear of being overturned by divergent Courts (Hannsen 2000). Essentially, these scholars argue that the existence of judicial review plays a role in the delegation decision. Divergent courts threaten legislation written directly by legislatures and thus serve as an impetus for delegation. Convergent courts however serve as a strong motivation, despite costs of writing legislation directly, for legislators to bear costs directly and write legislation (see Rogers and Socker Nd.).

The literature on legislative delegation while not complete has concluded that the political context matters and it can alter the calculus that legislatures make when considering whether to delegate policy-making authority to a bureau or not. With this in mind, I now turn to interest groups and their lobbying strategies.

3. INTEREST GROUP LOBBYING STRATEGIES

Original theories of group involvement in the political process focused on the collective action problem facing individuals with shared interests (Schattschneider 1960; Olsen 1971). Placed in the context of attempts at influencing the outcomes of government processes, interest groups are often treated as suppliers of information (Milbrath 1963; Salisbury 1984; Schlozman and Tierney 1986). As such, interest groups seek to provide government decision makers with information about public policy from a variety of angles. Information may be general regarding broad public policy agendas, specific to a specific government official's constituency or area, or may deal with electoral consequences of certain actions over others. Government decision-makers are busy and sometimes overwhelmed individuals, forced to make policy decisions regarding a host of issues and policies they may have little or no expertise about. From a legislative point of view, legislators often may not know the the effect on both individuals and groups in their district or state and the nation as a whole some policy will have. Interest groups provide an avenue of information that government decision-makers can utilize to make more informed decisions.

That said, interest groups are strategic in the information they provide and who they provide information to. First, interest groups can focus their attention on legislative lobbying. Legislative lobbying consists of focusing attention on certain individuals in a legislative chamber who have influence on the content of specific legislation. Scholars have wrestled with the question of exactly who in the legislature gets lobbied for decades and have no clear answer. Studies have suggested that both on-the-fence legislators are lobbied in an attempt to pull undecided into the camp of the interest group and like-minded legislators (so-called "lobby your friends" strategy) in an attempt to build strong persuasive legislative coalitions are lobbied (see Wright 1990; Hojnacki and Kimball 1998). Wright (1990) also suggests that relevant committee members are also targeted, as they are the front-line decision makers on the content of bills that reach the floors of the chambers.

Beyond the question of who gets lobbied, scholars of interest groups have tested different theories of actual influence. First, which stage of the legislative process to measure has been an issue of non-consensus among scholars. Studies examining vote outcomes would seem to be the most logical place to look for influence, yet scholars have suggested that influence can come in a number of different stages of the legislative process including simple agenda setting and debate terms (Schattesneider 1960), and the committee stage (Hall and Wayman 1990; Hojnacki and Kimball 1998, 2001). These studies and others have produced mixed results. Interest group action does matter; the disagreement comes in what manner.

The influence of campaign donations in the legislative arena has brought little consensus from scholars as well. At the one extreme, we might expect Members of Congress (MCs)to vote entirely with their own pocketbook in mind - casting votes in favor of groups and industries that financially contribute to their election campaigns. On the other extreme, we might expect money to have no influence at all. The reality tends to suggest that the effect of campaign contributions is somewhere in the middle. Mitchell and Munger (1991) make three observations about the influence of money in campaigns. First, interest group activity is less likely when constituents are well informed; MCs seek committee assignments in line with constituent's interests; and committee membership affect when and where MCs raise money (from Ainsworth 2002). Essentially this suggests that indeed, interest groups provide information not only to uninformed MCs about specific policies but also to uniformed publics in an attempt to mobilize electoral support. It also suggests that the appearance of vote-buying and strong influence of campaign contributions comes through as a result of the institutional design of Congress and the committee system. How influential money actually is remains an ongoing question for interest group scholars.

Despite the lack of consensus, the studies do agree universally on one point: that interest groups attempt to influence the outcome of the policies considered in the legislature and do succeed in some fashion. Interest groups expend large amounts of resources to that end. Nearly ever week brings stories of interest group involvement in the day-to-day workings on the legislature. Whether it be interest groups seeking to influence the outcome of legislation or stories of political action committee (PAC) donations, interest groups are a major player in the American system of government. Lobbyists in the legislative arena engage in far more public lobbying; that is, participate in legislative hearings and markups, writing specific provisions of bills, publicly engaging Members of Congress, attending political rallies and feudalises, and making publicly reported financial donations to Members of Congress. The work that interest groups and lobbyists do in the legislative arena is highly public and open to more intense scrutiny.

However, legislative lobbying is only one avenue of influence that interest groups can utilize. The policy formation process is one that extends far beyond the committee system and the legislature. Administrative agencies play an equally if not more important role in the formation of policies on a number of issues and wield enormous power in how the wishes of the legislature are carried out. If the legislature delegates significant rule-making authority on a specific issue to an agency, the agency is ultimately responsible for most of the policy formation. In that capacity, agencies are responsible for conducting due diligence and research, fact-finding, and comprehensive rule formation via the federal rule-making process. This process provides a strong avenue of access that interest groups can utilize to promote their agendas.

Berry and Wilcox (2007) document a corporate lobbyist describing the differences between legislative and agency lobbying:

> A good many [in Congress] are idealists, but they have to get elected. They are concerned about their constituency and the media... Agency [administrators] are usually more specialized in their field and they're purists. They are not concerned about the press or a constituency. You bring in your technical

experts and you just defend your point of view.

This quote suggests that lobbying agencies may in fact be a more preferable venue for interest groups. Agency officials are equal experts in practical policy areas and often have incentives to cooperate with groups that share their interest.

Scholarship on interest group influence in administrative rule-making is sparse compared to that of the legislature. Many studies seek to examine interest groups as third party-actors in the relationship between agencies and legislatures (see McCubbins and Schwartz 1984; McNollgast 1987; Balla 1998; Epstein and O'Halloran 1994; Hamilton 1996; Bawn 1995). Interest groups and their specific behavior are not examined as the unit of analysis. More recent studies have begun to address this deficiency and attempt to understand how interest groups develop strategies of influencing rule-making (Yackee 2006; Balla 1998; Reenock and Gerber 2008; McKay 2010). In doing so, scholars have utilized a number of avenues to measure activity and influence including the notice-and-comment period, federal advisory committee appointments, surveys and case studies (see Wood 1988; Wood et al. 1991 for example).

Given methodological difficulties, the studies on interest group influence on agencies is sparse. Two studies however are of importance that highlight evidence of influence in two aspects of the regulatory process: federal advisory committees and the notice-and-comment period. Balla and Wright (2001) find that interest group endorsement of candidates to certain agency advisory committees carried much weight in the subsequent appointments. Advisory committees assist in the oversight of agencies and thus federal programs. Having like-minded members from the standpoint of an interest group can be rather useful.

Second, Yackee (2006) for one found that indeed interest group participation in the notice-and-comment period did affect the content of federal regulations. Using a database of proposed rules from the federal register, Yackee found that interest group involvement in specific rules caused changes in the final rule after the 90 day waiting period. The notice-and-comment period is a vehicle for all people, but especially interested groups to attempt to influence final regulations.

Yackee (2006) suggests that the bureaucracy responds to interest group influence for two reasons: (1) Interest groups assist the bureaucracy by providing new information and expertise during the rule-making process and (2) The ability to challenge agency decisions in the courts provides an additional incentive to listen to organized interests during the administrative process (107-108). The consensus on the success of interest groups in the administrative arena are similar to that of the results of influence in the legislative arena: certain that it exists, uncertain in form. That is, interest groups continue to attempt to influence the legislative and regulatory processes that formulate policy and can have influence. Understanding the strategic nature of this is of great importance to scholars of government.

4. UNIFIED APPROACH TO INTEREST GROUP LOBBYING STRATEGIES

Interest groups' decisions about the targets of their donations are a function of the expected return on expended resources. This "investment theory" of interest groups serves as the motivating factor behind the investigation into interest group involvement in this study. Given finite resources, interest groups (IGs) must develop comprehensive lobbying strategies that take into consideration all possible avenues of influence and employ their resources in a maximizing way (Snyder 1992; Morin and Victor 2010). Successful organizations will be able to tailor lobbying strategies to maximize their influence. The literature on legislative delegation suggests that differing political situations will lead the legislature to strategically delegate rule-making authority on an issue to an agency or write legislation directly.

Interest groups have an incentive then to anticipate the strategies of the legislature. The limited resources of interest groups provide an incentive to maximize their investment by expending resources in the proper arenas where policy is crafted. If they anticipate hostile conditions to the legislature and an increased probability that a divergent agency will move policy in a direction not consistent with the wishes of the legislature, then the legislature will write legislation directly and they should focus their resources on the legislature. If they anticipate favorable political conditions and an increased probability that a divergent agency will implement policy to the legislature's liking, then the legislature will delegate and they should focus their resources on the agencies.

I argue that a strategic environment exists within which legislatures make delegation decisions and interest groups develop strategic lobbying strategies. Both seek to minimize the costs they incur and the benefits they gain from their respective activities. In order to examine these two strategic behaviors, I develop a formal model of legislative delegation and interest group lobbying. In what follows, I describe and set up the model, solve for equilibria and present two substantively interesting and important equilibria and discuss their implications.

5. DESCRIPTION OF THE MODEL

The game is a extensive form game of incomplete information between three actors: a legislature (L), an interest group (IG), and a bureaucratic agency (B). Both (L) and (IG) each have a preference for policy A or B and (B) implements policy given its knowledge of the state of the world. The sequence of actions is as follows (game tree shown in Figure 1): first, nature selects an agency "type" over a probability distribution ($Pr(A) = p; Pr(B) = (1 - p)$), that is, nature selects the state of the world which the agency will recognize and implement a subsequent policy. If the state of the world is "A", the agency implements a policy "A", and if the state of the world is "B", the agency implements policy "B" (should it move in the game).

Second, the interest group (IG) moves, deciding whether to lobby (L_L) the legislature or not ($\overline{L_L}$) at a cost c. Third, the legislature (L) moves, deciding to write legislation directly (W), or delegate rule-making authority to a bureau (D). If L chooses to write the legislation, it pays a cost c. Delegation is costless.

Fourth, the interest group moves a second time, deciding whether to lobby the bureau (L_B) or not ($\overline{L_B}$). Again, lobbying at this stage incurs a cost c. The IG moves a second time given that L delegates in the previous step. Finally, the bureau (B) moves, implementing policy "A" given the state of the world is A and policy "B" give the state of the world is B.

The game demonstrates the interaction between a divergent legislature and interest group pair, as well as a neutral agency. That is, the legislature prefers outcome A, the interest group prefers outcome B, and the agency implements policy A or B given the realized states of the world in a neutral manner. The payoff for each player receiving her preferred outcome is (π) whereas the payoff for receiving their non-preferred outcome is (0). the legislature pays a cost c for writing legislation itself such that ($\pi > c$), and the interest group pays a cost c for lobbying the legislature and/or the agency such that ($\pi > c$). I now list the strategy sets for each player:

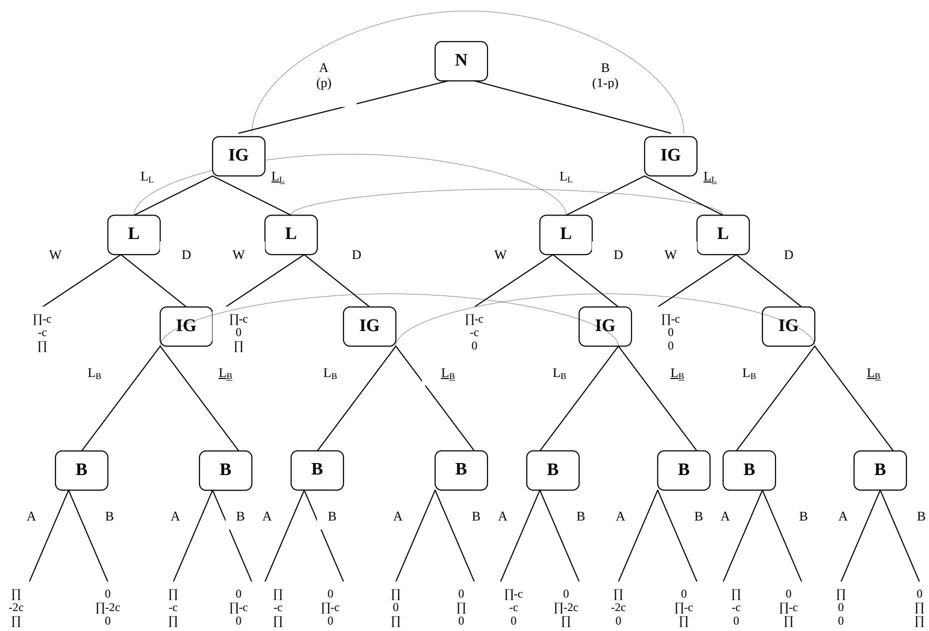

Figure 1: Strategic Form Game

Interest Group (S_I):

A: $(L_L, L_B \mid L_LD, L_B \mid \overline{L_L}D)$

B: $(L_L, L_B \mid L_LD, \overline{L_B} \mid \overline{L_L}D)$

C: $(L_L, \overline{L_B} \mid L_LD, \overline{L_B} \mid \overline{L_L}D)$

D: $(L_L, \overline{L_B} \mid L_LD, L_B \mid \overline{L_L}D)$

E: $(\overline{L_L}, L_B \mid L_LD, L_B \mid \overline{L_L}D)$

F: $(\overline{L_L}, L_B \mid L_LD, \overline{L_B} \mid \overline{L_L}D)$

G: $(\overline{L_L}, \overline{L_B} \mid L_LD, \overline{L_B} \mid \overline{L_L}D)$

H: $(\overline{L_L}, \overline{L_B} \mid L_LD, L_B \mid \overline{L_L}D)$

Legislature (S_L):

1: $(W \mid L_L, W \mid \overline{L_L})$

2: $(D \mid L_L, W \mid \overline{L_L})$

3: $(W \mid L_L, D \mid \overline{L_L})$

4: $(D \mid L_L, D \mid \overline{L_L})$

Bureau or Agency (S_A):

$$(a, a, a, a, b, b, b, b \mid A), (a, a, a, a, b, b, b, b \mid B)$$

Thus, there exist 32 possible strategy combinations. Although numerous equilibria follow from the model, I next discuss a pair of equilibria that are substantively interesting.

6. EQUILIBRIUM

I solve for two symmetric equilibrium from two strategy combinations (F1, F4) which show two different legislative strategies, holding the strategies of the interest group and the bureau constant. First, F1:

IG: $(\overline{L_L}, L_B \mid L_L D, \overline{L_B} \mid \overline{L_L} D)$

L: $(W \mid L_L, W \mid \overline{L_L})$

B: $(a, a, a, a, b, b, b, b \mid A), (a, a, a, a, b, b, b, b \mid B)$

$$\begin{aligned} EU_I(*) &= 0 \\ EU_I(E, G, H) &= 0 \\ EU_I(A : D) &= -c \\ 0 &> -c \end{aligned}$$

$$
\begin{aligned}
EU_L(*) &= p(\pi - c) + (1-p)(\pi - c) \\
&= -pc + p\pi + \pi - c - p\pi + pc \\
&= \pi - c \\
EU_L(2) &= p(\pi - c) + (1-p)(\pi - c) \\
&= -pc + p\pi + \pi - c - p\pi + pc \\
&= \pi - c \\
EU_L(3,4) &= p(\pi) + (1-p)(0) \\
&= p\pi \\
1 - \frac{c}{\pi} &\geq p
\end{aligned}
$$

The bureau has a dominant strategy of $(a, a, a, a, b, b, b, b \mid A), (a, a, a, a, b, b, b, b \mid B)$, thus there is no inequality to solve for. The above algebra simply sets payoffs from the strategies of each player against all possible deviations, and solves from equilibrium conditions that hold the strategy set stable in equilibrium. Given the above algebra, the strategy set (F1) is a perfect bayesian equilibrium given: $1 - \frac{c}{\pi} \geq p$. That is, given the above conditions solved for algebraically, no player can unilaterally benefit through deviation.

Now, I consider strategy combination F4, and solve for the equilibrium:

IG: $(\overline{L_L}, L_B \mid L_L D, \overline{L_B} \mid \overline{L_L} D)$

L: $(D \mid L_L, D \mid \overline{L_L})$

B: $(a, a, a, a, b, b, b, b \mid A), (a, a, a, a, b, b, b, b \mid B)$

$$
\begin{aligned}
EU_I(*) &= p(0) + (1-p)(\pi) \\
&= \pi - p\pi \\
EU_I(E,H,C,D) &= \pi - c - p\pi \\
c &> 0 \\
EU_I(A,B) &= \pi - 2c - p\pi \\
2c &> 0
\end{aligned}
$$

$$
\begin{aligned}
EU_L(*) &= p(\pi) + (1-p)(0) \\
&= p\pi \\
EU_L(3) &= p\pi \\
EU_L(1,2) &= \pi - c \\
p &\geq 1 - \frac{c}{\pi}
\end{aligned}
$$

Again, the bureau has a dominant strategy of $(a,a,a,a,b,b,b,b \mid A), (a,a,a,a,b,b,b,b \mid B)$, thus there is no inequality to solve for. Repeating the algebraic process outlined for the first strategy set, I obtain a second set of equilibrium conditions. Given the above algebra, the strategy set (F4) is a perfect bayesian equilibrium given: $1 - \frac{c}{\pi} \leq p$.

There thus exist two symmetric equilibrium where no player has an incentive to deviate given $1 - \frac{c}{\pi} \geq p$ for strategy combination F1, and $1 - \frac{c}{\pi} \leq p$ for strategy combination F4.

7. DISCUSSION

To see the dynamics graphically, consider Figure 2 which holds constant the cost, and shows how changes as π increases from 0 to positive infinity. Holding (c) constant and increasing π to infinity clearly increases the "write" zone relative to the "delegation" zone.

That is, as π increases relative to c, the legislature will be more willing to incur the cost of writing legislation in order to ensure the payoff π. Looking at the game tree in Figure 1, as values of π increase relative to c, the right hand side of the inequality gets bigger, meaning that the value of p is smaller, increasing the probability of a divergent bureau. Given a divergent bureau, the legislature will seek to write legislation more often.

Substantively, this equilibrium has a few interesting implications. As the payoff parameter (π) increases, legislatures are more likely to write legislation directly. I conjecture that this is in part dues to the legislatures wish to ensure the large payoff and their ability to expend a constant cost c to get it. Legislation with high payoffs may on the one hand be simple legislation, but may also be complicated and sweeping in nature and thus more difficult to craft and pass. This model would then suggest that more complicated legislation, if high in payoff, would be written by legislatures more directly than delegated. While this model does not directly take into consideration the complexity of legislation as a parameter, the simple fact that many legislative initiatives with high payoffs are also rather complicated in nature, some of the intuition behind legislative delegation strategies may be in doubt. Specifically, the idea of uncertainty and bureaucratic expertise would suggest delegation as a legislative strategy and previous studies indeed concluded this. This model however casts some doubt on that and suggests the opposite: that policy minded legislatures wish to secure high payoffs by writing legislation directly despite its complexity, as long as the expected payoff exceeds the costs incurred of writing legislation via delegation.

Conversely, Figure 3 holds constant the payoff π and shows how the relationship between delegation and the writing of legislation changes as the cost c goes to infinity.

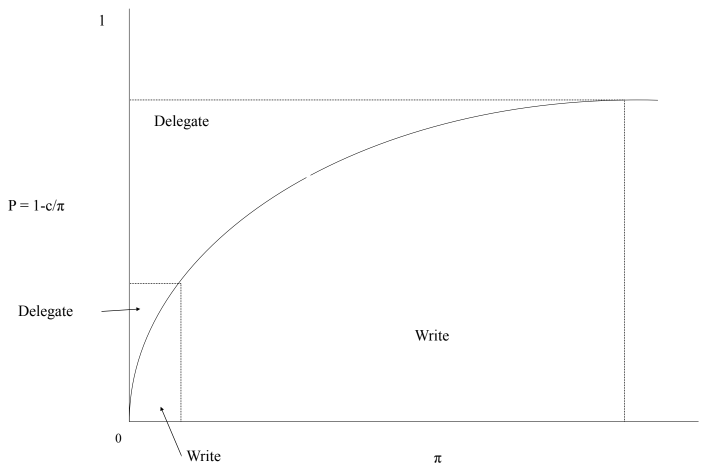

Figure 2: Equilibrium Dynamic: Payoff

Clearly from the graph, as c increases relative to π, the "delegation" zone increases in size relative to the "write" zone. That is, as c increases relative to π, the legislature will seek to delegate to a bureau more often.

Looking at the game tree in Figure 1, as c increases relative to π, the right hand side of the inequality gets smaller, meaning the values of p are larger. Given larger values of p, the probability that the bureau is convergent increases, thus meaning that the legislature will be more willing to delegate and shirk to the cost.

The exact opposite substantive interpretation laid out earlier holds here. As the cost increasingly diminishes the payoff, delegation is the best strategy available to the legislature. These equilibria confirm the intuition that legislatures strategically choose to write/delegate legislation given differing political environments. As the cost of writing legislation goes up relative to an expected payoff, legislatures delegate more. Conversely, as the payoff of a piece of legislation increases relative to the cost, legislatures write more. Convergent bureaus lead to more delegation whereas divergent bureaus lead to more direct writing of legislation.

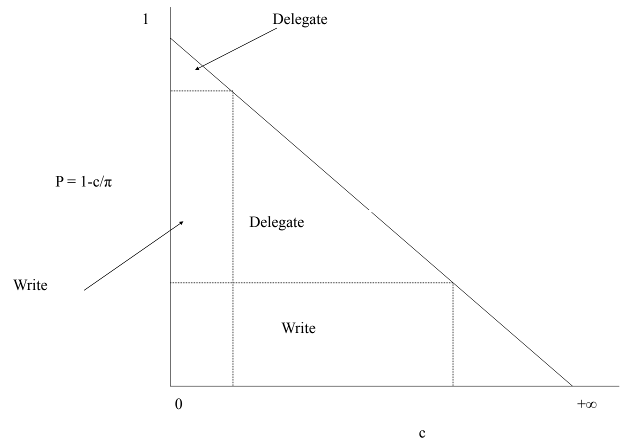

Figure 3: Equilibrium Dynamic: Cost

Now, I consider the equilibrium condition for the interest group player in the F4 strategy set. Here, the legislature is employing a dominant strategy of (D). That is, the legislature will spend no resources (incur no cost (c)) on writing legislation directly. The strategy that the IG is employing holds in equilibrium given that $2c > 0$, which given that the assumption of $c > 0$ holds. Therefore, the IG cannot benefit by lobbying at the legislative stage and thus should expend no resources at this stage. This equilibrium confirms the intuition behind a strategic interest group-that is, given a delegating legislature, lobbying resources should not be expended at the legislative stage.

This equilibrium outcome from the standpoint of interest groups has some interesting substantive implications for the study of interest groups. The field's intense focus on legislative lobbying is clearly called into question, and a focus on studies that take into consideration differing political contexts is needed. Additionally, while the result of this model suggests that given a pure strategy of delegation by a legislature interest groups should expend no resources at the legislative stage, I do not expect to see complete inactivity by interest groups at this stage empirically. While the specific motivations behind interest group activity are not the direct object of investigation here, the result presented here suggests perhaps different motivations behind interest group activity than the influence motivation pervasive in the literature. Salisbury's (1969) exchange theory of interest groups suggests that entrepreneurs exchange a set of benefits (advocacy and lobbying) for a specific cause or group of policies in exchange for group membership (membership fees, support ect). In order for the interest group to sustain itself, it muse maintain its membership rolls and expand. Members of groups want to see action from the organizers and the leaders of the group. The leaders of the interest group may then engage in symbolic lobbying at the legislative stage, as this form of lobbying is highly visible to group members and is more tangible than lobbying agencies. Despite its almost assured non-impact substantively (due to delegation), interest groups may still expend resources at the legislative stage for other purposes than influence attempts.

Given these results, interest groups should be able to strategically anticipate legislative action and alter lobbying strategies to maximize their influence per dollar given scarce resources. That is, lobbying wit the intent of actually *influencing* policy. I would not expect that symbolic lobbying should not appear at the legislative stage even given political contexts that call for delegation. From the model, I can deduce that more costly legislation will be delegated more often than it will be written directly. This would suggest that large, sweeping overhaul legislation perhaps may be delegated to agencies in large part. The financial reform bill of 2008 highlighted at the beginning of this paper is one good example. The quote which began the paper speaks to this reality: as the details of legislation are shifted to a third party (a bureau) interest groups should strategically shift resources from legislative to agency lobbying.

8. CONCLUSION

This model highlights the strategic nature within which legislatures and interest groups act when considering both legislative and lobbying strategies. Specifically given a legislature's incentive to delegate or not delegate give differing political contexts, interest groups should be able to anticipate different legislative actions and alter lobbying strategies accordingly. Future work can test this claim both empirically, by aggregating data on lobbying resources spent on both legislative and agency lobbying, and by complicating the model laid out here to focus more specifically on interest groups and their ability to alter the information environment with their lobbying strategies. This model while instructive does not test the theory of interest groups as providers of useful information to both legislatures and agencies. A future formal analysis of this dynamic is possible.

An empirical test could be employed using case studies of large pieces of legislation that are dictated in large part by the legislature or delegated in large part to agencies. Tests of levels of resources expended at the two stages of lobbying given differing political conditions would allow for an understanding of the dynamics of this formal model.

What this model does tell us however is that political conditions matter. The intuition behind previous studies of this dynamic are confirmed and extended to include a new actor: an interest group. Legislatures remain the strategic actors previous studies portrayed them as, and interest groups were found to be equally as strategic. This investigation in combination to the previous work in this literature suggests that a complete picture of the world in which interest groups, legislatures, agencies and other actors interact remains unexplained. Data and measurement limitations indeed exist in some instances, but advances in our collective understanding of the policy process still need to be made. Interest groups are powerful and ever-present players in the political system. Understanding the tactics and dynamics that define them will ultimately give both scholars and individual citizens a more complete picture of the way in which they influence and change the dynamics and policy outcomes of the government.

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