

Lobbying Costs and Trade Policy

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Abstract

We study how endogenous lobbying costs influence trade policies. Although in practice lobbying expenditures far exceed campaign contributions, the literature on the political economy of trade policy has focused on the latter. In this paper we develop a model in which informational lobbying costs play a role in determining the structure of protection. In the model, special interest groups can choose to send a signal to the policymaker regarding some information they possess, and the policymaker observes the signal before setting the trade policies. We find that lobbying expenditures directly affect the equilibrium policies. In order to test the predictions of the model we collected data on lobbying expenditures from the Center for Responsible Politics as well as data on trade and industry characteristic variables for the United States from other sources. We perform a structural estimation of the equilibrium trade policies and find support for our model. The empirical evidence indicates that lobbying expenditures play an important role in explaining the variation of protection across sectors. Moreover, the model leads to considerably lower and more reasonable estimates of the weight that the government places on social welfare relative to political contributions.

Keywords: Trade policy; protection; lobbies; lobbying expenditures.

JEL classification: F10, F13
