

# Campaign contributions, executive lobbying and public procurement: An examination of political investments in Argentina

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Workshop, Instituto de Economía y Finanzas  
02 de Abril de 2017

# Overview

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# Background and motivation

- Political influence and lobbying activity is regulated in many advanced countries
  - Draft of bill in Argentina (2016/2017) → Proyecto de Ley de Regulación de la Actividad de Gestión de Intereses (“Lobby”)
- Unregulated and undisclosed lobbying activity creates significant informational asymmetries between interest groups and voters and politicians and legislators
- Very little research devoted to studying lobbying activity in “presidentialist” democracies –i.e. lobbying on the executive rather than legislative.

# Background and motivation (cont.)

- Role of money in politics → relevant to study
- ¿Why is there so little money in politics? [Title of paper]
  - Money does not go through formal/legal channels
  - It is contacts, meetings and audiences that are key to securing benefits rather than direct money contributions
- Relevant questions for institutional design → three modifications to Ley de Financiamiento de Partidos Políticos in Argentina in last 10 years. Generally, for the worse.

# Literature: Overview

- Electoral competition with special interest groups → Baron (1994), Grossman & Helpman (1992, 1996, 2001)
- Political connections and the revolving door → Vidal, Draca & Fons-Rosen (2012), Acemoglu et al (2016)
- Timing of political influence –i.e ex-ante, ex-post lobbying → You (2014) states that 40% of lobbying activity in the US is ex-post lobbying –i.e after Congressional vote.

# Literature: Lobbying on the executive

- Literature on legislative power and presidentialism [Bresser Pereyra et al (1993); O'Donnell (1994, 1996); Jones (2001)]

## Jones (2001)

“The Argentine Congress lacks any real ability to check the president, and is, for all intents and purposes, irrelevant to the policy process.”

- Voting in the Argentine Congress is largely partisan [Micozzi (2014); Wang and Micozzi (2009)]

# Literature: Channels of political influence

- Schneider (2009; 2010) identifies several actions (channels) through which interests may influence political decisions:
  - Associations
  - Lobbying
  - Campaign contributions
  - Social ties (networks)
  - Corruption
- In this paper, we focus on two of these channels: political lobbying on the executive and campaign contributions.

# Political influence as investments

- Political-economy cycle involves
  - Pre-election politics
  - Election
  - Post-election politics
- We focus primarily on the decision of interest groups to influence the politicians either ex-ante or ex-post.



# Theoretical intuition

- Two actors:
  - Two parties,  $A$  and  $B$
  - One interest group
- Interest group may give a fix *ex-ante* contribution  $m$  to each party; assuming policy commitment, parties implement the preferred policy of the interest group,  $q_I$ .
- They may also give nothing *ex-ante* and rather engage in lobbying activity *after* the election; they have an access cost to any party,  $0 < \alpha < 1$ , a fraction of  $m$ , plus the money they give to the party in government

## Theoretical intuition (cont.)

- Each party has a probability of winning,  $p^A$  and  $p^B = 1 - p^A$ . In the case of ex-ante influence, the expected utility of the interest group is:

$$V^{EA}(I) = p^A v(q^I) + (1 - p^A)v(q^I) - 2m \quad (1)$$

$$V^{EA}(I) = v(q^I) - 2m \quad (2)$$

- In the case of ex-post lobbying, the winning party implement his/her own policy and the utility of the interest group is:

$$V^{EP}(I) = p^A v(q^A) + (1 - p^A)v(q^B) - m - \alpha m \quad (3)$$

$$V^{EP}(I) = p^A(v(q^A) - v(q^B)) + v(q^B) - m - \alpha m \quad (4)$$

# Theoretical intuition

- In other words if  $v(q^I) - v(q^B) > m(1 - \alpha)$  then interest groups will prefer to do ex-ante lobby; and do ex-post lobby if the
- This suggests that the farther the preferred policy of the interest group from the parties, the more likely it will do ex-ante lobbying; the closer the ideal policy points of the interest groups and parties, the more likely they will engage in ex-post lobbying.
- Ex-ante contributions are costly insofar they ought to be made to both parties; ex-post lobbying is costly because of the access cost to the incumbent party.

# Lobbying Disclosure Report

## Audiencia de Gestión de Intereses

Toda reunión personal o por videoconferencia entre un sujeto obligado por la ley y quien pretenda influir sobre el proceso de toma de decisiones de un funcionario público a favor de un interés propio o ajeno, sea de modo remunerado o gratuito, habitual u ocasional, planificado o incidental.

# Data

- Data compiled from several sources:
  - Data on executive lobbying → Registro Único de Audiencias de Gestión de Interes for 2001-2017 including 72000 records
  - Data on campaign contributions → Camara Nacional Electoral recording over 12000 contributions for the 2015 election
  - Data on public procurement for 2015/2016 → web scrapping from Boletin Oficial includes 15381 observations (1668 unique public records)
- We performed exact string-matching between these three data sources to find common IDs

# Data issues

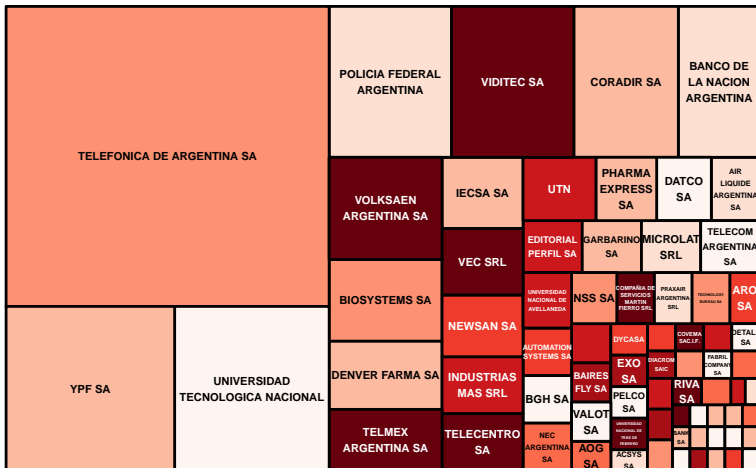
- Two alternative variables to merge on → “name of person/firm” and “CUIT”. All three databases have incomplete “CUIT” data.
- Data on executive lobbying have missing data on interests being represented –ID of person attending the audience but not that of interest being represented.
- Exact string-matching requires identical spelling –partial string-matching (fuzzy matching) perhaps a better alternative to find additional matches → computer crashes everytime!

## Data issues (cont.)

- Convenient shortcut → use fiscal records database (AFIP) to complete info on “CUIT” and “names” → over 4.2 million records!
- Matching this way we end up with a database with lots of zeros on the main variables (getting a public contract, lobbying and campaign contribution) → zero-inflated regression

# Lobbying audiences and public contracts

Participantes en licitaciones por cantidad de audiencias, 2000–2016





# Preliminary results

**Table:** Determinants of obtaining a public contract

	<i>Dependent variable: Obtained a public contract (dummy)</i>				
	(1)	(2)	(3)	(4)	(5)
audiencia	2.2*** (0.1)	2.6*** (0.1)	2.6*** (0.1)		
x				-0.01 (0.03)	0.02 (0.04)
monto	0.000*** (0.000)	0.000*** (0.000)	-0.000** (0.000)	0.000 (0.000)	0.000 (0.000)
days			-0.000*** (0.000)		
audiencia:monto		-0.000*** (0.000)			
x:monto					-0.000 (0.000)
Observations	124,121	124,121	117,880	6,473	6,473
Log Likelihood	-84,322.6	-84,292.9	-78,631.7	-2,189.4	-2,188.8

Note:

\*  $p < 0.1$ ; \*\*  $p < 0.05$ ; \*\*\*  $p < 0.01$

# Preliminary results

Table: Determinants of obtaining a public contract

	<i>Dependent variable: Obtained a public contract (dummy)</i>				
	(1)	(2)	(3)	(4)	(5)
audiencia	1.4*** (0.1)	1.5*** (0.1)	1.6*** (0.1)		
x				-0.000 (0.02)	0.03 (0.03)
monto	0.000** (0.000)	0.000*** (0.000)	-0.000*** (0.000)	0.000** (0.000)	0.000** (0.000)
days			-0.000*** (0.000)		
audiencia:monto		-0.000*** (0.000)			
x:monto					-0.000* (0.000)
Observations	156,970	156,970	142,170	15,367	15,367
Log Likelihood	-108,131.6	-108,099.3	-97,835.5	-7,542.9	-7,541.0

Note:

\*p<0.1; \*\*p<0.05; \*\*\*p<0.01

# Pay upfront or wait to be seated?

BENEDETTI DIEGO MARTIN	CASTRO DANIEL
COLCAR MERBUS SA	HERRAJES PATRICIOS SA
IC CONSTRUCCIONES SRL	LEAL MARCHENA JOSE LUIS
MAZZON CARLOS	MORAL JOSE
OPELMEC SRL	RIDOLFO HNOS
RODRIGUEZ GABRIEL	

**Table:** Firms that contribute funds but do not lobby

# Pay upfront or wait to be seated?

ACINDAR SA	AUTOMATION SYSTEMS SA
ACSYS SA	BAIRES FLY SA
AGRALE SA	BANCO DE LA NACION ARGENTINA
AIR LIQUIDE ARGENTINA SA	BANK SA
AJP PRODUCCIONES SRL	BERSA SA
AOG SA	BGH SA
ARO SA	BIOSYSTEMS SA
ARS TECHNOLOGIES SRL	BRAGA MENENDEZ SA
ASRLMEDICA SRL	BUCCELLO Y ASOCIADOS SRL
ATEC	CABLEVISION SA

**Table:** Firms that lobby but do not contribute

# Pay upfront or wait to be seated?

CAJA DE SEGUROS SA	DETALL SA
CIA DE SERVICIOS MARTIN FIERRO SRL	DIACROM SAIC
CORADIR SA	FABRICACIONES MILITARES
CORREO OFICIAL DE LA REP ARGENTINA	DYCASA
CORREO OFICIAL DE LA REP ARGENTINA SA	EDITORIAL PERFIL SA
COVEMA SAC.I.F.	EXO SA
DAINIPPON ELECTRONIC SA	FABRIL COMPANY SA
DATCO SA	FALABELLA SA
DAXA ARGENTINA SA	GARBARINO SA
DENVER FARMA SA	IECSA SA

**Table:** Firms that lobby but do no contribute (cont.)

# Pay upfront or wait to be seated?

IGARRETA SACI	MSAGENTINA SRL
INDUSTRIAS MAS SRL	MULTINOTICIAS SA
LABORATORIO JAYOR SRL	MULTIRADIO SA
LABORATORIO RICHET SA	NEWSAN SA
LABORATORIOS BACON SAI.C.	NOVADATA SA
LATINOCONSULT SA	NSS SA
MELENZANE	OSTEOLIFE SRL
MERCEDES BENZ ARGENTINA SA	PELCO SA
MICROLAT SRL	PERMAQUIM SA
MILKAUT SA	PHARMA EXPRESS SA

**Table:** Firms that lobby but do not contribute (cont.)

# Pay upfront or wait to be seated?

POLICIA FEDERAL ARGENTINA	TECMES INSTRUMENTOS ESPECIALES SRL
PRAXAIR ARGENTINA SRL	TELECENRO SA
PRIME EDICIONES SA	TELECOM ARGENTINA SA
PROFERTIL SA	TELMEX ARGENTINA SA
RESAICAR SRL	TENAX SA
RIVA SA	TORIBIO ACHAVAL Y CIA. SA
SILK TECH SRL	UTN
SOCIEDAD CASA DE MONEDA	VALOT SA
SONY ARGENTINA SA	VEC SRL
SUIZO ARGENTINA SA	VIDITEC SA
SWISS MEDICAL SA	VOLKSAEN ARGENTINA SA
TECHNOLOGY BUREAU SA	YPF SA

Table: Firms that lobby but do not contribute (cont.)

# Some thoughts and the way forward

- The results –albeit preliminary– suggest that audiences (ex-post lobbying) matter in terms of the probability of getting a public contract.
- Ex-ante contributions and ex-post lobbying seem to be traded as substitutes rather than complements by interest groups; this would fit well with the theoretical intuition
- $\zeta$  Does the proximity of audiences and public tenders matter?  $\zeta$  Are there any other factor related to firm size/type and characteristics of lobbying audiences relevant to explaining variability in obtaining public contracts?
- Change the universe of firms  $\rightarrow$  out of many firms and persons, only a few hundred/thousands obtain public contracts  $\rightarrow$  rare event regression.