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REFORM FOR SALE

A Common Agency Model with Moral Hazard
Frictions

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Reform for Sale

A Common Agency Model with Moral Hazard Frictions

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Abstract: Lobbying competition is viewed as a delegated common agency game under moral hazard. Several interest groups try to influence a policy-maker who exerts effort to increase the probability that a reform be implemented. With no restriction on the space of contribution schedules, all equilibria perfectly reflect the principals' preferences over alternatives. As a result, lobbying competition reaches efficiency. Unfortunately, such equilibria require that the policy-maker pays an interest group when the latter is hurt by the reform. When payments remain non-negative, inducing effort requires leaving a moral hazard rent to the decision maker. Contributions schedules no longer reflect the principals' preferences, and the unique equilibrium is inefficient. Free-riding across congruent groups arises and the set of groups active at equilibrium is endogenously derived. Allocative efficiency and redistribution of the aggregate surplus is linked altogether and both depend on the set of active principals, as well as on the group size.

Keywords: Lobbying, multiprincipals, pluralistic politics, common agency, moral hazard

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