Volume Title: NBER Macroeconomics Annual 2011, Volume 26

Volume Author/Editor: Daron Acemoglu and Michael Woodford, editors

Volume Publisher: University of Chicago Press

Volume ISBN: 978-0-226-00214-9 (cloth); 978-0-226-00216-3, 0-226-00216-0 (paper)

Volume URL: http://www.nber.org/books/acem11-1

Conference Date: April 8-9, 2011

Publication Date: August 2012

Chapter Title: Discussion of "A Fistful of Dollars: Lobbying and the Financial Crisis"

Chapter Author(s):

Chapter URL: http://www.nber.org/chapters/c12419

Chapter pages in book: (p. 244 - 246)

Discussion

Alberto Alesina expanded on Zingales's discussion about Japanese nuclear plants. Alesina argued that in the example, the lobbying in Japan allowed nuclear plants to be built in highly seismic areas and to use outdated technologies, leading to a disaster when the earthquake struck. He argued that similar events happened in the US financial system: lobbying allowed banks to take extreme risks. Then he mentioned that the authors presented their paper as if they had three results: more risk-taking, more default, and more bailouts due to lobbying. He argued that default and bailouts follow naturally from increased risk-taking and should not be regarded as separate results.

Frederic Mishkin proposed that the size of a firm can create a correlation between risk-taking and lobbying. He proposed that a bigger firm is more likely to be bailed out because of the too-big-to-fail problem, leading to greater risk-taking. Hence, bigger firms have more incentives to lobby because they receive the greatest benefits.

Xavier Gabaix gave an example of a possible positive effect of lobbying. He mentioned that genetically modified food is banned under current law in Europe. If the prohibition is due to the irrationally negative public attitude to these products, then allowing modified food could benefit society. If lobbyists were stronger in Europe then they could lobby to repeal the law.

Alesina mentioned that there is a sizable literature that addresses rent-seeking and information revelation issues in lobbying. In the models that consider these issues, lobbyists provide information but have incentives to provide biased information. The question is how to separate the information from bias. Acemoglu agreed that lobbying has a lot to do with expertise. He noted that the reality is more complex

978-0-226-00214-9/2012/2011-0404$10.00

than what is captured in the cheap talk models used to understand informative lobbying. He remarked that in the cheap talk models, the receiver is always better off ex ante. However, the receiver in a lobbying environment is a politician who may not necessarily care about the constituency he or she represents. Hence, cheap talk lobbying can make a constituency worse off because the incentives of the receiver are not necessarily aligned with his or her constituents. Next, Acemoglu referred to an empirical literature that tries to identify what lobbyists do. He cited Betrand, Bombardini, and Trebbi (2011) as a recent example from this literature. One of the findings of this literature is that politicians are very responsive to the views of moneyed interests. He mentioned that there is some evidence that Democrats seem to have shifted their positions when campaign financing was very important. He remarked that Hacker and Pearson argue that a big shift in US politics came as campaign fund-raising become more important. Thus, it is possible that lobbying was originally informative but has since become a tool for helping politicians raise money. Prachi Mishra responded by saying that it is very difficult to rule out the information alternative on the basis of the lobbying expenditures because they do not have an experiment where firms sent messages without spending money.

Daron Acemoglu commented on the bailout result of the paper. He mentioned that the evidence has identification issues, but he acknowledged that the authors are upfront about them. He reiterated Stein's view that the authors add the size of banks as control variable to their regressions. He thought that it would be interesting if the results survive under these additional controls. While the results may still not be causally interpretable, it would show if the authors have just one result in their paper, or more. Deniz Igan agreed that they have to control for the size of the banks, but Hall argued that an unidentified result is of little value.

Igan started her response by stating that they did not interpret their results as causal. They used the word "contributed" in the text of the paper in a loose way to mean that lobbying did stop certain regulations from being adopted while it helped lax regulations to pass. This may have allowed lenders to make riskier loans. Then, she addressed the point raised by Stein that one has to think about the mechanism of allocation of bailouts before linking lobbying to bailouts. She believed that lobbying activities do not necessarily always target politicians. She said it is possible that the banks were trying to affect the regulators. Next, Igan replied to Stein about the instrumental variable regression by saying that they were thinking of removing the regression from the paper. Finally, Igan responded to the issue of the lobbying effect on politicians' voting. She said that they have a follow-up paper in which they study how lobbying expenditures affect politicians' voting outcomes. She added that not only did money spent affect the voting outcomes, but also the connection of a politician to a lobbyist. She added that they also study this connection channel in a follow-up paper.