Political Lobbying in a Recurring Environment

Abstract

This paper develops a dynamic model of the labor market, in which the employed workers, organized in a special interest group (SIG), can lobby decision makers for changes in labor market policies. The recurring nature of the political process, modeled as a lobbying effort per electoral cycle, means that the SIG has to take into consideration its future lobbying efforts when deciding on its optimal lobbying decision now. Lobbying for a very high compensation level has a negative side effect of reducing the hiring probability for employed workers who loses their jobs, and is not optimal as a permanent strategy. However, the model shows that it is optimal for the SIG to employ a "step strategy" in which they lobby for a high level of benefits at first, and then reduces their demands. This dynamic path allows the SIG to change the payment schedule by "pulling" some of the wages to earlier periods, benefiting workers who are currently employed at the expense of the unemployed workers and the economy as a whole. More than that, the distortion, in terms of aggregate productivity, is higher when the elections are more frequent. This mechanism cannot be studied in a non-dynamic labor market model that only allows for permanent decisions by the model agents