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Political Pressure Deflection

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POLITICAL PRESSURE DEFLECTION*

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Abstract

Much economic policy is deliberately shifted away from direct political processes to administrative processes — political pressure deflection. Pressure deflection poses a puzzle to standard political economy models which suggest that having policies to 'sell' is valuable to politicians. The puzzle is solved here by showing that incumbents will favor pressure deflection since it can deter viability of a challenger, essentially like entry deterrence. U.S. trade policy since 1934 provides a prime example, especially antidumping law and its evolution.

Keywords: Pressure Deflection; Elections; Antidumping

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I Introduction

Politicians often appear to avoid taking stands, duck taking responsibility, hide behind others. Beyond passive avoidance, politicians actively design mechanisms to deflect political pressure. Delegation is a prime example.

Delegated policy is set by quasi-autonomous government agencies. Political pressure is damped by the indirect nature of the politicians' influence over the agency. American trade policy provides a compelling example of delegation as pressure deflection [Destler, 1995]. This paper provides a formal model of delegation as pressure deflection motivated by U.S. trade policy. The model has potential to shed light on delegation of other policies and of trade policy in other countries, but we do not develop these applications.

Political pressure deflection poses a major puzzle to modern formal political economy modeling. 'Policy for sale' models [Bernheim and Whinston, 1986; Grossman and Helpman, 1994; Dixit et al., 1997] treat an incumbent politician as a monopoly firm which auctions favorable policies to interest groups, a clean and plausible structure which has received empirical support in the pattern of U.S. trade policy [Goldberg and Maggi, 1999; Gawande and Bandhopadhyay, 2000]. Why should politicians delegate policy, giving away what they could sell? Destler [1995] offers no explanation for why pressure deflection is in the Congress' interest, apparently seeing his identification of pressure deflection as the rationale for their actions as sufficient.

This paper rationalizes pressure deflection as a defense strategy for an incumbent politician which allows him to avoid revealing his true policy preferences. The strategy can be valuable if revelation would induce an opposing lobby to confer viability on a challenger. Lowering the chance of a viable candidate is akin to (probabilistic) entry deterrence. This story plausibly fits the U.S. Congress. Evidence reported in Anderson and Prusa [2001a] shows that most Congressional elections are essentially uncontested

in the sense that only one candidate is viable, raises much money in a setting where the candidate with more money wins almost always.

Our rationale has natural limits and suggests useful empirical predictions. Pressure deflection is useless to an incumbent who cannot escape a quality challenger. Thus deflection is futile in presidential races, where there is always a quality challenger.[1] In contrast, many Congressional races feature safe incumbents so long as they avoid creating an opening for a viable challenger. Deflection is most likely to operate in Congress on issues for which most political participants are nearly indifferent, but for which interest groups on each side feel strongly in many districts. Pressure deflection is also of limited use when the politician's preferences are likely to have been revealed by means other than his reaction to a particular petition. Thus deflection is unlikely on issues about which many voters have strong opinions or on which the incumbent's political faction is a reliable signal of his preferences (abortion, minimum wage).

The formal model builds on the political competition model of Baron [1989] extended by Anderson and Prusa [2001a] to explain uncontested races. An incumbent politician and a challenger compete for election by raising contributions to sway uninformed voters in a two stage game. In the second stage, candidates raise contributions by selling options on their time (access) to listen to the positions of the donors. Access contributions are costly to the recipient if elected. In the first stage, candidates can sell mutually exclusive advocacy positions. The incumbent enjoys a first mover advantage here. If a pressure deflection mechanism is available, the incumbent has the option to deflect pressure by referring a lobby to a bureaucratic channel instead of taking a stance on the policy issue.

The incumbent's decision to deflect is aimed to deter the entry of a *viable* challenger by cutting his source of advocacy contributions. Such contributions, by lowering his net cost of campaigning in the second stage game, can make him viable, able to sell

access because he has a chance of election. The total level of contributions (both access and advocacy) determines the probability of election of each candidate. We assume a challenger will always enter (fitting the facts), but he may be unable to raise enough money to campaign effectively (also fitting the facts). In this case we say no viable challenger enters the race and the race is effectively uncontested.

The setup demonstrates circumstances under which an incumbent politician would desire a pressure deflection mechanism. We do not formally model the legislative process by which a coalition of incumbents with such desires actually sets up the deflection institution, but obviously support by a majority or influential minority is likely to be necessary. We argue informally below for the plausibility of this view.

We characterize the equilibrium and provide a necessary condition for deflection to be the optimal strategy for the incumbent. However, the complexity of the model does not allow us to analytically solve for the equilibrium. Hence, numerical simulations are used to determine the conditions under which the incumbent favors the deflecting channel instead of an advocacy position. Intuitively, the incumbent finds it optimal to deflect when the value of a committed candidate to a lobby is not too large.

The related political economy literature includes alternative explanations of Congressional delegation of power and alternative treatments of ambiguity. Delegation is simply necessary given the huge size of government and the limited resources of top politicians to administer it, but the interesting questions are on the margin — which activities are delegated? Epstein and O'Halloran [1999] propose that the Congress' decision to delegate or not is akin to the firm's decision to buy or make, hence they propose a transactions cost model of the decision. Our model complements theirs by providing an additional advantage of voting for delegation by an incumbent politician, one we find especially useful for explaining trade policy delegation.[2] Mayer [1999] investigates

why governments make use of both infrequently changed tariff laws and delegation to frequently adjusted administrative measures. His answer treats government as a unitary actor based on the political support function approach, and assumes that there are benefits to flexibility in the face of shocks to world prices and productivity while there are costs to the exercise of discretionary authority outside the discipline of democratic restraint. In contrast, our paper is based on the micro politics inside the aggregation of the political support function, abstracting from benefits of flexibility.

The decision to deflect is equivalent to hiding policy preferences in this paper. Several contributions focus on the optimality of ambiguity given the risk profile of voters. Shepsle [1972] shows that ambiguity pays off only when a majority of voters are risk lovers; otherwise, the median voter results apply with political convergence occurring. Alesina and Cuckierman [1990] extend these results to a two-period model where politicians also care about the policies implemented. In this case, some degree of ambiguity may be optimal for the candidates even if voters are risk averse. Alternatively, a recent paper by Aragones and Neeman [2000] focuses on the candidates and shows that they may choose some level of ambiguity during the electoral campaign based on the assumption that policy commitment is costly for a candidate. Our model departs from these studies in two ways. First, we emphasize the interplay between politicians and lobbies, while voters' behavior is embodied in the function determining the election outcome. Secondly, ambiguity arises endogenously as the optimal strategy in trying to deter challengers to enter the race.

The remainder of the paper is organized as follows. Section II argues that the delegation of U.S. trade policy-making should be understood as pressure deflection. Section III sets up the model while its implications are discussed in section IV. Section V discusses the choice of a deflection regime based on the usefulness of the availability of pressure

deflection to the median legislator. Section VI returns to analyze the desirability of deflection to the individual incumbent in more detail with a simulation approach. Section VII concludes.

II Deflection and U.S. Trade Institutions

The delegation of trade policy by the U.S. Congress to the Executive branch of government, durably in place since 1934, is to be understood as pressure deflection. Destler [1995] gives as examples the "bargaining tariff" implemented with the Reciprocal Trade Agreements Act of 1934 and the fast-track procedures initially set forth in the Trade Act of 1974. Narrowly focused interest groups will not pressure Congressmen over details of trade policy which are decided elsewhere. The very occasional large scale agreement (NAFTA, the Uruguay Round) reveals the preferences of incumbent politicians who must take a public stand for or against, but the revelation occurs in a setting where extensive political debate informs most political participants, hence deflection becomes much less useful to an incumbent politician. Destler [1995] provides a detailed description of the debate over the Trade Act of 1974 which is consistent with this interpretation.

Delegation as pressure deflection is significantly enhanced by the safety valve mechanism represented by the U.S. antidumping (AD) law which provides a way for industries to obtain trade protection (i.e., imposition of duties) on imports that are sold in the United States at a price lower than the one charged in the country where they are produced.[3]It bleeds off pressure on the Congress to impose trade relief programs, since an administrative mechanism is in place to take action on complaints from industrial sectors. Incumbents can deflect the political pressure to the AD authority (i.e., International Trade Commission and International Trade Administration) when it is advantageous to conceal their trade preferences. Since AD law provides a useful deflection option

to incumbents, Congressional support for AD through several rounds of amendment and greatly expanded use since the early 1980's makes political sense. AD is by far the most important source of new protectionist policy in the United States over the last 20 years, and it accounts for as much distortion as all the other remaining protectionist policies of the United States [Gallaway et al., 1999]. Despite pressure from trade liberalizers, AD survived reform efforts during the Uruguay Round and as legitimated by the WTO it is now a standard trade policy mechanism around the world. The U.S. Congress' renewal of fast track negotiating authority in 2002 came with the insistence that AD law was not negotiable.

Our rationale for AD is the only convincing one (to us) of which we are aware. Standard political economy models cannot explain it while AD law appears to make no sense for a welfare-maximizing government. The predatory competition story which is sometimes offered as a rationale (dumpers will drive out home firms, then raise prices) is inconsistent with the observation that U.S. AD law makes no mention of consumer interests, and also inconsistent with the evidence in many AD cases [Shy, 1998]. Anderson [1993] examined a potential rationale in his 'domino dumping' model on the basis that AD would lower the probability of voluntary export restraints. However, he found it quite fragile, depending on parameter values in a special setting.

Deflection of trade pressure groups in principle can involve both import-competing and exporter groups, but in practice it is mostly the former. Though AD is in practice one-sided against imports, Section 301 of the U.S. Trade Law of 1974 can offer an analogous solution to export lobbies. Section 301 authorizes Executive action against unfair trade practices by foreign countries. While less active than AD,[4]Section 301 has resulted in significant market opening negotiations, most prominently the Semiconductor Agreement between the United States and Japan. Finally, we note that the negotiation

of small scale free trade agreements such as the one with Jordan may also offer a safety valve for narrowly based exporter interest pressures which complements the delegation of trade policy to the executive. These facts suggest that Congress values the pressure deflection value of delegation and the safety valve role of AD and possibly of Section 301 and of ongoing bilateral free trade negotiations. We stick to the AD interpretation of safety valve deflection below for simplicity.

Pressure deflection can make delegation attractive outside the realm of trade policy. According to Epstein and O'Halloran's [1999] transactions cost model of delegation, Congress retains policy when issues are not highly technical and redistribution is prominent. When delegation occurs anyway, like for trade policy, pressure deflection may be the explanation.

III The Model

The regime of pressure deflection is selected in the first stage of a metagame whenever the future payoffs to the deflection regime of a sufficiently large or influential number of players are positive. We abstract from the metagame rule-setting stage for simplicity, but discuss it informally in section V. We concentrate here on the essential problem of a formal model of the payoffs to incumbent politicians from the deflection regime. An incumbent will favor the deflection regime, all else equal, whenever he expects to gain from the use of deflection. We interpret the deflection regime as containing a safety valve mechanism such as AD.

The basis of our analysis of the benefit of deflection is electoral competition between an incumbent that runs for reelection and a challenger. The candidates each will run for office so long as they achieve non-negative expected utility from running. The electoral campaign develops into two stages. In both stages, the incumbent and the challenger

compete for contributions to be used to sway uninformed voters. The model is solved by backward induction.

In the first stage, candidates can sell political influence in the form of advocacy: an exclusive policy stance that the politician commits to advocate if elected. In the second stage, access can be sold. We think of access as an option on the candidate's time, presumably to listen and reply to the issues of interest to the donor in case the candidate is elected. The politician can and frequently does sell some of his time to listen (access) to supporters of both sides. Consequently, there is no strategic behavior among interest groups when buying access. In contrast, advocacy implies a major commitment to support and fight for mutually exclusive issues — a candidate cannot advocate free trade and import restrictions at the same time.[5] The decision to advocate a cause or its opposite has important strategic effects on the other lobby's decision to support or not another candidate. Reflecting this, the early stage of the game centers on the revelation of information by the incumbent and the consequent behavior of the lobbies.

The chosen structure of the game where the access stage follows the advocacy decision is natural and analytically convenient. The lobby's request for an advocacy position pushes the incumbent to reveal information about his positions if he does not deflect. This piece of information modifies the context of the electoral competition by modifying the lobbies' incentive to fund a challenger. At the same time, the value of access to the buyer depends on the probability of election of a candidate; this probability in turn being determined also by the advocacy positions. Thus, it is natural to place the advocacy decision prior to the access decision.

The game tree in Figure I illustrates the strategies of the candidates. In the first stage, it is reasonable to assume that the incumbent moves first. He can advocate a lobby's cause, advocate the opposite lobby's cause, or deflect the pressure by invoking

the AD law. If advocating, the first mover advantage allows selection of the higher value contribution. The deflecting incumbent does not reveal his position on the policy issue. The possibility to conceal policy preferences even when pushed to take a stand is the crucial aspect of deflection. This decreases the incentives for a lobby to find it profitable to fund a challenger. It is important to note that this defensive strategy implies foregoing some contributions, contrary to the popular but informal war chest story, which emphasizes the relevance of accumulating money in the early stage of the electoral competition.

Given the incumbent's decision, the potential challenger can advocate a case or not, assuming that an interest group will ask for his support. A challenger tries to accumulate as many resources as possible in order to cover the costs of campaigning and therefore always accepts an advocacy position (i.e., support trade protection or free trade).[6] Referring a lobby to the AD procedures is worthless to a challenger since this action does not garner a contribution.

In the second stage, candidates simultaneously decide on the amounts of time (H_I for the incumbent and H_C for the challenger) to sell as access, knowing the advocacy positions accepted in the first stage and the cost of providing such services. A key feature of access is that its value to the buyer depends on the probability that the seller (incumbent or challenger) will be elected. Hence, the sale of advocacy can affect the price received from the sale of access because of its effect on the equilibrium probabilities. The total level of contributions from advocacy (if any) and access determines the probability to win the elections. For each candidate, the direct effect of his own contributions is to increase votes, while contributions to the opponent decrease them. The elected politician enjoys a given utility from holding the seat and incurs the cost for providing the access sold during the electoral campaign.

III.1 Second Stage: Access

The two candidates sell access taking as given the level of contributions raised through advocacy in the first stage. This stage is modeled as in Anderson and Prusa [2001a]; specifically, the objective probability that the incumbent wins the elections is

$$p = \frac{\mu e_I^{\beta}}{\mu e_I^{\beta} + (1-\mu) e_C^{\beta}}; \quad \beta < 1, \mu \in [0,1]\,. \tag{1}$$

The specification in (1) shows that only the effort spent by incumbent (e_I) and challenger (e_C) matters in determining the outcome of the elections. In other words, (uninformed) voters are only influenced by campaign advertisements and expenditures. The parameter μ represents an asymmetry between the two candidates: for $\mu > 1/2$ the incumbent has a recognition advantage. $\beta < 1$ imposes diminishing marginal effectiveness to effort.

Each candidate faces a downward sloping demand for access, $v(H)$, derived by the many heterogenous interest groups interested in purchasing some of the time of a potential elected politician. The price of access depends on the probabilities of election for each contestant, taken as given by donors, since access has a value for the lobbies only if 'their' man is elected. In the rational expectation equilibrium, these beliefs coincide with the equilibrium probabilities. Then, the price of access is $pv(H_I)$ for the incumbent and $(1-p)v(H_C)$ for the challenger.

Effort costs money. For simplicity, we assume that effort is a linear function of the total funds raised, but subject to a threshold level needed to cover a fixed cost of campaign (K_I for the incumbent and K_C for the challenger):

$$e_I = \overline{e}_I + \left[pv(H_I)H_I + C_I - K_I\right]/b_I \tag{2}$$

$$e_C = \overline{e}_C + \left[(1-p)v(H_C)H_C + C_C - K_C\right]/b_C \tag{3}$$

where the parameters $\overline{e}_I$ and $\overline{e}_C$ are predetermined campaign effectiveness levels based on ideological attachments, name recognition or the like; b_I and b_C represent the marginal cost of effort; $pv(H_I)H_I$ and $(1-p)v(H_C)H_C$ are total revenues from access; and C_I and C_C denote contributions received from advocacy in the first stage of the game. If a candidate is not able to raise enough contributions through access and advocacy to cover the fixed cost of campaign (namely, if the square brackets in (2) and (3) are negative), he will not be able to actively campaign and the opponent wins the elections.

By substituting (2) and (3) into (1), the probability function can be written as

$$p = \frac{1}{1+\omega\left[\dfrac{b_C\overline{e}_C + (1-p)v(H_C)H_C + C_C - K_C}{b_I\overline{e}_I + pv(H_I)H_I + C_I - K_I}\right]^{\beta}} \tag{4}$$

where $\omega \equiv \frac{1-\mu}{\mu}\left(\frac{b_I}{b_C}\right)^{\beta}$. This equation implicitly defines the reduced form probability function $P(H_I, H_C, C_I, C_C, K_I, K_C)$. (4) is defined for nonnegative effort levels e_C, e_I. A sufficient condition for effort to be positive is $b_I\overline{e}_I - K_I > 0$ and $b_C\overline{e}_C - K_C > 0$. Given these assumptions and the previously imposed restriction $\beta < 1$, in the Appendix we prove existence and uniqueness of the equilibrium probability.

Candidates sell finite amounts of access because of the corresponding cost they will incur when delivering the service if elected. The optimal level of contributions sold by the candidates is the solution to the simultaneous maximization problems of candidates' expected utilities, taking as given contributions from advocacies:

$$\max_{H_I} P[W - \Omega(H_I)] \tag{5}$$

$$\max_{H_C} (1-P)[W - \Gamma(H_C)] \tag{6}$$

where W is the valuation of holding office and $\Omega(\cdot)$ ($\Gamma(\cdot)$) is the cost function of the incumbent (challenger) for the access provided.[7] The Nash equilibrium levels of H_I and

H_C are found by solving the first order conditions:

$$P_{H_I}[W - \Omega(H_I)] - P\Omega'(H_I) = 0 \tag{7}$$

$$-P_{H_C}[W - \Gamma(H_C)] - (1 - P)\Gamma'(H_C) = 0 \tag{8}$$

where subscripts of P denote partial derivatives and $P_{H_I} > 0$ and $P_{H_C} < 0$; a candidate's probability to win is increasing in his own contribution.[8]

If the candidates are perfectly symmetric, a symmetric Nash equilibrium obtains where $P = \frac{1}{2}$ and both candidates sell the same amount of access. Asymmetries between incumbent and challenger can lead to corner solutions where only one candidate receives funds and is elected with probability 1.

Asymmetry between the two candidates is crucial to our story as well as being highly realistic (incumbents have an overwhelming advantage in Congressional races). The key form of asymmetry for our purposes is the level of contributions solicited in the advocacy stage where the incumbent can play strategically to make it impossible for a challenger to compete. Asymmetry can also arise exogenously because of recognition (i.e., the parameter μ), because of different cost functions (most probably the incumbent has a lower cost to provide the same services), because of different fixed costs to enter the electoral process, because of different demand functions or for the predetermined campaign effectiveness levels. However, we are concerned with the interesting case where exogenous asymmetry is not so pronounced as to render deflection valueless.

Advocacy contributions have the effect of lowering the fixed cost which must be covered by access contributions. Near the symmetric Nash equilibrium the effects of the cost of entry on the optimal level of access are signed as follows:

$$\begin{aligned} \frac{dH_j}{dK_j} &> 0, \quad j = I, C \\ \frac{dH_k}{dK_j} &> 0, \quad k, j = I, C;\ k \neq j \end{aligned}$$

so that both candidates sell more access as the cost of one of them increases. Thus an increase in advocacy contribution for one politician reduces the equilibrium level of access for both of them, at least near the symmetric equilibrium:

$$\begin{aligned} \frac{dH_j}{dC_j} &< 0, \quad j = I, C \\ \frac{dH_k}{dC_j} &< 0, \quad k, j = I, C;\ k \neq j. \end{aligned}$$

If a candidate accepts an advocacy, he prefers to receive as large a contribution as possible. We now confirm this intuitive result. Following Anderson and Prusa [2001a], it is easy to show that the decrease in the levels of access is such that the direct effect of a contribution on the probability of election of the recipient is positive: $P_{C_I} > 0$ and $P_{C_C} < 0$.[9] These results allow us to show that a candidate's expected utility is increasing in his own advocacy contribution; in fact, by using the envelope theorem we obtain:

$$\begin{aligned} \frac{dE\left[Utility_I\right]}{dC_I} &= \left(P_{C_I} + P_{H_C}\frac{dH_C}{dC_I}\right)\left[W - \Omega(H_I)\right] > 0 \\ \frac{dE\left[Utility_C\right]}{dC_C} &= -\left(P_{C_C} + P_{H_I}\frac{dH_I}{dC_C}\right)\left[W - \Gamma(H_C)\right] > 0. \end{aligned}$$

III.2 First Stage: the Advocacy Decision

The first stage of decision making involves two variables, the decision to enter or not and the decision to advocate or not. Formally these two variables are decided by both candidates. But in effect they have only advocacy to decide because in our setup the worst outcome is zero expected utility, which is assumed to be equal to the opportunity cost of the candidate. This fits the stylized facts. For the incumbent, the entry decision is already made (for simplicity).[10] As for the challenger, the evidence suggests that a challenger will always enter the race, but the challenger will often not be viable in the sense of attracting contributions. In the latter case we say that no viable challenger enters the race.

The incumbent's advocacy decision precedes the challenger's advocacy decision. The incumbent can capitalize on his first mover advantage by taking the contribution from a lobby. When possible, deflection may be more valuable. Accepting or rejecting an advocacy petition can create a motive for an opposing lobby to fund a challenger. It is important to note that rejecting a petition is often just as revealing as accepting it. Deflecting the lobby's request and hiding information about policy preferences can thus achieve an important result. It may reduce the incentive for the lobby to support a challenger. If the challenger cannot cover the fixed cost of entering the electoral competition, he cannot achieve a positive probability of election and thus the incumbent enjoys an effortless reelection. The crucial aspect is the influence of the incumbent's action on the subsequent decision of a lobby to fund or not to fund a challenger. If the deflection channel were not available, an incumbent would be forced to take a stand on the lobby's advocacy request, since he cannot conceal his preferences. His stand will imply contributions from a lobby, but the opposite lobby may fund and make a challenger viable.

We assume that there are two lobbies interested in having a candidate to advocate their opposing causes. One of these lobbies, called *Protectionist,* would like to have some trade protection imposed. The other lobby, *Liberal*, supports free trade. The Liberal trade lobby is assumed to value advocacy less than the Protectionist lobby because the status quo favors liberal trade (nothing essential hangs on this asymmetry). Thus we envision the Protectionist lobby as potentially approaching the incumbent to ask for his support in imposing trade restrictions.

In this setup with delegation and safety valve deflection, the incumbent will decide either to sell a protectionist advocacy, to support free trade, or deflect pressure into the AD channel. The incumbent will not openly support free trade because this will

prompt the Protectionist lobby to approach the challenger while yielding a smaller contribution from the Liberal lobby that enjoys the status quo of free trade. However, advocating protectionist measures will push the Liberal lobby to look for a supporter in the challenger.

The decision between advocacy and deflection depends on the net benefit of each action. Analytically, given the solution of H_I and H_C from the second stage of the game (i.e., we impose subgame perfection), the incumbent chooses to accept advocacy contributions or deflect in order to maximize his expected utility $P[W - \Omega(H_I)]$. Given the incumbent's action, the challenger will advocate a cause, provided that a lobby would be interested in securing his support.[11]The challenger will always sponsor an advocacy if he decides to enter but he does not even consider the option of the AD law because it would entail zero contributions. Analytically, the challenger's objective is to maximize his expected utility $(1 - P)[W - \Gamma(H_C)]$.

The analytical solution of this stage coincides with the equilibrium of the two-stage game given by $\{H_I^*, H_C^*, C_I^*, C_C^*\}$, which in turn determines the probability of election for the incumbent (P) and the challenger $(1 - P)$. The complexity of the model does not allow us to fully characterize the solution in an analytical way. We discuss some theoretical implications in section IV but we will have to numerically simulate the model over different parameter ranges in order to illustrate the solution of the model.

III.2.1 Lobbies' Behavior

At the advocacy stage there are only two lobbies on opposite sides of a single issue (free trade or protection). Their payoffs are constructed as follows. We assume that each lobby gains G in expected value when a committed politician is elected: G is the expected value of the continued free trade regime for the Liberal lobby and the expected

gain from trade protection for the Protectionist lobby. Asymmetry in G, when admitted below, typically reinforces the incumbent's advantage since he moves first and since a reelected incumbent is likely to be more efficient in delivering political benefits than is a winning challenger (i.e., he provides a higher G).

Offsetting the gain G to the lobby is its cost, the contribution paid to the incumbent (C_I) or to the challenger (C_C). Moreover, if no advocacy contribution is paid, the reelected incumbent will support the protectionists' demand with a probability γ_I.[12] In a similar way, when the challenger is not offered any contribution, he is expected to support the protectionists' demand with a probability γ_C. The lobby forms an expectation of the probability of incumbent reelection at the end of the access competition game. $\widehat{P}$ is the probability when there are no advocacy contribution on either side, $\widetilde{P}$ the probability when both sides obtain advocacy contributions, while $\overline{P}$ and $\underline{P}$ denote the probabilities when just one side contributes. Given this setup, a summary of the expected utility for each lobby in each possible case is reported in Table I where $C_{C(pro)}$ and $C_{C(lib)}$ indicate which lobby contributes to the challenger when the incumbent deflects.

The two lobbies have to decide how much to contribute to incumbent and challenger. This poses a difficult modelling problem because of the strategic interactions between two lobbies on one side and two politicians on the other side, with the incumbent having a first mover advantage. We resolve the problem with a plausible bit of added structure. The challenger faces two lobbies if the incumbent has not accepted advocacy contributions and one lobby if the incumbent has accepted advocacy contributions. We assume (plausibly) that there is an infinitely elastic supply of challengers with zero reservation utility, so 'the' challenger is unable to extract rent from the lobby. The lobby will make exactly its optimal contribution subject to doing better than with a zero contribution. When G is not too large, this is the minimal contribution needed to make the challenger

viable. For sufficiently large G, it is possible that the optimal contribution is larger.[13]

For the incumbent, the contribution level is the outcome of a game between he and the two lobbies. For our purposes it is unnecessary to model this complex game, hence we do not pin down the exact amount of the contribution. We need only consider if there is a contribution level such that both the lobby and the incumbent gain. If this is the case, we assume (very plausibly) that the game outcome is that the incumbent does not deflect. In contrast, we can assume that the incumbent deflects if the maximum amount that a lobby is willing to offer does not make the incumbent better off with respect to the rejection of the advocacy. We simulate the model for various contribution levels, so the fact that we do not determine a particular contribution level for the incumbent becomes an advantage of the model allowing us to escape imposing any ad hoc specifications for the interaction between the lobbies and the incumbent. Since there is no a priori belief about the challenger's true positions, it is reasonable to set $\gamma_C = \frac{1}{2}$; analogously, we also set $\gamma_I = \frac{1}{2}$ since deflection allows the incumbent to hide his intentions.

IV Theoretical Implications

Even though the model does not admit a close form solution, we can say something about the forces at work and the intuition that drives the results.

Consider first a limit case where deflection cannot be the optimal strategy for the incumbent. In the case where each lobby gains the same expected value (G) from the election of a committed candidate and the cost of entry is zero for both candidates, a lobby would always find it optimal to contribute to the challenger independently of the advocacy position taken by the incumbent. From the point of view of the lobby, paying even a small contribution guarantees the candidate's support if elected. For the challenger, any contribution increases his expected utility because of the extra revenue

to spend on advertisement and the possibility to reoptimize the amount of access. Given this, the incumbent will accept the Protectionist advocacy himself since deflecting the pressure does not prevent the challenger from being offered an advocacy. Formally:

Proposition 1 *Deflection is not the optimal strategy for the incumbent if the challenger is viable without advocacy contributions.*

Proof: see Appendix.

In other words, a necessary condition for deflection is that the challenger is not viable without advocacy contributions.[14]

Against this backdrop, consider a case where deflection is adopted. A necessary condition is that K_C is high enough so that the challenger is not viable if he does not receive advocacy contributions — his expected utility without advocacy contributions is not strictly positive. What should the incumbent do taking into consideration the lobbies' best response (i.e., the lobbies' optimal level of contribution)? The answer depends on the values of G. If the challenger is not offered an advocacy, he will not be viable and the incumbent will be reelected. Taking two extreme cases clarifies the situation: when $G = 0$ a lobby does not have any incentive to contribute to the challenger but when G is very large a lobby can gain by making the challenger a viable candidate. By continuity, there exists a critical value of G that makes worth it for a lobby to offer an advocacy to the challenger. Thus:

Proposition 2 *Deflection is the optimal strategy for the incumbent if*

i) the challenger is not viable without advocacy contributions and

ii) G is not too large: $G < 2C_C/(1 - \overline{P})$ where $\overline{P}$ denotes the equilibrium probability when only the challenger receives advocacy contributions and C_C denotes the advocacy contribution.

Proof: see Appendix.

The incumbent will not use the AD channel for levels of G larger than the critical value G^*, while below it he deflects. Simulations show what this critical value is for different parameter scenarios, determining when the incumbent will deflect.

IV.1 Cost of Advocacy

An implicit assumption of the model presented is that a candidate does not stand to bear a cost when advocating a case (e.g., to lose votes from voters who disapprove of his advocacy), except for the strategic incentive faced by the incumbent. The results presented are sensitive to this assumption and it is therefore worthwhile exploring the possibilities for extending the model in a way to relax it.

A simple and plausible extension is to modify the probability function in (1) to allow for the existence of two categories of voters: informed and uninformed. In this case, informed voters would vote depending on the advocacy positions supported by the candidates. The probability function could then be generalized along the lines of Baron [1994] with a specification of the form

$$p = \alpha D + (1-\alpha)\frac{\mu e_i^{\beta}}{\mu e_i^{\beta} + (1-\mu)e_c^{\beta}}$$

where α $(0 < \alpha < 1)$ represents the fraction of informed voters, D characterizes the way informed voters cast their ballots, and the fraction $(1-\alpha)$ of uninformed voters would behave as before. A very simple characterization for informed voters would be $D = \frac{1}{2} + \phi$ where $|\phi| < \frac{1}{2}$, and $\phi \gtreqless 0$ represents the portion of informed voters the incumbent loses $(\phi < 0)$ or gains $(\phi > 0)$ because of the advocacy positions chosen by both candidates.[15]

A simpler possibility to take into account a vote loss would be to consider the predetermined campaign effectiveness levels $\overline{e}_I$ and $\overline{e}_C$ to depend on the advocacy positions adopted by the candidates: $\frac{d\overline{e}_j}{dC_k} \neq 0$ for $j, k = I, C$. These derivatives would take different values when the contributions switch from zero to a positive number, independently

of the magnitude of the contribution amount.

Extending the model to include informed voters can make deflection more or less likely depending on the directions in which informed voters would behave because of the advocacy positions. In other words, if an advocacy position attracts more informed voters than those that switch to the other candidate (i.e., $\phi > 0$ or $\frac{d\bar{e}_I}{dC_I}\Big|_{C_I>0} > 0$), the incentive to deflect should become less important because of the effect of gained voters on the probability of election. Even when an advocacy earns some votes, deflection will still be optimal for the incumbent in situations where the gain in the expected utility from deflection is large enough. Instead, if the net result of advocacy is to lose informed voters, the incentive for deflection should become stronger. This discussion should make clear that the consideration of an advocacy cost should not change the qualitative results presented in the paper.

V Choosing the Deflection Regime

Preceding sections give conditions under which incumbent legislators would make use of the option of deflecting trade policy pressure. Those politicians who foresee using the option would surely favor a pressure deflection regime because it raises their chances of an easy election. The substantial number of essentially unopposed Congressional races suggests the potential popularity of deflection. Those who foresee advantages in accepting advocacy positions in trade, in contrast, should oppose deflection. The diverging views can be lined up on a single issue such as a vote on Trade Promotion Authority, with the median legislator's views prevailing. Epstein and O'Halloran [1999] provide a thorough formal analysis of this rules-setting stage of the metagame in their transactions cost model of delegation. Pressure deflection simply provides a new motive in their setting for legislators to vote for or against delegation.

Why would the Executive accept receipt of pressure that would otherwise be channeled primarily onto the Congress? The answer provided by our model is that deflection cannot be a strategy for presidential candidates because there are always two viable candidates. The defensive strategy available through deflection works only when the asymmetry between the candidates can result in one horse races. The Executive thus does not have an incentive to refuse pressure and probably benefits from the expansion of political patronage appointments which accepting it entails.

An important general equilibrium force amplifies the desirability of a deflection regime for incumbent legislators. When trade is 'politicized', as in the U.S. political regime prior to 1934, many politicians can be swayed to support protection while many others can be swayed to oppose it. With trade politicized, the gains G to the lobbies from winning over one more, possibly swing, supporter to their side are increased as compared to the case where trade is less political. An incumbent who foresees the general equilibrium effect recognizes that both lobbies' gains from supporting a challenger are reduced, so even if he does plan to advocate protection rather than deflect, his potential challenger is less likely to be supported under a deflection regime. The incumbent can sympathetically refer the lobby's case to the executive while preserving the secret of his true preferences, and the availability of this option to all his colleagues lowers the value of advocacy to all. This is our stylized version of the political institutions of U.S. trade policy.

This general equilibrium force may help to explain the durability of the regime shift: once in place, pressure deflection was understood to be very helpful to incumbents as pressure groups concentrated efforts on the President. The general equilibrium effect may also explain the emergence of refinements such AD and unilateralist export promotion through Section 301 of the Trade Act of 1974. Political pressures on Congress to

intervene in trade rose in the 1970's with the switch of trade unions to protectionism. This occurred as the era of detente with Communist countries reduced the appeal of the Cold War rationale for liberal trade as part of patriotic foreign policy. The innovations of the Trade Act of 1974 can be understood as a response which lowered the gains G which lobbies might obtain by securing the advocacy of a member of Congress. The Act was the creation of liberal traders such as Wilbur Mills under the name of averting still more protectionist outcomes.

Our story explains the trend we can detect when observing the time evolution of AD as a protectionist tool. From its implementation in 1916 until the beginning of the 1980s, the U.S. AD law was used very little because of its technicalities. However, the Trade Agreements Act of 1979 changed this situation by making it easier for an industry to obtain protection through AD duties. Its discovery by the import-competing special interests and by the Congress led to an explosion of AD cases. It also led to further 'refinements' to the AD law. Among other measures adopted by the U.S. Congress, the cumulation requirement implemented in 1984 and the modifications implemented following the Uruguay Round added provisions that reinforced once more the use of AD petitions. The last piece of this evolution is a bill approved by the U.S. Congress in 2000 which provides for the revenue from AD duties to be redistributed to the industry that files the AD petition.[16]

We speculate that the pressure deflecting advantages of delegated authority may have some appeal in parliamentary democracies. However, the present model would need to be modified to incorporate the strategic interactions between individual members and their party, which can take advocacy positions and distribute contributions. The party would calculate the value of advocacy versus deflection depending on the number of races which could become uncontested in case of no advocacy being accepted. This

seems another interesting application of the logic of political pressure deflection which we leave for future work.

From a micro-politics perspective, the use of AD procedures as a deflecting mechanism creates a barrier to *viability* of challengers, reinforcing the advantage that incumbents usually have. While entry is almost free, hence literally unopposed candidates are rare, viable challengers are able to obtain interest group campaign contributions and their presence is uncommon. In this sense, pressure deflection creates a barrier to entry. In our model, the AD law implies an important political inefficiency on top of the well documented economic inefficiencies stemming from its implementation (see Blonigen and Prusa [2003] for a survey of the effects of an AD law). Whenever deflection deters viable challengers, it reduces the amount of access sold in equilibrium to zero. Popular notions of 'campaign reform' suggest that getting the money out of politics is desirable, but in our model the reduced sale of access is presumptively undesirable because advocates of various interests are unable to obtain access to present their information. A deeper model of politicians' production is needed to make a well-founded normative statement.

The phenomenon of pressure deflection is not confined to trade policy or to the AD law. In the case of AD, the Protectionist lobby approaches the incumbent to modify the status quo of free trade and the AD procedures offer a way to the incumbent to resist the pressure without stirring up oppositions. This suggests that deflection is not a universal possibility, but may arise in situations with similar game structures where there is a lobbying rivalry between the status quo and some single alternative so that the lobby that wants a change of the situation plays first in the advocacy stage.

VI Simulations

The two-stage game is too complicated to allow for a closed form solution. Therefore, we

rely on simulations in order to identify the conditions that deliver the result where the incumbent favors the use of the AD law over the support of the Protectionist advocacy. These conditions hinge on asymmetries between incumbent and challenger, which can arise from many dimensions.

The simulations are constructed as follows.[17] For a given range of possible advocacy contributions to the incumbent, the equilibrium of the model (i.e., access sold by candidates, probability of election, utility of candidates) is calculated for all possible levels of a given range of advocacy contributions to the challenger.[18] For each of these equilibria, the utility levels of the two lobbies is computed as a function of G. Then, for each value of G and taking as given the advocacy contribution paid to the incumbent, we find out the optimal choice of the lobby contributing to the challenger.

From these simulations, we observe different results depending if G is above or below a critical value. When G is below the critical value, the expected utility of the lobby contributing to the challenger is maximized when no advocacy contribution is paid to any candidate. The other lobby could increase its utility if the incumbent advocates its cause but any payment from this lobby would not be enough to make 'no deflection' the optimal choice for the incumbent. Therefore, the incumbent deflects. When G is above the critical value, a lobby is willing to make the challenger viable independently of the advocacy contribution paid to the incumbent. Moreover, there is a range of contributions to be paid to the incumbent such that both the lobby and the incumbent gain over the outcome where no contribution is paid to the incumbent. In this case, the incumbent does not deflect. Note that we do not pin down the amount of contributions paid to the incumbent, as we do not impose any ad hoc bargaining process between incumbent and lobby.

In the following, we present simulations for different values of the recognition para-

meter μ, as well as different costs of access and values of G. However, particular attention is given to differences in the costs of campaign. We normalize $K_I = 0$ and investigate the results of the model for values of K_C from 0 to 0.99, the upper bound being chosen to satisfy the condition for uniqueness of the equilibrium $b_C\overline{e}_C - K_C > 0$.

The intuition behind the two propositions presented earlier has its counterpart in the simulations reported in Figure II. For each given value of K_C, the incumbent finds it optimal to deflect pressure when the common value of G for the two lobbies is below the line. Note that for $K_C < 0.35$ the incumbent will never deflect. This is the critical value that makes a challenger viable or not and it provides a 'numerical proof' of Proposition 1 that states that deflection is never the optimal strategy for the incumbent when the challenger is viable even if he does not receive advocacy contributions. The intuition is simple. When the challenger is viable, any contribution increases his utility and the expected utility of the lobby supporting him and therefore a lobby would always find it optimal to offer him an advocacy. As a consequence, the incumbent's best response is to cash in as much as possible and he does not deflect.

The importance of Figure II is to show that had the AD channel not been available, a challenger would have managed to enter the race when $K_C > 0.35$ thanks to the advocacy position. In fact, had the incumbent not deflected the challenger would have been offered enough money for his advocacy to make him viable. Instead, the existence of a pressure deflecting mechanism allows the incumbent to conceal his policy position therefore decreasing the incentives for a lobby to fund the challenger.

It is worth nothing the great deal of linearity present in Figure II and in the simulations that follow. This may seem strange at first given that the model is highly nonlinear and a closed form solution is not obtainable. However, consider that in each figure an increase in the level of K_C needs to be matched by a proportional increase in C_C in order

for the challenger to be viable. The lobby will contribute always the minimum amount to allow the challenger to compete and this increases proportionally as K_C is increased in the figures.[19] Then, proportionally higher levels of G are necessary to make it optimal for the lobby to fund the challenger and this explains the upward sloping curves. The linearity comes from the constant proportional increase in C_C needed to balance the increased cost of entry. In particular, Proposition 2 shows that this proportionality amounts to $2/(1-\overline{P})$.

A parameter μ greater than 0.5 implies a recognition asymmetry in favor of the incumbent and Figure III shows that larger values of μ enlarge the range of values of G for which the incumbent deflects. In fact, larger values of μ make the challenger non viable for lower levels of the cost of campaigning. The effect of larger values of μ is substantial. For example, the maximum value of G for which deflection takes place when $K_C = 0.5$ is respectively three times and seven times as large for $\mu = 0.65$ and $\mu = 0.8$ than the benchmark case of $\mu = 0.5$. This result has empirical content — well established incumbents are more likely to deflect, all else equal.

The incumbent is likely to be more efficient at providing access because of his knowledge of the political system and his experience. We illustrate this asymmetry in Figure IV by allowing the parameter a to be greater than 1 in $\Gamma(H_C) = aH_C^2$. Analogously to the recognition asymmetry, higher marginal cost of access for the challenger translates in a wider range of cost of entry that prevents him from becoming viable and therefore higher values of G for which the incumbent will still find it optimal to deflect.

VI.1 Asymmetries in Lobbies' Gains

The case where one lobby has a higher G than the other does not change any of the results presented above. This conclusion depends on the sequential search for contributions that

the challenger follows. The decision to deflect depends on how much the lobby supporting the challenger is willing to contribute. Then, when a lobby has a higher G the challenger will approach this lobby first for a contribution. Therefore, the optimal contribution to the challenger and consequently the decision to deflect depend on the highest between the lobbies' Gs.

A more interesting situation occurs when the lobbies assign a higher value if a re-elected incumbent supports their cause instead of an elected challenger. This sounds reasonable since an incumbent knows how the political system works and because of his already established connections and reputation. This situation is going to enlarge the range of values for which the incumbent deflects the pressure on the AD authority. In fact, given a probability of γ_I that an uncommitted incumbent will support the Protectionist position if elected, a lobby may be better off by not making the challenger viable if in any case the expected value of an elected challenger is much lower than an uncertain support from a much higher valued incumbent. Then, for each given asymmetry between incumbent and challenger, there is a gap between challenger and incumbent's support that makes deflection the incumbent's best option where a common value of G would not have made it. This is the conclusion we can draw from Figure V where the 45° line is replicating earlier results where the value of G is common for both candidates. For $K_C = 0.5$ the area above the 45° line and the dotted line represents combinations of expected gain for incumbent (G_I) and challenger (G_C) where deflection is the optimal strategy. The point where the dotted line departs from the 45° line is the value found in Figure II for the same level of K_C. Below that level, the incumbent deflects even when the Gs are the same for the candidates. However, above that point deflection does not occur except if G_I is greater than G_C; in particular, the difference between these two values must be such that G_I is on or above the dotted line for each corresponding value

of G_C. In the same way, the line with dots illustrates the case for $K_C = 0.7$.

More simulations could be presented detailing the effect of other comparative static exercises. However, qualitatively the results would not change: for each given parameter configuration, there exists a critical value of G that distinguishes if it is optimal or not for the incumbent to deflect. In particular, as the asymmetry between the candidates gets larger, the value of an elected politician to a lobby (G) must be increasingly higher for the incumbent not to deflect.

VII Conclusions

The main contribution of this paper is to provide a political economy rationale for pressure deflecting institutions. An important example is the U.S. trade policy machinery, characterized by delegation of trade policy to the executive, buttressed by safety valve deflection typified by AD.

Our story resolves an important anomaly in modern political economy. Delegation of trade policy, especially understood as pressure deflection, is directly contrary to the political economy approach that explains trade protection as the result of a quid pro quo between politicians and lobbies. With 'policy for sale', an incumbent politician would like more policy to sell in order to secure greater electoral success. In contrast, in our model an incumbent politician, by deflecting political pressure, can conceal his true position and decrease the incentive for lobbies to fund a challenger to advocate their causes. In such cases, potential challengers may be at a disadvantage in attracting contributions and may not become viable. Their effective entry is blockaded.

The solution we propose for the puzzle posed by pressure deflection is also consistent with the empirical observation that many electoral races are uncontested (i.e., only one candidate running in the elections). A popular explanation is the so-called 'war

chest' argument by which a candidate (usually the incumbent) accumulates a lot of money in the early stage of the electoral competition and this makes it impossible for a challenger to raise enough funds. Instead, in our model this result obtains because of a strategic decision of the incumbent to raise financial barriers by eliminating the incentive for lobbies to give contributions to a potential challenger. These financial barriers go exactly in the opposite direction of the typical war chest argument since the incumbent is actually accumulating fewer contributions because the lobby does not pay him anything when he deflects.[20]

AD law is rationalized as a complement to the overall delegation regime of U.S. trade policy. It provides a way for liberal trade incumbents to hide their policy preferences and still not disappoint a Protectionist lobby. It is tempting to speculate that the rise in the use of AD in the early 1980's coincided with the decline of liberal internationalist ideological support for liberal trade in the Congress and among opinion elites. Pure delegation does not serve to insulate incumbents from political pressure when the delegation regime itself is in doubt, as we have argued above. In this case the safety valve provided by AD law may have served to buttress the delegation regime. We concede against this speculation that longstanding AD law was virtually unused until the early 1980's while its expansion then may be simply due to the belated and fortuitous discovery of its usefulness by protectionists. In favor of the speculation, the expansion and protection of AD law by Congress since then have buttressed pressure deflection and incumbency advantage in an era when trade policy is hotly debated.

Another implication of the story is that AD law creates political as well as economic inefficiency. If the incumbent is uncontested, he will not sell any access since he does not worry about votes. Thus by increasing the likelihood of one horse races, AD law creates political inefficiency in the form of a lack of communication with the elected politician.

More speculatively, pure delegation as pressure deflection may be politically inefficient. By deflecting interest groups away from urging advocacy, forcing politicians to reveal positions and fostering political competition of viable candidates, it is possible that valuable information is suppressed and worse choices are made by democratic processes.

The theoretical conclusions we derived lead to interesting testable implications for future research. For instance, based on the model we should observe that very strong incumbents advocate less because of their favorable asymmetry with respect to their challengers. However, this is not inherently true for every incumbent since the relative asymmetry with the challenger is the relevant key factor. In this sense, a strong incumbent in absolute terms may still be in a position to advocate if racing with a favorable challenger. The variability observed over many cycles of elections for the U.S. Congress should make it possible to identify the decision to advocate as a function of the asymmetry among candidates. In contrast, when considering open seats races we should expect to observe relatively more advocacy positions taken since candidates are usually more similar than when an incumbent is running for reelection.

Although our main contribution is to explain pressure deflection with an interesting application to U.S. trade policy and AD law, this paper also offers a particular characterization of electoral ambiguity. In fact, the key feature of deflection is the ability for the incumbent to remain ambiguous on his policy preferences. Contrary to the literature where ambiguity pays off in terms of votes, ambiguity endogenously arises in this model in order to deter challengers to become viable candidates.

Appendix

Existence and uniqueness

Using the same notation as in Anderson and Prusa [2001a], equation (4) yields

$$p = \frac{1}{1+\omega\left[\frac{b_C\overline{e}_C + (1-p)v(H_C)H_C + C_C - K_C}{b_I\overline{e}_I + pv(H_I)H_I + C_I - K_I}\right]^{\beta}} = \\ = g(p, H_I, H_C, C_I, C_C, K_I, K_C)$$

where $\omega = \frac{1-\mu}{\mu}\left(\frac{b_I}{b_C}\right)^{\beta}$. The reduced form probability function is

$$\text{(A1)} \qquad P(H_I, H_C, C_I, C_C, K_I, K_C) = \{p : p = g(p, H_I, H_C, C_I, C_C, K_I, K_C)\}.$$

The setting in Anderson and Prusa [2001a] is different from the one applied in this paper. In fact, they assume that if a candidate does not raise enough revenue to cover the fixed cost of entry, he will still have the exogenous level of effort $\overline{e}$. Instead, we assume that in this case he does not enter the race and the opponent wins with probability 1. In their model, existence of the fixed point solution of the equation in (A1) follows from the observation that $g(p,\cdot)$ is continuous on the unit interval and as long as at least one candidate campaigns actively $1 > g(1,\cdot) > g(\overline{p},\cdot) > g(\underline{p},\cdot) > g(0,\cdot) > 0$, where $\overline{p}$ and $\underline{p}$ are respectively the probability levels where the challenger and the incumbent do not actively campaign. Hence, $g(p,\cdot)$ must cross the 45° line satisfying $p = g(p,\cdot)$ somewhere in the unit interval, hence a fixed point exists.

In our case, $g(p,\cdot)$ is not continuous at $\overline{p}$, where $\overline{p}$ satisfies $(1-p)v(H_C)H_C + C_C - K_C = 0$.[21] However, except for the zero probability case where the fixed point occurs at $\overline{p}$, our model has a fixed point as well. It is given by the same point as in Anderson and Prusa [2001a] if it occurs for $p < \overline{p}$ and equal to 1 if it occurs in the range for $p > \overline{p}$.

Having proved existence, there is no guarantee that the solution is unique. Again, Anderson and Prusa [2001a] determine oversufficient (not necessary) conditions by imposing that $g_p < 1$ for $p \in [0,1]$. Differentiating $g(p,\cdot)$ in the interval $\underline{p} < p < \overline{p}$

$$g_p(p,\cdot) = \beta g(1-g)(A_C + A_I) \geq 0 \tag{A2}$$

where $A_C \equiv \frac{v(H_C)H_C}{b_C\overline{e}_C+(1-p)v(H_C)H_C+C_C-K_C} \geq 0$ and $A_I \equiv \frac{v(H_I)H_I}{b_I\overline{e}_I+pv(H_I)H_I+C_I-K_I} \geq 0$.

Examining the expression for g_p, uniqueness cannot generally be guaranteed, since $A_c + A_i$ can exceed one by enough to offset the influence of the first three terms. For large $v(H_c)H_c$ and $v(H_i)H_i$, at equilibrium p, $A_c + A_i$ converges to $1/p(1-p)$ while at equilibrium $g = p$; thus g_p converges to β. As $v(H_c)H_c$ and $v(H_i)H_i$ change for given p, their effect on g_p is signed by

$$\begin{aligned}
\frac{\partial A_c}{\partial H_c} &= A_c \frac{b_c\overline{e}_c - K_c}{H_c[b_c\overline{e}_c + (1-p)v(H_c)H_c - K_c]}(1 - 1/\varepsilon_c) \\
\frac{\partial A_i}{\partial H_i} &= A_i \frac{b_i\overline{e}_i - K_i}{H_i[b_i\overline{e}_i + pv(H_i)H_i - K_i]}(1 - 1/\varepsilon_i)
\end{aligned}$$

where the elasticities are $\varepsilon_i \equiv -v(H_i)/[v'(H_i)H_i] > 1$ and $\varepsilon_c \equiv -v(H_c)/[v'(H_c)H_c] > 1$.

The elasticities are above 1 as the condition for positive marginal revenue from contributions, a necessary condition for positive marginal benefit of contributions for the candidates. Examining the derivatives of A, $A_c + A_i$ rises with contributions for given p as $b_i\overline{e}_i - K_i > 0$ and $b_c\overline{e}_c - K_c > 0$, while $A_c + A_i$ falls with contributions as $b_i\overline{e}_i - K_i < 0$ and $b_c\overline{e}_c - K_c < 0$. When $A_c + A_i$ is increasing in contributions for given p, its maximum value is equal to $1/p(1-p)$, hence $g_p \leq \beta$ for any equilibrium value of p. Therefore a sufficient condition for uniqueness is $\beta < 1$, $b_i\overline{e}_i - K_i > 0$ and $b_c\overline{e}_c - K_c > 0$. However, $\beta < 1$ has already been assumed since it measures marginal effectiveness to effort. ■

Proof of Proposition 1

For the proposition to be proved, we have to show that i) a lobby gains from supporting the challenger when the incumbent does not advocate any cause. Given this, we have

to show that ii) a lobby gains from supporting the incumbent when the other lobby is supporting the challenger. If this is the case, the incumbent is not able to stop a lobby to fund the challenger and he better collect all the money he can.

i) From the table in section 3.2.1 and making use of $\gamma_I = \gamma_C = \frac{1}{2}$, it must be

$$\frac{1}{2}\overline{P}G + (1 - \overline{P})G - C_C > \frac{1}{2}G$$

$$\frac{1}{2}(1 - \overline{P})G - C_C > 0 \qquad \text{(A3)}$$

where $\overline{P}$ is the equilibrium probability when only the challenger receives advocacy contributions. Being an interior solution, $\overline{P} < 1$ and $(1 - \frac{1}{2}\overline{P}) > \frac{1}{2}$ and therefore there exists a small enough C_C such that the inequality in (A3) holds for every possible G. From the point of view of the challenger, he will accept any C_C because an advocacy contribution raises the expected utility of the candidate.

ii) From the table in section 3.2.1 it must be

$$\widetilde{P}G - C_I > \frac{1}{2}\overline{P}G$$

$$(\widetilde{P} - \frac{1}{2}\overline{P})G - C_I > 0 \qquad \text{(A4)}$$

where $\widetilde{P}$ is the equilibrium probability when both candidates advocate and $\overline{P}$ is the equilibrium probability of the case analyzed in i). Note that $\widetilde{P} > \overline{P}$ and therefore $(\widetilde{P} - \frac{1}{2}\overline{P}) > 0$ and there exists a small enough C_C such that the inequality in (A4) holds for every possible G. Similarly to the previous case, the incumbent is better off by accepting any C_I because this increases his expected utility. ■

Proof of Proposition 2

Part i) is the result obtained in Proposition 1.

For part ii) to be valid, we must look at the condition that makes a lobby not to offer an advocacy to the challenger when he is not viable without advocacy contributions and the incumbent deflects. It must be

$$\frac{1}{2}\overline{P}G + (1-\overline{P})G - C_C < \frac{1}{2}G$$

$$\frac{1}{2}(1-\overline{P})G - C_C < 0. \tag{A5}$$

Note that differently from (A3), in (A5) C_C is not arbitrary small but is an increasing function of K_C, which is assumed to be large enough to make the challenger not viable without advocacy contributions. Therefore, for not too large values of G the inequality in (A5) is satisfied. When it is not satisfied, a lobby offering an advocacy to the challenger will prompt the incumbent to advocate as well eliminating the optimality of deflection.

■

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Notes

1. Political competition in Presidential races is appropriately modeled in Grossman and Helpman [1999] as an extension of policy for sale models.

2. Epstein and O'Halloran [1999] explain delegation of trade policy as due to the excessive costs generated by Congressional logrolling. This may help explain the original Trade Agreements Act of 1934, when the example of the Smoot-Hawley Tariff of 1930 was fresh, but we find it unconvincing as a continuing explanation for seventy years. Their general rule is that "informationally intense policy areas" will be delegated while "distributive issues" will not. This dichotomy fails to predict trade policy as a highly delegated policy area. They recognize this puzzle in their empirical analysis where they refer to trade as a one of "two surprising areas that we see highly delegated ... [although] usually described as quintessential distributive issues." [page 198]. See Destler [1995] for a description of delegation in U.S. trade policy after 1934 as a pressure deflection system which contradicts the logrolling costs story.

3. The U.S. AD law was enacted in 1916. Its use was very limited until 1980 when it became the major way industries seek and obtain protection. The Trade Agreements Act of 1979 is the single most important act that prompted the surge in AD petitions observed in the 1980s.

4. From 1975 to 1998, there were 949 AD cases but only 118 Section 301 investigations.

5. The bright line between opposing positions which we draw here is of course a convenient simplification. We offer no model of 'advocacy specialization' here.

See Magee, Brock and Young [1989] for specialization models while in contrast Grossman and Helpman [1994, 1996] model nonspecialized contributions.

6. We assume that an advocacy does not impose any loss of votes. In section IV.1 we discuss the consequences of introducing a vote loss when an advocacy position is taken.

7. If a candidate is not elected, his utility is zero.

8. The second order conditions are

$$P_{H_I H_I}[W - \Omega(H_I)] - 2P_{H_I}\Omega'(H_I) - P\Omega''(H_I) < 0$$

$$-P_{H_C H_C}[W - \Gamma(H_C)] + 2P_{H_C}\Gamma'(H_C) - (1-P)\Gamma''(H_C) < 0.$$

$\Omega''(H_I)$ and $\Gamma''(H_C)$ are positive because cost functions are convex; $P_{H_I H_I}$ and $P_{H_C H_C}$ are assumed to be small enough so that the second order conditions are satisfied. See Anderson and Prusa [2001a] for restrictions that ensure this result. The conditions hold for the simulations in section VI.

9. Note that the total effect of contributions on the probability is given by $\frac{dP}{dC_I} = P_{C_I} + P_{H_I}\frac{dH_I}{dC_I} + P_{H_C}\frac{dH_C}{dC_I}$ and $\frac{dP}{dC_C} = P_{C_C} + P_{H_I}\frac{dH_I}{dC_C} + P_{H_C}\frac{dH_C}{dC_C}$. It is reasonable to assume $\frac{dP}{dC_I} > 0$ and $\frac{dP}{dC_C} < 0$ since a rise in the advocacy contribution should not decrease the equilibrium probability of a candidate. These signs hold if $P_{H_I}\frac{dH_I}{dC_I}$ and $P_{H_C}\frac{dH_C}{dC_C}$ are small enough compared to the other terms in each expression. In our simulations, these signs always obtain.

10. A weak incumbent could decide to exit and indeed sometimes bad news causes such a decision. In this case the formal analysis applies if we switch the labels of incumbent and challenger.

11. We assume that the challenger does not support the same advocacy as the incumbent. The rationale is that another challenger may enter supporting the opposite advocacy and the 'first' entrant would be worse off.

12. An incumbent may end up supporting protection even after choosing to deflect. In fact, deflection is not ideologically motivated but it is rationale for the incumbent's reelection motive. Support after deflection may reflect the possibility of subsequent local shocks (i.e., harm to a firm in the incumbent's district) causing the incumbent congressman to actively support trade policy remedies. In the delegation regime, such support takes the form of lobbying the executive branch for safeguard and AD remedies both directly and through indirect pressure on the executive agencies via control of their budgets, work rules and appointments.

13. From section III.1 we know that, at least in a neighborhood of the symmetric equilibrium, advocacy contributions reduce the level of access sold by the candidates (this always holds in the simulations). Still, if G is large enough, the lobby contributing to the challenger finds it optimal to pay more than the minimum contribution: the gain from the increased probability times the large G compensates for the decreased level of access sold by the challenger.

14. The simulations in Anderson and Prusa [2001a] show that small fixed costs are sufficient to make the challenger not viable.

15. It is simple to prove existence and uniqueness of the reduced form probability for this generalized function following the proof in the Appendix.

16. The WTO Dispute Settlement Panel has ruled against this amendment of the U.S. AD law. President Bush urged to repeal this provision in his Budget Proposal for fiscal year 2004.

17. In order to simulate the model, we assume the following functional specifications and parameter values: $W = 10; \beta = 0.5; \mu = 0.5; \gamma_I = \gamma_C = 0.5;\ b_I = b_C = 1; \overline{e}_I = \overline{e}_C = 1;\ v(H_I) = v_I H_I^{\alpha_I}; v(H_C) = v_C H_C^{\alpha_C}$ where $v_I = v_C = 1$ and $\alpha_I = \alpha_C = -0.7; \Omega(H_I) = H_I^2; \Gamma(H_C) = aH_C^2$ where $a = 1$.

18. We checked that the second order conditions in footnote 8 hold.

19. This depends on the assumption of an infinite supply of potential challengers, which makes it impossible for the actual challenger to extract rents from the contributing lobby.

20. This explanation is consistent with the empirical results in Anderson and Prusa [2001b], which do not find support for a strategic accumulation effect in the sense that "early contributions to one candidate do not cause lower later contributions to the other candidate." Hence, they conclude that differences in the level of contributions are the outcome of "inherent asymmetries" between incumbent and challenger. Our model explains how an asymmetry can work in the direction to favor the incumbent without necessarily implying a strategic accumulation.

21. Analogously, in our model $\underline{p}$ satisfies $pv(H_I)H_I + C_I - K_I = 0$. We do not need to consider a discontinuity for $\underline{p}$ since we assume that the incumbent is always viable (i.e., $K_I = 0$) so that $\underline{p} = 0$.

Table I

Lobbies' payoffs

	Liberal	Protectionist
$C_I = 0, C_C = 0$	$(1-\gamma_I)\widehat{P}G + (1-\gamma_C)(1-\widehat{P})G$	$\gamma_I\widehat{P}G + \gamma_C(1-\widehat{P})G$
$C_I = 0, C_{C(pro)} > 0$	$(1-\gamma_I)\overline{P}G$	$\gamma_I\overline{P}G + (1-\overline{P})G - C_C$
$C_I = 0, C_{C(lib)} > 0$	$(1-\gamma_I)\overline{P}G + (1-\overline{P})G - C_C$	$\gamma_I\overline{P}G$
$C_I > 0, C_C = 0$	$(1-\gamma_C)(1-\underline{P})G$	$\underline{P}G + \gamma_C(1-\underline{P})G - C_C$
$C_I > 0, C_C > 0$	$(1-\widetilde{P})G - C_C$	$\widetilde{P}G - C_I$

Figure I
Game tree

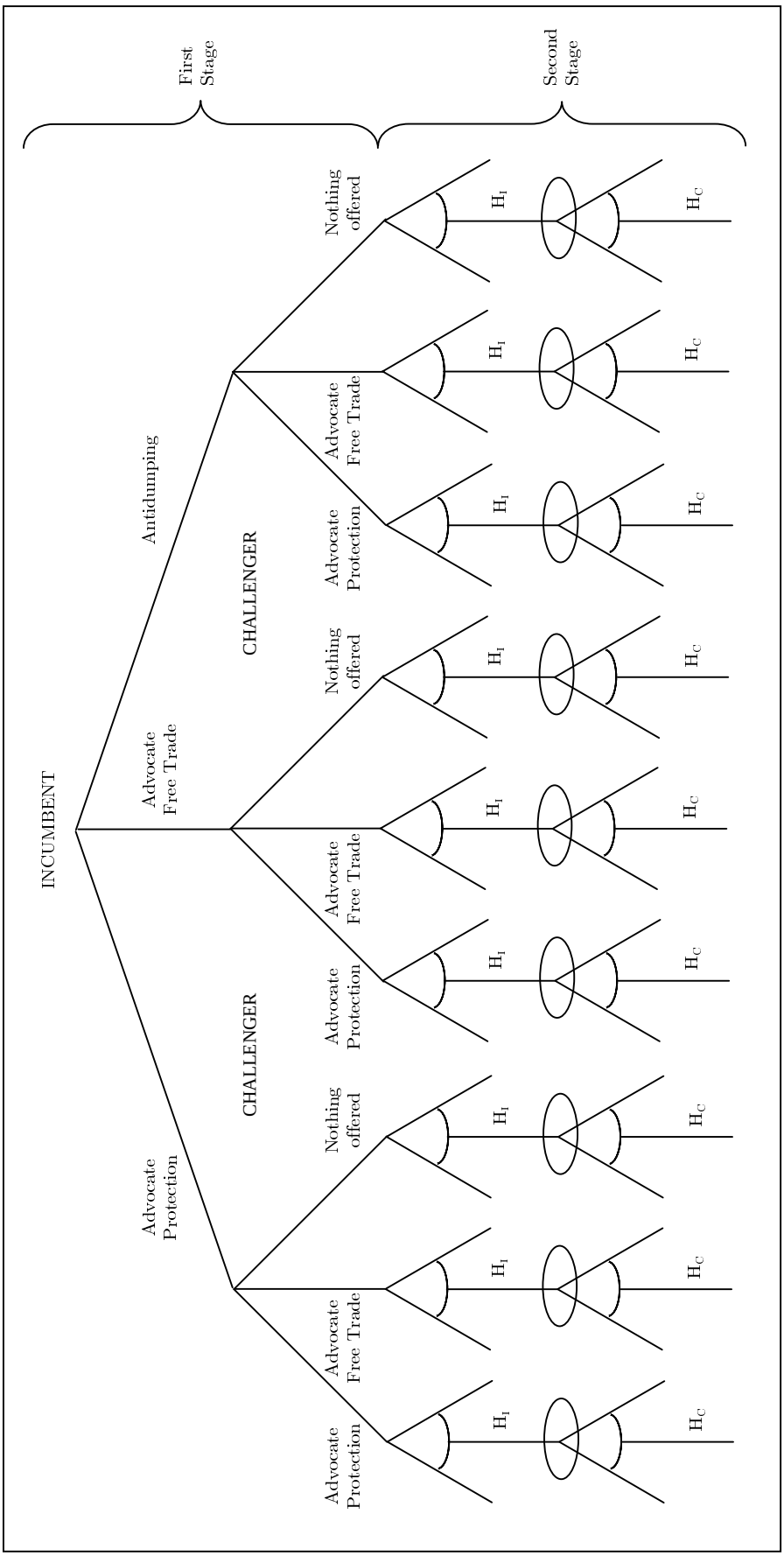
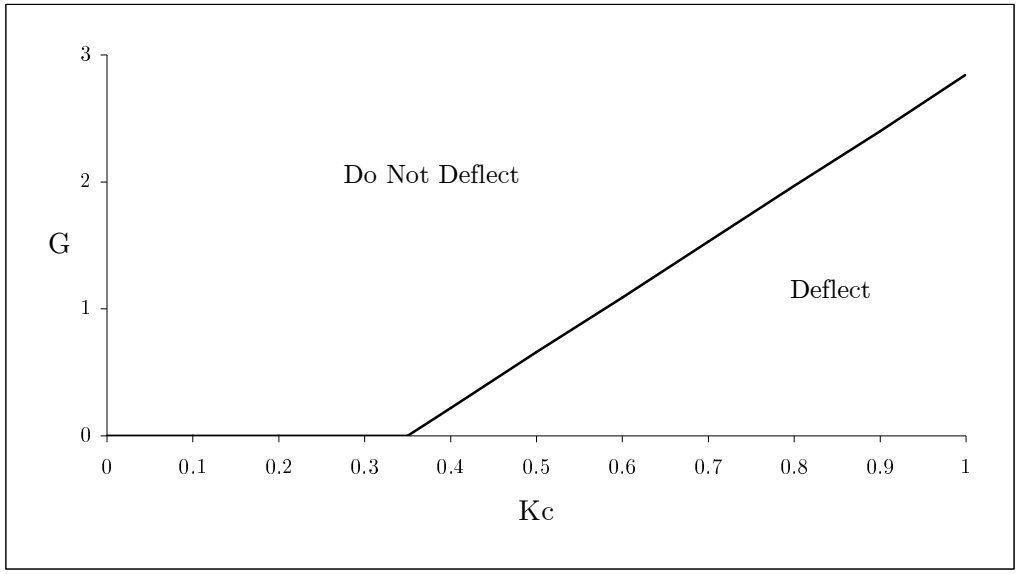
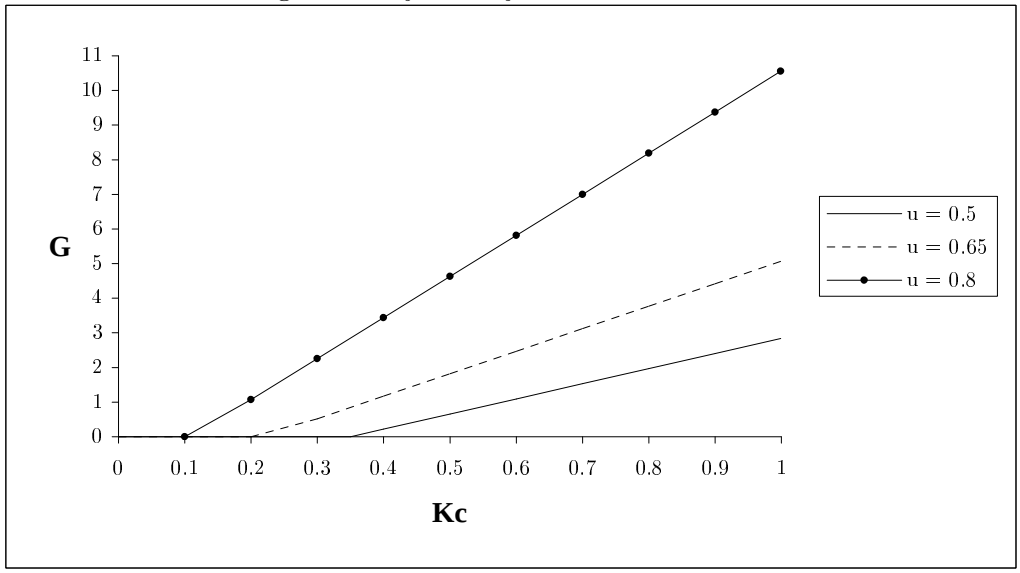


Figure II
Incumbent's decision to deflect



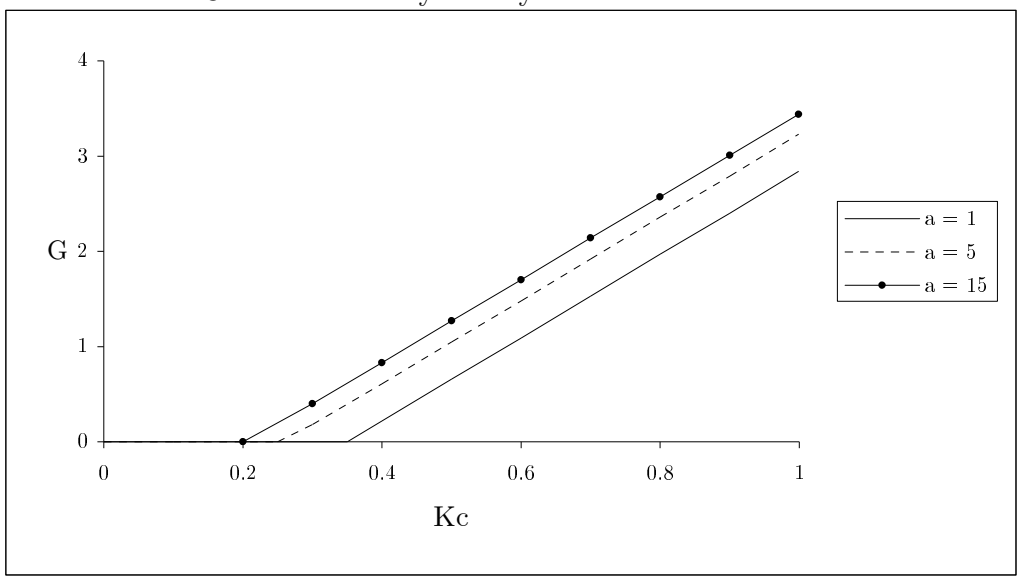
Notes: $K_I = 0$; other values as from footnote 17.

Figure III
Recognition asymmetry in favor of incumbent



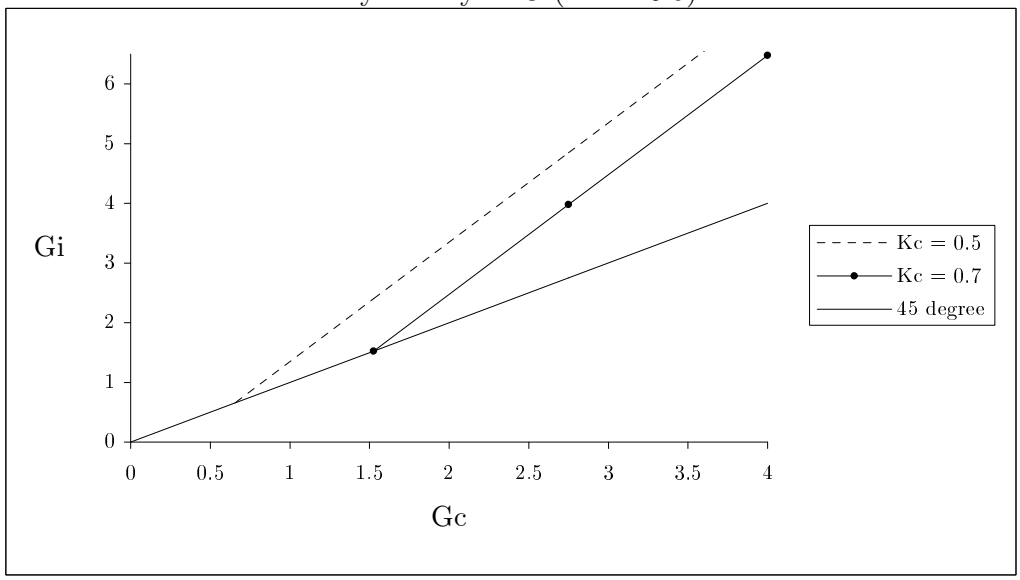
Notes: $K_I = 0$; other values as from footnote 17.

Figure IV
Cost of access asymmetry in favor of incumbent



Notes: $K_I = 0$; other values as from footnote 17.

Figure V
Asymmetry in G (mu = 0.5)



Notes: $K_I = 0$; other values as from footnote 17.