

## Introduction

### A Contractual Perspective on Interest Group Politics

Long-term associations between interest groups<sup>1</sup> and political parties are a peculiar feature of American politics. When we think of interest group alliances, the Democratic Party's ties to organized labor, and the Republican Party's connections to "big business," naturally come to mind. There are, however, a number of equally enduring unions between political parties and interest groups. Take, for instance, the longstanding connection between educational, environmental, and entertainment interests and the Democratic Party, and likewise, the link between automotive, oil and gas, and manufacturing interests and the Republican Party. Historical patterns in campaign contributions suggest still other partisan bonds among groups (see chapter 2).

Long-term connections between parties and interest groups imply a mutually profitable exchange relationship in which, for example, political favors are traded for campaign resources. If trading partners expect to gain from these transactions, such long-term partnerships—to wit, alliances—create something of a puzzle, as they seemingly defy rational political strategy. In particular, rather than currying favor with the governing party, which is in the best position to deliver policies that special interests value, groups remain devoted to the same party. Which is to say, if special interests are rational and dedicated to increasing returns (e.g., profits, rents<sup>2</sup>), why not partner with the ruling party since only they have the political wherewithal to deliver the policies that enhance interest group earnings? Yet, even when a party has been an entrenched minority for decades, interest group support rarely wavers.

And the same is true of parties that continue to back policies favored by political allies even when they jeopardize electoral success. While it might seem logical for parties to simply jettison groups that have become electoral liabilities, political breakups of this kind rarely occur. From this angle, too, enduring commitments between parties and interest groups seemingly make little sense. Party-interest group alliances are evidently more than simple quid pro quo arrangements. These observations shape the question prompting this inquiry: What keeps such political alliances intact? We believe the answer lies in the contractual spirit of the relationship between interest groups and political parties.

### Political Alliances as Contracts

One way to think of alliances between political parties and interest groups is in terms of long-term contracts tying trading partners to one another over extended periods of time, with successful execution of the agreement engendering recurring contract renewal and extension. These *political contracts*, like formal legal agreements, constitute promises whereby one trading partner agrees to take some action in return for certain reciprocal services. As in the market, political contracts place sellers and buyers in a bilateral exchange relationship within which both have well-defined, prespecified obligations. Normally, execution of these obligations involves different levels of observability, occur at different points in time, and entail different degrees of reversibility. Equally important, trading partners have varying incentives to voluntarily uphold their side of bargains.

Political contracts are defined here as tacit, long-term, mutually beneficial pacts between special interests and parties in which agreement centers on shared understandings of obligations. They account for the resiliency of political alliances because contractual understandings foster enduring commitments between trading partners; efficiently organize political transactions (i.e., dealings between parties and interest groups); and smother fears of opportunism (e.g., deception, self-regarding actions). Political contracts are vital in establishing long-term, mutually beneficial, repetitive transactions between parties and interest groups, since groups always need political clout, whether to pass legislation or intercede in routine agency decisions; and parties are constantly on the lookout for campaign revenue, whether to buy legislators' votes or to aid electorally threatened party members. Indeed, political contracting is superior to viable alternative arrangements for conducting political exchange (see chapter 8).

Due to long-term loyalties, transactions between parties and interest groups are “specialized,” resulting in exclusive buyer-seller relationships; accordingly, many special interests end up purchasing legislative services from a single political party. This specialization in trading partners produces conditions fit for opportunism. For instance, by virtue of its monopoly over the delivery of legislative services, parties could strategically expropriate some of the rents special interests obtain through the political process. Nonetheless, instead of exploiting this market power, parties fashion political contracts to defuse group fears about the leverage they possess; to do otherwise threatens the gains they attain through political alliances. Parties do so by tacitly promising to advance the policy interests of their political allies, and then making their pledges believable by ensuring special interests a lasting say over federal programs that matter most to them.

One way parties make their commitments of enduring programmatic influence credible is by establishing long-lived governmental structures designed to serve the parochial interests of political allies. Government departments like Labor, Agriculture, Commerce, and Education are probably the most striking examples of agencies designed to serve political allies, but equally valuable in this regard are the nearly one thousand federal advisory committees appended to federal agencies. These advisory committees do far more than simply “advise”: they abet the efforts of special interests to realize policy goals by establishing near-permanent, quasi-governmental (i.e., supported by government but privately managed), industry-centered footholds within agencies overseeing group programs. The security of these structures, and thus interest group influence over agencies administering pet programs, is guaranteed by legislating obstacles to committee termination. Such legislated safeguards also minimize prospects for ex-post opportunism by future legislatures.

Despite the benefits, lasting political alliances come at a price. There is, above all, a social cost: instituting governmental structures to oversee agency administration of group programs deepens special-interest influence over internal bureaucratic decisions, which are generally immune to public scrutiny. Claiming that special-interest influence in American government is extensive undoubtedly generates little surprise, but our study pivots on a different argument: special-interest influence has burrowed deeper within agencies so as to influence internal agency decisions, thus entrenching group influence further within the federal bureaucracy.

The term “deeper” is quite descriptive of a major distinction between our inquiry and others devoted to studying interest group politics. Conventional wisdom has assumed that special-interest influence centers on highly visible policy matters, such as legislation and regulations (see, for instance, Stigler

1971; Peltzman 1976), where congressional votes are ostensibly traded for campaign contributions. In truth, little reliable evidence of such a connection has been uncovered (see, for instance, Grenzke 1989). We are reluctant, however, to conclude that special-interest influence in politics is nonexistent, or even that the influence of groups has been exaggerated. Rather, we believe that group influence is less noticeable on legislative votes because these matters are more costly for groups to influence than in-house agency decisions that stream rents to industries vis-à-vis government programs. Hence, interest groups eschew influencing major legislative ventures in favor of internal bureaucratic decisions since the latter are a more cost-effective use of group resources.

Although we feel that the notion of political contracts is an important theoretical construct for explaining why parties and interest groups are seemingly bound together, we can envision several alternative explanations. For instance, it is possible that groups simply stay within an alliance because they are unable to forsake the sunk costs accumulated through decades of unwavering support for the same party; hence, forming another political alliance would mean sacrificing long-term investments in a party.

Alternatively, groups might maintain political allegiances because they have no viable alternatives: parties have strong misgivings about forging alliances with special interests formerly loyal to the opposition. It is rational for parties to be skeptical of and have reservations about the dependability of the campaign support of groups defecting from political alliances. While seemingly eager to forge new coalitions to advance their interests, the absence of a long-term partisan commitment means that groups are free to change sides at the first opportunity they have to obtain a better deal. Consequently, parties are generally reluctant to embrace former defectors as genuine political allies. So, even if defecting groups find another party ally, it is likely that their interests would be subjugated to those of other party allies that have remained faithful over the years. Accordingly, the best strategy for interest groups is to continue with their current alliance.

In addition, reputational effects cannot be easily dismissed as an explanation for why groups stand pat in political alliances. Since certain interest groups are ideologically compatible with the gist of one party's policies, they are more at home with parties sharing their political principles. In such instances, interest groups remain faithful to parties because they are a good ideological fit. To be sure, there is noticeable ideological compatibility between interest group allies and the Democratic and Republican Parties.

A distinctive feature of the above explanations is that they are easily cast in terms of contractual issues. For example, special interests might remain loyal to political parties because: the "costs" of maintaining the existing alliance are

less than those incurred in forging deals elsewhere; groups cannot make credible promises of future support due to past allegiance to the opposition party; or, the party's reputational capital provides contractual safeguards against future renegeing on current pledges. A particularly noteworthy feature of a contractual approach is that it points to the simple fact that exchange between interest groups and political parties involve transaction costs—that is, ex-ante and ex-post costs incurred in conducting business. Hence, organizing these dealings cost-effectively is essential for improving gains to trading partners. This is why political contracts are so useful in political exchange.

## The Nature of Political Contracts

While a more elaborate characterization of *political contracts* is provided in chapter 4, it will suffice at this point to simply depict them as long-term agreements based on shared, implicit understandings between special interests and political parties. The understandings between contractual partners form around *focal points* (Shelling 1960) representing the gains political allies expect to obtain from the arrangement. The objectives are self-evident: *special interests want policies advancing group fortunes, and political parties want a dependable flow of campaign money*. The basis for a profitable exchange is clearly at hand.

Like long-term agreements, political contracts are self-enforcing, sustained by the value of future dealings (see, for example, Macneil 1978; Telser 1981; and Klein 1996); hence, they can be characterized in terms common to the economic study of contracts—namely, as *relational contracts*. Long-term contracts are inherently incomplete because bargaining partners cannot anticipate all contingencies that might arise during the course of contract execution, thus opening the way for ex-post opportunism in carrying out these agreements. We should note here that self-interest and opportunism are not one and the same: self-interest is the attempt to maximize one's benefit without lying, cheating, and stealing, while opportunism is self-interested behavior where everything is on the table.

The situation is even more troublesome for political contracts. Political contracts share the same problem as long-term contracts in that many contingencies are unanticipated and therefore not subject to contracting. Then again, the tacit nature of political contracts engenders additional problems, such as confusion over and misinterpretation of provisions within agreements.<sup>3</sup> This study demonstrates how special interests and political parties overcome hazards endemic to nonbinding relational contracts to capture the gains from exchange yielded through longstanding political alliances. In the following pages, we briefly introduce the primary features of this contractual arrangement.

## Tacit Understandings

Dealings between special-interest groups and political parties are conducted through tacit political contracts for a number of reasons, but chief among them is that this is the safest route for handling political transactions. For one thing, explicit, quid pro quo exchanges between politicians and interest groups are regarded by the Courts as tantamount to bribery and corruption, and formal agreements of this nature would be legally suspect as well as politically tumultuous. If parties, politicians, and special interests want to avoid the appearance of unethical or illegal behavior, handling their dealings through implicit understandings makes sense. Although scholars have paid little attention to such implicit understandings, these agreements are in fact commonplace. Four tangible examples of implicit agreements demonstrate that these are indeed practical means for resolving problems in dealings between beekeepers and apple orchard owners; governing the behavior of transient workers; and allocating internal legislative power.

*Customs of the Orchards.* Understandings between apple orchard owners and beekeepers illustrate the effectiveness of tacit understandings (Cheung 1973). This simple exchange relationship is threatened by externalities stemming from the pollination of apple orchards. For one thing, beekeepers benefit economically from their bees pollinating orchards since the bees simultaneously feed on the apple blossoms. In addition, since bees cannot be confined to a particular orchard, they journey beyond the customer's orchard to pollinate adjoining orchards free of cost, thereby creating another externality:

[I]f a number of similar orchards are located close to one another, one who hires bee to pollinate his own orchard will in some degree benefit his neighbors. Of course, the strategic placing of the hives will reduce the spillover of bees. But in the absence of any social constraint on behavior, each farmer will tend to take advantage of whatever spillover does occur and to employ fewer hives himself. (Cheung 1973, 30)

This might seem an occasion for governmental intervention as through subsidies, taxes, or court-order solutions, but farmers and beekeepers have routinely resolved these issues through implicit agreements referred to as "customs of the orchards."

Shrewd provisos in these tacit agreements enable beekeepers and orchard owners to efficiently resolve thorny problems arising in their exchange arrangement. For instance, the problem of bees pollinating neighboring orchards is

effectively settled by having adjacent orchard owners arrange to pollinate their orchards simultaneously. So, during the pollination period, “the owner of an orchard either keeps bees himself or hires as many hives per area as are employed in neighboring orchards of the same type” (Cheung 1973, 30). As for externalities resulting from bees feeding on the orchards’ blossoms, beekeepers “reimburse” orchard owners by offering them some of the honey produced by the bees. These “customs of the orchards” represent tacit agreements with well-recognized understandings (“focal points”) among beekeepers and apple orchard owners. Governmental intervention, or even written agreements of some sort, might seem sensible solutions to these externalities, yet these hazards were effectively resolved within the context of implicit agreements.

Lacking formal enforcement provisions, these implicit agreements are effectively policed through social sanctions such as gossip. “Although a written contract is more easily enforceable in a court of law, extra-legal constraints are present: information travels quickly through the close-knit society of beekeepers and farmers, and the market will penalize any party who does not honor his contracts” (Cheung 1973, 29). Such “bad neighbors” can expect other orchard owners to impose costs on them, for example, marketing inconveniences. Social sanctions are quite effective in this regard. “It is the nature of social incentives,” Mancur Olson writes (1968, 61), “that they can distinguish among individuals: the recalcitrant individual can be ostracized, and the cooperative individual can be invited into the center of the charmed circle.”

*Day Laborers.* Problems of enforcement might seem easier to resolve with regard to apple orchards because the frequent interactions between beekeepers and orchard owners enhance the effectiveness of social sanctions. However, even where such tacit agreements are forged among individuals with fragile interpersonal connections, they effectively hold trading partners accountable. A prime example is the enforcement of informal agreements among transitory laborers at a day-labor site in Agoura Hills, California. Although transitory day-workers lack personal attachments to the group per se, which muffles their susceptibility to social sanctions, implicit contractual provisions were effectively enforced nonetheless.

The informal “contract” bound day-labor workers at the Agoura Hills site to insist on a \$15 hourly wage rate—a fee that far exceeded the normal rate (i.e., \$8–10) typically charged by transitory workers—and to cultivate a professional demeanor both for themselves and the corner location. Given the transient nature of employment and employees in day-labor work, policing such a casual agreement might seem a fool’s errand, yet the informal accord was dutifully enforced. “They browbeat anyone who litters or drinks. They also try to chase away laborers who do inferior work and hurt the corner’s

reputation. And anyone who tries to accept work for less than \$15 faces the wrath of dozens” (Greenhouse 2006). Like the “customs of the orchards,” the compact among day-laborers demonstrates that tacit understandings can be effectively enforced.

*Senatorial Courtesy and the Seniority System.* Politics, like orchards and day-laborers, has its share of tacit understandings, some of which play critical roles in governing political institutions. Two prime examples are “senatorial courtesy” in the United States Senate and the seniority system in Congress.

*Senatorial courtesy* is an implicit understanding among United States Senators to refuse to confirm a presidential appointment in (or from) a state if that appointment is opposed by the senators (or senior senator) of the president’s party from that state. Technically, then, senatorial courtesy is a tacit agreement among senators not to vote for any presidential nominee who is opposed by the senators from the nominee’s home state. As a consequence, presidents routinely submit the names of prospective appointees for approval by senators from the states in which the appointees are to work. This tacit understanding secures senators a stranglehold over federal patronage in the state, thereby shaping the setting for negotiations between presidents and senators over these appointments.<sup>4</sup>

The *seniority system* describes the practice of imparting privileges to Senators and Representatives who have served the longest, ranging from preferences for legislative offices to the pick of committee assignments. In addition, members with a longer term of service on a committee are assumed to be “senior” and have more power in the committee, often holding leadership positions. Indeed, seniority is presumably an important consideration when parties award committee and subcommittee chairmanships, the most powerful and coveted committee positions. Equally important, the seniority system provides members with committee security: legislators with less seniority are the first to lose their committee seats when shifts in party control result in changes in party-ratios on committees. In short, the seniority system serves to insulate senior members from external threats to their committee seats. As a mechanism for allocating influence, stature, and resources within Congress, the seniority system represents another example of how unwritten understandings effectively govern political institutions.

## Focal Points

One dilemma in informal contracting is that pledges remain unstated.<sup>5</sup> This predicament is addressed in political contracting through the “tacit coordination of expectations” (Shelling 1960, 71). “What is necessary is to coordinate

predictions,” Shelling (1960, 54) writes, “to read the same message in the common situation, to identify the one course of action that their expectations of each other can converge on.” Even in the absence of formally and explicitly prescribed agreements, then, interest groups and parties reach coordinated decisions supportive of unwritten (tacit) understandings through mutual recognition of *focal points*—“*some kind of prominence or conspicuousness*” (Shelling 1960, 57)—in their exchange arrangement. In political contracts, these focal points *represent the patent needs of the trading partners, and serve as the basis for exchange between special interests and political parties*. Although the arrangement is entirely implicit, trading partners are well aware of the contractual provisions: political parties know that special interests seek policies advancing group goals, and interest groups are not blind to the value parties place on a dependable flow of campaign funds. In sum, the focal points in agreements between special-interest groups and political parties represent the manifest needs of parties and interest groups and are thus easy to spot.

No doubt, shared understandings between political parties and special-interest groups also arise from their wide-ranging, elite-level interactions, which foster an awareness of the preferences and pressures each faces.<sup>6</sup> This promotes recognition of the obvious place to “meet” in the bargain (i.e., focal points). While some interest groups and party leaders may, in fact, engage in formal, informal, or third-party negotiations, we suspect that their harmonizing exchanges emerge more frequently from implicit understandings based on correlated views of political realities, historical experience, nuanced signals, and recognition of the demands and tensions each confronts.

## Bilateral Dependency

Political contracting is a reasonable way to organize dealings between special-interest groups and party allies, and we suspect such dealings are common in politics in general. One of the most notable expressions of political contracting occurs when political power changes hands and the governing party rewards coalition partners with favorable policies and actions. But whether in power or not, parties behave as if they were executing contractual agreements with political allies. For example, parties have traditionally appealed to identifiable segments of the voting population; constructed their platforms to champion the causes of these specific groups; and attempted to implement their campaign pledges when elected (Pomper 1968). All of this is done implicitly without the formality of contracts, the Republican’s 1994 “Contract with America” notwithstanding.

Traditional characterizations of political parties emphasize their dependence on special interests for electoral support and resources, and the behavior

of parties is not inconsistent with this depiction; however, this is only part of the story. That is, the arrangement between special interests and political parties is not so one-sided. Groups need parties to obtain benefits through the political process just as badly as parties need the electoral resources that interest groups supply. This is what makes political alliances bilateral-dependency arrangements.

### Exchange between Special Interests and Parties

In the highly regarded book *Why Parties?* (1995), John Aldrich contends that political parties exist because they successfully address collective action problems by regulating access to office, mobilizing voters, and organizing office-holders to accomplish goals once in office. It is difficult to quarrel with his argument, but Aldrich neglects to mention how these collective goods are paid for. Which is to say, how do parties get the billions needed to fund the provision of these collective goods during and between elections? Stigler (1971, 12) puts the matter quite succinctly:

The political party has costs of operations, costs of maintaining an organization and competing in elections. These costs of the political process are viewed excessively narrowly in the literature on the financing of elections: elections are to the political process what merchandizing is to the process of producing a commodity, only an essential final step. *The party maintains its organization and electoral appeal by the performance of costly services to the voter at all times, not just before elections.* [our emphasis]

Clearly, parties need dependable sources of revenue to support such collective endeavors. In this regard, individual campaign donations provide a substantial source of party revenue, especially since they amount to more dollars than provided through industry PACs.

Despite the amounts raised through individual contributions, rational parties seek to mine less costly revenue sources. The administrative and organizational costs parties shoulder in amassing individual campaign contributions are especially high and no doubt exceed those incurred in collecting industry or PAC contributions. And, generally speaking, personal contributions are far more fickle and erratic than PAC support.<sup>7</sup> Consequently, individual contributions are less reliable. This sets the stage for profitable transactions between political parties and special interests: parties sell political services to special interests in return for a reliable stream of fungible electoral resources necessary for bankrolling collective partisan enterprises.

More precisely, exchange between parties and interest groups involves interest group payment of campaign funds to political parties in return for any number of legislative services instrumental to realizing focal points within political contracts.<sup>8</sup> Among the basic legislative services parties supply are ensuring special interests a stranglehold over agency policies affecting them; incentivizing bureaucratic responsiveness to political allies; protecting group programs from budgetary cuts; and taking legislative action expanding existing group programs as well as creating new ones. From time to time, additional services might be requested, for example, side-tracking congressional inquiries or pigeon-holing legislation. Legislative actions that are difficult to link to contractual commitments undoubtedly require special interests to provide funds over and above their normal level of campaign contributions. We refer to these transactions in various ways—for example, political exchange, interest group transactions, political dealings, or some combination of these terms—but they all describe the same phenomenon: exchanging campaign funds for legislative assistance of some sort.

While such bilateral exchanges seem straightforward, this is not always the case because the context in which transactions between special interests and parties occur introduces contractual hazards. For instance, the terms of exchange may be difficult to specify in a clear-cut fashion, especially given the questionable legality of such an arrangement. Perhaps more importantly, given the bounded rationality of trading partners and asymmetries in political information favoring parties, conditions exist to promote bad-faith dealings and opportunism. Moral hazards<sup>9</sup> in politics enable parties to feign effort to pass special-interest legislation, thereby effectively renegeing on promises to allies. For example, party leaders might claim that their legislative efforts on behalf of party allies have been for naught due to political resistance and pressure from the “Administration.” But, how do interest groups know if they are being deceived or tricked—if party leaders are exaggerating the pressures they face to avoid living up to pledges, or if they are being “strung along” for more campaign funds? Since rational interest groups have reason to be concerned, groups invest heavily in costly, protracted negotiations in anticipation of the emergence of deal-breaking situations. Prolonged bargaining, however, erodes the gains from trade and thus the returns from the political alliance.

To avoid needless transaction costs, exchange between parties and special interests is designed to minimize the ex-ante and ex-post costs of opportunism.<sup>10</sup> An important way political parties minimize these costs is by supplying groups with concrete assurances that they will live up to their long-term commitments; these assurances take the shape of durable political structures ostensibly serving group interests. Such actions instill confidence in party pledges, thereby

reducing transaction costs and facilitating efficient political exchange. Thus, the durability of governmental structures serving political allies enhances the credibility of party promises by convincing groups that political parties are sincere about living up to their commitments to advance group interests.

## Opportunism

Despite the rewards trading partners derive from creating political contracts, hazards periodically surface within them. These problems arise from the ability of trading partners to leverage important elements inherent in long-term contracting, in particular, the bounded rationality of trading partners, unanticipated contingencies, and the inherent incompleteness of contracts. “Such hazards compromise contractual integrity,” Williamson (2000, 603) observes, “and give rise to contractual impasses, maladaptions, and investment distortions.” Despite these difficulties, such contractual hazards could be surmounted in the absence of devious self-interest or opportunism. For instance, cracks in long-term contracts could be guiltlessly addressed in an adaptive, sequential manner if ex-post opportunism were not troublesome. This is not to imply that bargaining agents lack long-term interest in effecting adaptations that will enhance returns. That inducement of course exists. But each also has incentives to expropriate as much gain as they can whenever the occasion (or need) for contractual adaptation arises.

Whereas political contracts suffer from both the innate incompleteness of long-term contracts and the misinterpretation and confusion that accompany tacit understandings, they increase the likelihood of opportunism beyond those normally arising from the hazards of long-term agreements. Opportunism is conceivable in most long-term contracting situations, but unlike conventional contracts, there is no prospect of settling political-contractual disputes through legal or court-ordered resolution. Tensions stemming from the lack of explicit, straightforward communication, and conditions susceptible to cunning dealings, undermine the resiliency of political alliances by impairing the contractual agreement between parties and interest groups. Such contractual inefficiencies arouse efforts for relief, and accordingly, parties incorporate durable commitments into their implicit agreements with political allies to defuse fears of opportunistic dealings.

## Credible Commitments

If special-interest groups and political parties expect to gain from long-term alliances, they must forge agreements that include *credible commitments* attenuating prospects for opportunism and instilling confidence in the agreement.

Without institutional constraints, self-interested behavior will foreclose complex exchange, because of the uncertainty that the other party will find it in his or her interest to live up to the agreement. The transaction cost will reflect the uncertainty by including a risk premium, the magnitude of which will turn on the likelihood of defection by the other party and the consequent cost to the first party. (North 1990, 33)

To be truly believable, commitments should be clear and observable to trading partners *ex-ante*, and irreversible *ex-post* (Dixit 1996, 62). Credibility is then effectively achieved by locking in future actions so that present commitments are made true (Shelling 1960, especially 23–28). Political structures are relevant in these respects.

Since promises are the currency of interest group politics, parties take steps to ensure that promises to political allies of an enduring influence over prized programs are believable. They do so by creating long-lived governmental structures serving industry interests and empowered to influence agency decisions. At the same time, parties take measures to shield these structures from opportunistic behavior, say by future legislatures. These actions transform party promises into credible commitments that can be thought of as simply “tying one’s hands,” thereby ensuring that pledges to interest group allies will be kept regardless of the makeup of future legislatures. Since political structures are highly durable, the permanence of these structures makes long-term party commitments credible.<sup>11</sup>

### Durable Political Structures: Federal Advisory Committees

Designing political structures as a means of lending credence to party commitments is easier said than done due to the controversy and resentment associated with bureaucratic expansion and governmental growth. These conditions make parties and legislatures reticent about adding new agencies or departments to the federal bureaucracy, especially since such growth generates more work for legislators in terms of congressional oversight. Nonetheless, parties have devised political structures—federal advisory committees—that can be created with relative ease, generate little publicity, and supply political allies with lasting programmatic influence, all with little cost to legislators. These committees place special interests in a position to counsel bureaucrats on the administration of their pet programs and to police bureaucratic shirking. These quasi-governmental congressionally established structures,<sup>12</sup> tailored to the policy concerns of special interests, make party commitments of lasting group influence over the administration of their prized programs quite convincing.

But creating structures in the service of interest groups is only part of the way parties make their promises credible. These governmental structures are also highly resilient, which makes commitments to political allies decidedly durable. Durability creates stability and continuity in political bargains, thus maximizing the gains parties and groups recoup through their contractual arrangements. “In a modern representative democracy, the institutional structure is devised to facilitate (given relative bargaining strengths) the exchange between interest groups” (North 1990, 358). Advisory committees appear to function in just this manner.

Thus, parties incorporate governmental structures into political contracts as conduits for special-interest influence, thereby making their promises of long-term support for political allies believable. Put differently, since political structures make party commitments durable, long-term promises gain credibility. This minimizes the transaction costs associated with dealings between special interests and political parties, thereby increasing returns to trading partners. In sum, credible commitments in the form of governmental structures reduce the uncertainty and hazards beleaguering long-term political contracts, thus minimizing transaction costs, increasing efficiency in political dealings, and enhancing returns to trading partners.<sup>13</sup>

## Methodology

Our study blends theories, concepts, and findings from a wide range of areas in political science—in particular, bureaucratic politics, rational-choice models of institutions, and what has been termed the “new economics of organizations” (Moe 1984)—with an equally broad set of topics in economics such as interest group models of government (Stigler 1971; Peltzman 1976), corporate political influence, and transaction-cost economics (Williamson 1975, 1985). Drawing on theoretical works in these areas, and accompanying empirical research, we construct a contractual theory of interest group politics, and empirically examine the ensuing implications.

The theoretical focus of the analysis is on the design and establishment of political structures in the service of special interests because such institutional arrangements are a primary way parties make long-term commitments to allies believable. Our interest centers on federal advisory committees that possess attributes necessary for making party promises to special interests credible (see chapter 2). As highly durable quasi-governmental structures empowered with the right to pry into agency affairs, advisory committees provide legislatively backed assurances that groups will maintain long-term footholds in federal

agencies overseeing their pet programs. They also overcome problems stemming from the perils inherent in long-term contracting that permeate political exchange, in particular, bounded rationality, uncertainty, and prospects for ex-post opportunism.

Employing data from the Federal Advisory Committee Act (FACA) database detailing institutional characteristics of advisory committees covering the years 1789 to 2008,<sup>14</sup> the study analyzes advisory committees operating through nearly seventy federal departments (e.g., State, Commerce, Energy), regulatory agencies (e.g., Federal Communications Commission, Nuclear Regulatory Commission), and foundations (e.g., National Science Foundation, National Endowment for the Humanities). These data are combined with aggregate agency budgetary statistics, industry (PAC) campaign contributions to political parties, facts about major legislation passing Congress in the last half-century, and formal models, in examining the contractual arrangement among bureaucrats, parties, legislatures, and special interests. We hope the variety, breadth, and depth of the information underlying our analysis will enhance the persuasiveness of our arguments.

## Overview of the Argument

Previously, studies of advisory committees have been sporadic at best, and investigations restricted to one or a few committees. Despite the intrinsic value of such studies, they are plagued by the lack of generalizability since inferences about advisory groups are based largely on case studies limited in time and number. As such, conclusions regarding the influence of advisory committees, or the lack thereof, may be exaggerated by problems of selection bias—that is, choice of a particular agency, policy, or time period for study. By examining more than 11,000 advisory committees, spanning several decades and attached to numerous departments and agencies, generalizations about the operations and effects of these quasi-governmental structures gain diversity and range, which translates into enhanced reliability and validity.

We build our argument in several steps. First, we describe advisory committees, since they play a pivotal role in the efficiency of political contracting. We demonstrate that advisory committees exhibit the types of bureaucratic disorders that transform them into suitable instruments for making party promises to special interests of lasting policy footholds in agencies believable. Next, we describe concepts drawn from the study of institutions and how they can be incorporated into the analysis of political contracts. Then, we describe the basic argument: parties concoct contractual agreements with

special-interest groups to facilitate the efficient exchange of campaign funds for legislative assistance.

We formally demonstrate that instead of inhibiting the capture of governmental agencies by interest groups, as some contend, parties face incentives to establish programmatic footholds within federal agencies for their most loyal allies. This arrangement persists because it is mutually beneficial to parties and groups: interest groups benefit from the in-party's power over agency funding, which creates incentives for agencies to accede to the demands of the in-party's political allies, and political parties gain from special-interest groups' campaign contributions, which improve a party's odds of winning election. This formal derivation bolsters our argument by demonstrating that, given the context in which interest group transactions occur, political contracting is an efficient way of organizing these dealings.

After that, we show that despite bureaucratic resistance to interest group involvement in internal agency matters, the arousal of congressional concern renders bureaucrats far more amenable to group advice. Put differently, special-interest influence over internal agency decisions is reliant on Congress incentivizing bureaucratic acquiescence to group advice. Finally, we demonstrate why political contracts are an economical way to organize transactions between groups and parties, and superior to more familiar arrangements, specifically, market transactions, special-interest political parties, auctioning-off governmental agencies, sale of legislation, and agency "capture" by special interests.

## Chapter Organization

In this opening chapter we have summarized the major facets of our contractual theory of interest group politics. Theoretical elements of this argument are more fully discussed in chapters 2 through 5, whereas chapters 6 through 8 are devoted to empirically examining the derived implications. Chapter 2 focuses on the attributes of advisory committees, examining a number of bureaucratic features that have borne the brunt of complaint and ridicule. Specifically, these committees have been singled-out as secretive, closely tied to special interests, dedicated to biasing agency decisions, inspiring symbiotic relationships between agency officials and interest groups, near-permanent fixtures, and a source of needless bureaucratic expansion. But these very same characteristics also serve as important reasons why advisory committees perform so well as credible commitments of party intentions to ensure interest groups a lasting say over policies benefitting them.

Thus, the nature of advisory committees, while subject to numerous attack on ethical, moral, and efficiency grounds, nevertheless fits the aims of special interests and political parties quite well. Hence, they are appropriate mechanisms for making commitments of enduring policy influence credible. In short, the problems commonly associated with bureaucracies in general and advisory committees in particular are the very reasons why these committees are suitable instruments for establishing credible commitments in political contracts. From a conventional perspective, advisory committees simply create additional bureaucratic “problems.” However, from a contractual perspective, the “nuisances” stemming from the operation of advisory committees create a fitting setting for special interests to realize their programmatic objectives, thus making long-term party promises of interest group influence over cherished programs credible.

Chapter 3 provides an introduction to important critical arguments and paradigms within the tradition of the “New Institutional Economics” and the “New Economics of Organizations,” in particular, transaction cost analysis, bureaucratic policing, and agency design. We describe how constructs drawn from these paradigms can be effectively incorporated into the contractual study of interest group politics. For instance, we show how transaction-cost arguments about the governance of bilateral economic exchange arrangements can be fused with rational-choice models of bureaucratic behavior to fashion a contractual explanation for two important and related questions: why political alliances are so durable, and why extricating the influence of special interests from government is seemingly impossible. We consider these questions as inter-related because the answer to the first provides the key to the second.

In chapter 4 we discuss the theoretical model, its underlying assumptions, and important comparative statics derived from the theory. Our theory highlights issues ignored in most treatments of interest group politics: the friction between bureaucrats and special interests; the efficiency of contracts as arrangements for organizing exchange between groups and parties; the significance of internal bureaucratic decisions to special interests; and the partisan specialization of interest groups. We contend that governmental and quasi-governmental structures are bundled into policy areas because political allies demand credible commitments of enduring programmatic influence. Establishing durable quasi-governmental footholds in agencies administering group programs—that is, advisory committees—supplies credibility to party pledges to political allies. Simply put, the durability of advisory committees makes long-term party commitments credible. In sum, transactions between special interests and political parties are governed through implicit contracts in

which the exchange relationship is safeguarded against opportunism by establishing durable footholds for groups in agencies as evidence of the credibility of party commitments.

Chapter 5 explores the ability of political contracts to effectively mitigate obstacles to long-term exchange arrangements between special-interest groups and political parties, such as self-interest and the perils of incomplete tacit contracts. One expression of self-interest capable of derailing long-term political arrangements is the so-called “holdup problem.” For example, future legislatures could demand compensation from special interests by threatening to expropriate a portion of the quasi-rents they earn through their investments in advisory committees, or to impose costs on them through excessive regulations and/or taxes. Such contractual hazards are defused due to the dedicated efforts of parties to minimize risks to group investments and rents. The good-faith efforts of political parties to address contractual threats eases the way for transactions with interest groups even though the latter are strategically disadvantaged (for example, informational asymmetries).

In chapter 6 we compile data on advisory committees in operation since 1789 to describe how political parties supply their most reliable allies with legislatively protected advisory committees, thereby guaranteeing them enduring influence over agency programs. Attention is given to the timing in establishing advisory committees since parties should create such committees at the first opportunity they have to do so to prevent perceptions of foot-dragging, shirking, or opportunism in executing their side of the bargain. Here we also explore another proposition drawn from our theory: legislative protections make advisory committees appealing to special interests, thus spurring the growth of the advisory committee system.

Chapter 7 is devoted to examining the outcomes of advisory committee actions relating to agency-clientele services, public policies, and internal agency decisions (for instance, shifting agency priorities), and the effectiveness of advisory committees in stirring agencies to implement their recommendations. Our theory leads to the expectation that special interests seek influence over a particular subset of decisions, specifically, internal agency decisions that affect narrow programs benefitting group interests. Such decisions are considerably less costly to influence than the passage of legislation, yet yield sizeable returns for interest groups by establishing long-term influence over the administration of group programs. Bureaucratic incentives, which steer agency officials into resisting group intrusions into internal agency decision making (Downs 1967), enhance the value of these quasi-governmental structures to special interests because they position groups where they can oversee the administration of their prized programs. In this chapter we develop explanatory equations to

account for advisory committee outcomes and agency actions; examine the extent to which special interests are effective in having agency officials follow their advice; and show how Congress manipulates agency budgets to incentivize agency implementation of advisory committee recommendations, thus opening the way for special-interest influence over internal agency decisions.

Chapter 8 is devoted to assessing the efficiency of political contracting—that is, whether political contracts are superior to other feasible arrangements for conducting transactions between special interests and political parties. Political exchange involves trading campaign funds for legislative assistance of many kinds, for example, passing laws, side-tracking investigations critical of agencies profiting interest groups, increasing funds for programs benefitting special interests, protecting group programs from congressional attack, and intervening in agency decisions on behalf of interest groups. In this chapter we demonstrate that political contracting organizes these transactions more efficiently than other extant ways of conducting political exchange. The concluding chapter (chapter 9) summarizes and discusses the findings as well as their implications for governing U.S. politics.

## Summary and Discussion

Since alliance partners expect to gain from long-term agreements, they devise mechanisms for efficiently overcoming utility-draining contractual impediments. One important hazard is the credibility of party commitments to political allies of enduring influence over federal programs that they care about. Political parties use promises to persuade interest groups to contribute campaign funds, but promises are just that—not only are there no assurances that party pledges will be faithfully executed in the future, but political allies may have to wait decades for contractual fulfillment. This necessitates ensuring the credibility of these long-term pledges. One way of enhancing the believability of party promises is to translate these commitments into governmental structures, for instance, federal advisory committees.

Advisory committees make good on party promises by positioning interest groups where they can oversee the administration of their programs, thwarting the intransigence of bureaucrats, protecting group investments, and securing group rents against expropriation by future legislatures. By supplying assurances that parties will resist taking advantage of the naïveté and/or ignorance of special-interest groups, despite conditions facilitating opportunism, these committees guarantee that problems inherent in long-term contracting will not disrupt the profitable exchange arrangement between groups and parties.

Such commitments are central to forging political contracts. Partisan alliances, then, can be depicted as efficient, tacit, long-term, incomplete agreements held together in large part by the existence of governmental or quasi-governmental structures that make party promises durable by providing political allies with enduring and matchless grips on a narrow set of agency policies.

To some, our arguments may seem like old stuff, reminiscent of *The End of Liberalism* (Lowi 1967) but with up-to-date lingo. Lowi contends that legislatures have delegated (abrogated) authority and responsibility for government programs to federal agencies that collude with special interests they are functionally designed to serve, resulting in programs slanted to the latter's benefit. As Lowi (1967, 107) has so elegantly summarized the issue, "the loan of governmental sovereignty to the leadership of a private sector to accomplish what other sectors could accomplish privately." Admittedly, the arguments have a familiar ring to them, but the similarities are largely superficial; the studies actually deviate at critical theoretical junctures. For instance, *Contractual Politics* and *End of Liberalism* (Lowi 1967) diverge over the indifference of legislatures toward the goings-on in bureaucracies, and the extent to which agencies enthusiastically scheme with special interests. From our theoretical perspective, legislatures are not disinterested parties: they prod federal agencies into heeding advisory committee recommendations; reward agencies for acquiescing to interest group demands and punish those that ignore them; and supply particularistic bureaucratic fix-it services to help minority-party political allies. To be sure, none of these legislative services would be necessary if special-interest groups and agencies were in cahoots.

Most of all, our arguments imply greater friction in agency-group relations than traditional treatments of bureaucratic politics. We contend that since promotion and advancement opportunities shrink in longstanding agencies, highly motivated bureaucrats, seeking to expand programs and develop additional ones, leave these "old" agencies for others where prospects for promotion are greater. Consequently, bureaucrats remaining in long-lived agencies—and most federal agencies have been in existence for several decades—are likely to be "conservers," which means they favor convenience and security but oppose changing routines (Downs 1967). This implies that actions altering the status quo, for example changing agency priorities or shifting resources, will encounter bureaucratic resistance. Yet, these are the very actions interest groups want agencies to pursue. Thus, our theory envisions greater tension between agency officials and special interests than conventional subgovernment models of politics. Indeed, there would be no need for advisory committees to monitor the administration of group programs if agencies and special interests saw eye to eye on policy matters.