Public Policy in a Simple Growth Model with Endogenous Lobbying

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Abstract

This paper re-examines the effect of lobbying activity on welfare at the steady state. Via a simple one-sector model, it shows that lobbying activity can be a welfare-improving factor at the steady state under the condition that the income share to the infrastructure capital in the private production is high and the income share to the worker input is low. Lobbying activity is endogenized by the introduction of lobbyist affiliated to infrastructure capital in the production function. Infrastructure capital is introduced as non-excludable but rivalry public good in the sense that firms can hire more lobbyists to lobby government so as to gain access to the infrastructure capital more easily than others who hire fewer lobbyists do. New built highway, for example, can be closer to the firm who hire more lobbyists. Finally, this paper shows that at the steady state, government can use uniform tax rate on both the labor and physical capital to close the gap in outputs and consumptions between the centralized and decentralized economies. By centralized economy, I mean that all identical firms get the same access to the infrastructure capital assigned by the social planner therefore there is no waste in lobbyist labor investment. Decentralized economy, on the contrary, is the one in which firms compete with each other to obtain more access to the infrastructure capital by hiring more lobbyists.

Key words: Lobbying, Infrastructure, tax rate, externality

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