

Título:

Corporate Campaign Contributions and Lobby at the Local Level of Government

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CORPORATE CAMPAIGN CONTRIBUTIONS AND LOBBY AT THE LOCAL LEVEL OF GOVERNMENT

ABSTRACT

This paper tries to empirically assess the question of whether corporate contributions buy access to public officials at local levels of government. We study this for the case of Chile. Specifically, we address this question at the lower and most basic level of government representation of the country: municipalities.

Our results show that when we estimate the effect of campaign contributions on the probability of receiving firm's we don't find any significant results, although a small set of explanatory variables does have an impact; next, OLS and Heckman models produce the relatively robust result that contributions do influence the level of access (measured by the number of hearings with firm's at the municipal and mayor-specific level, over the period of the data recollection); finally, Propensity Score Matching shows a strong and bigger effect of the dichotomous variable of contributions over the different measures of firm lobbying intensity. Hence, contributions matter both economically and statistically.

A. INTRODUCTION

There is a long and vast literature, that lies in the intersection of economics and political science, which tries to understand the behavior of firms, and other groups with individual agendas, in terms of their political strategies. As Hillman and Hitt (1999) point out, firms consider the effects of government policies and regulations when designing their corporate strategies. Depending on the specific political arena and context in which business develops, the optimal political strategies that firms undertake can differ. Thus, it's not trivial what firms do to influence the political arena to their favor.

Whether firms are successful in this enterprise can be extremely relevant for welfare concerns. One these strategies is making campaign contributions to political candidates. In these lines, several scholars have pointed out that special interest groups (SPG), may have different motivations to give donations. For instance, Stratmann (1991) argued that SPG make political donations because they want to increase the probability of victory of the candidates that already satisfy their political preferences, or, because they want to influence their policy platforms, that is, being able to change their positions to ones that lie closer to what they prefer the most. Others (e.g. Becker 1983, Cotton 2009) have built theoretical models where is

possible that the interests of SPG and constituents go in opposite directions. In this set of models contributors participate in an auction in which they bet for defining the policy, and the politician tries to maximize its utility which in turn depends on the contributions received and the definition of the policy. For instance, Hardstard and Svensson (2011) using a game theoretic model go even further: they state that bribes and lobbying, under a set of specific conditions, can induce developing countries into persistent poverty traps.

Even though the general belief is that the activities held by SPG to influence policy aren't socially optimal, there is some work that points to the contrary (e.g. Cotton 2009, Austen-Smith 1995). If firm's can provide useful information to public officials to make the bests policy decisions, then SPG influence can in fact improve welfare. Also, several studies find that the relation of contributions and lobby activities is positive and relevant (see de Figueiredo and Richter (2014), for a recent literature review). Hence, contributions and lobbying should have huge effects for the economy.

Motivated by this idea, the objective of this paper is to empirically assess the question of whether contributions buy access to public officials at local levels of government. We will evaluate this for the case of Chile. Specifically, we address this question at the lower and most basic level of government representation of this country: municipalities. The way we operationalize the question is by asking if it is true that when mayors receive firm's donations they tend to have more hearings with them (at the aggregate municipal level), and, whether the amount of contributions matter. We'll do this empirical exercise at the overall municipal administration level and at the firm-mayor level.²

This paper contributes to the existing literature of special interest politics in the following ways: (i) first, as de Figueiredo and Richter (2014) remark in a complete and recent literature review of the subject, there are a lot of papers which evaluate the effects of corporate campaign contributions on the behavior of politicians at the parliament and executive levels, especially for the US, and at a lesser degree for the EU, but administrative data on lobbying activities at lowers levels of government is almost

² By firm-mayor level we mean when mayors meet directly with firm lobbyists.

nonexistent, and very scarce for developing countries. (ii) Second, we put together a rich database in terms of political, economic, and constituent's characteristics. Most papers use firms at the unit of analysis (e.g. Ansolabehere et al. 2002, Kim 2008, Bonica 2015, Schuler 2011, Synder 1993, Bertrand et al. 2014), relating contributions spending with lobbying activities by firm. Since the unit of analysis of this paper is the municipality, we add controls that couldn't be included if the level of analysis is the firm. Therefore, this paper follows the work of some papers in the literature in which the unit of analysis is the politician itself (see for example Wright 1990, Langbein 1986, Kalla and Broockman 2015). (iii) Preoccupied by endogeneity concerns that rise because of misspecification when estimating the impact of contributions on the level of firm's lobby activities, we go further from just running OLS and implement a Heckman Selection Model (HSM)³. Next, trying to address the endogeneity of contributions we estimate the impact of receiving firm's contributions (implemented as a dichotomous variable) on municipal firm lobby using a Propensity Score Matching (PSM) method. Contributions may be endogenous with respect to hearings, because there may be omitted political and economic factors, which induce a higher overall lobbying level. In other words, they shift the demand and supply of meetings, and at the same time, they correlate with contributions. This happens because those factors also make contributions to a specific municipality more attractive for firms. In the latter econometric methods, we try to solve this problem by adding meaningful controls, both political and economic. According to the authors knowledge, PSM has not been implemented in this literature and no major paper has tried this causal avenue (although other papers have tried Instrumental Variables, see for instance Figueiredo and Silverman 2006). (iv) Finally, we describe the institutional settings of Chilean campaign finance, lobbying regulations and local government politics; aspects which are relevant under a comparative political perspective.

As a summary of our results, when we estimate the effect of campaign contributions on the probability of having hearings with firms we don't find any significant results, although a small set of explanatory variables does have an impact; next, OLS and Heckman show the relatively robust result

³ Where the selection equation is modeled on the dependent variable.

that contributions do influence the level of access (measured by the number of hearings with firms at the municipal and mayor-specific level, over the period of the data recollection.) Finally, PSM shows a strong effect of the dichotomous variable of contributions over the different measures of firm lobbying intensity. Hence, contributions have economical and statistical importance.

The rest of the paper proceeds as follows. First, we discuss briefly some theory that we'll use to give some insights and intuition to the empirical results.⁴ Then we introduce the Chilean context, discussing a few highlights about the lobby and campaign finance regulation. Then, we present our data with some summary statistics at the audience and municipal levels, and define our empirical strategy and methods. Next, we show our results, and then, we present some analysis about them. Finally, the last section shows our conclusions and suggestions about future research directions.

B. THEORY

Next, we develop some theoretical insights to then interpret our empirical results. Thru the paper, we assume that both firms and mayors are utility maximizer's agents. Firms want to maximize their expected net benefits, constrained to some technology of production. Their benefits could be affected by some policy that mayors decide (for example local firm's taxes or the allocation of funds to carry out local public projects). Next, mayors want to maximize their expected utility which depends mainly on three vectors of variables: (i) their probability of reelection, which depends on the policies chosen, given some set of characteristics of the constituency, and also on the level of campaign spending which is partially determined by the amount of firm's contributions to the campaign; (ii) the policies that he implements, given some set of ideological preferences, and (iii) the overall welfare of voters given the policies implemented (this means that mayors could have a proportion their preferences that are influenced by altruistic reasons). To implement policies, mayors must allocate their time and their municipal resources. This means that hearings and time invested in SPG,

⁴ There are several papers that build relatively simpler to more complex models of SPG behavior, such theoretical development is out of the scope of the paper.

have opportunity costs that are heterogeneous and potentially relevant. Finally, to complete the definition of the set agents involved in the problem, following a Downsian approach (see Downs 1957) or any traditional political economic model (see Persson 1998), we conclude that citizens want to vote for the candidates that credibly set up political platforms that are closer to their bliss points, that is, to their preferred set of policies. This is what we understand for a basic voter rationality setting.

In this setting, one way in which firms relate to politicians, is by participating in game of access (e.g. Austen-Smith 1995, Cotton 2009 and Cotton 2012), in which they compete with other SPG and give campaign contributions to win the game, and gain privileges to talk with and influence the politicians. Politicians optimally choose, given some rule, to which SPG concede access, that is, to which groups concede hearings regarding SPG individual agenda. Mayors are willing to participate in this game, even though SPG may not constitute a big concentration of constituents or may not represent the constituent's preferences, because greater contributions increase the probability of winning the election (see for example the model developed in Stratmann 1991). Firms may benefit from winning access because they can share private information with bureaucrats to make compelling arguments about policy, make proposals of public projects to implement them, gain political capital or protection, etc. (Van Winden 1999, Becker 1983, Kim 2008, Aggarwal et al. 2012).

As every agent solves its optimization problem, at least we expect three behavioral relations to hold: (i) Firm's come up with a demand function for hearings, (ii) Mayors come up with a supply function for hearings, and (iii) citizens arrive to a demand function for policies. These three equations, and the variables behind them, set the equilibrium for policies, contributions and hearings. The price in the hearings market is the amount of real expenses in campaign contributions firm's make when they donate to candidates.

Given the setting we have just described; we interpret the econometric specifications we show below in the empirical section as reduced forms that are founded on the behavioral relations just described. Therefore, when we discuss findings about specific marginal effects we interpret them as the net result of the different set of forces that drive the variables of the problem. As it happens with almost every economic problem, we expect that in

equilibrium marginal benefits equate the marginal costs of demanding an additional hearing, from the firm's perspective; and marginal benefits equate marginal costs of supplying an additional hearing, from the mayor's perspective.

C. CHILEAN CONTEXT AND REGULATION

C.1. *On Campaign Finance Chilean Regulation*

Chile, compared to the US, has little transparency over who specifically funds every politician. Also, it is a highly-concentrated income country⁵, and overall politics is financed by a small set of corporate elite groups⁶, and at a lesser degree by general taxes. This year⁷, a new campaign reform Bill (Bill N° 20,900) was approved and interesting changes were made. This happened because of a political scandal of illegal campaign financing and potential problems of corruption in the members from the parliament⁸. In fact, now firm's contributions are forbidden, and only natural persons can contribute in strict caps and legal limits (these contributions caps are homogenous over elections; although spending caps, which also exists, are heterogeneous over districts). The data we use comes from a period prior to this major reform. The table C.1 shows key highlights of the campaign regulation scheme that was active recently and relevant to our period of data gathering (this was the regulatory setting that was active when actual mayors, the ones considered in this study, were elected). It describes the limits and definitions of private contributions, but candidates could also fund their campaign using money given from the government.

⁵ In Chile the Gini index is 50.5 and the 20/20 concentration index is 12.3 (this figure comes from the calculation of 56.7/4.6) (source <http://data.worldbank.org/topic/poverty?locations=CL>).

⁶ <http://ciperchile.cl/2015/04/23/la-lista-completa-la-verdad-sobre-las-1-123-empresas-que-financian-la-politica-en-chile/>.

⁷ The reform was promulgated April 2016.

⁸ See <http://ciperchile.cl/especiales/financiamiento-irregular-politica/>.

TABLE C.1

Type of funding	Donation restriction	Tax deduction	Additional restrictions	Identity revelation ^a	Donation period
Own contribution (OC)	≤ Municipal expenses limit (EL)	No	-	Yes	-
Anonymous contribution (AC)	≤ 20 UF	No	One candidate cannot receive more than 20% EL by this type of funding.	Voluntary by the donor	-
Reserved contribution (RC)	> 20 UF & < 10% EL	Yes	Every donation by this type of funding cannot go over 600 UF.	No	Only in the campaign period
Private contribution of public disposition (PCPD)	(> 20 UF & > 10% EL) or > 600 UF	Yes	Every donation made in goods and services are accounted as PCPD	Yes	-

Source: Chilean Electoral Service (SERVEL, for its acronym in Spanish). The UF (the Chilean unit of account) is an inflation corrected price, and its value is roundly \$40 US (calculated in 05-07-2016). The law prohibits giving to a single candidate more than 1000 UF, and doesn't let that a single donor (firm or natural person) contribute in the same election with more than 10000 UF. "EL" stands for expenses limit. ^a This column explains if the donor is obligated to reveal its identity or not.

In practice, almost all firm's contributions come as *reserved contributions* (RC)⁹, which are legal secretly donated funds, and managed by a national Executive independent institution called the electoral service (SERVEL, for its acronym in Spanish), and, they can be used as tax credit for firm's up to 1% of the taxable net income of the year in which the donation was done.¹⁰

⁹ Actually, a more accurate term would be "confidential contributions". We keep the literal translation for these type of contributions thru the text, in order to be consistent with the way in which these type of contributions is present in the Chilean regulation.

¹⁰ There is evidence for the 2013 election (presidential and congress) which points that only 4% of donors of reserved contributions are natural persons (SERVEL, 2014).

This regulation was mainly framed this way because legislators wanted these donations to be secret. Therefore, political candidates couldn't be able to know who their benefactors were and firms wouldn't have the power to influence them. Recently there has been extended journalistic evidence that this was not happening, as several media reports prove that candidates asked for money directly to firms, raising suspicions about whether or not candidates could make some simple hypothetical accounting in order to consolidate their total donations from firms.¹¹ Not only this has been revealed by the media, but also that there were some sources of illegal, and thus not reported, sources of funding by firms.¹² If this is the case, and therefore, we have measurement error on contributions and if it's systematic, then we may be underestimating the effects found in the empirical section of the paper.

TABLE C.2

Source of campaign income	Total (in CLP MM)	In %	Mean contribution	N
Reserved contributions	4.105	38%	3.541.772	1159
Refund requested by candidate or party	3.289	31%	2.238.922	1469
Own contribution	1.022	10%	1.192.710	857
Private contributions of public disposal by political party	938	9%	2.187.443	429
Anonymous contributions	367	3%	594.159	617
Contribution by voluntary work	287	3%	532.529	538

Source: SERVEL (2012 municipal election). Percentages sum up to 94%.

Finally, in table C.2 we show the distribution of the different sources of funding of the electoral campaign of mayors for the 2012 municipal election. Figures are in nominal CLP. Basically, what this tables says is that reserved contributions are by far the most important source of private funding. Not only they constitute the 38% of total aggregate campaign income, but also, they represent the source of income with the higher mean

¹¹ See for instance <http://www.ahoranoticias.cl/chile/politica/152457-revelan-correos-de-fulvio-rossi-a-sqm-que-sugieren-financiamiento-ilegal.html>

¹² See for instance <http://ciperchile.cl/especiales/financiamiento-irregular-politica/>

contribution. The item “Refund requested by candidate of party” corresponds to the money that the government gives to candidates to fund a fraction of the campaign expenses.¹³ For the case of candidates to mayor they can request a sum up to the total of their expenses, given by the following formula:

$$\text{Public Refund} = 0.03 \cdot \text{UF} \cdot (\text{Total Votes Obtained by Candidate}).$$

UF stands for “*Unidad de Fomento*” and is an inflation corrected price and its value is roundly \$40 USD (calculated in 05-07-2016). This formula means that the government gives to any candidate 1.2 USD per voter to pay campaign expenses. For more details of the Chilean campaign finance system before the last reform see Agostini (2012).

C.2. On lobby regulation

Due to a new bill approved in August 2014 by congress, elected officials and all divisions of government must register every encounter with a private party in which the latter is trying to influence their views on regulations and policy. For municipalities, records start from August 2015. In terms of our database, we captured the first 9 months’ records; this is, from August 2015 to April 2016. This means approximately 35,200 audiences at the municipal administration level¹⁴. We have records of every audience held in the context of lobby regulation law. Every person, whether is legal or natural, can request an audience with a public official. On the counterpart, this bureaucrat can deny the hearing, without justification. But, the law says that if there is evidence that some public official concedes a hearing to a person or organization, then, this bureaucrat must attend the request of all agents that want to discuss about the same issue.

We present a brief list of the issues in which firms can lobby, and at the same time, there may be potential economic benefits for doing so:

- Edification permits
- Processing of municipal rights

¹³ If the public refund is higher than the total expenses of the campaign, the amount of the money that the government gives to the candidate will be equal to the expenses he made.

¹⁴ We do not take account of the audiences held by municipal councilors as they don’t have a direct impact on local policy definitions, permits and regulations; even though they participate in the municipal council and vote some of them. But they are elected separately from the mayor, therefore constituting a completely different political unit at the local level.

- Commercial patents
- Changes in land use
- Business agreements with the municipality
- Political support for private projects that potentially imply negative (positive) externalities to the community
- The construction of public goods
- To influence municipal regulations

According to law, what constitutes lobbying activities? It is the bill number 20,730 the one that regulates lobbying activities. It will be understood as lobby those activities or initiatives, paid and non-paid, done by natural or judicial persons, Chilean or foreign, which have the objective of promote, defend or represent any specific particular interest, in order to influence policy and administrative decisions that public officials must adopt (within the normal development of their functions), respecting the law and the regulatory constraints imposed to them. Going deeper, the law says that activities that are regulated, and thus the ones that must be registered if they manifest in hearings or meetings, are those which are set up to obtain, adopt, the following decision or acts:

- Elaboration, dictation, modification, derogation or rejection of administrative acts, bills projects and laws, and about the decisions that public officers take.
- Elaboration, processing, approval, modification, derogation or rejection of agreements, declarations or decision of the National Congress or its members, commissions included.
- Celebration, modification or terminations in any manner, of contracts that public officials implemented that are necessary for their normal functions.
- Design, implementation and evaluation of policies, plans and programs done by the authorities.

Activities excluded are those stipulated in the 6th article of the bill, and therefore, they should not be registered. In general, excluded activities are those related with field activities in the constituency or in the territory relevant for the development of the specific functions of bureaucrats, public (as opposed to private) hearings or meetings, and presentations in administrative procedures.

If there are concerns about the degree of enforcement of this regulation, the question of what are the incentives to comply with the law is crucial. The law establishes monetary and legal sanctions for those who do not respect it, or omit and falsify information. For public officials, which the regulations define as “passive subjects” the following are the predetermined sanctions (given by the 14th article of the bill):

- If a hearing or meeting it’s not registered or informed within the pre-established range period, then, the requested authority will be called by the Comptroller General of Chile (General Accounting Office, CGR for its acronym in Spanish) to send the report in a deadline of 20 legal days.
- The CGR will propose a sanction to the respective Chief of Service (of the compromised public institution), based in a well-argued resolution. That sanction will be equivalent to a fine of 10 to 30 UTM¹⁵ (which in dollar terms it means it goes from \$690 to \$2,070, calculated in 01-07-2016).
- If the noncompliance it’s inexcusable or the information was intentionally flawed, sanctions go from 20 to 50 UTM (which in dollar terms it means it goes from \$1,380 to \$3,450, calculated in 01-07-2016).

For lobbyists, or as the bill calls them, “active subjects”, the 12th article of the Bill points out their obligations. Sanctions go as follows:

- If noncompliance it’s inexcusable or the information was intentionally misguided, sanctions go from 20 to 50 UTM (which in dollar terms it means it goes from \$1,380 to \$3,450, calculated in 05-07-2016). There may be other legal sanctions as well; those will be determined by ordinary justice.

As we can see at appendix 1, the amount of information that the active subject requires to provide is very detailed. We could access most of it, although in the micro data the reasons for having the audiences are badly registered and incomplete.

Even though these sanctions exist, some caveats must be said about them. First, some public officials have had a wrong interpretation of the law, and

¹⁵ The UTM (Tributary Monthly Unit) is an inflation free measured in Chilean pesos, used commonly in tax regulation and legal fines.

believed that if they request the meetings, they should not register them.¹⁶ Also, there are several registered meetings with no detail about the content of them. Although the latter is a problem in terms of the transparency of the political process, it does not possess any problem for the empirical methods we use to assess our research question. Given what we have just said about the misreporting of meetings, there may be the case that we systematically measure our dependent variable with error. If this is true, this error should downward our estimates, given that it tends to “flat” the estimation of the slope of our relation of intersects, that is, the relation of corporate contributions and corporate lobby. Hence, our estimates should be interpreted as a lower bound for the real effect of interest.

C.3. On the Political Landscape

In Chile, there are 345 municipalities, in which is elected every 4 years a mayor and a council. Municipalities correspond to the most basic political units in the Chilean political system, they do not approve or dictate bills, but they define some fundamental norms for commerce, construction and social activities (bill 18,695). A non-comprehensive list of the duty of municipalities is presented next. First, they coordinate with local police, which is managed at the central national level. Then, they work as local information centers for subsidies related information. Also, they are responsible for the neighborhood’s cleanliness and local municipal taxes gathering, among other activities. Finally, they manage public education and other public local goods.

In respect to municipality’s public finances, there is a system in which municipalities contribute to a common pool (Municipal Common Fund, FCM for its acronym in Spanish) and then the fund distributes its resources among progressively municipalities. Hence, in most cases expenses and incomes differs.

Chile has a multiparty system, with parties from the extreme left to the extreme right, which are concentrated in two mayor electoral coalitions: the ex-Concertación (left coalition, now called “New Majority”, in Spanish

¹⁶ See for instance the cases described in the following media report: <http://www.latercera.com/noticia/politica/2015/11/674-653961-9-las-trampas-de-la-ley-del-lobby.shtml>

“Nueva Mayoría”), and the ex-Coalición (right wing coalition, now called “Go Chile”, in Spanish “Chile Vamos”).

Political institutional settings for municipalities compromise with two main features:

- 1) The mayor is elected by a simple majority rule, thus there is not a second-round ballot.
- 2) A council of elected members, called councilors, is elected using the D'Hondt method.

As we see both features are exactly opposite, as mayor is elected by a majority rule, and the council using a proportional rule. The council, excluding the mayor which also participates and chairs it, is composed from 6 to 10 members depending on the number of constituents. The council is defined as an organ of normative, resolute, and oversight character; in charge of making the participation of the community effective and to exercise the functions attributed by the Constitutional Organic Law of Municipalities (Bill N° 18,695). Some of its functions are:

- Oversight the compliance of the plans and programs of municipal investment and the execution of the municipal budget.
- Oversight the activities and doings of the mayor, especially to verify that the municipal acts have been constrained to the policies, norms, and agreements adopted by the council, in the exercise of its own faculties, and to inform accordingly to the respective observers (citizens and legal).
- To choose a mayor in case of vacancy, given the procedures established in the Constitutional Organic Law of Municipalities.

D. SOME EMPIRICAL FACTS, DATA AND METHODS

D.1. *Empirical Facts*

Next, we present some empirical facts given by the last literature review to the author knowledge. The empirical facts surveyed by de Figueiredo and Richter (2014) are the following:

- 1) Lobbying is important and corporations and trade organizations constitute the clear majority of lobbying expenditures. Milyo et al. (2000) show that lobbying expenditures at the US federal level are five times the political action committee (PAC) campaign contributions. De Figueiredo (2004) points out that lobbying expenditures by corporations and trade

associations represent more than 84% of total interest group lobbying expenditures at the US federal level and 86% of total lobbying expenditures at the state level

- 2) Large organized interest groups and groups that are supported by large corporations are more likely to lobby than are smaller groups and groups that are supported by smaller corporate interests (Ansolabehere et al. 2002, Hansen et al. 2004, Guo 2009, Hochberg et al. 2009, Richter et al. 2009, Hill et al. 2013).
- 3) Although firms represent the clear majority of lobbying expenditures, when it comes to lobbying activities, Citizen groups, unions, foundations, think tanks, governments, institutions, and other groups are also very important (Gray & Lowery 1996, Baumgartner et al. 2009). Large corporations and well-funded groups are more likely to lobby independently than are smaller groups. Richter et al. (2009) and Kerr et al. (2014).
- 4) A fourth regularity in the data is that lobbying increases when the issues are more relevant or salient, or there are big stakes for the organized interest (Caldeira et al. 2000, Baumgartner & Leech 2002, Bonardi 2005, Leech et al. 2005, Baumgartner et al. 2011).
- 5) A related finding is that budgeting (budget issues, government monies, and tax issues) drives increases in lobbying efforts (La Pira et al. 2012). Leech et al. (2005) shows that issues and agencies with larger budgets draw more lobbying effort by interest groups at the federal level. De Figueiredo (2014) and de Figueiredo & Cameron (2014) exploit the cross-sectional and time-series variation in budgeting rules and budget size in 38 US states over many years and political regimes; to show that in budgeting time periods there was an increase of 19% in lobbying expenditures by interest groups.
- 6) Findings related on the influence of interest groups via campaign contributions and monetary transfers to politicians. The following findings are taken from Ansolabehere et al. (2003): (i) Political variables regarding the strength of the politicians, its incumbent status, and the relevance of its position; have a positive effect on the amount of lobbying expenditures by firms for US legislators; (ii) opponent spending, the competitiveness of the district, if it is a freshman legislator, all have a

positive effect on the amount of dollars in lobbying expenditures by firms.

D.2. *Data*

The objective of this subsection is to describe the dataset we used for our empirical test of the influence of firm donations into the amount of audiences held with firms by municipalities. There are two levels relevant for inspection: first, we show some basic statistics at the hearing (audiences) levels; then, we illustrate our main database, which is at the municipality level.

Hearings data comes from www.infolobby.com; tax revenues, municipal spending, population, kilometers to Regional Capital (RC), come from SINIM database (<http://datos.sinim.gov.cl/>)¹⁷; political, electoral and mayor variables come from the Electoral Service (SERVEL, <http://www.servel.cl/>); median municipal income comes from CASEN 2013 (Main and official socioeconomic Chilean household survey). Important is to note that every monetary variable is measured in UF units (as the price reported by the Internal Tax Service Office in 02-10-2012: this was the unit used to define nominal spending caps in the municipal election). Unidad de Fomento (UF) is the national index that serves to define prices in constant purchasing power (the UF price only varies with inflation), UF at 02-10-2012 was valued at 22,594 CLP (this in US dollar terms goes up to \$34 US, given the dollar rate to CLP at 05-07-2016).

¹⁷ SINIM stands for Sistema Nacional de Información Municipal (National System of Municipal Information). It comprises a big database with information at the municipal level regarding socioeconomic aspects and public municipal financial and management data.

TABLE D.2.1
Total monthly municipal audiences by its participants
and summary statistics at the audience level

	Total	Duration ^b	Mayor present	DOM ^a present	Firm present	Mayor-firm hearing	Real state firm's present	Trade assoc. present
2015-Aug	239	17883	191	29	4	3	2	0
2015-Sep	4486	238053	3171	921	349	145	94	13
2015-Oct	5556	271403	4265	935	366	169	102	14
2015-Nov	5216	239531.4	3953	891	370	172	99	12
2015-Dec	3506	151737.3	2638	641	247	105	68	10
2016-Jan	4120	165594.9	3173	713	178	71	52	3
2016-Feb	3816	146061.6	3051	598	168	84	42	2
2016-Mar	5162	188822.5	4102	755	105	57	20	4
2016-Apr	3087	119257.1	2353	517	51	31	5	3
Total	35188	1538344	26897	6000	1838	837	484	61
Mean	100%	44.47	76%	17%	5%	2%	1%	0.2%
Standard deviation	0.00	103.95	0.42	0.38	0.22	0.15	0.12	0.04

Source: own elaboration using data from www.infolobby.cl. ^a DOM: Director of Municipal Construction Activities (DOM for its acronym in Spanish). ^b Duration is the total number of minutes spend in hearings.

As the inspection from table D.2.1 suggests, the mayor has an important role in overall hearings, given he is present at 76% of reported ones. Next the Director of Municipal Construction Activities (DOM) also has an important role with a presence in 17% of the hearings, his job implies resolving construction problems and oversighting that regulations are respected. This matters for firm's and constituents that want to do housing expansion projects, for instance. Firms are only present in 5% of the meetings, thus not constituting an important mass of audiences. For our period of data recollection, we captured from the microdata in www.infolobby.cl 35,188 audiences (hearings).

Next, some comments about the construction of a subset of variables must be made:

- a) *Contributions*: is the amount of reserved contributions collected by a mayor on the campaign in the last election. As was the case with other monetary variables we express this variable in UF terms.
- b) *Share of votes 2012 Election*: is the percentage of votes obtained by the elected mayor in last election.
- c) *Close election 08'*: dummy that takes the value 1 if the mayor that won the municipality in previous election (2008) had a difference in the percentage of votes obtained of less or equal to 5%. We also refer to this variable as “close race”.
- d) *Ideology index*: is a continuous variable that takes the value 1 if the mayor is from a left-wing party, 2 if the mayor is an independent but he went to the election in a left wing coalition national pact, 3 if the mayor is an independent who wasn't supported by any coalition pact, 4 if the mayor is an independent who went to the election in a right wing coalition pact, and 5 if the mayor is from a right wing party.
- e) *Right W. Council Maj. Dummy (t)*: dummy variable that takes the value 1 if the right-wing coalition pact councilors of the municipal council constitute more or equal to 50%.
- f) *Firm size index*: Municipal average sales of firms standardized by the national mean of firm sales by municipality. We standardize this variable to take in account the distribution of the variable and to recognize that it's importance should be measured in relative terms.
- g) *N° of firm's index*: Municipal number of firms standardized by the national mean of the number of firms by municipality. We standardize this variable to take in account the distribution of the variable and to recognize that it's importance should be measured in relative terms.

TABLE D.2.2
Summary statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Firm-municip. hear. Dummy	258	83%	0.37	0.0	1.0
Mayor-firm hear. Dummy	258	72%	0.45	0.0	1.0
Total firm-municipality hearings	258	6.9	9.67	0.0	64.0
Total mayor-firm hearings	258	3.1	3.53	0.0	18.0
Contributions Dummy	258	64%	0.48	0.0	1.0
Contributions ⁺	258	300.59	726.17	0.0	6506.1

N° of firm's index	258	0.25	2.26	-0.9	18.2
Firm Size Index	258	0.24	8.03	-1.0	112.8
Population ‡	258	63,212	88462.42	2367.0	602203.0
Median Municip. Income †	258	5.60	3.35	1.7	33.2
Total votes (2012 election)	258	20,143	22087.07	1564.0	120283.0
Metropolitan Region Dummy	258	18%	0.39	0.0	1.0
Total non-firm Hearings	258	126.1	205.63	1.0	1560.0
Total Trade Assoc. Hearings	258	0.22	0.64	0.0	5.0
Municipal Tax Revenue 2015 †	258	155	371.58	1.7	4081.5
Municipal Spending 2015 †	258	593	988.06	49.4	9303.6
Kilometers to RC (Regional Capital)	258	82	72.65	0.0	338.0
Right W. Council Maj. Dummy (2012)	258	35%	0.48	0.0	1.0
Share of votes 2012 election	258	54%	0.10	0.3	1.0
Ideology index	258	3.32	1.24	1.0	5.0
Close race dummy 08'	258	11%	0.31	0.0	1.0
Incumbent dummy	258	52%	0.50	0.0	1.0
closerace08 # incumbent	258	5%	0.23	0.0	1.0
Right wing mayor (dummy)	258	38%	0.49	0.0	1.0
N° of candidates for mayor (2012 election)	258	3.33	1.18	1.0	8.0
Spending cap per const. †	258	0.10	0.23	0.0	2.3
Man mayor (dummy)	258	85%	0.36	0.0	1.0
Right W. Council Maj. Dummy (2008)	258	45%	0.50	0.0	1.0
Total votes (2008 election)	258	95,305	165471.40	3044.0	1172376.0

Source: Own elaboration using data from different sources. The “#” symbol denotes an interaction. † These variables are measured in UF terms, one UF unit was priced at 22,594 CLP in October 2012 which was the month of the election were mayors in the database were elected (this figure is equivalent to \$34US, given the dollar rate to CLP at 05-07-2016). ‡ in thousands.

Table D.2.2 presents summary statistics of the main database, i.e. the data base we use for the empirical section. Mean of contributions is up to \$10.235 US, the percentage of municipalities that had meetings with firms is up to 83%, and the percentage of municipalities that have a mayor in office that received reserved contributions from firms is 64%.

Next, table D.2.3 presents the means of our set of variables from the database that is selected when one considers those municipalities that didn't reported any hearings data (Missing's DB), compared with the main database. We observe that municipalities in the main database (Main DB) have more population, more sales, more tax revenues, and more electoral participation among other things. Hence, concerns about sample selection arise and must be assessed in the empirical section.

TABLE D.2.3
Variables with significant difference means
when comparing if the municipality is (or does not) in the main database

Variable	Mean (Missing's DB)	Mean (Main DB)	Difference	P-value
Contributions Dummy	53%	64%	-11%	0.17
Contributions***	81	301	-220	0.00
N° of firm's index***	-0.69	0.25	-0.94	0.00
Firm Size Index**	-0.97	0.24	-1.21	0.02
Population***	21,061	63,212	-42,151	0.00
Median Municip. Income***	4.56	5.60	-1.03	0.00
Total votes (2012 election) ***	7,745	20,143	-12,398	0.00
Metropolitan Region Dummy**	8%	18%	-10%	0.03
Municipal Tax Revenue***	23.78	155.16	-131.38	0.00
Municipal Spending***	197.23	592.79	-395.56	0.00
Kilometers to RC***	163	82	81	0.00
Right W. Council Maj. Dummy (2012)	29%	35%	-6%	0.38
Share of votes 2012 election	53%	54%	-1%	0.44
Ideology index	3.04	3.32	-0.28	0.16
Close race dummy 08'	12%	11%	1%	0.79
Incumbent dummy	45%	52%	-7%	0.37
Right wing mayor	29%	38%	-10%	0.18
N° of candidates for mayor (2012 election)	3.39	3.33	0.05	0.76
Spending cap per const. *	0.39	0.10	0.28	0.09
Man mayor***	1.02	1.15	-0.13	0.00
Right W. Council Maj. Dummy (2008)	37%	45%	-9%	0.26
Total votes (2008 election) ***	25,270	95,305	-70,035	0.00

Source: own elaboration using data from different sources.

As the previous table shows, municipalities with missing data on hearings has less contributions, but also, those municipalities seem less attractive in terms of their economic potential for profits, therefore we expect a small amount of hearings in these municipalities. If both factors are sufficiently important, then OLS would underestimate the effect of contributions over hearings

Now we graph the distribution of the number of audiences with firms by each municipality, this can be seen in figure D.2.1. The distribution appears skewed, and it seems like an exponential distribution. Something relevant to note is that municipalities with zero firm audiences constitute almost 20% of the data.

FIGURE D.2.1

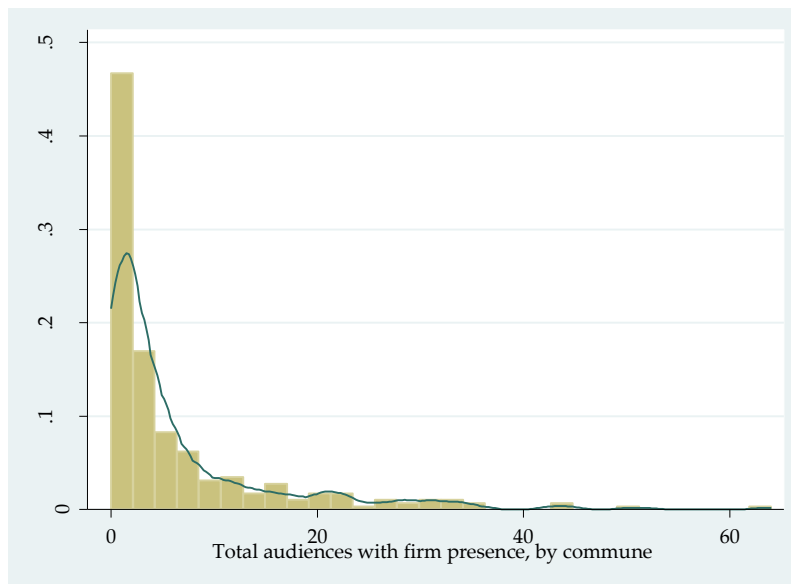
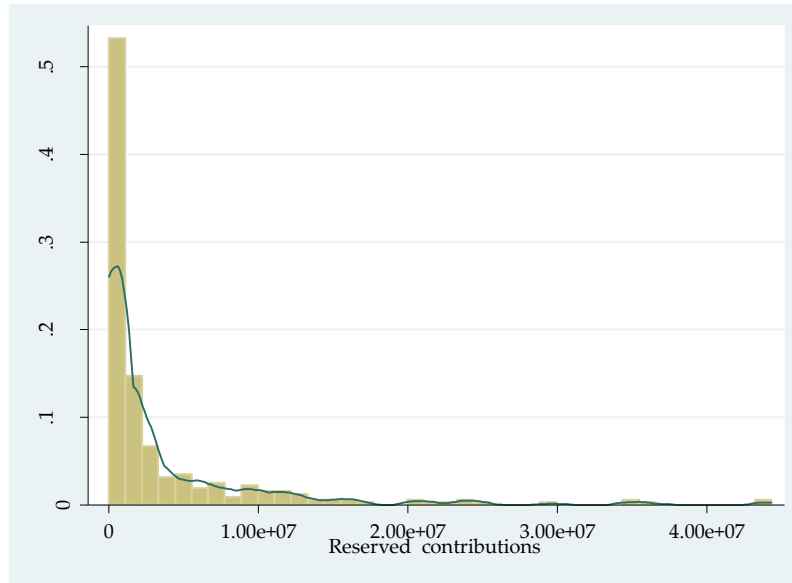


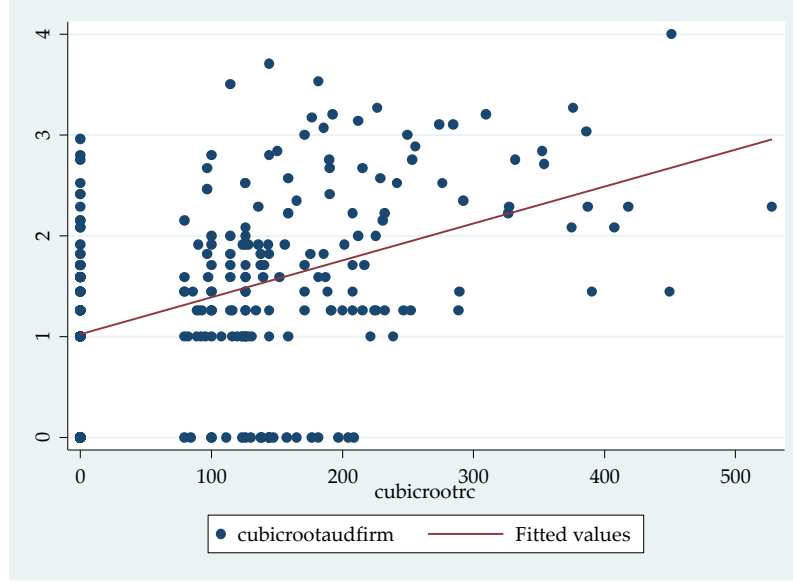
FIGURE D.2.2



When it comes to the study of the distribution of reserved contributions, we see a distribution which concentrates approximately 40% of the data at zero reserved contributions, as figure D.2.2 shows. This shouldn't generate any concerns; because, the methods that we will use, doesn't set or restrict conditions on any independent variables to be used for the estimation. Furthermore, this suggests that it may be relevant to inspect the relation between the number of audiences with firms, and a binary variable; which takes the value one if the mayor funded some of his campaign using reserved contributions and zero otherwise. This should assess if receiving reserved contributions or not, impacts the number of audiences with firms. When we calculate the average number of firm's audiences if the mayor did not receive any reserved contributions, 3.2 audiences are held. But when the mayor received reserved contributions this number rises to 8.6.

Finally, figure D.2.3 presents the correlation between reserved contributions (X axis), and total hearings with firm's (Y axis). Both variables are cubic root transformed in the scatter plot. Simple inspection of the graph implies a positive relation.

FIGURE D.2.3



D.3. Methods

Here we briefly explain the set of equations we estimate. Let:

- a) DFH = Dummy firm-municipal hearings, takes the value 1 if the municipality hold any hearings with firms.
- b) $DMFH$ = Dummy mayor-firm's hearings, takes the value 1 if the mayor holds any hearings with firms.
- c) TFH = Total firm's-municipality hearings.
- d) $TMFH$ = Total mayor-firm's hearings.
- e) DRC = Reserved contributions dummy. Takes the value 1 if the mayor collected any reserved contributions, and 0 if the amount of reserved contributions he collected is equal to zero.
- f) $LNCON = \ln(Contributions + 1)$, where $Contributions$ is the amount of reserved contributions collected by a mayor measured in UF terms (as the price reported by the Internal Tax Service at 02-10-2012).

Our econometric specification is the following:

$$y_i = \alpha x_i + \theta W_i + \varepsilon_i$$

Where:

- a) y_i is the dependent variable and $y_i \in \{DFH, DMFH, TFH, TMFH\}$,
- b) x_i is the independent variable of interest and $x_i \in \{DRC, LNCON\}$; and

c) W_i is a vector of exogenous variables at the municipal level. The table D.2.4 presents the variables used in the estimation of Probit, OLS and Heckman models:

TABLE D.2.4

Constituency factors	Electoral Political factors	Firms controls	Others
• Ln(population) • Ln(tot. votes) • Ln(mun. spending) • Metrop. Reg. • Ln(mun. median income)	• Incumbent mayor • Share of votes 12' • Incumbent mayor • Right wing council • Close race 08' • Ideology index	• N firms index • Size firms index • Ln(mun. tax revenue)	• Ln(tot. non-firms hearings) • Tot. trade assoc. hearings* • Kl. to regional capital*

* Enters the specification as its square root transformation.

Every continuous variable is Ln transformed, except the variables *kilometers to regional capital (Kilometers to RC)* and *Total Trade Assoc. Hearings*, because they have a lot of zero values and we preferred to apply to them a square root transformation, because applying the Ln would result in dropping several observations. We also do not transform the variables N° of *Firm's Index*, *Ideology Index*, and *Firm Size Index*.

Regarding the transformations stated in letter c) above, these are made to specify a functional form in which the standard “marginal decreasing effects” rationale applies. By doing these transformations we are stating that we believe that the marginal effects of those variables on hearings diminish with increases in their levels.

Given that we have 2 binary dependent variables and 2 key independent variables, we estimate 4 probit modes. Also, as we have 2 continuous dependent variables, 2 key independent variables and 2 methods, we estimate 8 more models; finally, we estimate 4 Propensity Score Matching models as we have 2 continuous dependent variables and 2 binary dependent variables and 1 key independent variable. Therefore, in total, we estimate 16 specifications using different methods. This are the econometric models we used in this paper:

(i) Probit: in these models, we estimate the effect of the independent variables over the probability of having a hearing with a firm.

- (ii) OLS and Heckman: in these models, we estimate the effect of the independent variables over the amount of hearings held with firms.
- (iii) Propensity Score Matching (PSM). For the propensity score equation, we did not use the exact same set of variables we used in specifications (i) and (ii), and based on Stratmann (2005) we selected a subsample of them and added a couple more. Therefore, the probit specification is the following:

$$DRC_i = \delta Z_i + u_i$$

Where Z_i is a vector of exogenous variables which are presented in table D.2.5:

TABLE D.2.5

Electoral variables	Political factors	Firms controls	Interactions
• N° candidates 12' + • Ln(spending cap per constituent) + • Ln(tot. vot 08') +	• Close race 08' + • Incumbent + • Right wing council 08' • Right wing mayor	• Ln(mun. tax revenue) • N firms index • Size firms index	• Close race 08' # • Ln(spending cap per const.) • Incumbent # • Ln(spending cap const.) • Incumbent # Right wing council 08'

* Enters the specification as its square root transformation. # denotes an interaction. + Based on Stratmann (2005).

In every model of (i) and (ii) columns 1 and 2 correspond to the firm's-municipality overall hearings specification; and columns 3 and 4 correspond to the mayor-firm's hearings specification.

E. RESULTS

E.1. Probit results

The results for the probit model point out that neither the contributions dummy nor the natural log of contributions has a significant effect over the probability of having an audience with the municipality or specifically with the mayor. Probit models 1 and 3, study the effect of *Contributions Dummy* over the probability of having a meeting with some bureaucrat at the municipality and with the mayor, respectively. Probit models 2 and 4, study the effect of *Ln(Contributions)* over the probability of having a meeting with

some bureaucrat at the municipality and with the mayor, respectively. We present marginal effects of these models in table E.1.

Even if in these models we do not find any effect of contributions, there are other variables that show significant results. In all specifications, in line with the empirical facts, the natural log of total real tax revenue of the municipality impacts positively over the probability of having hearings. If there is an increase of 10% in tax real revenue then the probability of firm's having hearings with the municipality overall increases 1.01%, and for the case of hearings with the mayor the increase is up to 1.33%. Both estimates are significant at the 1% confidence level. Interpretation is simple and comes from two mechanisms, if there are higher tax pressures firms have incentives to lobby in order to reduce those pressures and higher tax collection could mean more economically active and richer municipalities, therefore being more interesting for firms.

Interestingly, the effect of real municipal expenses has a negative and significant effect over the probability of having hearings. A 10% increase in this variable, produces a change in the probability of having a hearing at the overall municipality level of -1.8%, and a change of -2.15% in the probability of having an audience with the mayor. Both effects are significant at the 5% level. The interpretation of this sign is not as straightforward as the previous one. It may be the case that bigger municipalities, measured by the level of public spending, are involved in more salient policies (therefore they experience more pressure of the constituents), or that bigger levels of public spending have a "crowding-out" effect over potential firm's investments.

In probit models 1 and 2, mayors that are in the metropolitan region (where the capital is and mayor political institutions are) have a higher probability of receiving firms. Specifically, there is a difference of 20% in the probability of having an audience when compared to municipalities that lie outside the metropolitan region. These estimates are significant at the 10% and 5% respectively. Chile has the economic and political power highly concentrated in the national capital, Santiago, which is in the metropolitan region. Therefore, is reasonable to expect more interaction with bureaucrats and firms happens on this region.

TABLE E.1.
Probit models marginal effects.

VARIABLES	(1) Probit 1	(2) Probit 2	(3) Probit 3	(4) Probit 4
<i>Ln(Population)</i>	-0.121 (0.120)	-0.120 (0.120)	-0.181 (0.144)	-0.181 (0.144)
<i>Ln(Municip. Tax Revenue)</i>	0.101*** (0.0352)	0.102*** (0.0354)	0.133*** (0.0459)	0.134*** (0.0459)
<i>Right W. Council Maj. Dummy</i>	0.0391 (0.0445)	0.0389 (0.0445)	0.00218 (0.0592)	0.00186 (0.0591)
<i>Ln(Municip. Spending)</i>	-0.182*** (0.0700)	-0.182*** (0.0701)	-0.215** (0.0920)	-0.214** (0.0920)
<i>Ln(Total Votes)</i>	0.214 (0.153)	0.214 (0.154)	0.257 (0.182)	0.259 (0.182)
<i>Mayor is a Man</i>	0.0954* (0.0537)	0.0940* (0.0538)	0.156** (0.0657)	0.153** (0.0657)
$\sqrt{(\text{Kilometers to RC})}$	0.00303 (0.00601)	0.00304 (0.00600)	-0.00589 (0.00810)	-0.00592 (0.00812)
$\sqrt{(\text{Total Trade Assoc. Hearings})}$	0.0677 (0.0796)	0.0685 (0.0800)	-0.0325 (0.0745)	-0.0322 (0.0747)
<i>Incumbent Dummy</i>	0.0195 (0.0407)	0.0186 (0.0409)	-0.0707 (0.0535)	-0.0719 (0.0535)
<i>Share of Votes 2012 Election</i>	-0.303 (0.201)	-0.303 (0.202)	-0.167 (0.271)	-0.160 (0.271)
<i>Close Race (08') Dummy</i>	-0.0423 (0.0631)	-0.0446 (0.0628)	-0.105 (0.0836)	-0.105 (0.0831)
<i>Ln(Total Non-firm Hearings)</i>	0.0457*** (0.0113)	0.0459*** (0.0113)	0.0456*** (0.0141)	0.0462*** (0.0142)
<i>Ideology index</i>	-0.0200 (0.0164)	-0.0194 (0.0166)	0.00967 (0.0226)	0.0111 (0.0229)
<i>Ln(Median Muncip. Income)</i>	-0.0400 (0.0850)	-0.0428 (0.0845)	-0.0515 (0.109)	-0.0527 (0.109)
<i>Metropolitan Region Dummy</i>	0.206**	0.206**	0.0833	0.0823

	(0.0988)	(0.0985)	(0.0939)	(0.0938)
<i>N° firm's index</i>	0.0703	0.0684	0.0647	0.0638
	(0.0464)	(0.0463)	(0.0518)	(0.0515)
<i>Firm size index</i>	-0.00814	-0.00794	-0.00775	-0.00759
	(0.00739)	(0.00736)	(0.00720)	(0.00716)
<i>Contributions Dummy</i>	0.0275		0.000772	
	(0.0411)		(0.0563)	
<i>Ln(Contributions)</i>		0.00411		-0.00321
		(0.00867)		(0.0117)
Observations	258	258	258	258
Pseudo R2	0.269	0.268	0.142	0.142

Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

We tried to control by other determinants of lobby activities, not captured by our overall set of controls, by adding as a control the *Ln* of total non-firm's hearings by municipality. This variable has a positive and statistically significant effect over probabilities of firm hearings. One standard deviation change in *Total Hearings* produces an increase of 21% in the probability of meeting with a firm¹⁹; this is mainly homogenous over specifications 1 to 4. It's worth noting that if we don't add this variable to the set of regressors coefficients tend to increase.

Finally, regarding table E.1 we find an interesting result not studied before in the literature: been a man mayor increases the probability of having an audience with a firm of 9.5% in the municipality-firm specifications, and an increase of 15.3% in the mayor-firm specification, to the 10% and 5% levels of confidence. This could mean that man mayors have a different set of priorities or different political platforms, when managing municipal agendas.

E.2. OLS results

In this case, OLS results (table E.2) show that contributions matter. The contributions dummy implies that firm's-municipality hearings are higher by 1.5 hearings, and 1 mayor-firm hearings; compared with those municipalities where the mayor did not receive any contributions. Significance is at 10% and 1% respectively. These results are also

¹⁹ This effect was calculated as $\hat{\beta}_x \cdot \ln(\hat{\sigma}_x)$, where x is some independent variable. For instance, for the calculation of the effect of *total non-firm hearings* we computed: $0.045 \cdot \ln(115.4)$.

economically significant given the mean of total municipal-firm's hearings is 6.3 and the mean of total mayor-firm hearings is 3.1. Therefore, these effects mean an increase in hearings by 24% and 33% over the mean respectively. When we use as independent variable the $Ln(Contributions)$ one standard deviation change in *Contributions* means that firm-municipality hearings increase in approximately 2.6 hearings and mayor-firm's increase in 1.3 hearings, both effects significant at the 1% confidence level.

Taxes, mayor's gender, and total non-firm audiences have the same sign as the ones obtained in the probit models; although taxes and mayor's gender has two times the impact in firm-municipality specifications (1 and 2) than in mayor-firm specifications (3 and 4). Relevant with respect to the literature we find that firm size index and municipality population have a positive and significant effect, but population is only significant in firm-municipality specifications. Firm size index is significant at the 1% level of confidence. This is effect is economically relevant as a 10% increase in municipal population means an increase of 0.6 firm's-municipality hearings.

TABLE E.2:
Marginal Effects OLS models.

VARIABLES	(1) OLS 1	(2) OLS 2	(3) OLS 3	(4) OLS 4
<i>Ln(Population)</i>	6.070** (2.720)	6.067** (2.712)	0.958 (1.058)	0.943 (1.054)
<i>Ln(Municip. Tax Revenue)</i>	1.766** (0.776)	1.730** (0.767)	0.657** (0.308)	0.654** (0.305)
<i>Right W. Council Maj. Dummy</i>	1.212 (1.054)	1.258 (1.051)	0.155 (0.431)	0.175 (0.430)
<i>Ln(Municip. Spending)</i>	0.885 (1.398)	0.774 (1.399)	-0.335 (0.545)	-0.391 (0.543)
<i>Ln(Total Votes)</i>	-7.462** (3.575)	-7.583** (3.579)	-1.399 (1.353)	-1.422 (1.352)
<i>Mayor is a Man</i>	3.303*** (1.099)	3.374*** (1.092)	1.153** (0.513)	1.167** (0.509)
$\sqrt{(\text{Kilometers to RC})}$	-0.267** (0.129)	-0.266** (0.128)	-0.119** (0.0537)	-0.119** (0.0535)
$\sqrt{(\text{Total Trade Assoc. Hearings})}$	5.145***	5.151***	1.313**	1.314**

	(1.415)	(1.412)	(0.661)	(0.664)
<i>Incumbent Dummy</i>	-0.807	-0.780	0.104	0.0981
	(1.011)	(1.011)	(0.422)	(0.423)
<i>Share of Votes 2012 Election</i>	-5.552	-6.002	-4.755**	-4.910**
	(4.382)	(4.410)	(2.069)	(2.082)
<i>Close Race (08') Dummy</i>	-0.591	-0.718	-0.464	-0.539
	(1.281)	(1.275)	(0.644)	(0.638)
<i>Ln(Total Non-firm Hearings)</i>	1.291***	1.276***	0.483***	0.484***
	(0.221)	(0.220)	(0.101)	(0.102)
<i>Ideology index</i>	0.410	0.324	-0.165	-0.191
	(0.377)	(0.382)	(0.179)	(0.182)
<i>Ln(Median Muncip. Income)</i>	1.065	1.017	0.655	0.609
	(2.032)	(2.026)	(0.878)	(0.884)
<i>Metropolitan Region Dummy</i>	-2.003	-1.886	-1.049	-0.994
	(1.581)	(1.562)	(0.638)	(0.632)
<i>N° firm's index</i>	-1.277*	-1.326*	-0.0748	-0.105
	(0.733)	(0.728)	(0.228)	(0.224)
<i>Firm size index</i>	0.514***	0.517***	0.0867***	0.0887***
	(0.107)	(0.106)	(0.0294)	(0.0289)
<i>Contributions Dummy</i>	1.508*		1.019***	
	(0.807)		(0.374)	
<i>Ln(Contributions)</i>		0.405**		0.209***
		(0.176)		(0.0786)
Observations	258	258	258	258
Adjusted R-squared	0.501	0.505	0.306	0.307

Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

We also find some other results in line with the literature, as a greater mass of voters, measured by the *Ln(Total Votes)* in every municipality in the last election, has a negative effect over the number of meetings of the overall municipal administration with firms. If there is an increase of 10% in the number of voters, the numbers of municipality-firm's hearings decrease by approximately 7.5%. This estimate is statistically significant at the 5%. Because total votes are a proxy for the level of participation and constituency pressures over municipality bureaucrat's, more votes imply more

constituency pressures and thus a higher opportunity cost of having hearings with firm's given mayor's electoral intentions in average (incumbency winners represent approximately 51% of overall victors in the 2012 election).

Another interesting result, when the dependent variable is the number of mayor-firm's hearings, is that if the mayor obtained a higher percentage of the total vote, then the number of hearings he has with firms decreases. If he manages to augment his share of votes in 10 percent points, then he decreases his meetings with firm's by approximately 0.5 meetings, this is significant at 5%. The intuition behind this result is that stronger mayors are less vulnerable to corporate influence. Therefore, they can invest more of their resources and time with constituents and not with firm lobbyists.

The only result which is surprising in the firm-municipality specifications (1 and 2) is that the number of firms in some municipality is negatively correlated with the total number of firm's-municipality hearings.

Finally, two other variables must be highlighted. As a measure of political and economic relevance of a municipality, we used as independent variable the square root of the number of kilometers that a municipality is separated from its regional capital (as in Chile there are 15 regions, there are 15 regional capitals, in which every one of them contains from one to more municipalities). As expected, if a municipality is located far away from its regional capital, we predict less meetings with firms. Finally, more reunions of the overall municipality administration with trade organizations (say for example the chamber of construction, which is a nonprofit organization that agglutinates every mayor private player in the construction business), has a positive effect on total hearings. The economics interpretation in this case is that trade associations act as complements to individual firms lobbying activities, and not substitutes. Both distance to the regional capital and total hearings with trade associations are statistically significant.

E.3. Heckman results

Recall the discussion we state in the data section of the paper, there we said that several municipalities had missing data regarding hearings reports. Then we showed that those municipalities were smaller in population, municipal public finance patterns, median population income, and they had

a lower level of reserved contributions. If there is a selection procedure which makes municipalities decide to report hearings, which at the same it's not independent with respect the hearings equation²⁰ then we have endogeneity given a misspecification problem, where we have omitted the effects on hearings given the selection equation determinants.

When we estimate the Heckman selection model we find no evidence of sample selection problem, as the coefficient that goes with the inverse mills ratio is not significant²¹. We report in table E.3 the results for the Heckman equations, as before, models 1 and 2 represent the municipality-firm's equations and models 3 and 4 the mayors-firm's equation.

With respect to contributions results are consistent with the ones obtained in the OLS specification and the orders of magnitude are similar. This we think is due the evidence that we find of no sample selection problem.

TABLE E.3: Marginal Effects Heckman models.				
	(1)	(2)	(3)	(4)
VARIABLES	Heckman 1	Heckman 2	Heckman 3	Heckman 4
<i>Ln(Population)</i>	6.279** (2.533)	6.246** (2.517)	0.978 (1.084)	0.940 (1.083)
<i>Ln(Municip. Tax Revenue)</i>	1.973** (0.886)	1.909** (0.882)	0.677* (0.379)	0.652* (0.379)
<i>Right W. Council Maj. Dummy</i>	1.285 (1.025)	1.321 (1.018)	0.162 (0.438)	0.174 (0.437)
<i>Ln(Municip. Spending)</i>	0.520 (1.752)	0.461 (1.742)	-0.371 (0.750)	-0.386 (0.749)
<i>Ln(Total Votes)</i>	-7.321** (3.119)	-7.460** (3.102)	-1.386 (1.335)	-1.424 (1.334)
<i>Mayor is a Man</i>	2.977** (1.389)	3.092** (1.382)	1.121* (0.592)	1.171** (0.592)
$\sqrt{\text{(Kilometers to RC)}}$	-0.278** (0.132)	-0.276** (0.131)	-0.120** (0.0564)	-0.119** (0.0564)
$\sqrt{\text{(Total Trade Assoc. Hearings)}}$	5.093***	5.106***	1.308***	1.314***

²⁰ The one estimated in the OLS models.

²¹ We do not report this coefficient.

	(1.090)	(1.085)	(0.468)	(0.467)
<i>Incumbent Dummy</i>	-0.760	-0.741	0.108	0.0975
	(0.909)	(0.902)	(0.388)	(0.387)
<i>Share of Votes 2012 Election</i>	-5.288	-5.771	-4.728**	-4.913***
	(4.450)	(4.434)	(1.901)	(1.904)
<i>Close Race (08') Dummy</i>	-0.707	-0.819	-0.475	-0.538
	(1.394)	(1.386)	(0.595)	(0.595)
<i>Ln(Total Non-firm Hearings)</i>	1.297***	1.282***	0.484***	0.484***
	(0.248)	(0.247)	(0.107)	(0.107)
<i>Ideology index</i>	0.516	0.416	-0.155	-0.192
	(0.453)	(0.455)	(0.193)	(0.195)
<i>Ln(Median Muncip. Income)</i>	1.099	1.043	0.658	0.608
	(1.697)	(1.684)	(0.724)	(0.722)
<i>Metropolitan Region Dummy</i>	-2.242	-2.091	-1.072*	-0.991
	(1.490)	(1.481)	(0.635)	(0.635)
<i>N° firm's index</i>	-1.308***	-1.354***	-0.0779	-0.105
	(0.478)	(0.475)	(0.204)	(0.203)
<i>Firm size index</i>	0.517***	0.520***	0.0870**	0.0886**
	(0.0906)	(0.0900)	(0.0386)	(0.0385)
<i>Contributions Dummy</i>	1.540*		1.022**	
	(0.936)		(0.404)	
<i>Ln(Contributions)</i>		0.407**		0.209***
		(0.186)		(0.0804)
Observations	258	258	258	258
Adjusted R-squared	0.465	0.471	0.262	0.263

Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

E.4. PSM results

Propensity Score Matching results go in the same line as results above, as we can see from table E.4 which presents average treatment effects (ATE) and their corresponding p-values. Now we find bigger effects in the impact that the contributions dummy has over total hearings. Firm-municipality hearings increase in 2.4 hearings, and mayor-firm hearings in 1.5, which are significant at the 10% and 5% confidence levels. Next, consistent with probit

results above PSM does not find any significant effects of the contributions dummy over the probability of heaving a hearing with firms at the municipal level and with a mayor.

TABLE E.4

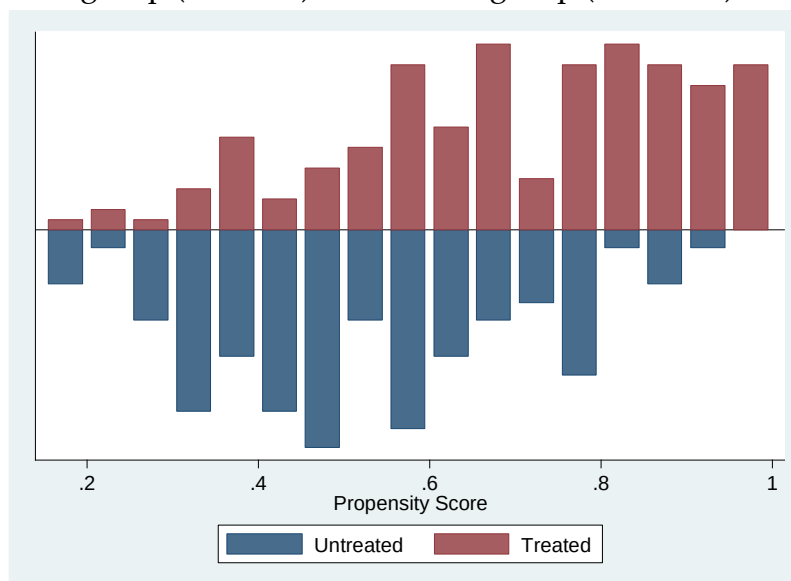
Propensity score results: treatment variable is the contributions dummy

Specification	Dependent variables			
	Hearings dummy		Total hearings	
	Firm-municipality	Mayor-firm	Firm-municipality	Mayor-firm
ATE	2.3%	-0.04%	2.4	1.5
P-value	0.69	0.55	0.06	0.04

For the estimation of the propensity score we use 256 observations (two data points where dropped because they were outside the tolerance limits of the common support assumption). From inspection of figure E.4 we can conclude we generally have a sufficient degree of overlap.

FIGURE E.4

Propensity Score by treatment group (red bars) and control group (blue bars)



The algorithm we used for doing the matching was nearest neighbor matching and we check the balancing property conducting tests of difference of means over the variables used for the propensity score estimating, inside 7 blocks of different dimensions over the propensity score in the common

support.²² We tested the difference of means of controls and treated of every independent variable used in the estimation of the propensity score, within blocks. The results do not show any significant differences inside any block with respect to the independent variables used in the estimation at the 5% significance level.

Finally, is relevant to note that if PSM indeed contributed in correcting the endogeneity issues we have described thru the paper, an increase in the coefficients is line with what would we would expect, comparing to the results of OLS and Heckman.

F. DISCUSSION

The purpose of this section is to discuss some of our results. First, we have found that contributions do have an impact on firm's lobby over municipal bureaucrats. We controlled by the ideology of the mayor, by its political strength, by its incumbency status and other political variables, as we intended to distinguish ideological contributions of contributions driven by investments reasons. This set of explanatory covariates generally did not have a systematic impact in our variables of interests. This may be explained because in Chile right wing parties have a political platform that is pro-market, and pro-firms. One striking result is that contributions do not affect the probability of hearings between municipality bureaucrats and firms. This may be understood, as we said before, because we think that most of municipalities benefit with some interaction with firms at the hearings platform, therefore we expect that the number of hearings changes given corporate contributions and not the probability of having a meeting with a firm, and in fact this is confirmed by the data.

Comparing OLS and Heckman results we find very similar coefficients in most cases, specification by specification. In addition to this fact, and given we do not find that the estimate of the coefficient of the inverse mills ratio was significant thru specifications 1 to 4, we believe there is evidence to suggest that sample selection does not play a major role in driving our basic results. Possibly, municipalities that did not reported

²² We implemented an algorithm for testing the balancing property which started by defining 5 blocks for comparing controls and the treated in terms of the independent variables used in the estimation of the propensity score, and if the test of comparisons of means rejected the null hypothesis, the block was split into two equal new blocks and then performed the same test. This was done until we didn't find any statistical difference between controls and treated units within blocks.

hearings do not face a high demand of them, and they do not play a role in the overall aggregate lobbying-contributions equilibrium we discussed in section B. Remember these municipalities were small and had summary statistics that suggested that they were not of much interest to firms. In any case, and if our suspicions recently stated are true, we would be underestimating the contributions impact, because contributions are negative correlated to the probability of not reporting any hearings (see table D.2.3. for details).

When we estimated the impact of the contributions dummy on hearings using Propensity Score Matching (PSM) we found bigger and statistically significant effects on total hearings, both at the municipality-firm and mayor-firm's specifications. If the selection in observables assumption does really hold in the cells defined by the set of propensity score neighborhoods, then, the interpretation of these estimates is a causal one. Therefore, higher coefficients could be interpreted as evidence that with the methods used before the effect was being underestimated.

Finally, in terms of municipal policy is interesting to note that in every model $\ln(\text{Tax Municipal Revenues})$ had a positive and statistically significant effect over hearings. Regarding the variables related to firm's potential for profits, *Population* was also relevant but only in the firm's-municipality specification, and not in the mayor-firm's specifications, and *Firm's Size Index* was highly significant and positive thru mostly all models. A fascinating result is that the variable that measures mayor political strength, that is, *Share of Votes 2012 Election*, is only significant in the mayor-firm's specifications, and with the expected sign as more votes imply that mayors are going to hold fewer meetings with firm's; this happens because if mayors are politically strong, they should individually exhibit more independence over SPG influences, but this doesn't need to be true for the municipality overall.

In general, our results suggest that firms are having a maximizing behavior when they decide where they will give campaign contributions, and to what extent or intensity; and it seems that this influences means indeed, a greater lobby access.

G. CONCLUSIONS

The purpose of the paper was to assess the question of whether corporate contributions were a way to get access to bureaucrats at local levels of

government. We evaluate this for the case of Chilean municipalities. In average, when a mayor had received contributions from firms to fund his campaign, overall municipal hearings with firm's increase by 1.5 to 2.3 (depending on the model used for estimation); with respect to mayor and firm hearings the effect goes from 1 to 1.6 hearings. Not only receiving or not contributions matter, their level is also important. An increase of one standard deviation in contributions implies an increase in firm's-municipality hearings by 2.5, and 1.3 in the case of mayor-firm's hearings. These set of effects are economically significant given the mean of *Total Firm's-Municipality Hearings* is 6.4 and the mean of *Total Mayor-Firm's Hearings* is 2.9, statistical significance is at least at a 5% confidence for $\text{Ln}(\text{Contributions})$ and at least 10% for the *Contributions Dummy*. For the case of the probability of having hearings with firms, contributions seemed not to matter.

Given these estimates, the natural question that arises is: what are the impacts of municipal firm's lobbying on welfare? As we reviewed in the previous sections, it's not 100% obvious, neither it's easy to check, that lobbying activities by firm's have negative welfare effects. Given mayors face imperfect and asymmetric information about every project that is beneficial for the community, and about what firms are more efficient, they would be interested in keeping the door open for firm lobbyists to increase their degree of information about the things just mentioned. In these lines, interesting outcome variables to be studied could be total municipal funds given to firms to develop projects, the level of local employment, the number of public municipal projects in the municipalities, etc.

Other avenues of research are also worth noting. Recently there has been a major reform in electoral finance regulation in Chile, now firms cannot contribute to elections, not a penny. Then, using lobbying data at the municipal level for the next administration period, we can perform a difference-in-difference estimation, using the *Contributions Dummy* as the treatment variable. We should compare lobbying activities of year 2015-2016 to the ones that are to be done in years 2019-2020. We expect that the municipalities that had in office mayors that received contributions show a negative ATE over total hearings with firms.

Finally, our results suggest some policy implications. Prohibition of firm's donations to political campaigns should produce that the number of hearings with firms that municipalities hold with firms decreases. Whether this is good or bad for citizen's welfare it's not clear yet, since it's possible that firms that give most contributions are providing valuable information to municipal officials, and therefore, the administration can provide better public policies. A clearer result is that given a prohibition of firm's donations there will be less firm hearings, more time and resources will be available for hearings with constituents, and hence, the asymmetries of political pressures over municipal officials would be reduced. This a good result for citizens with little or no political pressure capacities. The latter discussion is extremely relevant given the last reform approved in Chile for political campaign finance, which now prohibits any contributions by firms.

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I. APPENDIXES



Folio

Formulario solicitud audiencia ley N° 20.730

Instrucciones: Complete el formulario con letra imprenta (campos con * son obligatorios).

1.- Receptor de la Solicitud ¿Con qué autoridad o funcionario desea tener audiencia?			
Nombre de la autoridad o funcionario			
Cargo *			
2.- Individualización Solicitante ¿Cuáles son sus datos personales?			
Nombres*		Apellidos*	
RUT/Pasaporte*	País emisor del documento*		Nacionalidad
Correo electrónico, teléfono u otro medio de contacto*			
2.1- ¿Asistirá a la audiencia?*			
☐ Sí, complete la siguiente información (números 2.2,3, 5 y 6)		☐ No, complete la información (números 3, 4, 5 y 6)	
2.2.- ¿Recibe remuneración por la actividad de lobby o gestión de intereses particulares que realizará ante el sujeto pasivo al cual solicita audiencia?*			
☐ Sí, recibo remuneración (Lobbista)		☐ No recibo remuneración (Gestor de Interés Particular)	
3.- Materia específica a tratar en la audiencia, destinada a obtener que se adopten, o que no se adopten, las siguientes decisiones y actividades (artículo 5° ley N° 20.730). Marque todas las que corresponda*			
☐ Elaboración, dictación, modificación, derogación o rechazo de actos administrativos, proyectos de ley y leyes, y también de las decisiones que tomen los sujetos pasivos.			
☐ Elaboración, tramitación, aprobación, modificación, derogación o rechazo de acuerdos, declaraciones o decisiones del Congreso Nacional o sus miembros incluidas sus comisiones.			
☐ Celebración, modificación o terminación a cualquier título, de contratos que realicen los sujetos pasivos y que sean necesarios para su funcionamiento.			
☐ Diseño, implementación y evaluación de políticas, planes y programas efectuados por los sujetos pasivos.			
☐ Ninguna de las anteriores.			
Describa en detalle la materia que se tratará en la audiencia*			
4.- Individualización del asistente a la audiencia. En caso de ser múltiples asistentes, se debe completar un anexo por cada uno y asociar el folio.			
Nombres *		Apellidos*	
RUT/Pasaporte*	País emisor de documento*		Nacionalidad
Correo electrónico, teléfono u otro medio de contacto *			
Calidad de los asistentes	☐ Sí, recibo remuneración (Lobbista)	☐ No recibo remuneración (Gestor de Interés Particular)	☐ Sujeto pasivo de Lobby
5.- Sobre la organización a la que Usted pertenece o presta servicios como lobbista o gestor de intereses			
a.- Razón Social/Nombre de fantasía*			
b.- RUT/Pasaporte*			País emisor del documento*
c.- Descripción de actividades*			
d.- Giro*			
e.- Domicilio*			
f.- Nombre Representante Legal*			
g.- Naturaleza*			
h.- Señale los nombres de quienes conforman el directorio / Órgano encargado de la administración			

Información sobre la organización que realiza lobby o gestión de intereses

Información sobre su cliente o persona, organización o entidad a quien representa	6.- Persona o entidad cuyos intereses serán representados en la audiencia que se solicita:			
	☐ Persona natural (contestar solo a y b)		☐ Persona Jurídica (contestar todas)	
	☐ Entidad sin personalidad jurídica (contestar solo a, c, d)			
	a.- Nombre Completo/Razón Social/Nombre de fantasía			
	b.- RUT/ID/Pasaporte		País emisor del documento	
	c.- Descripción de actividades		Nacionalidad	
	d.- Giro			
	e.- Domicilio			
	f.- Nombre Representante Legal			
	g.- Naturaleza			
h.- Señale los nombres de quienes conforman el directorio / Órgano encargado de la administración (sólo si se conociere)				

7.- Ingrese el número total de asistentes a la audiencia que se informarán en los ANEXOS* (Ejemplo, "3 anexos = 3 asistentes" independiente de su calidad). Número total de asistentes: _____
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8.- Agregue la información adicional que desee: 	Fecha: / /	Firma del Solicitante
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