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Democracy, Lobbying and Economics

Milan Žák¹

Abstract: The paper deals with the issue of lobbying, defined as a democratic means of promoting interests. The text tries to find answers to the problems in the current economic theory. The basic links are defined by using a simple graphic model, which are further examined by the SWOT analysis. The result is the knowledge that the basic coordination mechanism is the market – the information market. The role of government lies above all in creating a favourable institutional environment that does not interfere with spontaneous market relations. However, there are certain situations that the government could or should regulate. These situations are described by three hypothetical scenarios – a society without lobbying, a society where lobbying exists, but it is not transparent, and a society where lobbying is transparent, leading to a final discussion of possible directions and ways of its regulation.

Keywords: Impact of Lobbying on Democracy, Public Choice, New Institutional Economy, New Political Economy

JEL Classification: A11, A12, C70, D72, D82

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Introduction

The initial research question of this text is whether and how the processes of lobbying are explained by economic theory. The aim is to build a graphical model of lobbying and on this model to provide the description and the analysis of the individual relationship between subjects in the negotiation processes. Based on this analysis, find the possibilities of intervention of the central decision making authority in the range - rules, regulations. For the purpose of this article, we use the method of SWOT analysis. This contribution, having the character of a summary of knowledge, freely picks up where three previously published texts. In particular the article 'Lobbying in the European Union and the Czech Republic' by Laboutková and Žák (2010) in which we have tried to define the issue of lobbying in general. Then the speech at the conference in Karviná in 2016 (Laboutková and Žák, 2016) where the basic graphical model of the fundamental links between the entities directly involved in the lobbying process was introduced. And the text 'Markets, Interests, Information and Lobby as the Issues of Economic Theory,'

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(Žák, 2016), which deals with the extent to which economic theory is able to explain the links that have been designated in previous works.

Definition of lobbying and economic theory

In line with the wording of the task, which is defined by the project title 'Impact of Transparency of Lobbying on Democratisation',² we should, by way of introduction, at least briefly explain to what extent lobbying brings the society, democratic values, or more specifically, what organised interest groups can contribute (as much as possible) to the democratisation of society and how. A simple explanation can be obtained from Bionty (2018), who explains the demonstrated increase in lobbying by a crisis of representative democracy, where ever-closer economic integration, the penetration of new technologies, the processes of liberalisation and privatisation, and the growth of non-governmental organisations and other private actors on the public market have created an entirely new institutional framework for promoting interests for a much larger number of entities than was the case in societies led by traditional political parties.

By defining the concept of lobbying, we have consistently devoted ourselves to a number of already published articles³ in the aforementioned project. The most well-known, and in the European context today probably the most common definition of lobbying is the definition by Graziano (2001), an expert on the issue of lobbying at the European level : 'Lobbying is a specialised and professional representation of interests by means of a wide variety of tools which, in principle, eliminate a corruptive change of services. It is by its nature very different from the general non-specialised representation provided by elected representatives. As a representative of particular interests, a lobbyist provides information and technically professional expertise which can be useful and sometimes decisive for defining legislative and administrative regulation.'

A newly formulated mission can be found in the 'Draft recommendation of the Committee of Ministers to Member States on the legal regulation of lobbying in public decision making', which states (CDCJ 2017, p. 4): Lobbyist means any natural or legal person who engages in lobbying, whether for private, public or collective purposes, whether for compensation or without it, and lobbying is defined as an activity involving any direct or indirect communication with a public official, which is carried out, managed or directed to influence public decision making.

In an attempt to define lobbying, we established that 'most definitions characterised lobbying as interfering with legislative and decision-making processes or promoting specific interests different from those that may be seen as society-wide, and there was no single definition acceptable to all'. The following text concludes that, 'this is also due to the constant development and shifts in the understanding of politics, public affairs, and interests', and 'if we summarise the above definition, we can say that lobbying pri-

² Grant Agency of the Czech Republic, Project No 16-08786S 'Impact of Transparency of Lobbying on Democratisation and Its Consequences'.

³ For example Laboutková and Vymětal (2018), Laboutková (2018), Laboutková and Žák (2010) and Laboutková and Žák (2016).

marily aims at promoting interests and is an indispensable source of information, while the greatest challenge involves making lobbying distinct from corruption'.

The political process thus becomes a bargaining game between private and public officials and has a non-negligible impact on democracy. Stefan (2012) considers the effect lobbying has on democracy on three levels. First, lobbying serves as an information channel. This is due to the increasing complexity of decision-making processes and the related administration, including the requirement for greater (more democratic) awareness-raising among EU citizens. Second, lobbying is a tool for removing the democratic deficit resulting from the multilevel bureaucratic process, and third, there are certain positive impacts of lobbying on the decision-making process. Decision-making becomes more democratic, as it allows more entities to become involved in the final decisions.

Lobbying is currently becoming more and more a topic of political science and therefore, or in spite of that, the purpose of this text is to look for and find the economic context of this phenomenon, in particular with regard to the fact that the major effects influence economic-policy decisions that have economic impacts. It is clear from the above that, in general, lobbying and lobbying groups are perceived as a category of political science rather than economics.

If we are looking for an 'economic footprint' when explaining how the lobby works, we find it more likely outside Europe. For example, an explanatory comment from the 'American League of Lobbyists defines lobbying as a more general activity related to the provision of information (What is Lobbying, 2009). Lobbying is something much more than just persuading lawmakers. Its basic components are researching and analysing legislation or other regulatory proposals; monitoring and development reports; participating in meetings of the House of Representatives committees; working with coalitions interested in the same issue; and educating not only government officials but also of employees or representatives of companies about the possible consequences of various changes. What people regard as the core of lobbying – communication with government officials – is only a small part of the lobbyist's programme; much more time is spent on preparation, providing information, and communication.

As far as the overview of the professional literature is concerned, we can say the following. Of course, the literature on lobbying is a huge amount, texts⁴ that would comprehensively discuss the interpretation of this phenomenon from the point of view of economic theory but relatively little. In addition, if some attempts to anchor the subject in economic theory are visible in some texts, it is generally only a partial connection with some theories largely outside the mainstream of economic theory. At this relatively wide range, we can try to summarize (and categorize) the focus of research topics with conclusion that none of them deals significantly with theoretical basics or approaches to economic theory to define or explain the lobbying process.

⁴ It is mainly (but not only) about these periodicals : Journal of Public Economics, Journal of Corporate Finance, Journal of International Economics, Journal of Accounting and Public Policy, International Review of Law and Economics, Ecological Economics, Public Relations Review, EUROPEA Economic Review, Games and Economic Behavior in years 2012 – Q2 2018

According to our approach to the matter, we can divide the contributions into approximately four groups, with their unifying element being the understanding of lobbying mainly as a political activity. In the texts, the model approach with pre-defined limits of negotiation in specific situations (mostly budget, environment) prevails, forming the first group. The second is the relationship between lobbying and corruption, the third is the issues of negotiation in particular with regard to information asymmetry and moral hazard, and finally, the fourth is the attempts to address the issue through experimental economics.

Lobbying is viewed as a democratic means of promoting the interests of non-decision makers, to whom the existence of lobbying is a welcome and indispensable part of the legislative processes, in particular as a source of decision-making information. In explaining the lobbying process, economic theory can operate both with traditional market schemes (the information market) as well as some non-mainstream processes, particularly the public choice theory and the new institutional economics. During negotiations between entities, these concern the underlying functional processes of the political market, to which some conclusions derived from the game theory may be applied. Whether there are any ties with the political/economic cycle (and if so, what they are) remains largely an open question, just like the issues related to the long and short terms (although the latter has been dealt with, in part, for example, by the application of the prisoner's dilemma).

If we try to summarise this brief overview of the views and approaches to the chosen topic we can state that the problem of lobbying is perceived by the economy as an area of promoting interests and rent-seeking, which leads to a dialogue between the economic policy actors in an effort to change the balance between the costs and revenues to their advantage and from the point of view of the decision-making authorities to possible government failure. And on the other hand, to the finding that the basis of this dialogue is the exchange of information exchanged on the information market with all the possible problems that markets can provide, i.e. including information asymmetries, the possibility of creating a monopoly and the subsequent possible regulation. The basic theoretical approach is New Political Economy, which in this particular case includes not only classic but also political markets, draws on the Public Choice Theory, the New Institutional Economics, and game theory. Information is the basic commodity traded in the political markets. Question is how the information market, which is the basis of the economic view of lobbying and lobbyism, does it work.

Entities and their ties in the lobbying process

The basic defined economic entities are: citizens (the public), the state (government or other central decision-making authority), and businesses. The ties between businesses and citizens involve a plain model of purely economic markets where market relationships exist. Citizens act as consumers, businesses as manufacturers, and citizens as employees and businesses as employers – here, the standard market relationships exist.

The situation is a little different in the relations to the state. Here we enter the area of non-market decision making, an area of functioning political markets. Political markets⁵ in democratic societies aim to achieve consensus, and in negotiations, they use mainly information that acts as a commodity. The result is a simple model of relationships between market and non-market actors (Ibid, p. 21), which has been the basis for the creation of the 'model of basic relations in the lobbying process'. Before we proceed to the discussion of this model, let's summarise the baseline characteristics of the basic entities⁶: the state is a bureaucratic institution and determines the rules and in the non-market decision-making gets (statistics) or buys information for decision-making, businesses hire lobbies to promote their own interests, and citizens decide in the elections and have the ability between the elections to influence decision-making and to promote their interests through interest groups.

This simple scheme, based on the exchange of information is entered by lobbyists whose interests can be characterised as follows:

- they process information for decision-making and are interested in selling it and somehow 'extra' promote the interests of the hirers and the interests of their own
- they are hired and paid for promoting interests – seeking rent from the state and trying to influence decision-making – fulfilling the assignment
- their activity can not only be controlled but also partly restricted – regulated

Based on the described contexts and ties, we can now proceed to describe the basic relationships in the lobbying process (fig 1).⁷ This model will be used in the following text as a basic and default description of all considerations. Based on the analysis of these relationships, we will try to determine the theoretical basis for the interpretation of the individual types of behaviour of the above-mentioned entities in the monitored processes.

As stated above, the state is a bureaucratic institution and makes the rules (link 1). It adopts decisions using the information it obtains from its own sources (knowledge of officials and politicians, state institutions supplying the information) or from the public non-governmental sector (2a) and the private sector (2a). Information obtained from interactions between the lobbying community and the state (2b) represents a situation where companies hire professional lobbyists or set up professional lobbying groups (3),

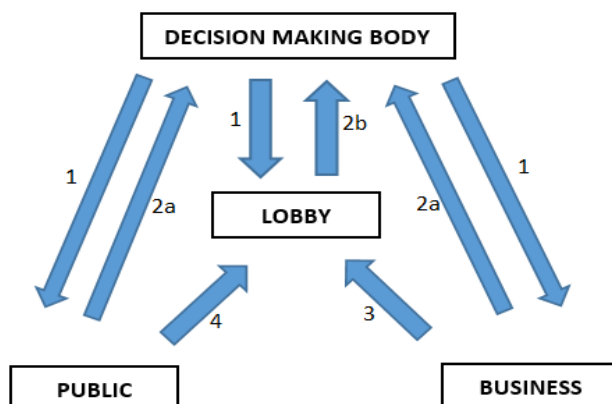
⁵ Gregor, M., (2005) divides these markets into three groups 1. Primary political market. A market between politicians and citizens. Trading with public policies or with competing political programmes during elections. 2. Market of administrative measures. A market between politicians and the bureaucracy, and 3. Market of executive policy. A market between executive politicians and groups influenced by a policy. A commodity is formed by any executive measure changing the position of the given groups.

⁶ For more details see Žák, M., (2016).

⁷ The first presentation of the model published herein was introduced at the conference in Karviná in 2016, where the basic links between the subjects relevant to further research are described – see Laboutková, Š. and Žák, M. (2016).

while civil society spontaneously creates (4) interest groups developing lobbying efforts to influence the state's decisions, i.e. the way rules are made. In the following text, we will try to sort out thus defined relations logically in the following steps. The first step is to determine the nature of the relationship and find its 'reflection' in economic theory, the second is defining the complicating factors, and the third is the attempt to capture the problem in its complexity using the SWOT analysis and the formulation of partial conclusions.

Figure 1. Model of basic relationships in the lobbying process



Source: Laboutková, Š., Žák, M., (2016).

Link 1 – Demand for information

Nature of the relationship and its reflection in economic theories:

Here, information is a commodity to which the standard supply and demand model applies, which means that the price is determined by an agreement between the offering party and the seller – this is a state of equilibrium.

Complicating factors

The basic question is whether there are factors influencing equilibrium on the demand side and on the supply side. On the demand side, the only possible complicating factor is the inability of the interested party to distinguish the relevance of the information to decision-making – the theory of bureaucracy, or the abuse of position in selecting the offering parties – rent-seeking. Both these complications are described and solved in the public choice theory. In addition to this fundamental question, it is still possible to raise

the issue of market structure and the related information asymmetry, which, however, can be refused (refined?) by stating that even monopolies are a natural market structure and, in the case of information understood as a commodity, they express the degree of scarcity of the information provided.

Analysis of the relations and the possibility of the regulation (inspired by SWOT)

<p>Advantages:</p> <p>The market solution is spontaneous and favourable to both sides</p>	<p>Disadvantages:</p> <p>The possibility of information asymmetry in favour of the offering parties resulting from the 'poor quality' of public administration</p>
<p>Opportunities:</p> <p>In functioning markets, the state as a bureaucratic apparatus should not intervene</p>	<p>Barriers:</p> <p>Absolute – the state can at most seek to increase the qualifications and loyalty of its own officials – contracts, codes of ethics</p>

Partial conclusion

The information market is a standard market that works – and can continue to work on the demand side without state intervention, both in relation to the public (citizens, citizens’ initiatives, and civic interest groups) and in relation to businesses and interest groups. The role of the state as a factor in the spontaneous processes on the demand side actually involves ensuring the quality of the bureaucratic apparatus.

Link 2a – Supply of information from the general public and businesses

Nature of the relationship and its reflection in economic theories:

The same applies here as for link 1. Here, information is a commodity to which the standard supply and demand model applies, which means that the price is determined by an agreement between the offering party and the seller (state of equilibrium).

Complicating factors

Factors influencing equilibrium on the supply side do not exist if we exclude the concept of the nature of the market structure and the associated information asymmetry. The reason lies in the fact that even monopolies are a natural market structure and in the case of information seen as a commodity, they express the degree of scarcity of the information provided.

Analysis of the relations and the possibility of regulation of link 2a

<p>Advantages:</p> <p>The market solution is spontaneous and favourable to both sides</p>	<p>Disadvantages:</p> <p>On the supply side, however, this is (or can be) the promotion of one’s own interests, both personal and group – the theory of interest groups, which leads (can lead) to the abuse of information superiority</p>
<p>Opportunities:</p> <p>The ability to recognise relevant information means not succumbing to the pressures of interests, both individual and corporate, and depends on the ability of the decision-making authority to ensure the development of the qualifications and loyalty of its own officials.</p>	<p>Barriers:</p> <p>Do not exist – market adaptation exists</p>

Partial conclusion

The information market is a standard market that works – and can continue to work on the supply side without state intervention, both in relation to the public (citizens, citizens’ initiatives and civic interest groups) and in relation to businesses and interest groups. The role of the state as a factor in the spontaneous processes on the demand side actually involves ensuring the quality of the bureaucratic apparatus.

Link 2b – Supply of information from lobbying groups

Nature of the relationship and its reflection in economic theories

The same does not apply here as for links 1 and 2. Basically, this relationship is crucial for the understanding of the impact of lobbying. Here too, information is mainly a commodity to which the standard supply and demand model applies, but this is not an equilibrium state in terms of the actors. The lobbies are here clearly tempted to abuse information asymmetry (superiority) in their favour. Therefore, the basic condition of market equilibrium is not complied with. Due to the complexity of the relationship, we divide the theoretical views on behaviour by individual actors, the state and the lobby.

In accordance with the above-mentioned theory of political markets, the state sets the rules and can enforce and control them, but in the asymmetric information model, it has no choice when selecting the information it necessarily needs. This is especially true for one-time relationships, while in the long term, where the prisoner’s dilemma leads to cooperation⁸⁹, the state bureaucracy is exposed to the possibility of pursuing its own

⁸ Prisoner’s dilemma is a type of game with a non-zero sum, in which both players have two

interests, i.e. rent-seeking¹⁰. If it acts in its own interest, it can act both in concert and in contradiction with the offering party. Its competence can also be questioned, which is addressed by the theory of bureaucracy.

The lobby has information superiority, and the possibility of using it for its own benefit and the price of information provided in this case has the nature of a monopoly price. There is the possibility that information that serves the lobbyists' own goals can also be provided, which can be explained by rent-seeking, and there is also the opportunity and room for unethical behaviour, corruption. On the other hand, if it follows the long-term relationship, it cooperates in the prisoner's dilemma model.

Complicating factors

The basic complication disrupting the market equilibrium in the information market is the information superiority of the lobbying community – their own or they have access to information that is rare or unique (monopoly). This creates the possibilities of abusing this position.

Analysis of the relations and the possibility of regulation of link 2b

<p>Advantages:</p> <p>The state has in its hands the decision to create both rules, and possible regulations Globalisation of the information flow enhances the verification capability – market solution</p>	<p>Disadvantages:</p> <p>The danger of preferring individual interests to social interests and the low quality of bureaucracy</p>
<p>Opportunities:</p> <p>The executive policy market allows regulation</p> <p>The state can increase the quality of bureaucracy</p>	<p>Barriers:</p> <p>Market adaptation exists only on the executive policy market Other adaptations do not exist</p>

options – to cooperate or to betray. In its original form, it is a game with incomplete information (which corresponds to our assignment), a non-zero sum game and a one-round game, which results in non-cooperation. When it is repeated in an indeterminate time horizon, however, it shows that it is the cooperation that leads to more optimal results. Derived from Bénassy-Quéré, A. (2010), pp. 119–121.

⁹ The following quotation also shows the tendency to cooperate: “However, experiments show that people behave cooperatively even in a one-shot (i.e. non-iterated and non-strategic) Prisoner’s Dilemma. People in reality seem to expect the opponents to act cooperatively, and therefore they also come up with an offer for cooperation.” Macháček M. (2015), pp. 21-23.

¹⁰ Here, in addition to rent-seeking, there is also the danger of possible corrupt conduct.

Partial conclusion:

While rule formation is necessary, regulation remains questionable.

Link 3 - Information of intermediaries (the lobbying community) from businesses

Nature of the relationship and its reflection in economic theories

Here, information is a commodity to which the standard supply and demand model applies, which means that the equilibrium price is determined by an agreement between the offering party and the seller. Businesses and interest associations can cooperate with lobby groups on rent-seeking.

Complicating factors

Basically, they do not exist, and if they do, they come from the state in the form of rules and regulation. Businesses live in an environment that is strongly influenced by institutional factors, especially in the long term.

Analysis of the relations and the possibility of regulation of link 3

Advantages: Functioning information market	Disadvantages: The danger of preferring individual interests
Opportunities Entering into long-term contracts	Barriers none

Partial conclusion:

This is a standard market relationship where information is a commodity, and the price is determined on the supply/demand basis.

Link 4 – Information of intermediaries (the lobbying community) from the public

Nature of the relationship and its reflection in economic theories

Here, information is a commodity to which the standard supply and demand model applies, which means that the equilibrium price is determined by an agreement between the offering party and the seller. Civil society groups can cooperate with lobby groups on rent-seeking.

Complicating factors

Basically, they do not exist, and if they do, they come from the state through the formation of bad rules or unnecessary regulation.

Analysis of the relations and the possibility of regulation of link 4

Advantages: Functioning information market	Disadvantages: The danger of preferring individual interests
Opportunities Entering into long-term contracts	Barriers None

Partial conclusion:

This is a standard market relationship where information is a commodity, and the price is determined on the supply/demand basis.

Table 1. Conclusions from the MODEL

Link	Direction	Description	Nature of relationships
1	The state – society	Demand for information	The information market is the standard market. The role of the state as a factor in the spontaneous processes on the demand side actually involves ensuring the quality of the bureaucratic apparatus.
2 a	Lobby-free society – the state	Supply of information from the public and businesses	The information market is the standard market. The role of the state as a factor in the spontaneous processes on the demand side actually involves ensuring the quality of the bureaucratic apparatus.
2 b	Lobby – the state	Supply of information from lobbying groups	While rule formation is necessary, regulation remains questionable.
3	Businesses – lobby	Information of intermediaries (lobby) from businesses	This is a standard market relationship where information is a commodity and the price is determined on the supply/demand basis
4	The public – lobby	Information of intermediaries (lobby) from the public	This is a standard market relationship where information is a commodity and the price is determined on the supply/demand basis.

Source: our own elaboration

In the final summary of the partial SWOT analyses of the links, we can conclude that for the vast majority of relationships, the information market works well and coordina-

tion thus takes place spontaneously. Only in Link 2b – Supply of information from lobby groups, have we found that rule formation is necessary while regulation is questionable. It is mainly due to the fact that in this area, the distribution is not a market but an off-market distribution, which can be explained by the fact that only in this link is it impossible to use the spontaneity of the market and so the state must set clear rules¹¹, which should become part of the institutional environment in the long term, which has a significant influence on the democratic character of the entire community. An integral part of the quality of the institutional environment is also the responsive attitudes of lobbyists, of which the adoption of ethical codes can be considered the most visible and most important features.

Based on the above, the following three hypothetical scenarios may be formulated.

1. Absence of lobbying efforts (relationships between the government, the public, and businesses are not institutionalised).

In this scenario, the Government makes its own independent decisions, relying on its own sources of information and/or the quality of its bureaucratic apparatus. The advantage here is the low cost; the disadvantage is the low quality of the decisions made due to a lack of information. The cost of obtaining additional information is high, as is the risk of abuse of information asymmetry in favour of the providers of additional information. Time delays also have a significant role to play.

2. Lobbying exists – the relationships are partially institutionalised, but they are not transparent.

The Government takes advantage of the intermediary functions of lobbying, the cost of information is lower, but the likelihood of the abuse of information asymmetry is high, creating room for the evolution of a corrupt environment.

3. Lobbying exists – the relationships are institutionalised and transparent¹².

The Government puts in place rules that allow competition in the information market, each bargaining game entity has the same access to information, and the result should be an informed decision based on social consensus (the compensation rule may increase costs), which generally yields higher social and economic efficiency. As a rule, the costs incurred are necessary, yet the issue of the quality of the bureaucratic apparatus persists. The system raises the question of whether regulation should be introduced and if so, what should be regulated. In general, it should apply that the better the institutional environment (the rules), the less regulation is required. We attempted to assemble all of the scenarios described above, including their other characteristics, in Table 2.

¹¹ The questions of regulation and register of lobbyists are also covered by the already mentioned publication Muller, K., Laboutková, Š., Vymětal, P (2010).

¹² Transparency is regarded as a concomitant feature of democracy; transparency denotes transparent and publicly accessible actions taken by the state

Table 2. Analysis of the described scenarios – summary

	No lobbying basic model	Non-transparent lobbying	Transparent lobbying
Combating lobbying	Does not exist	Unnecessary, inefficient	Quality of the institutional environment – the legislative framework and informal institutions
Combating The risk of a corrupt environment evolving	Information supremacy makes it possible for one's own interests to be promoted	Verbal, random	Clearly defined rules address the problem
Transparency In public decision-making	Functioning information market	Missing, does not exist	Follows from the definition
Legitimisation of lobbying	Not necessary	Not practicable	Determining rules for using market forces in the information market
Source of information	Own, random, non-systematic	Non-transparent information market	Functioning information market
Formal rules	Do not exist	Do not exist or are confusing	Underlie the system
Informal rules	Follow from the level of institutional quality	Follow from the level of institutional quality	The system itself spontaneously generates a higher quality level of the institutions
Expenses	Monopolisation of information – rent-seeking	Monopolisation of information – rent-seeking	Administrative cost
Information asymmetry			Functioning information market
Actor uncertainty	High, resulting from low awareness	Medium, resulting from the impossibility to verify information	Essentially amounting to zero – all information may be found
State failing	The decisions are inefficient, no relative information is available	Rapid growth of the bureaucratic apparatus, the likelihood of corruption is high	Dangers of excessive bureaucracy
Social responsibility	Spontaneous	No impetus for social responsibility	Yields an environment that favours social responsibility
Quality of institutions	Depends on spontaneous development – historical	No attempt at improving the quality of institutions	Conscious steps to achieve changes in the institutional environment

Source: our own constructs based on (Laboutková, Š., Žák, M., 2016)

The above list shows that the fundamental problem of lobbying in a democratic society, where enforceable rules have been introduced, is not so much related to the promotion of specific interests, since those clash in the information market where individual groups can compete with one another (let us repeat Karl Isakson's quip: 'One lobbyist is a problem, a thousand lobbyists is a blessing for democracy')¹³, but rather to the ability of the actors involved to evaluate this information before they ultimately use it in their decision-making. Table 1 suggests that market conditions may be generated in all types of ties, except for 2b. The latter has been characterised as follows: 'While rule formation is necessary, regulation remains questionable'.

Rules or regulation

Reflecting on the statement that 'while rule formation is necessary, regulation remains questionable', we come to the last of the set partial objectives – how to use the results of this analysis. We are seeking suggestions for economic policy solutions and possible measures from the perspective of formulating the rules and the possibility of regulation. Rules in general, and in the economic activities it applies without exception, are perceived by us as a legally binding statute issued and approved in a process controlled by the central decision-making authority. Here, information from lobbyists can play a significant role in both the formation and approval. As with all legislation, the issue of control and enforceability arises¹⁴. Regulation may be defined as the control, direction, and management of economic activities in the private sector by the state in the interest of economic efficiency and equity. Therefore, it is an activity that pertains to the state, which, within the general legislative process, prevents certain undesired activities from being promoted and authorises or condones specific activities. From the historical perspective, regulatory measures may be divided into traditional regulation, which focuses on prices and wages, sectoral and business regulation, public goods regulation, and regulation aimed at promoting the dissemination of information with the objective of removing information asymmetries – a new regulation tier¹⁵. When discussing what and how or whether to regulate activity in the domain of promoting interests at all, we necessarily need to ask the following questions relating to the very purpose of potential regulations: Is regulation capable of preventing corruption and improving the quality of decision-making, and is it compatible with society democratisation, or does it make no sense at all? Let us look at the issue from the perspective of the regulatory options available – see Table 3.

¹³ Karl Isakson, chairman of the European Affairs Consultancies' Association at the seminar '*Transparency and Legal Regulation of Lobbying*', Chamber of Deputies of the Czech Republic, Prague 13/03/2018.

¹⁴ It is not the aim of this text to map the legal environment for lobbying, but we can mention at least two basic legal norms – the Act on Prices and the Act on the Protection of Competition

¹⁵ For more on this issue, see the text '*Byrokratická bariéra kvality regulace*' (Bureaucratic barrier of the quality of regulation). Gregorová, L., Žák, M. *Politická ekonomie*, 2008, no. 2, pp. 196-228. ISSN 0032-3233.

Table 3. Lobbying regulation options

Degree of intensity	Low	Medium	High
Regulation of registration rules	Basic	More specific	Extremely thorough
Definition of lobbying objectives	For members of the legislature and their staff only	Ditto, plus the executive branch and their staff, agency managers, public administration and officials	Ditto
Targeting of expenses	Without clear rules	Weak (selective) regulation of individual expenses	Strict regulation
Electronic oversight	Weak oversight	Massive oversight without the 'paperwork'	Ditto
Public oversight Publication	List of lobbyists, incomplete and subject to random additions	Ditto Detailed and subject to additions	Ditto, plus a detailed view of expenses
Enforceability	Vague	Low	Systemic – such rules are put in place that no regulation is required

Source: our own elaboration

The selection of regulatory measures is associated exclusively with the functioning of public administration, with bureaucratic management. At a certain stage in the development of society, bureaucratic management replaces the role of the market and free competition or supplements it appropriately on the basis of social consensus. As there are market failures, there may also be a bureaucratic failure¹⁶. The risk of a bureaucratic failure is the effect of two fundamental causes: first, the absence of a market for managers in the public sector, and second, an 'accountability failure' experienced by public authorities. The absence of a market for managers is due to a monopoly on the information domain, typically translating itself into the 'tenure' requirement. This not only leads to the inability of the public sector to respond to new impetus and to stale thinking and management but also creates room for corruption. Accountability failure is the result of differences in administration between the private and public sectors: while in the private sector accountability is taken care of by the market, in the public sector no such solution is available. The consequence is that efficiency in the public sector is not measurable. In deciding on the choice of regulatory measures, the central decision-making authority should be guided by efforts to achieve the desired objectives, in par-

¹⁶ This is a specific type of Government failure.

particular by cost analyses in order to reduce public spending to a minimum.¹⁷ It is important for policy-makers to compare estimated costs with benefits.

Conclusions

In a democratic society, through the conclusions of the economic theory, lobbying is a legitimate tool for promoting the interests of businesses, citizens, and interest groups. The nature of the mutual relationships in the lobbying process is based largely on information sharing where the information market plays a dominant role. To achieve the highest degree of transparency in the information market, the government, as the central decision-making authority, must put in place precise rules governing the actions of all stakeholders in the decision-making processes, including the enforceability of such rules. Problems related to market failures primarily exist due to informational asymmetry. In addition to setting the rules as referred to above, the solution rests in first improving the bureaucratic structures and only then introducing regulatory measures. Regulation should provide an answer to the question of whether – or not – regulatory measures could be replaced by rules or with spontaneous adaptation.

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¹⁷ Here, we refer to two articles by Bednářová, (2018a, 2018b). In the text 'How Expensive Transparent Lobbying Is' (2018a) she theoretically defined the regulatory costs associated with transparent lobbying and in 'What Benefits Does Transparent Lobbying Bring' (2018b) the benefits associated with transparent lobbying are defined and evaluated.

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