INFLUENCES ON LOBBYING: HAS THE HONEST LEADERSHIP AND OPEN GOVERNMENT ACT OF 2007 AFFECTED THE INDUSTRY?

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By

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ABSTRACT

This study analyzes the effect the Honest Leadership and Open Government Act of 2007 has on registered lobbying expenditures by the top 39 federal lobbying firms. Lobbying expenditures are treated as investments in political capital and the intent of this study is to see if government actions alter incentives to make this type of investment. After an analysis in which numerous lobbying and government related variables were analyzed the legislation was found to have a modest effect on firm revenue. This finding shows that government regulation can influence the way in which political capital is sought in Washington. The legislation put in place numerous regulations regarding lobbyist/Congressional interaction, expanded penalties for noncompliance and altered internal House and Senate rules. Because such a wide range of changes were made by the legislation it could not be determined if any one or select few regulations were responsible for the modest effect found. The most significant effect found on firm lobbying revenue was the level of federal spending during that year, suggesting that lobbying and federal
spending have a reactionary relationship. This is relevant to policy because it suggests that the best strategy for limiting special interests’ influence in Washington is to reduce the monetary scope of government, thus decreasing the potential returns for private actors on investments in political capital. Analysis is also conducted on the impact of variables controlling for number of registered lobbyists, number of bills introduced during a single Congress, and the party composition of both chambers on lobbying expenditures.
The research and writing of this thesis is dedicated to my parents who were always there.

Also, a special thanks to my advisor John Horowitz who kept me on the path to the completion of this study.

Many thanks,

Christopher T. Rieser
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Chapter 1. Introduction

Lobbying is the attempt to influence the decisions of policy makers in any governing body. It is an industry that has seen considerable growth and has been regulated in some fashion in the United States since 1876. Lobbyists in the US and around the world represent the interests of organizations and interest groups to policy makers. The vast majority of lobbyists behave ethically and present objective data to government officials as a way of representing particular interests. Many are experts in the industry or interest they represent, are actively involved in the field and provide policy makers with important information regarding public perception on issues and the effects policy changes could have on constituency groups. Unfortunately, some have used ethically questionable and illegal means such as bribery and lavish gifts to sway policy makers. This has made lobbyists easy scapegoats for elected officials looking to demonize Washington or make excuses for policy failures without upsetting members of either party. Policymakers’ tendency to do this has corrupted the way lobbyists are perceived by the American public. The recent scandal involving Jack Abramoff and his bribing of congressional aides and an administration openly hostile

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2 The lobbying industry is also largely misunderstood by the general public due to almost exclusively negative media coverage. What most citizens fail to understand is that most people belong to organizations through their jobs and associations that employ lobbyists to represent their interests in Washington, DC or state capitals.
to lobbyists has created political will in Congress to strengthen and expand laws
governing who can lobby and how they do it. Additionally the Supreme Court's ruling
in Citizens United v FEC has created more public outcry for greater restrictions on
political spending by private industry.³

With the increasing focus in Washington on the influence of lobbyists and
special interests it is important to understand the effects that past lobbying regulations
have had on the three billion dollar industry. In particular, how has the most recent
regulatory changes impacted the extent to which organizations use lobbying as a way
to influence policy makers in Washington. The following paper will examine the
effects of the Honest Leadership and Open Government Act of 2007, which amended
the Lobbying Disclosure Act of 1995 and significantly changed internal House and
Senate rules regarding Federal lobbying.

While rules regarding lobbying in the United States have existed since the
House of Representatives required lobbyists to register with the House Clerk in 1876,
lobbying expenditures only began to be publicly recorded in 1998⁴. The Honest
Leadership and Open Government Act of 2007 has been the only major change in

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³ The Citizens United v FEC decision allows independent expenditures by corporations for
advertisements and communications. What this means is that a corporation can spend any amount to run
adds or to contact individuals to support a candidate. However, in order for these expenditures to be
independent there cannot be any input from, or coordination with any campaign related officials.
⁴ The Lobbying Disclosure Act of 1995 mandated that lobbying records be made publicly available
beginning in 1998.
federal lobbying law since then, meaning, it is the lone opportunity to analyze a natural experiment on federal ethics reform. No other studies were found that analyzed the effects of this legislation on lobbying. For this reason the review of the literature in this paper focuses on what variables are expected to influence the amount of lobbying each year and whether lobbying expenditures are a form of political capital and therefore an appropriate measure for determining how the lobbying industry responds to regulations. The literature review also highlights studies analyzing returns to lobbying in order to show that it is indeed an indicator of influence.

It is the researcher's belief that the legislation will not be a major influence on the recorded lobbying revenue of the firms analyzed in the study, indicating the legislation failed to curb the amount of influence sought in Washington by lobbying. The reason for this belief is that the vast majority of past lobbying behavior was not in violation of the new regulations and therefore would not be impacted.

Secondly, the researcher anticipates that characteristics measuring government expansion such as number of bills introduced in the House and Senate and the total annual federal budget will have significant effects on recorded lobbying revenues. This is likely to occur because private organizations often respond to government involvement in their sectors by attempting to influence the actions the government
takes there. While there are many ways in which organizations can try to influence policy makers lobbying is a strategy commonly used, is not limited in the amount of resources that can be used for it and is recorded by government officials making it much easier to study.

This study adds to the academic literature by statistically testing whether the changes in law at the end of 2007 (Honest Leadership and Open Government Act) significantly altered trends taking place in the lobbying field. Variables considered to measure trends in lobbying include number of registered lobbyists, total Federal lobbying expenditures, and total lobbying income by the top 39 Federal lobbying firms from 1998 through 2008. The findings from this analysis paint a picture of how the Honest Leadership and Open Government Act of 2007 influenced the way in which political capital was sought and if similar or expanded regulations are likely to have the effects policy makers intended. The comprehensive analysis of lobbying and its relationship with the federal government and regulations will help to shed light on what, if anything, the government should do to alter its relationship with the nation’s lobbyists.
Chapter 2. Background

Lobbying Disclosure Act of 1995 (P.L. #104-65)

The Lobbying Disclosure Act of 1995 was signed into law by President Bill Clinton on December, 19th 1995. The Act was a comprehensive revamping of United States Law regulating lobbying activity and is particularly relevant to this paper because its regulations made for the public availability of lobbying expenditures in 1998 and set the basis of lobbying regulation from which the Honest Leadership and Open Government Act will be compared. By redefining what constituted lobbying, who falls under the category of lobbyist, and putting in place more broad registration requirements the Act greatly increased the number of registered lobbyists and the amount of recorded lobbying expenditures revealing the true size of the lobbying industry.\(^5\)

Definitions of relevant terms and phrases:

The definition of lobbyist was expanded to include any individual who, for any form of compensation, makes more than one lobbying contact and is involved in lobbying activities more than 20% of the time they are engaged in the services of a client organization during a six month reporting period.

*Lobbying Activities* are defined as any *lobbying contact* or activities that are in preparation for such a contact. Preparatory or support work that is intended to be used for lobbying also falls under this definition.

Furthermore, a *lobbying contact* is “any oral or written communication to a covered official or executive branch official”\(^6\) addressing the drafting or passing of federal legislation, executive branch policies, or Senate confirmation of appointed officials.

**Regulations and Reporting Requirements:**

The Lobbying Disclosure Act required any organization to register with the Secretary of the Senate and Clerk of the House of Representatives if they compensated a lobbyist over $5000 or had total lobbying expenses over $20,000, in the case where a lobbyist was an employee during the 6 month reporting period. This registration has to take place within 45 days of the lobbyist’s first lobbying contact or the responsible person or organization will be liable for a civil fine up to $50,000. Information required in the registration includes the name of the organization, name of the


lobbyist(s), any organization that contributed more than $10,000 in the six month reporting period toward the reported lobbying activities, what issues were lobbied for and any foreign entity related to the registrant.

Further, any organization that employs or retains a lobbyist must semiannually report the names of active lobbyists, a good faith estimate of the organization’s total lobbying expenditures during that six month period, and any changes to the information reported in the initial registration. Failing to submit the secondary filing or not correcting a false filing is grounds for a civil fine up to $50,000.

The most prominent change this legislation made and the one that allows this study to occur is the requirement that all information on lobbying reports submitted to the Federal government be made available to the public. This provision was adopted in order to dramatically increase the transparency of lobbying and give the public the opportunity to see clearly which organizations were actively working to influence policy makers. The public registry was implemented and began to publish lobbying expenditure at the beginning of 1998.

**Honest Leadership and Open Government Act of 2007**

The Honest Leadership and Open Government Act of 2007 was signed into law by President George Bush September 14th, 2007 putting in place a number of new
regulations and reinforcing existing ones to create the current lobbying environment. The Act set out to increase the transparency of lobbying and attempt to constrain the revolving door of professionals from Congress to K Street. In addition to making these regulatory changes the Act included a number of procedural reforms in both House and Senate ethics that address earmarks, rules on gifts and travel, and further specify limits to employment following time spent as a member or staff of Congress.

Additionally, the Act extends the ban on former senior executive personnel of the Senate from lobbying any Member or employee for which they were previously employed, from one year to two years. Former Senators are also banned for two years, instead of one, from lobbying Members or employees of either chamber of Congress. The original one year ban on former Members of the House and congressional staffers earning more than 75 percent of a Senator’s salary, from lobbying any Member or employee of either chamber is not affected.

Regarding lobbying registration, this Act requires that disclosure forms mandated by the Lobbying Disclosure Act be submitted quarterly rather than semi-annually and continue to be available to the public. Further, the fine for failing to comply with the LDA requirements is increased from $50,000 to $200,000.
Additions/Amendments to House of Representatives Rules

Members are no longer allowed to directly negotiate for or have an agreement regarding future employment while holding office. The only exception is if an arrangement is made prior to taking office and the member files a statement outlining such an agreement within 3 days of their commencement.

All Members of the House and their staff are prohibited from having any lobbying contact with the Member’s spouse if that person “is a registered lobbyist or is employed or retained by a registered lobbyist.” The Act also amends current law to make it unlawful for any member of the House of Representatives to receive a federal pension if they are convicted of a felony involving bribery of public officials, fraud, acting on behalf of a secondary organization while holding office, corruption or perjury.

Additions/Amendments to Senate Rules

All Committee and Subcommittee meetings must be made publically available either through video recording, audio recording, or transcript over the internet within 21 days of it being held. Regarding earmarks, it is now required that all

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congressionally directed spending, limited tax, and tariff benefits contained in a bill be made publically available on a congressional website in a searchable list format for 48 hours before a motion to consider the bill can be made in a Senate committee. The name of the Senator(s) requesting the project must also be listed alongside the earmark description.

The Act bars any member or employee of the Senate from knowingly pursuing an earmark of any form that directly benefits them or a member of their immediate family’s pecuniary interest. This includes earmarks benefiting a “limited class of persons or enterprises”8 in which the Senator or a member of their immediate family is a part.

Senate rules regarding gifts and travel were also reformed by this law to limit the possible ways interest groups could legally bribe policy makers. The new regulations prohibit Senate members and their staff from accepting gifts of any value from lobbyists or organizations that employ them, the only exception being, if there is a personal relationship between the two. The Act also states that if a Senator or member of their staff receives tickets to any event they must pay face value for those tickets and provide evidence of this to the Ethics Committee.

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8 USA. Library of Congress. Honest Leadership and Open Government Act of 2007; Public Law 110-81
Reimbursement procedures for Senate Members and their staff have also been strengthened to prohibit any reimbursement for travel if the trip was organized by a lobbyist or if a lobbyist accompanies the person seeking reimbursement at any point during the trip. A Member or staff member is only eligible for reimbursement if their travel is for attendance at a single day event or if the indicated event is sponsored by a non-profit tax exempt organization. In this case, the reimbursement is considered a reimbursement to the Senate and therefore does not fall under prohibited gifts.

Free attendance to conferences, panels or related events is allowed as long as the cost of meals provided does not exceed $50.00. Additionally, for an event to qualify for this allowance it must be sponsored by constituents of the Member, be held in the Members home state, be attended primarily by constituents, and the Member or staff member must be participating as a speaker on issues relating to Congress or taking part in a ceremony acting on behalf of their official position. Lastly, no Member of Congress or their staff is allowed to accept a free flight aboard a private aircraft unless they or their family owns the plane or some portion of the organization that does.

The changes in Senate rules address lobbyist access and the transparency of different funding mechanisms. Both of these should be expected to influence the
amount of money spent on lobbying because restricting lobbying access reduces the likely effectiveness of a lobbyist and increased transparency increases the potential political liability, making elected officials less eager to meet with particular interest groups. These effects could lead to private interests pursuing political capital in forms other than direct lobbying, thereby decreasing the amount of lobbying revenue reported by lobbying firms.
Chapter 3. Literature Review

Research on lobbying effectiveness and the influences on lobbying have revealed a number of relevant findings but none have addressed lobbying regulation specifically. Reviewing these studies will offer a basis of knowledge of the lobbying field, its purpose and the factors that influence its use.

In seeking to find relevance in my hypothesis the assumption must be made that lobbying is an investment with tangible and/or intangible returns. Numerous papers have looked for measurable benefits in different ways and revealed a range of findings. A study by John Wright looked at the number of times lobbyists met with a member of Congress and how that effected that member's vote in the Ways and Means or Agricultural committees in the U.S. House. His analysis revealed that committee level voting, when controlling for variables such as party, ideology, constituency, leader, and contributions, was best explained by the number of lobbying contacts a representative received from interest groups on either side of the issue. In this case the data revealed that there was a significant return to investments of time in lobbying when translated to number of meetings with congressmen. This finding illustrates a more subtle and indirect indicator of money’s influence in political behavior.

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9 This is important because if lobbying, on average, had no tangible or intangible effect on policy makers or the political process then regulation of it would be completely unnecessary and corporations would be better advised to make strategic investments in other areas.
Wright also argues that campaign contributions have little direct influence on member voting but does allow for easier access to that member by particular lobbyists. This preferred preference comes in the form of higher likelihood of receiving a meeting or phone call and works to amplify the effects of an investment in lobbying.\(^{10}\)

Two studies looked at the financial return per dollar of investment in lobbying and came back with two very different but both significant findings. A paper by Hill, Kelly and Van Ness (2009) reported finding statistically significant returns on investment of approximately $200 for every dollar spent on lobbying by S&P 500 companies that registered as clients in Lobbying Disclosure Filings. In addition they also found the size of corporate lobbying was primarily determined by the firm’s size, investment opportunities, and industry effects. Having a sample of solely large corporations makes the external validity of their findings questionable but shows the impressive magnitude of possible returns. The paper by Hill, Kelly and Van Ness also reinforces the primary assumption of this paper by supporting the argument that lobbying expenditures represent an important measurable source of political capital.

\(^{10}\) Campaign contributions are a very contentious issue and an area were more research has been conducted but it is difficult to determine influence because the strict limits placed on amounts that can be contributed skew the data heavily. (Wright, John R. "Contributions, Lobbying, and Committee Voting in the U.S. House of Representatives." The American Political Science Review 84.2 (1990): 417-38. JSTOR. Web. 14 Dec. 2009. <www.jstor.org/stable/1963527>.)
available to private firms and associations. Lobbying expenses are also a unique in
that they are directed only at those who hold elected office or hold an executive
position within the government and thus can influence policy. This is different than
campaign contributions which often go to non-incumbent challengers and national
party committees who do not play a direct role in policy making at the time of the
contribution. Hill, Kelly and Van Ness appropriately summarize their argument when
they state:

“...we believe the direct and concrete nature of lobbying expenses is a useful proxy for
political connectedness of U.S. firms for a few reasons. First, lobbying expenses are
objective and avoid the subjectivity of other measures of political connections used in
the literature. Next, the continuous nature of lobbying expenditures provides an
improved way to quantify the degree of firms' political connectedness with higher
lobbying expenses implying stronger political connections.”

Firms that lobby view their expenditures as investments in political
connectedness or capital, according to Chen Parley and Yang (2009). Their study
also showed a lagged positive effect on accounting based performance measures and

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12 This study was referenced within the literature review of the paper by Hill, Kelly, Van Ness (2009),
"Determinants and Effects of Corporate Lobbying"
cash flow indicating that monetary returns to lobbying were visible following the time period in which the lobbying took place.

A study by Figueiredo and Silverman looked at federal lobbying by universities and found a significant but much smaller return for lobbying than Hill, Kelly and Van Ness in specific legislative situations. Their findings revealed that for universities with a Senator or Representative on either of the appropriations committees, returns to lobbying in the form of earmarks were between $11 - $36 for every dollar invested. However, no significant return was found for institutions without representation on the appropriations committees. A likely reason this result was found was because of the focus on earmarks as the sole measure of lobbying success. Universities involved in lobbying often have diverse legislative and regulatory interests that are not measured by earmarks such as Department of Education regulations, Pell grant appropriations, and taxes. This means that by only using government earmarks as a measure of return on investment the results are likely under reported.

In a study looking to determine if political spending secures long term political capital, Hersch, Netter, and Pope used corporation's Tobin’s Q as a measure of intangible assets to determine whether campaign contributions and lobbying expenses
were viewed as intangible assets by the market. Their analysis showed little
evidence that a firm's political spending was related to its Tobin's Q leading them to
conclude that political spending is not viewed as an intangible asset in the market
place. From these findings they propose that any political capital gained by lobbying
and campaign donations is short lived and does not become the long term political
capital that they believed would have been reflected in a firm's Tobin's Q.

This study does not threaten to violate the assumptions of this study for two
reasons. First, it combines campaign donations and lobbying in political spending.
Wright argues that campaign contributions are not a direct investment in political
capital. Combining campaign contributions with lobbying dilutes the effect of
lobbying which more targeted studies do show has a consistent return. Second, the
stock market's valuation of a company is not an appropriate measure of intangible
political capital. Most investors have little idea whether or not a specific company

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13 Tobin’s Q is a measure of whether a company is over or under valued based on its market value
divided by the replacement value of the firm’s assets. Hersch, Philip, Jeffry M. Netter, and Christopher
Pope. "Do Campaign Contributions and Lobbying Expenditures by Firms Create Political Capital."
14 Wright, John R. "Contributions, Lobbying, and Committee Voting in the U.S. House of
15 Studies referred to in this statement include De Figueiredo and Silverman (2002), and Hill, Kelly and
Van Ness (2009)
engages in lobbying so any measure of its intangible value in this way would produce diluted if not purely unrelated results.

The following paper hopes to build on the existing academic literature behind lobbying and also provoke questions as to what is the best way to monitor and regulate it. It is not an evil occupation and must not be treated as such but because the temptation for corruption by lobbyists and government officials does exist appropriate regulations must be in place. The effects found in the studies just discussed suggests that the amount of lobbying undertaken in a particular year is influenced by numerous characteristics and thus, one must keep an open mind when searching for appropriate variables to explain any aspect of it.
Chapter 4. Data and Descriptive Statistics

The data used in this study were collected from information publicly available on the websites for the Center for Responsive Politics, the Library of Congress, and the Congressional Budget Office. It was organized, by this paper’s author, into tables by both lobbying firm and year and includes variables that provide a picture of the political and budgetary environment of Washington, DC for the years of interest, 1998-2008.

Lobbying firm revenue was chosen as the primary dependent variable in this study because it better reveals the direct effects of government action on those actors most involved in trying to influence it. It also provides more observations than using total yearly lobbying expenditures or number of lobbyists, allowing for greater robustness in the results. Upon analysis, total number of lobbyists was not considered an appropriate dependant variable for this study because the requirements to register as a lobbyist\textsuperscript{16} are only provided yearly and do not directly reflect investments made in lobbying by outside parties.

The lobbying firms used in the study were selected because they were one of the top 20 firms in annual lobbying income at least once between the years 1998 and 2008 and had reported earnings for both 2007 and 2008. This information was

\textsuperscript{16} Refer to section Background 1 for criteria that warrant registering as a lobbyist.
collected from the Center for Responsive Politics’ website OpenSecrets.org. While not a representative sample of all lobbying firms or groups, these large firms, 39 in all, represent a wide variety of clients with interests in all sectors of the economy and political issues. The composite revenue of these firms also lends to their being a good measure of lobbying trends as they account for 17.8 percent of all lobbying funds reported in 2007 and 14.8% of all lobbying funds reported in 2008. Additionally, these firm’s large lobbying revenues indicate a higher likelihood of their having political capital which would be affected by legislation targeting the use of influence in Washington.

Firm annually reported lobbying revenue was recorded from the OpenSecrets website\(^\text{17}\) and each total was converted to 2008 dollars using the Consumer Price Index. Not all firms reported earnings for every year between 1998 and 2008. In these cases observations were treated as missing. The average yearly lobbying revenue for the 39 firms was $11,044,934 with a median of $8,619,652. This difference in the measures of central tendency for lobbying revenue indicates that there are a few large observations reported in firm revenue which skews the mean upward. The trend line in the graph below shows that after adjusting for inflation there is a clear growth trend from year to year in the lobbying revenue of the top firms. The few large values

skewing the mean are also apparent. The largest value recorded was from firm Patton Boggs LLP in 2007 for $43,986,624. The smallest recorded observation was from K&L Gates in 1999 for $180,922. 18

Like the expenditures of the individual firms, the values for the federal budget and total federal lobbying were converted to 2008 dollars using the Consumer Price Index. Information on total federal lobbying expenditures will allow for a comparison between its relationship with government variables and that of the top firms’.

Interestingly, with the exception of 1999, the amount of total lobbying expenditures has increased in proportion to the Federal budget, beginning in 1998 as 0.087% and ending in 2008 as 0.11%. This finding reveals that lobbying as an industry is growing at a pace faster than federal spending.

The last lobbying related variables considered for use in this study are total number of registered lobbyists and the proportion of lobbyists listed as non-self filers. The Honest Leadership and Open Government Act of 2007 contains several
restrictions on when particular individuals can take part in lobbying activities.

Understanding how these regulations affect the number of people who register as lobbyists will help determine what effect if any, it has on the industry. From the bar graph below it is clear that a small decrease in registered lobbyists occurred from 2007 to 2008. While an interesting observation, decreases also occurred in previous years making it less clear whether the 2008 decrease was actually caused by the legislation.

Non-self filing lobbyists are lobbyists who are not directly employed by the entity they are lobbying on behalf of. They are often referred to as “government relations consultants” or “hired guns” and generally represent more than one organization in a particular industry. Many are part of large firms specializing in
Federal lobbying and others are private individuals with a select set of clients. The other primary type of lobbyist is called a self filing lobbyist or also referred to as an “in house” lobbyist and is directly employed by the company he or she represents. Non-self filing lobbyists make up the majority of registered lobbyists whose percentage peaked in 2006 as 86 percent of lobbyists. This was followed by two years of modest decline to the level of 84.7 percent in 2008. One possible explanation for this trend could be, because the Honest Leadership and Open Government Act of 2007 was introduced in January of 2007, entities involved in lobbying may have begun altering their tactics in anticipation of the bill’s eventual passing. The 2007 legislation does not treat the two types of lobbyists differently but by including this variable in the right side of the regression it may be able to tell us if the change in special interest lobbying strategy has an effect on total lobbying expenditures.

Government characteristics are expected to influence how lobbying is conducted and to what extent it occurs because it is so closely tied to government action. A number of Congressional characteristics were considered in analyzing the government’s influences on lobbying expenditures by individual firm. These variables include: percentage of the House and Senate held by the Democratic party; the number of bills introduced in both the House and Senate each session and each Congress; a control for each session of Congress; and whether or not it was a presidential election
year. Lastly, the study uses a time indicator variable for the Honest Leadership and Open Government Act of 2007 in order to compare data from before its implementation to data immediately following.

The lack of an obvious trend in the number of total bills introduced by both chambers in each Congressional session is notable because it does not follow the rising trends of the other major variables, specifically firm level lobbying expenditures, Federal spending, and total lobbying expenditures.
Chapter 5. Results

The final regression contains six independent variables that are expected to influence the amount of political capital sought by private interests in Washington, DC:

• A time variable indicating the implementation of the Honest Leadership and Open Government Act of 2007

• Annual United States Federal Budget adjusted to 2008 dollars

• Number of bills that were introduced in both the House of Representatives and the Senate during each Congressional period

• Number of registered lobbyists each year

• The percentage of Members of the House of Representatives who identified as Democrat

• The percentage of Members of the Senate who identified as Democrat

Regression:

\[
\text{Amount of lobbying expenditures by firm} = \text{time variable for Open Leadership Act} + \text{federal budget} + \text{how many bills were introduced during a particular congressional period} + \text{number of registered lobbyists during a given year} + \% \text{ of House Democrat} + \% \text{ of Senate Democrat}
\]
Regression Results:

Regression Results:

. xtreg  amount2008 timevariable federalspending2008 billsbycong numlobby ofhousedem
> ofsenatedem

Random-effects GLS regression               Number of obs =  378
Group variable: id                           Number of groups = 39
R-sq: within = 0.2258                        Obs per group: min =  3
between = 0.0271                            avg = 9.7
overall = 0.0593                            max = 11

Random effects u_i ~ Gaussian               Wald chi2(6) = 98.77
corr(u_i, X) = 0 (assumed)                  Prob > chi2 = 0.0000

| amount2008 | Coef.    | Std. Err. | z     | P>|z|   | [95% Conf. Interval] |
|------------|----------|-----------|-------|-------|----------------------|
| timevariable | -1510062 | 974985    | -1.55 | 0.121 | -3420997 400873.6   |
| federal-2008 | 5.03e-06 | 1.92e-06 | 2.64  | 0.008 | 1.32e-06 8.86e-06   |
| billsbycong  | -105.0351| 480.2974  | -0.22 | 0.827 | -1046.401 836.3305  |
| numlobby     | 749.7388 | 459.2606  | 1.63  | 0.103 | -150.3953 1649.873  |
| ofhousedem   | -2.40e+07| 1.50e+07  | -1.60 | 0.109 | -5.34e+07 5383575   |
| ofsenatedem  | 3.90e+07 | 1.23e+07  | 3.18  | 0.001 | 1.49e+07 6.30e+07   |
| _cons        | -1.73e+07| 5719703   | -3.02 | 0.003 | -2.85e+07 -6078690  |

sigma_u    7066975.1
sigma_e    3750816.3
rho   .78021472 (fraction of variance due to u_i)

The Effect of the Honest Leadership and Open Government Act

The year following the implementation of the Honest Leadership and Open Government Act of 2007, indicated by the variable timevariable, has a coefficient of -1.51 million with a Z value of -1.55. While the data does not yield a statistically significant result at an alpha of 0.1, a p-value of 0.12 with a coefficient indicating a drop of 1.5 million dollars in per firm lobbying revenue should be considered relevant. This coefficient means that on average the regulations in the Honest Leadership and Open Government Act of 2007 resulted in an average loss of revenue, holding all other variables constant, of 1.5 million dollars per firm. This is a drop of 14 percent in the
average firm’s revenue of approximately $11 million and similar to the actual average
decrease in revenue of 1.06 million dollars within the 39 firms used in the study.

This is a very important finding because is suggests that the set of regulations
implemented after the Act was passed work to decrease the amount of political capital
sought by private actors. The modest effect found here gives credibility to the strategy
of regulating the lobbying industry as a means of limiting direct influence by special
interests in Washington.

**Federal Spending**

The strong statistically significant effect Federal spending has on the amount of
reported lobbying is a very telling and interesting statistic. Federal spending by year is
controlled for by the variable `federalspending2008` and when run in the regression on
`amount2008`, produces a statistically significant Z score of 2.64 with a p-value of
0.008. The resulting coefficient of $5.09 \times 10^{-6}$ means that for every dollar the federal
budget increases, on average, lobbying revenue per firm increases by $0.00000509.
This may seem small but the massive size of the federal budget actually makes this a
very significant finding. To put this in an easier to understand magnitude, the result
shows that an increase in the federal budget of $1 billion would result in, on average,
an increase of $5,090 in lobbying revenue for each of the 39 firms in the data set.
Given that the mean government budget during the time range of this data was approximately $2.5 trillion it should be easy for the reader to understand how this result is statistically significant to the magnitude that it is. The statistical significance and direction of this finding seems rational because the more resources the government holds the more reason private interests have to pursue a portion of it. Government spending is a large segment of revenues for numerous industries and the potential returns on investment in political capital increase the more resources the government has set to spend.

An issue with this finding however, is its external validity. By using only the top earning firms in this analysis we should assume the magnitude of the relationship would certainly change between federal spending and lobbying income of lesser earning firms. Future research could address this question by analyzing the whether the proportional effect of federal spending on lobbying firm revenue is changed by the size of the firm.

**Number of Bills by Congress**

The variable in our regression `billsbycongress` measures what effect the number of bills introduced in the House and Senate throughout a two year congressional session has on the amount spent on lobbying. From the regression results we find that
despite a moderate initial correlation of .1841, the number of bills introduced in a congressional session does not, on average, influence the amount of lobbying revenues reported by the lobbying firms in the study. A resulting Z score of -.22 combined with a large p-value of 0.827 make it highly unlikely that this variable effects lobbying expenditures. This finding is surprising because it would be expected that the greater number of bills introduced the more issue areas could be effected and thus more interest groups would have a stake in the legislative outcomes. The variable in this study was not able to account for differences between types of legislation which is likely the reason it failed to have a significant effect within this regression.

Further research on this variable should look into whether magnitude of a legislative proposal alters lobbying expenditures. Magnitude could be measured by dollars proposed to be spent or cut, or the number of private actors likely to be influenced by the passing of the law. A relevant and current example of this is the recently passed health care legislation. While a combination of only a few bills, health care and health reform attracted lobbying expenditures of $1.2 billion dollars in 2009. This helped to push the lobbying industry to a record setting annual $3.46 billion dollars during a year when the country faced a massive economic down turn.19

Number of Lobbyists

A variable for number of registered federal lobbyists in each given year was included to measure if the number of people who registered as lobbyists had an effect on lobbying expenditures in the selected firms. From the summary statistics, we saw that the number of registered lobbyists varied with no particular direction from 1998 to 2008. What we find from running the variable in our final regression is a strong but statistically insignificant positive effect of number of lobbyists on recorded lobbying expenditures. The regression produces a Z score of 1.63 with a p-value of .103 and a coefficient of 749.7. While insignificant at an alpha of 0.1, a type one error (p-value) of only 0.103 and Z score of 1.63 allows us to make some postulations regarding the variable’s affect. This result tells us that it is likely that reducing the number of people who register as lobbyists will also decrease the amount interest groups spend on lobbying. However, the ability to defend this statement is not as strong as it would be had the regression produced a statistically significant result at the alpha = 0.1 level.

The importance of this finding to policy and future regulation will be discussed further in the policy implications section later. Additionally, data recently released for 2009 shows that the number of registered lobbyists has decreased in the last two years.
by a total of 1101 while lobbying expenditures have increased by $600 million. This contradicts the results from our analysis and suggests that outside events, such as major pieces of legislation can have a larger effect on lobbying expenditures then total number of registered lobbyists.

**Percentage of Democrats in the House and Senate**

The variables *ofhousedem* and *ofsenatedem* measured the percentage of the House of Representatives and Senate that was made up of Democratic members. These variables, when placed in our regression, measure whether the size of each particular party has an effect on political capital sought by private interests. After conducting the regression we found that the variable *ofsenatedem* came back with a statistically significant and positive effect on *amount2008* with a Z score of 3.18 and a p-value of .001. Interesting however, is the result of *ofhousedem* which is almost statistically significant with a Z score of -1.63 and p-value of .109. If you take the results at face value you accept that as the percentage of Democrats increase in the Senate lobbying expenditures will increase but it is also likely\(^{21}\) that as the percentage of Democrats increase in the House expenditures decrease. The argument could be made, to justify part of this conclusion, that Democrats have a reputation of higher spending and that


\(^{21}\)I use the word ‘likely’ here because while it is not a statistically significant finding the Z score and P value are such that an effect is highly probable.
the more representation they have on powerful Senate committees the larger the returns are expected to be for lobbying. This does not explain the negative effect on the House side however.

The difference in direction of the Z scores and coefficients of these two variables leads to a suspicion that these results do not represent true effects on lobbying expenditures. There is little reason to believe that party composition in each body of Congress can have conflicting effects on lobbying expenditures. A likely reason for the regression results is the small number of congressional sessions over which the data was collected. The time period under study contained only 6, 2 year Congresses. This is a small enough sample for a short, unrelated trend going in opposite directions in the House and Senate to return statistically significant results even though no trend is apparent when simply looking at the data. These two variables leave a number of questions unanswered. Additional research should try to access lobbying expenditures farther back than 1998 in order to have more variations between Republican and Democrat control in either chamber of Congress. This would allow for statistical control of which party controlled each chamber, a better measuring tool then simply composition.
Lastly, with a r-squared value of .06 it can be concluded that there are a number of variables existing outside of those controlled for in this study’s regression that explain portions of the variance in lobbying expenditures. Additional studies should look into individual lobbying firm characteristics such as number of former members of congress and executive branch officials that they employ. Further, with a longer time period of panel data a variable could be included to determine whether control of Congress by a particular party influences total lobbying. The information needed for these variables was outside the scope or unavailable during the data collection phase of this study.
Chapter 6. Policy Implications

The most important points that can be taken from this study are that the government has the ability to regulate the level of lobbying but the greatest determinant of the pursuit of political capital through lobbying is government spending. The near statistical significance of the variable controlling for presence of the new law indicates that the numerous new regulations and penalties did have a mitigating effect on lobbying expenditures. We are able to determine this because the regulations went into effect immediately following the signing of the bill into law by the President. This is important because it reinforces regulation as an effective tool in limiting direct lobbying influence.

An issue that remains is understanding which parts of the legislation really had effects. The bill included numerous restrictions on who could register and new rules regarding Congress’ interactions with lobbyists. Because of this we cannot determine from this study which changes were fundamental in affecting lobbying. We can venture a guess however that because the variable measuring the number of registered lobbyists had a near significant, positive impact on lobbying expenditures that the areas of the bill restricting who could register as a lobbyist were moderately effective. The restrictions on when former Members and senior staffers could take part in lobbying also likely played a role in the decrease in number of registered lobbyists following the
implementation of the law. From a policy standpoint it appears from this study that a good way to limit the influence of lobbyists is to propose policy that stops certain individuals from lobbying or makes professionals want to avoid having to register. Because this is a new area of study within lobbying more targeted research on disincentives to register will reveal more about which particular regulations encourage professionals to avoid meeting the criteria to register as a lobbyist.

Since this study began new trends have been seen in the advocacy environment of Washington, DC. A slew of regulations from the White House regarding hiring professionals who have registered as lobbyists in the past and an administration culture hostile to the lobbying industry has created disincentives for advocacy workers to register as lobbyists but has not decreased the demand for their services. What has resulted is a small trend of professionals providing lobbying services only up to a point where they would be legally considered a lobbyist. This means that they are doing much more advising on how to lobby to members of interest groups and directing more grass roots campaigns. The result of this behavior is, expenditures for these services no longer have to be reported and the strict rules regulating lobbying are actually having an adverse effect on transparency.

A striking finding from this study is how strong an effect federal spending has on the amount spent on acquiring political capital. This seems to indicate a reactionary relationship between private industry and the federal government. It seems however that the size of the federal budget acts as one incentive to lobby. For policy makers, this means that they should be aware that the more public money they are prepared to spend the more they should expect to see lobbyists advocating for its allocation in a particular way. Lobbying is a natural result of the government controlling a huge public resource.

With the presence of lobbying in some fashion almost assured, law makers should focus any new policy on how to better utilize lobbyist’s knowledge in sectors of the economy and on social issues. On strategy would be to focus on making lobbying interactions more transparent rather than continuing to restrict lobbyist’s access to policy makers. Many Congressional offices already publically display who they meet with and when. This practice creates an environment of openness that does not take away from the value lobbyists add to the policy process.
Chapter 7. Conclusion

While arguing for the benefits of lobbying is not within the scope of this paper, lobbyists provide essential information efficiently to policy makers. They are almost always representing the interests of American people and are an effective avenue for people to practice their constitutional right to petition the government. However, Washington politicians often complain publically about the effect lobbyist have on policy and federal spending. This study however finds that federal spending is actually having the strongest effect on lobbying out of all other variables considered. The more money the federal government spends the greater the motivation for private corporations, professional groups and nonprofit organizations to lobby the government for a portion of those funds. In simplified economic terms, the federal government is creating a market for American interests to pursue public funding and the professionals who are skilled in navigating this market are called lobbyists. What this means for legislators is that lobbyists are here to stay and regulations should be focused on ensuring ethical interaction between Members, their staff and lobbyists.

There are many limitations to this study and further research should explore the questions that were raised from the statistical findings. There are clearly influences on lobbying that were not captured by the variables used in this study and thoughtful
reflection and further analysis would likely shed more light on what impacts the federal lobbying market.
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