The Business Of America is Lobbying:

Explaining the Growth of Corporate Political Activity in Washington, DC

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ABSTRACT: Why does corporate lobbying in Washington, DC continue to expand, year after year? What are companies lobbying for, and why? I argue that the modern growth of corporate lobbying reflects a path-dependent learning process. Companies may come to Washington for many different reasons, but the act of establishing an office sets in motion several reinforcing processes that make companies value lobbying more and more over time and that lead companies to become more proactive in their political strategies. The overall effect is that American businesses, once skeptical of government, cautious about getting involved in politics, and reactive in their strategies, have now become increasingly confident, proactive, and aggressive in their lobbying efforts, and businesses are increasingly seeing government policy as not just a threat, but also as a tool. As a result, corporate lobbying activity is likely to continue to expand for the foreseeable future, with large corporations playing an increasingly central role in the formulation of national policies. My findings are based on original interviews with 60 corporate and trade association lobbyists and complete lobbying histories of every company in the S&P 500 between1981 and 2005.

Over the last three decades, and particularly over the last ten years, there has been a significant expansion of private representation in Washington, DC. In 2009, politically active organizations reported $3.47 billion on direct lobbying expenses, up from $1.44 billion reported just ten years prior,[1] and, controlling for inflation, almost seven times the estimated $200 million in lobbying expenses in 1983.[2] Approximately 14,000 organizations are now listed in the *Washington Representatives* directory, double the approximately 7,000 listed organizations in 1981. [3] The number of pages in the lobbying directory quadrupled between 1981 and 2008, going from 531 to 2,154.

Consistently, almost half of these organizations in Washington represent business, and more than a third of them have consistently been individual corporations. Roughly 70 percent of the money is spent on behalf of groups representing business. By the numbers, business dominates the ranks of interests represented in Washington.[4] (Schattschneider 1960; Schlozman and Tierney 1986; Baumgartner and Leech 2001).

This paper is based on the premise that explaining the growth of business lobbying presents both a puzzle and an opportunity. It presents a **puzzle** because there is no immediately apparent explanation for the growth. When businesses expanded their political operations significantly in the 1970s, such growth made sense as a response to a significant expansion of new government regulations and social pressures (Vogel 1989). Such an explanation also fit well with established political science wisdom that groups

[1] Controlling for inflation, this is an 87% increase. These figures are based on publicly-disclosed lobbying expenditures under the 1995 Lobby Disclosure Act. The actual amount of lobbying expenditures is probably significantly greater.

[2] Robert Reich, *Supercapitalism* (New York: Knopf, 2007), p. 134.

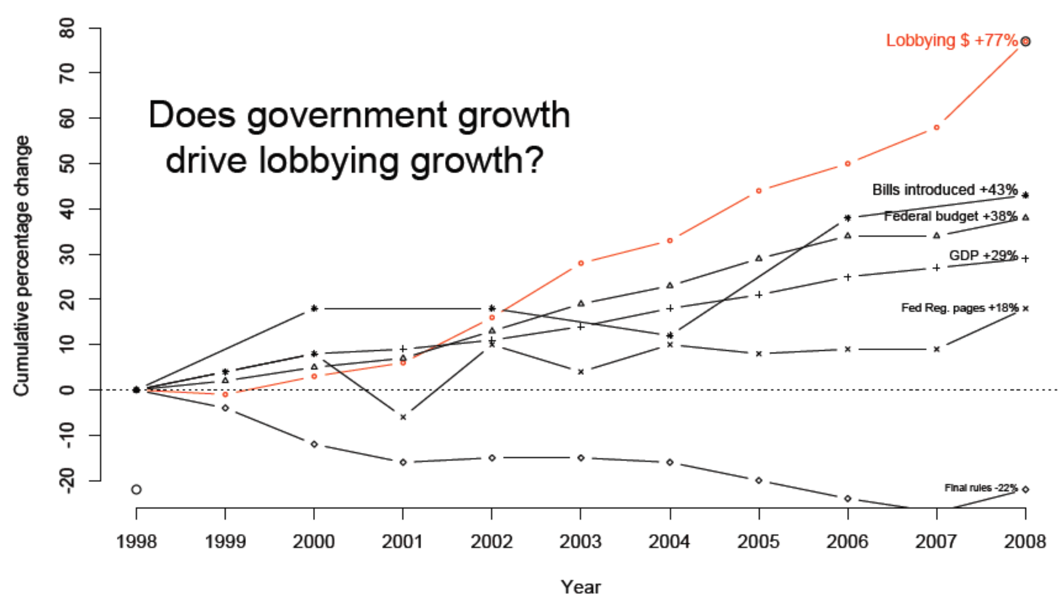
[3] Figures on *Washington Representatives* listings come from Kay Lehman Schlozman et al. "Who Sings in the Heavenly Chorus? The Shape of the Organized Interest System," paper presented at the annual Meeting of the American Political Science Association, Boston, MA, August 2008.

[4] And yet, despite the seemingly predominant role that individual businesses and their associations play in the Washington, DC influence environment, Graham K. Wilson has estimated that "there are about a hundred political scientists studying parties and elections for every one studying business and politics." (2006, 33) And as David Hart remarked in the 2004 *Annual Review of Political Science,* "If the business of Washington is business, the business of American politics scholarship is anything but. Individual companies are represented in American politics in large numbers. They are doing something, and we ought to learn what and why." This is not a new concern. Back in 1959, Robert Dahl exhorted: "For all the talk and all the public curiosity about the relations between business and politics, there is a remarkable dearth of studies on the subject." Similarly, in 1980, Edward Epstein echoed Dahl's bleak appraisal: "Not only do we still await brave new theoretical frameworks and the dazzling empirical breakthroughs," Epstein wrote, "but perhaps even more distressing, we still lack in a number of business and politics areas a critical mass scholarship which offers the promise of significant research contributions in the near future…Typically the few items that appear are either brief journalistic accounts or scatological studies."; The Seventh edition of *Interest Group Politics*, released in 2002, contains 17 essays, excluding the introduction and conclusion; only one deals specifically with business participation in the political process. Cigler, Allan J. and Burdett A. Loomis, 2006 *Interest Group Politics* (Sixth Edition) (CQ Press: Washington D.C.); In the sixth (2002) three of sixteen essays deal with corporations; the fifth edition, released in 1998, deals with business specifically in only one of 16 essays. So, in the last three editions, only 5 of 49 essays (about 10%) are focused on business political activity.

mobilize politically when their interests are threatened politically (Truman 1951; Hansen 1985).

But business political activity did not abate when the threats ceased. By the early 1980s, with the Reagan revolution in full swing and cost-benefit analysis in place, policymaking in Washington was increasingly sympathetic to business. Corporate lobbying activity, however, did not abate. Rather, it grew slowly. And in the mid-1990s, with Republicans in Congress and the threat of new regulation all but gone, lobbying began to grow faster, and has been expanding at increasing rates since. Controlling for inflation, between 1998 and 2008 lobbying expenditures[5] increased faster than various measures of government size and activity (Figure 1). The federal budget is a little bigger (up 38 percent), there is a bit more legislation (43 percent more bills), and the annual number of pages in the Federal Register has increased slightly (18 percent more pages, though the number of final rules has been declining – down 22 percent). But lobbying expenditures have increased by 77 percent, and the growth appears to be accelerating.

Figure 1. *Lobbying Growth and Government Growth*



Understanding the growth presents an **opportunity** because an explanation has the potential to shed light on the relative power of business. If business political activity is growing because companies are responding to government threats, this suggests less influence than if companies are proactively pushing changes to the status quo (as I will

[5] This is a measure of all reported lobbying expenditures, for all groups. It is not possible at this point to break out business lobbying as a share of all expenditures for each year, but the assumption is that since business lobbying accounts for roughly two-thirds of expenditures, the overall growth of expenditures is a rough proxy for the growth of business lobbying during this period.

argue that they are). The latter would mean that businesses are having some influence in defining the agenda, and as Schattschneider (1960) put it: "He who determines what politics is about runs the country, because the definition of alternatives is the choice of conflicts, and the choice of conflicts allocates power." (68; See also Bachrach and Baratz 1962.)

This paper argues that the growth of corporate lobbying is the result of a path-dependent learning process. Companies may come to Washington to respond to threats, but the act of establishing an office sets in motion several reinforcing processes that make companies value lobbying more and more over time. Lobbyists teach managers about the importance of being politically active and help to point out (and sometimes even create) new opportunities for lobbying. Managers gain more comfort and confidence in their ability to influence outcomes, and start to see participation as more appropriate and more valuable. The overall effect is that American businesses, once skeptical of government and cautious about getting involved in politics, have become increasingly confident, proactive, and aggressive in their lobbying efforts.

This paper will proceed as follows: First, I briefly describe the data, providing an overview of the growth that has occurred. Then, I turn to theories of the firm to develop hypotheses for the growth. I will contrast the neoclassical approach, which views the firm as a unitary, omniscient actor capable of frictionless innovation, with three other theories, which direct more attention to the internal workings of the firm and its routines, experiences, ideologies, and information-processing techniques. In short, while the neoclassical view implies that changes in corporate political activity can be explained a predictable reaction to changes in the external environment, the other views conceive of political activity as an evolving process in which firms *learn* to see lobbying as something valuable only once they start doing it, and then continue to expand their operations once they have committed to politics.

To test the lobbying-as-reaction hypothesis, I examine the relationship of the political agenda to industry lobbying efforts in four case-study industries that have demonstrated significant growth. I show that lobbying in these industries is sometimes tied to a significant policy fight, but that company lobbying levels either continue to rise or remain stable even after the policy fight has been resolved. I also show that many of the big legislative battles are attempts by industry to alter the status quo, suggesting that corporate lobbyists are having a proactive role in shaping the agenda.

To test the learning hypothesis, I examine the stickiness of corporate lobbying operations and show that there is indeed substantial inertia in corporate political activity. Once involved in politics, companies tend to stay involved, and past lobbying efforts very strongly predict current lobbying efforts, even three years back. There is also qualitative evidence show that lobbyists do spend a good deal of time educating managers about the value of politics and that information flows matter, providing support that companies do learn to see Washington as valuable.

There are important implications to the story presented here. On the one hand, companies are increasingly getting out in front of potential issues, trying to be more proactive in their lobbying efforts – viewing government more and more as a partner and less as an adversary. As one lobbyist put it, "It's gone from leave us alone to let's work on this together." This may portend a potential new cooperative relationship for business and government, who have been described as both "Kindred Strangers" (Vogel 1996) and "Uneasy Partners" (McQuaid 1994). But it also means that there are a steadily increasing number of corporate lobbyists invested in making sure that their companies and clients stay active, which may mean ginning up new lobbying opportunities, including creating new distributive benefits such as earmarks or targeted tax breaks that reward those who hire lobbyists.

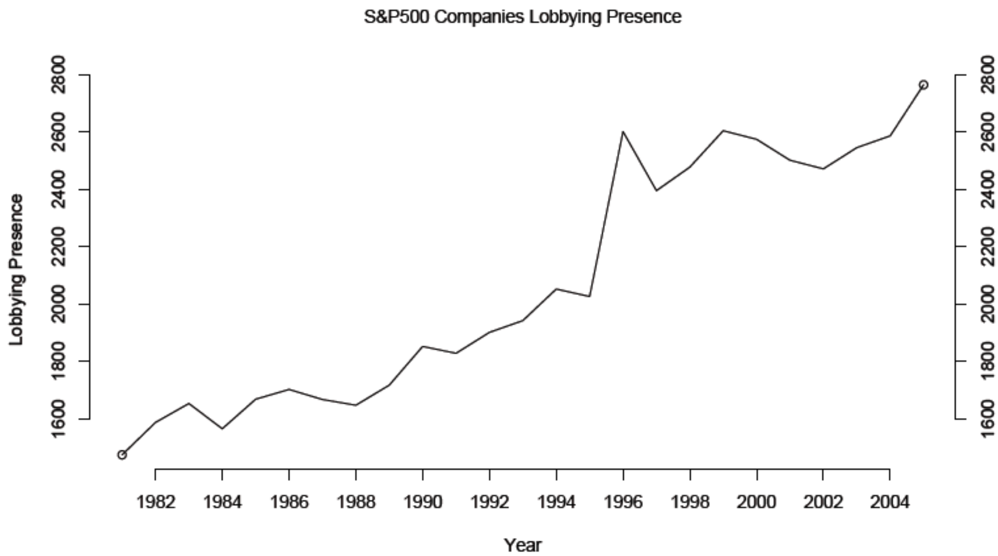
Data and Trends

This paper is based on two primary original sources of data. The first is qualitative. Following in the tradition of Bauer, Pool, and Dexter (1972), I interviewed 60 lobbyists in Washington DC and on the telephone between October 2007 and March 2008. Approximately half of the lobbyists (31) represented companies in four industries (pharmaceuticals, high-tech, retail, and finance). Another 14 represented trade-associations in these four industries. The remaining 15 were independent (for-hire) lobbyists. The lobbyists I spoke to were of a wide range of ages and experience and background and stature. The second source is quantitative: complete lobbying histories for every company listed in the S&P 500 between 1981 and 2005. This data comes from the *Washington Representatives* directory, which lists the number of in-house lobbyists and outside consultants individual companies have hired.

Most studies of corporate political activity use Political Action Committee (PAC) data. So why use lobbying as my metric? Though levels of PAC contributions do tend to be reasonably well-correlated with lobbying activities, many companies lobby but do not have a PAC. Other companies, meanwhile, have a PAC but do not lobby (Tripathi, et al. 2002; Hansen et al. 2004). Perhaps more significantly, companies generally spend about twelve times more on lobbying than they spend on campaign contributions (Milyo et al. 2000). The view I take is that here is that campaign contributions are best viewed as one tactic that companies use. Lobbying is simply a better, more comprehensive measure of overall political activity.

The key question is why the "lobbying presence" (in-house lobbyists plus outside consultants retained, as listed in the *Washington Representatives* directory) among S&P 500 corporations for the period 1981 to 2005 has almost doubled, increasing from 1,475 in 1981 to 2,765 in 2005.

Figure 2. *S&P 500 Lobbyists in Washington Representatives Directory*



I also want to know why the total number of domestic companies listed in the *Washington Representatives* directory has nearly doubled between 1981 and 2001 – going from 2,120 to 4,144, as has the total lobbying presence of these companies – going from 4,256 to 7,794 (see Table 1).

Table 1. *Companies in the Washington Representatives Directory*

	1981	1991	2001	2006
Total Domestic Companies Listed	2,120	2,254	3,670	4,144
Total Domestic Corporate Lobbying Presence	4,256	4,434	6,930	7,794

Source: data from Schlozman et al. 2008

Table 2 puts the larger business lobbying presence in context, comparing the combined number of lobbyists representing all companies, trade associations, and business-wide associations as compared to the total number of lobbyists representing potential *countervailing* power groups – unions and environmental, consumer, and good government public interest groups.[6] Businesses now enjoy roughly a 16-to-1 advantage in representation, up from 12-to-1 in 1981.

[6] This table, of course, leaves out a significant part of the Washington interest group community. There are for example, many universities, local governments, foreign governments, disease groups, and many other specialty groups represented. However, this table is designed to demonstrate the ratio of business groups to groups who are most likely to battle directly against business interests – a measure of countervailing power. These other groups are thus left out by design.

Table 2. *Business vs. Countervailing Power, by Lobbying Presence*

INTEREST TYPE	1981	2006
Business	7,059	12,785
Union	369	403
Public Interest	237	405
Business to Countervailing Power RATIO	11.65	15.82

Source: data from Schlozman et al. 2008

This provides a basic background. More companies are lobbying, and S&P 500 companies are lobbying more than they used to. And overall, corporate lobbying is expanding at a rate faster than potentially countervailing forces. But why has this happened? What forces explain these trends and patterns?

Why do Companies Lobby?

In order to understand why companies behave as they do politically, it helps to have a general theory of how firms operate. There are many theories of the firm in literatures ranging from sociology to strategic management to economics. Four main theories of the firm will be helpful as a baseline: 1) Neoclassical; 2) Behavioral; 3) Resource-based; and 4) Agent-based. As a general rule, we can think of political activity as a strategy, like advertising or R&D.[7] As with advertising and R&D (or any strategy), companies will engage in political activity to the extent that the perceived benefits outweigh the perceived costs. In working through these theories, then, the key question to ask will be under what conditions will firms perceive the benefits from political activity to exceed the costs, and what goes into the calculations that companies make to this effect.

The neoclassical view posits the firm as a unitary, fully rational actor.[8] This tradition makes a few key assumptions: 1) Firms have full information about their environment; 2) Firms can easily gauge the consequences of their strategic decisions; and 3) Firms can easily imitate each other and adopt new strategies. This means that as long as markets are competitive, differences among individual firms in the same industry will always be at best

[7] Publicly-traded firms in the U.S. spend roughly $200 billion a year on advertising and $350 billion a year on R&D. By contrast, they spend roughly $2 billion a year on politics in publicly-disclosed expenditures, though this probably understates the total amount greatly.

[8] Boulding (1943), summarizing "The Theory of the Firm in the Last Ten Years" writes that the modern theory of the firm "is exactly analogous to the reactions of a consumer by means of indifference curves. Indeed, a consumer is merely a 'firm' whose product is 'utility.'" (799) Hart (1989) notes that "This approach can be found in any modern-day textbook; in fact, it is the *only* theory of the firm presented" (1757-8)

transient, and similarly sized firms in the same industry will be analytically indistinguishable.[9]

In a world of omniscience and frictionless innovation, it is very easy to imagine businesses jumping in and out of politics as situations arise that might affect their bottom line. Thus, the neoclassical theory leads to the hypothesis that if there is a valuable outcome at stake that a company can affect in a way in which the benefits exceed the costs, then that company should be expected to lobby. And if not, that company will not lobby. This means that corporate lobbying should primarily be a reaction to the political agenda. The more government attention there is to issues of concern to a company, the more that company should lobby. And once issues are resolved, companies should stop lobbying. In most respects, the existing scholarship on corporate political activity is either implicitly or explicitly built on the neoclassical view of the firm. Typically, firm political activity is modeled as the consequence of a set of firm and industry factors, going on the assumption that firms rationally and predictably respond to a given opportunity structure with a reasonable assumption that their investments will pay off and improve their profitability.[10] Such a view also drives the economic theories of lobbying discussed in the first chapter, which view companies as rational investors in a quid pro quo exchange of campaign contributions for political favors (e.g., Grossman and Helpman 1994)

One alternate to the neoclassical view is the <u>behavioral theory of the firm</u>, which is most closely associated with Cyert and March (1963). Rather than treating the firm as a unitary actor with full rationality, the behavioral theory opens up the neoclassical black box and finds a complex web of rules and expectations and technologies that stand as obstacles to the omniscience and frictionless innovation assumed by the neoclassical theory. Cyert and March envision the firm as a series of "standard operating procedures" (SOPs) that direct firms to more or less apply the same strategies and approaches over and over again, except in rare circumstances – only when the firm faces a major new crisis do its managers even think of bucking the old SOP in favor of a new standard set of routines.

Of particular interest here is the effect of information. Since it is costly to acquire information, firms only pay attention to certain aspects of their environment that they have previously decided are important. Rather than "maximize" by taking in all possible information, firms "satisfice" by making good enough decisions based on information that is readily available or can be easily acquired, a process known as "bounded rationality"

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[9] Paul McNulty (1984), writing "On the Nature and Theory of Economic Organization: The Role of the Firm Reconsidered" noted that "In economic theory, business firms differ from one another only in respect of the character of the markets in which they buy or sell, and are at bottom, simply connecting links in an economy." (233)

[10] As Hansen and Mitchell (2000) note in summarizing the research on corporate political activity: "Underlying this research is the assumption that corporate efforts to influence politics are perceived by managers to produce benefits for the firm, such as friendlier regulatory environment or additional government contracts." (892)

(Simon 1959). What this view implies is that when a company doesn't have a Washington office, staying out of politics is the default routine. And without any information or internal advocacy about politics, it is unlikely that managers would stop to consider the option of political engagement. However there are occasions when a firm encounters a new problem and a "problemistic search" leads a company to establish a new government relations operation. Once this happens, doing politics becomes the new standard operating procedure.

A third theory, the resource-based view of the firm, comes out of the strategic management literature. In the resource-based view, firms are still oriented around profit-maximization, but there is no one best or obvious strategy to get there. Rather, each firm applies the strategies that seem most appropriate given its unique capacities. Firms generally stick to what they are good at, letting their existing capabilities drive their strategic investments (Chandler 1992). As Barney (1986) explains, "strategic choices should flow mainly from the analysis of [a firm's] unique skills and capabilities, rather than from the analysis of its competitive environment." (1231) He also notes that new strategies are often costly to implement, which can provide a brake on firms imitating each other. This suggests that otherwise similar firms may, in fact, do very different things in similar situations because of their unique cultures, histories, experiences, capabilities, reputations, etc. (Teece 1984; Wernefelt 1984; Barney 1986; Nelson 1991; Chandler 1992; Teece et al. 1997)

Like the behavioral theory, the resource-based theory suggests a strong path-dependent component to lobbying – once companies get on the track of doing politics, they are likely to stay on that track if it is working for them. But the mechanism here is slightly different. Here, once firms build up political capacity (for whatever reason), that political capacity then becomes a strategic asset. And a firm that has a strategic asset will want to use that asset, and in the process is likely to further improve its skill at using it. As Teece et al (1997) explain, "From the resource-based perspective, firms are heterogeneous with respect to their resources/capabilities/endowments. Further, resource endowments are 'sticky:' at least in the short run, firms are to some degree stuck with what they have and may have to live with what they lack."[11] (514) Or as Richard R. Nelson (1991) has put it, "the ultimate reason why firms differ is rather superficial. Implicitly, they differ because some chance event, or some initial condition, made different choices profitable." (65).

This implies that the more a firm lobbies, the better it will get at lobbying (certainly, it will have more experience and better connections), and the better it gets at lobbying, the

[11] Teece and colleagues make a case for what they call "the dynamic capabilities approach," which builds on the resource-based view, but gives additional attention to the development of management capabilities and "difficult-to-imitate combinations of organizational-functional and technological skills," (510) further highlighting the extent to which differences in firm strategy and organization become self-reinforcing and meaningful in their own right.

more valuable a tool lobbying will become, and the more a company will want to lobby. Lobbying has its own momentum.

The fourth theory, the agent-based view of the firm, comes out of transaction-cost economics. This theory posits the firm as nothing more than a web of independent actors, each pursuing their own self-interest, tied together through a series of contracts into shared production schemes and a series of relationships between principals and agents, who have fundamentally non-aligned goals. Principals want agents to work harder for less money; Agents prefer to shirk and get more money. Principals try to design various systems to control the behavior of agents, often by aligning incentives and developing complex monitoring systems. Agents try to mislead principals, and to the extent that their contributions are difficult to observe and that agents are able to shape principals' methods for evaluating their contributions, they tend to be successful. Understanding the firm, then, is about understanding the struggles between principals and agents, which will vary depending on such variables as task, organizational structure, and time frame. (Alchain and Demsetz 1972; Jensen and Mecklin 1976; Fama 1980; Cheung 1983; Fama and Jensen 1983; Hart 1989; Holmstrom and Tirole 1989; Holmstrom and Milgrom 1994).

Though this approach has much to say about the structures and boundaries of firms, it has less to say directly about the strategies and goals. As Jensen and Meckling (1976) write, "Asking questions such as 'what should be the objective function of the firm'…is seriously misleading. *The firm is not an individual*…The 'behavior' of the firm is like the behavior of the market, i.e., the outcome of a complex equilibrium process." (310) Similarly, Foss (1993) notes, "Contractual approaches…have nothing to say about why firms pursue different generic strategies." (132)

The agent-based view is important, however, because it directs focus to the role of individual lobbyists (in this case, agents) in controlling and framing information and opinions about politics. Lobbyists presumably have incentives to make their managers (the principals) think that lobbying is very important to the company and that they (the lobbyists) are doing a good job and therefore should receive more money and more autonomy. This also suggests the possibility that lobbying may not be profitable for the company – but just for the lobbyist. Like the behavioral and resource-based theories, the agent-based theory also implies that lobbying will be a self-reinforcing phenomenon, since the act of setting up an office puts in place a strong advocate for lobbying with a particular information advantage – the lobbyist is the person responsible for telling managers what is happening in Washington and what to do about it.

Taken together, these theories cohere around two basic hypotheses about why lobbying might expand: either as a reaction to the changing political agenda, or because companies learn to lobby. These two hypotheses are similar to the "economic" and the "institutional" explanations of corporate political activity suggested by Martin (2000).[12] Essentially, one of the fundamental questions of both this dissertation and of Martin's work is this: Is lobbying a predictable response to a given political environment and set of firm and industry-level financial conditions? Or are there cognitive and organizational considerations that may trump straightforward economic explanations, in which lobbying activity more likely to be the product of the experiences and attitudes of key decision-makers within the firm?

Lobbying as reaction to the external environment

The neoclassical view treats companies as omniscient actors capable of responding quickly to their environment. Applied to politics, this implies that firms react in predictable ways to a set of threats and opportunities set forward by an exogenous political agenda. This is the view that would find the most resonance in existing political science scholarship. Truman (1951) argues that broad socioeconomic "disturbances" lead the government to expand into new areas, which then mobilizes new constituencies. Leech et al. (2005) propose a "demand theory of lobbying," suggesting that "Government activity acts as a magnet, pulling groups of all kinds to become active" – Organized interests only bother to lobby if government is already devoting attention to an issue about affects them. "In essence," they conclude, "a government decision to become involved in an issue area sets the agenda for existing and potential organized interests, who are thus encouraged to come to the capital and defend their interests and advocate particular solutions to perceived problems."[13] Lowery and Gray (1995), meanwhile, develop a "population ecology" theory of interest groups, arguing that in order for interest groups to form, they need more than just available resources. There must also be

[12] The economic approach, Martin writes, "Rests in the readily apparent economic interests of the individual. Managers should have stable preferences oriented toward achieving profitability and grounded in the material circumstances of their firms and industries…Thus an economic approach often infers company political positions from the economic structure of the industry in which the firm is located." (27) The institutional approach, meanwhile, suggests that things are a bit more complicated: "Motivations for political action are complex and may include material gains, solidarity benefits such as friendship, and purposive rewards connected to the explicit cause of the group…Decision-making almost always occurs under conditions of bounded rationality in which full information is not available. Ideas are key to forming political preferences because ideological 'frames' help people to perceive, to interpret, and to label the events happening around them. Ideas shape perceptions of legitimacy…Multiple interests, intermediate goals, and uncertain causal relations force managers to think about which politics will best achieve profitability." (27)

[13] Utilizing data on 45,000 federal lobbying reports filed between 1996 and 2000, plus data on every hearing held during those years, coded into 74 "issue areas," Leech et al (2005) found that at the issue-level, more committee hearings and more government spending were associated with more lobbying activity for 56 of the 74 issue areas. They projected that over a ten-year period: 1) For every committee active in an area in a given year, there is an increase in the amount of lobbying by approximately 10 reports by organizations; 2) For every 10 hearings over the period, there is an increase of about two lobbying report; and 3) For every $10 billion in government spending in an issue area, there will be an increase of two lobbyist reports.

a hospitable and relatively stable environment – i.e., substantial and sustained government attention to the relevant issues.[14]

The three theories discussed in the proceeding paragraph (Truman's disturbance theory; Baumgartner, Leech et al.'s demand theory, and Lowery and Gray's population ecology) all imply that that the variation in lobbying across issue areas can mostly be explained by government attention.[15] Scholarship on the determinants of corporate political activity is also either implicitly or explicitly built on the neoclassical view of the firm. Typically, firm political activity is modeled as the consequence of a set of firm and industry factors, going on the assumption that firms rationally and predictably respond to a given opportunity structure with a reasonable assumption that their investments will pay off and improve their profitability (see Brady, Drutman, et al. 2007 for a review of this literature).

This view leads to the hypothesis that *changes* in lobbying can be explained by *changes* in government activity, since lobbying is mainly a reaction to the political agenda. If the political agenda changes, lobbying should change.

Describing and measuring the political agenda, however, is fraught with complications and complexities. Not all issues are the same. Some issues are big issues – major fights in which hundreds of different groups get involved, in which giant coalitions form, and in which public opinion matters. Other issues are small, narrow, targeted, often very technical issues in which only one company has an interest, and the public has no ideas or opinions. Some issues involve companies trying to preserve the status quo (playing defense); other issues involve companies trying to change the status quo (playing offense).

These differences are important. All things being equal, the chance to improve the status quo (playing offense) is better than having to defend to preserve the status quo (playing defense). Playing offense has a high upside, and the only downside is that things stay the way they are. Playing defense has a high downside, and the best that could happen is that things stay they way they are.

If it were completely up to the companies, then presumably every issue on which companies lobbied would be an attempt to favorably change the status quo. If companies are simply lobbying in response to an exogenously-determined government agenda, there may certainly be opportunities to lobby for changes in the status quo. But where do opportunities come from? Do they spontaneously arise from legislators so eager to serve

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[14] Using 1990 state-level data, Lowery and Gray concluded that "the likely sources of recent growth of organized interest populations are long-term changes in the size of latent constituencies and the resources of government activity and interest certainty" – in other words, lobbyists are responding to government activity.

[15] None of these theories, however, explores the possibility that causality might run the other way – that is, that government activity is in response to a sizeable lobbying community pressing for such activity.

corporate America that they know what companies want without them even having to lobby? Or do they arise because some corporate lobbyist made a case that such a change to the status quo would make good public policy? And if a company lobbyist made such a case, it suggests that someone in the company was thinking about a way to use public policy to benefit the company. This would be proactive lobbying – not simply responding to the existing government agenda, but attempting to shape it. If a significant percentage of lobbying is proactive lobbying, this would cast doubt on the story of lobbying as a reaction to the government agenda.

Lobbying as path-dependent learning process

As contrasted to the neoclassical theory, the three other theories presented in this chapter all imply that lobbying is not just a response to the political environment, but is something that companies learn to do. The behavioral theory of the firm suggests that routines are important, that once a company gets on the routine of doing politics, it is likely to keep on that routine. The resource-based view suggests that firms develop strategic assets, and that once firms develop the strategic asset of political engagement, they are likely to want to continue to pursue political engagement because they view it as a strategic asset. The agent-based view puts the focus on individuals, suggesting that once hired, lobbyists should be expected to make a compelling case for the company continuing to lobby.

All three views lead to the hypothesis that lobbying is not necessarily a predictable response to a particular political environment. Companies are not omniscient. In order to see the value in political activity, they have to be paying attention. Even otherwise very similar companies may respond very differently to the same objective political conditions, with only some firms seeing the value in lobbying because they are the firms who pay attention.

There are two helpful theories of corporate political activity that take into account the potential for different companies to interpret the same political situation differently: Martin's theory of "corporate policy capacity"[16] (1995, 2000) and Schuler and Rehbein's theory of "the filtering role of the firm" (1997, 1999). These theories are based on a significant amount of strategic management research showing that cross-firm, within-industry differences in management approaches and ideologies influence how firms respond to a range of non-market pressures (Post 1978, Gricar 1983, Miles 1987). Both theories highlight that firms differ from each other structurally, historically, and

[16] Martin's research bears special mention because she also uses interviews to peer inside the corporate black box. Martin is primarily concerned with "business managers' struggle to locate their interests in a world of imperfect knowledge." (2000,126). She finds that internal resources, histories, and information processing structures all matter for how firms come to their political positions on two issues – healthcare and human capital investments. While the research and theorizing presented here echoes Martin's theoretical insights and interview-oriented approaches, I am more interested in the broader question of how corporate managers decide how active to be politically overall, and why these decisions might change over time.

strategically, and these differences can have real consequences for how firms do many things, including how they approach political activity. This view leads to the hypothesis that changes in lobbying are not necessarily tied to the political agenda. While exogenous political events might push companies to start lobbying, political activity has a self-reinforcing logic of its own. Companies who set up offices also set in motion a learning process and information-gathering process, and put in place individual lobbyists who have strong incentives to make sure those processes take place in such a way that companies continue to lobby.

All this leads to the hypothesis that changes in lobbying could have as much or more to do with reinforcing internal processes than changes in the external environment. While exogenous political events might push companies to start lobbying and sometimes stimulate bursts of activity, political activity has a self-reinforcing logic of its own. Companies who set up offices also set in motion a learning process and an information-gathering process, and put in place individual lobbyists who have strong incentives to make sure those processes take place in such a way that companies continue to lobby.

This also suggests that as companies become more active, the political agenda should involve more attempts by companies to change the status quo. If lobbying is sticky, there will be times when government attention to issues that the company cares about recedes, but company lobbyists continue to hang around. Under these conditions, company lobbyists have both the capacity and the incentives to try to generate changes to the status quo.

Table 3 (below) sums up the proceeding discussion, highlighting what the different theories of the firm suggest for explaining growth

Table 3. *Theories of the firm and hypotheses for growth*

	Neoclassical	*Behavioral*	*Resource-based*	*Agent-based*
Goal of firm	Maximize profits	Satisfactory profits	Maximize profits	Individuals maximizing rents
Information-gathering capacity	Omniscient	Limited	Limited	Limited – dependent on agents
Ability to adapt	Quick	Slow	Slow	Depends
Key factor driving firm behaviors	Objective conditions	Standard operating procedure	Existing competencies	Information and incentives
Key lobbying determinant	The political agenda / environment	Whatever the company did before	Sense of political efficacy	Lobbyists' internal advocacy
Lobbying grows because…	The agenda or the environment changes.	Firms start lobbying and don't stop.	Firms develop more skill lobbying and want to use it.	Lobbyists convince companies to lobby more.
Reactive/ proactive	Reactive	Proactive	Proactive	Proactive

Value to the firm	By definition valuable	Uncertain	Likely	Uncertain
Resonance with existing theories	"Disturbance Theory" (Truman); "Demand Theory of Lobbying" (Baumgartner/Leech); "Population Ecology" (Gray/Lowery)	Institutional theories: "Corporate Policy Capacity" (Martin); "Filtering Role of the Firm" (Schuler/Rehbein)		

To make the distinctions between the two competing explanations clear, Figures 3 and 4 (below) contrast the two models of how and why lobbying might grow. In Figure 3, lobbying grows in response to changes in the agenda. In Figure 4, mobilization puts several processes in place that are all likely to lead to more lobbying, all of which feed back on themselves

Figure 3. *Agenda-Driven Growth*

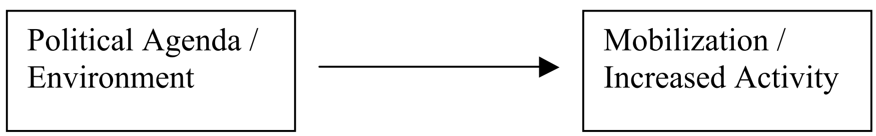
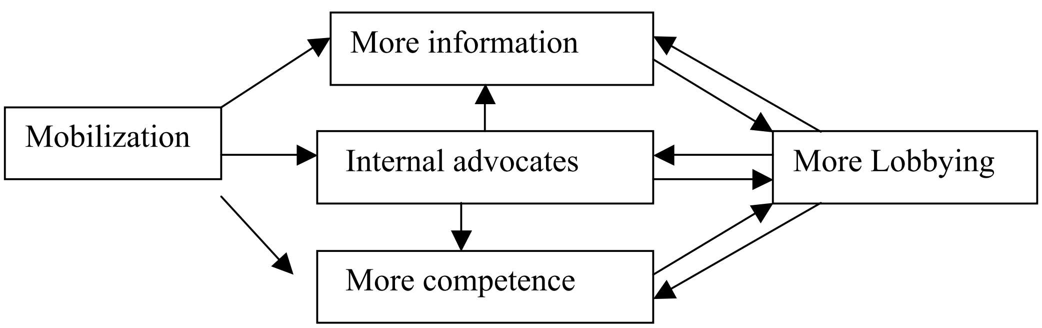


Figure 4. *Learning-Driven Growth*

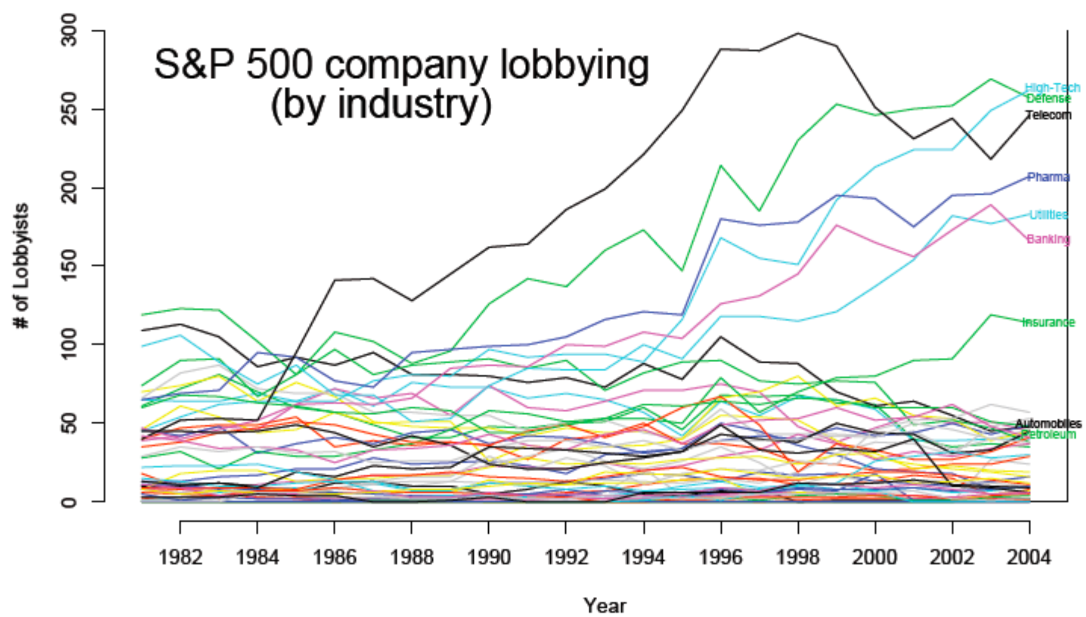


Lobbying as a Reaction to the Political Agenda

How well does the political agenda explain the ups and downs of company lobbying efforts in an industry? Moreover, does the agenda primarily consist of threats to the industry? Or are the big fights changes to the status quo that companies are pushing for, suggesting that companies may be doing something to shape the agenda? This section is an attempt to test the hypothesis that lobbying can mostly be explained as a reaction to the changing political agenda.

Figure 5 (below) tracks the growth of company lobbying by industry, aggregating the total lobbying presence of all companies across 50 industry categories.[17] The first thing to note about growth by industry is that most of the growth since 1981 actually turns out to be the growth of lobbying in only a handful of industries – High-Tech, Defense, Telecommunications, Pharmaceutical, Utilities, Banking, and Insurance. The rest of the industries are basically flat, and a few are even declining. However, once industries reach a threshold size (about 100 lobbyists) growth starts to accelerate. This seems to happen generally in the mid-1990s.

Figure 5. *Industry Lobbying Growth*



In this section, I will look in more detail at four industries: Telecommunications, Pharmaceuticals, Financial Services, and High-Tech (Computers and Software). For each industry, I will compare the lobbying history of the industry with congressional hearings (a measure of government attention to the industry). The industry lobbying is simply the sum of all lobbyists representing S&P 500 companies in the industry.[18] Hearings data are from the Policy Agendas Project.[19] These case studies also summarize the major policy

[17] The industry categorization scheme is an original scheme I developed to deal with the problem that the commonly-used SIC codes do not often map well onto coherent political clusters of interests. For a thorough discussion of how these categories were constructed, see Drutman, 2009.
[18] One slight caveat in interpreting the data here is that 1996 is an unusual year. For some reason, a lot of new companies and a lot of new lobbyists show up in the *Washington Representatives* directories. Partially, this could be because there are a lot of new lobbyists that came to Washington that year (It was the year Republicans took control of the House). More likely, it has to do with the fact that the Lobby Disclosure Act of 1995 alerted the editors of the Washington Representatives directory to a number of lobbyists that they otherwise missed.
[19] See http://www.policyagendas.org/;

battles looking at what issues made it to *CQ Weekly*'s year-end legislative wrap-ups. (I assumed that if it made it to the year-end wrap-up, it was relatively important and attracted at least a decent amount of attention.)

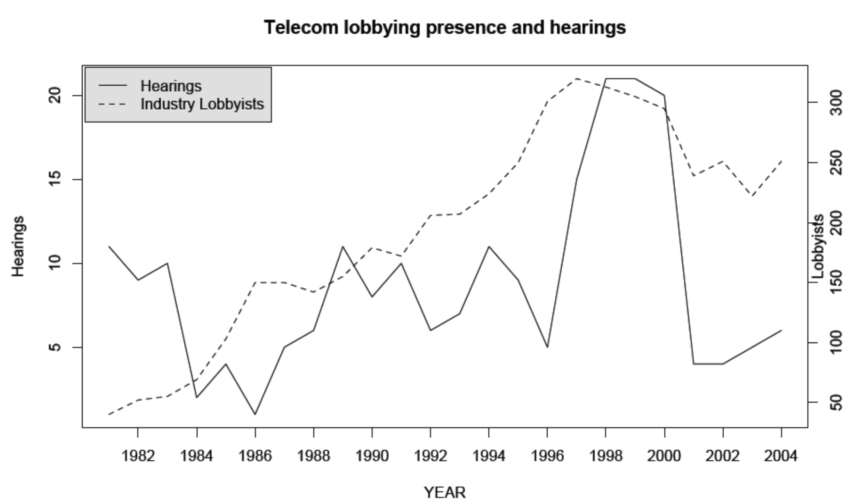
Each of the case studies is an attempt to figure out: 1) To what extent the company lobbying presence in each of these industries follows the political agenda; and 2) to what extent the political agenda comprises attempts by companies to change that status quo as opposed to attempts to defend it.

An important assumption underlying this approach is that large (in this case, S&P 500) companies do lobby in response to industry-wide issues and are not immobilized by a collective action problem. There is good reason to suspect this is the case. In other research (Drutman 2009), I have shown that large companies tend to be quite active on industry-wide issues because they see value in shaping the actual policy details. Additionally, two dozen studies on the determinants of corporate political activity have failed to find evidence for Olson's hypothesis that companies in less concentrated industries will have a harder time mobilizing than companies in more concentrated industries (Hansen, et al. 2005), which offers more evidence that companies do indeed lobby for industry goods.

Telecommunications

The total lobbying presence of S&P 500 telecommunications firms in Washington (represented by the dotted line) increased nearly six-fold between 1981 and 1998, then dipped slightly. Meanwhile, congressional attention to the industry (represented by the straight line) had one major peak: 1998-2000, following the implementation of the Telecommunications Act of 1996. (See Figure 4-7.)

Figure 6. *Telecommunications Lobbying and Hearings*



In reconstructing the political story of telecommunications lobbying, there is one watershed event: The Telecommunications Act of 1996, which came into law following more than a decade of lobbying by the regional Bell companies, who pushed year after year to be allowed to expand into manufacturing and information services and repeal or significantly amend the Communications Act of 1934. Though the push for the telecommunications reform bill dated back to the 1980s, it really began to pick up speed in the 1990s. By 1992, the industry won passage of the bill in the Senate. In 1994, the House passed two different telecom deregulation bills. In 1995, the House and the Senate both passed bills, and in 1996, the Senate and House finally passed the same bill rewriting the rules of competition in telephony and information services, and President Clinton signed it into law. This was a major legislative battle, and the concurrent increase in lobbying reflects this. Companies put substantive resources into this battle. But they did so in attempt to pass the legislation, rather than to stop it from happening.

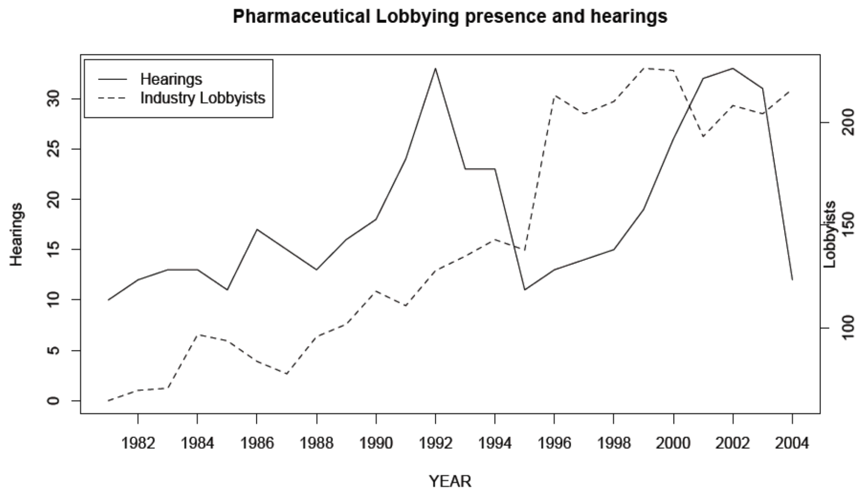
After the 1996 passage the industry only slightly reduced its lobbying efforts. No doubt, there were good reasons to stay active. The bill delegated many decisions to the Federal Communications Commission, and not surprisingly, those companies who didn't like the way things had turned out tried to change portions of the law. [20] In 2001, the Bells were fighting to enter Internet service markets on equal footing with the cable companies, and in 2002, President Bush signed legislation allowing the FCC to auction off airwaves to the highest bidder, as opposed to doing so by lottery (as large companies had requested). With technology continuing to change and the government playing a major role in regulating the industry, companies clearly have a reason to be involved.

Pharmaceuticals

Like telecommunications, the pharmaceutical industry achieved a major legislative victory at one point during this period – the 2003 Medicare Modernization Act, which added a prescription drug benefit to Medicare without requiring the government to negotiate bulk pricing. Friedman (2009) estimates that this legislation produced a $242 billion surplus for pharmaceutical firms over ten years. Though prescription drug coverage had originally been a Democratic proposal, Republicans and drug companies took it on and made one key change: instead of the government buying the drugs in bulk, companies would still get to compete on the market. It took three years and much lobbying by the industry before the drug benefit became law by the narrowest of margins, much to the delight of the industry.

[20] See, e.g. Mark Landler, "Stymied, SBC Seeks to Void Portion of Law," *New York Times*, July 3, 1997.

Figure 7. *Pharmaceuticals Lobbying and Hearings*



Certainly, the government has long played a role in the pharmaceutical industry since all drugs are required to be approved by the Food and Drug Administration (FDA). But the major legislation affecting the industry in the 1980s was limited. The Orphan Drug Act passed in 1983, giving drug companies incentives to develop drugs with small markets. In the mid-1980s, there was some attempt by the pharmaceutical industry to ease bans on exporting drugs to the third world and reduce liability for vaccines. The first big battle came in 1992 with the passage of the Prescription Drug User Fee Act (PDUFA), which allowed drug companies to pay more to fund the FDA in order to speed up the drug approval process generally (this accounts for the first peak in drug industry hearings). This was a welcome and sought-after law, since pharmaceutical companies found that delays in bringing drugs to market were eating up their profits.

The federal government also began devoting substantial attention to healthcare issues around this time, and the pharmaceutical industry had obvious interests in the debate over nationalized health care. Said one pharmaceutical lobbyist:

> Up until 1994, I think the pharmaceutical industry was just sort of drifting along. The industry was selling to private payers, and even though there was support in regulating the products, Congress wasn't as involved in that process. But there was a sense that the Clinton healthcare plan was going to demonize two industries primarily, and that included pharmaceutical companies.

The late 1990s were a time of major growth for industry lobbying efforts, and even after the prescription drug benefit became law in 2003, the industry did not pull back. In 2004, for example, the industry won the passage of Project BioShield, a $5.6 billion program to "to accelerate the research, development, purchase, and availability of effective medical countermeasures against biological, chemical, radiological, and nuclear (CBRN) agents."[21]

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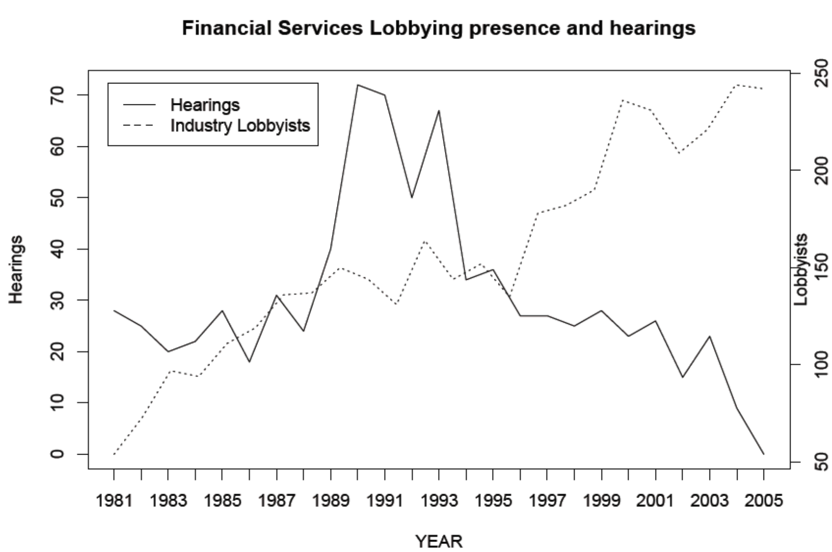
[21] http://www.hhs.gov/aspr/barda/bioshield/index.html.

With the exception of the battles over healthcare reform, the major issues affecting the pharmaceutical industry during this period (Orphan Drugs, PDUFA, Medicare Modernization Act, Project Bioshield) have all been changes to the status quo that were welcomed by the industry. As with the telecommunications industry, pharmaceutical company lobbying was not simply a response to the government agenda, but also involved lobbyists who are looking for issues to shape. Moreover, it also involved an upward secular trend.

Financial Services

Hearings activity in the financial services industry peaks in response to the Savings and Loan crisis of 1989 and the Salomon Brothers bond trading scandal of 1991. But neither of these scandals triggered a major rise in industry lobbying. Rather, the steep lobbying increases took place before and after these crises. In particular, the rapid increase between 1996 and 2000 correlates with the push for major financial services industry deregulation, which came in 1999. Sixteen years after Ronald Reagan initially proposed allowing banks to conduct business in securities, real estate and insurance and after a number of fits and starts, Congress finally passed the Gramm-Leach-Bliley Act, a repeal of the 1933 Glass-Steagall Act. The bill allowed commercial banks, investment banks, securities firms, and insurance companies to enter each others' markets. This paved the way for a massive consolidation on Wall Street.

Figure 8: *Financial Services Lobbying and Hearings*



This was the second major industry restructuring in five years. In 1994, after more than 10 years of on-and-off lobbying by the biggest banks, Congress passed a bill to set up a nationwide branch banking system. Previously, banks that wanted to open branches in other states had to set up and capitalize separate subsidiary banks. Big banks estimated they would save $50 million per year in reduced overhead and promised that customers would benefit.[22]

Following the passage of the Gramm-Leach-Bliley Act, of course, issues remained. In 2000, the industry successfully fought to deny the Commodity Futures Trading Commission (CFTC) oversight of swaps and thus set up ground rules for a burgeoning market in financial derivatives, which many believe was a key contributing factor in the financial crisis of 2008. In 2003, following Enron and the accounting scandals, Wall Street came under scrutiny for its role again, but the one major piece of legislation passed, the Sarbanes-Oxley Act, only addressed the accounting industry and left the finance industry largely untouched. In the years that followed, the industry enjoyed great freedom to spread out into a wide range of complicated and heavily-leveraged financial positions. And when those positions turned out poorly, threatening the financial markets, the U.S. government in 2008 provided TARP funds to ensure solvency at of all the major investment banks, save one.[23]

Of all the industries examined here, the financial services industry has come under the most scrutiny during the last three decades. Yet even here, threats do not correlate with the increases in lobbying. The major run-up in financial services lobbying in this period was to push a major deregulatory bill that the big banks wanted. Also important to note is that, like in the other industries, the resolution of a major political battle did not lead the industry to reduce its lobbying presence. Even when the battle over financial services deregulation was over, companies maintained the capacity that they had committed, finding new issues on which to stay active.

High-Tech

It is often said of the computers and software industry that many companies had a long-standing aversion to Washington, DC, imbued as they often were with a West-Coast libertarianism that made them uninterested in getting involved in politics (Miles 2002). In interviews, industry lobbyists frequently cited the 1998 Microsoft anti-trust suit as a wake-up call. The data, however, show that the industry was already on a growth trajectory, though clearly the growth continued post-1998.

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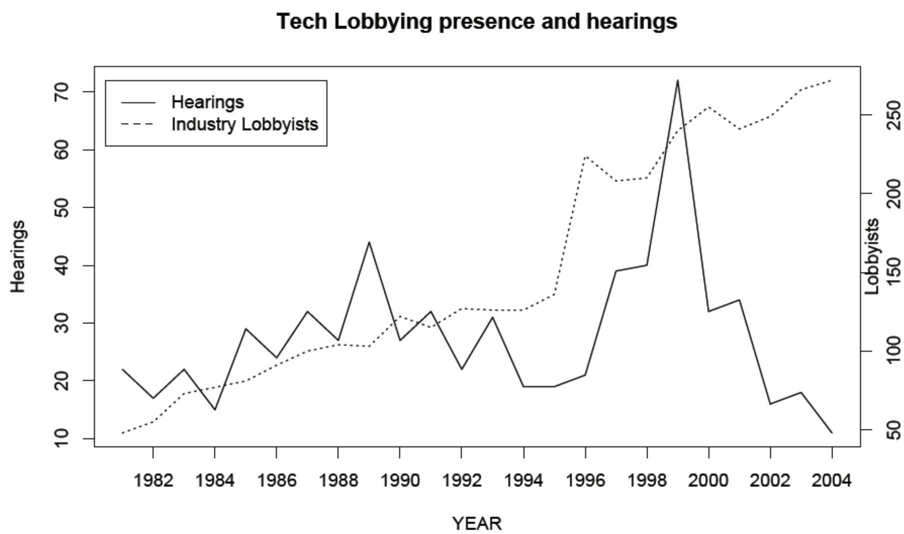
[22] Andrew Taylor, "Nationwide Branching Bill Finally Clears the Senate," *CQ Weekly*, September 17, 1994

[23] It is worth noting that the one bank that did not get bailed out, Lehman Brothers, under-invested in lobbying relative to other firms of comparable size. Meanwhile, AIG, which received the biggest bailout, over-invested in lobbying relative to other firms its size. See "Does Lobbying Buy a Better Bailout," Lee Drutman, blog post on The Monkey Cage, December 15, 2008, http://www.themonkeycage.org/2008/12/does_lobbying_buy_a_better_bai.html; See also, Deniz Igan, Pracchi Mishra, and Thierry Tressel, "A Fistful of Dollars: Lobbying and the Financial Crisis," IMF Working Paper, December 2009, http://imf.org/external/pubs/ft/wp/2009/wp09287.pdf, on evidence that more lobbying led lenders to engage in riskier lending.

Figure 9. *High-Tech Lobbying and Hearings*



Of the four industries examined in this chapter, high-tech generally enjoys the best reputation in Washington. Innovation is one of those things that all politicians like to be for, and supporting the high-tech industry is generally a good way for politicians to burnish their innovation bona fides. Thus, the political history of the high-tech industry is mostly the history of programs protecting intellectual property, encouraging overseas sales, or setting up favorable tax regimes to help innovation and the development of the Internet.

The first significant development for the industry came in 1984, when Congress passed the Semiconductor Chip Protection Act. The bill, pushed by the semiconductor industry, gave 10-year patent exclusivity to any original semiconductor pattern. As early as 1989, legislation setting aside $320 million to promote technology programs was getting some attention in Congress, but it never gathered the momentum to become law. As early as 1992, high-tech companies were pushing for a relaxation on technology export controls, trying to do away with what they felt were antiquated national security concerns that were hurting their ability to sell abroad. But the high-tech industry didn't have the muscle to get these bills through. In 1997-98, software companies ramped up their efforts to reduce export controls, Internet companies succeeded in maintaining an Internet tax moratorium, and Congress passed a law giving protection for digital works, including computer software (though some Internet service providers were unhappy about the digital copyrights in movies and music).

Figure 9 highlights the fact that the turn of the century was marked by extensive federal interest in what to do about the Y2K problem, though it was never clear that this posed any particular threat to the industry. In the 2000s, the Internet tax moratorium continued to be a major issue, as did the ability to export potential "dual-use" technologies. The high-tech industry was also able to fight off regulations regarding privacy and confidentiality of personal information, preferring to self-regulate. By 2007-08, when I was conducting interviews, industry companies were working very hard to reform the patent laws (in order to make it more difficult for so-called "patent trolls" to hold up technology companies) and to increase H-1B Visa quotas to attract top talent from around the world.

Though the technology industry has obviously increased its lobbying, it is hard to pinpoint a major battle that could have politicized so many companies, unlike in the other three industries. Rather, it appears that once industry companies decided Washington was important, they continued to find reasons to devote their resources to political activity.

Case Study Conclusions

In setting out these case studies, there were two main questions. 1) How closely did industry lobbying activity correlate with the political agenda? and 2) How much of lobbying was reactive (defending the status quo) as opposed to proactive (attempting to change the status quo)? I now turn to the answers.

1) Industry lobbying levels only loosely correlate to the ups and downs of the political agenda. Table 4 (below) summarizes the correlation between lobbying presence and hearings (I exclude 1996 because of concerns about the oddities of the data. I also use it as a potential turning point because it seems that sometime around 1996, all the industries shifted into higher gear with regards to their lobbying efforts). One thing that does emerge is that prior to 1996, hearings and lobbying seem to be somewhat correlated in three of the four industries, but post-1996, the correlation is negative for the same three industries. Telecommunications is the one exception. But while government attention to almost all issues tends to go through ups and downs (Baumgartner and Jones 1993), the lobbying presence in all of these industries follows a steady upward trend, really picking up in the mid-to-late 1990s. In two of the industries – telecommunications and financial services – major build-ups of lobbying presence correlate with major legislative battles. In the other industries, the build-ups less closely follow particular issue battles. But in all four industries, once the presence gets built up, it does not diminish, and it usually continues to grow.

Table 4. *Correlations between hearings and lobbying*

	ALL YEARS (excluding 1996)	1981-1995 correlation	1997-2004 correlation
Pharma	0.469	0.602	-0.365
Tech	0.212	0.239	-0.522
Fin. Services	-0.205	0.516	-0.445
Telco	0.495	0.072	0.897

2) *Most major lobbying has been proactive lobbying to change the status quo.* Almost all of the issues that are big enough to make it to the *CQ Weekly* year-end wrap-ups are issues on which the industry was attempting to change the status quo, as opposed to defending the status quo. In three of the four industries there was at least one watershed legislative victory. Both telecommunications and financial services won a major rewrite of the regulatory rules of the industry, and the pharmaceutical industry won Medicare prescription drug coverage without having to submit to government price negotiations. The fourth industry, high-tech, won a series of smaller battles. Only the financial services industry appears to have spent a significant time playing defense, but this is also an industry that won two major legislative victories in the 1990s.

The story of lobbying activity as a pure response to government threats doesn't hold up well. Lobbying levels often appear to be quite independent of the government issue agenda, and where lobbying does grow in response to government activity, it is generally in the form of industry-supported changes to the status quo. The story that emerges instead suggests companies build up their capacity (often independent of the ebbs and flows of government activity) and then use the enhanced capacity to push for desired changes to the status quo, consistently maintaining that capacity regardless of the battles of the moment.

Reasons for Lobbying

Table 5 (below) reports the results of a survey I conducted as part of my interviews, asking lobbyists to rate the reasons for maintaining a government office. Defensive lobbying ("Need to protect against changes in government policy") is the top reason, averaging 6.2 out of 7 across surveys. But offensive lobbying ("Need to improve ability to compete by seeking favorable changes in government policy") comes in right behind at 5.7 out of 7, as does "Need to maintain ongoing relationships with policymakers," which points to a view among company lobbyists that lobbying is an ongoing process. Meanwhile, issues of competition ("respond to critics" and "because other companies in the industry are politically active") do not seem as important, garnering mean rankings of 4.3 and 4.2, respectively, suggesting that an arms race story is not likely to explain the growth of lobbying.

If lobbying were primarily reactive and purely in response to government activity, company lobbyists presumably would not rank the seeking of favorable changes so highly as a reason for keeping an office. Rather, lobbying has both an offensive and a defensive quality to it. Companies want to make sure that they keep the gains they have already obtained, but also are confident enough to push for changes.

Table 5. *Reasons Company Lobbyists Give for a Washington Office*
(each on a scale of 1 to 7)

Reason	Mean	Median	SD
Need to protect against changes in government policy (or other government actions) that could be harmful.	6.2	7.0	1.1
Need to improve ability to compete by seeking favorable changes in government policy.	5.7	5.0	1.4
Need to maintain ongoing relationships with policymakers.	5.7	6.0	1.6
Need to navigate compliance, licensing, and other regulatory interactions with the federal government on a regular basis.	4.4	5.0	2.3
Need to respond to critics and counter negative publicity.	4.3	4.0	2.2
Because other companies in the industry are politically active.	4.2	4.0	2.1
Government is a direct purchaser of company's products or services.	3.6	2.0	2.6

N= 31

Testing the Learning Hypothesis

There is good reason to suspect that learning is a key factor in the growth and persistence of corporate lobbying. For a company, political mobilization sheds light on what was previously a murky and unfamiliar world of politics. It puts in place internal advocates for continuing and expanding political activity. It instills political activity with the power of routine. It changes the way a company acquires and interprets political information, with potentially direct consequences for the ways in which managers make decisions about when and how much to lobby. More information and experience can make managers feel more confident that their company's lobbying could alter a given outcome. Moreover, with an already established operation, the marginal cost of additional lobbying is greatly reduced. All this is more likely to make lobbying seem worthwhile and encourage companies to do more of it.

The section tests three observable implications of the learning hypothesis. First, if there is a stickiness to lobbying, as this hypothesis suggests, once companies have lobbyists they should generally stick around Washington at very high rates. That is, there shouldn't be a lot of in-and-out activity. Second, there should be a high degree of autocorrelation in a company's annual lobbying efforts that extends back at least a few years. Both of these are quantitative indicators measuring the extent to which lobbying has an inertia of its own, even as government attention changes.

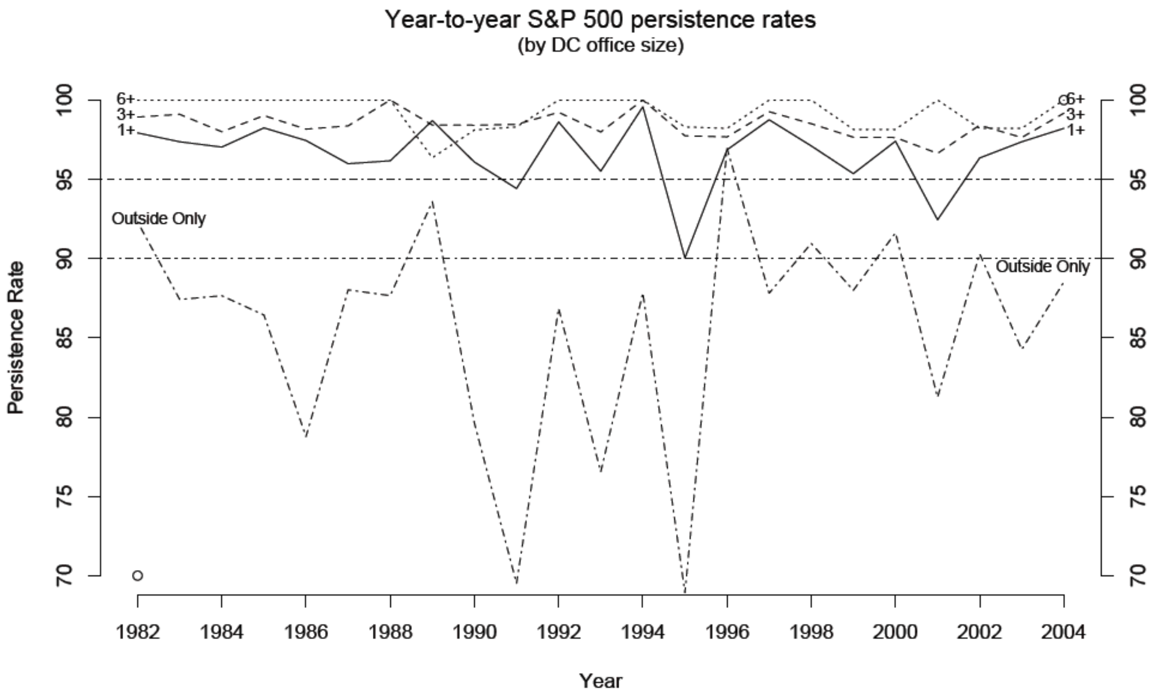
The third observable implication is qualitative. There should be direct evidence that lobbyists do educate corporate managers about the value and importance of Washington, and some evidence that this education can make companies value political activity more over time. Also there should be evidence that information matters, that companies that are more informed about Washington lobby more.

Quantitative tests of lobbying stickiness

To test the stickiness of lobbying, Figure 10 (below) tracks the year-to-year persistence rates among S&P 500 companies. This is a measure of how many companies who were in the *Washington Directory* the prior year and had not gone out of business were still listed in the current year.[24] Among companies with even just one Washington lobbyist, the year-to-year persistence rates are consistently in the 97 percent range. And for companies with a Washington staff of six or more, the persistence rate approaches 100 percent. Even companies that only hire outside lobbyists (companies sometimes will hire an outside firm to represent them) stay on a reasonably high rates, particularly post-1996, which the persistence rate among such companies hovers around 90 percent. Since government attention to issues of concern for any given industry tends to ebb and flow, all of this is highly suggestive of a process whereby once companies learn to lobby, they keep lobbying.

[24] For example, if the persistence rate for 1982 is 98 percent, this means that 98 percent of the companies who had lobbyists in 1981 and were still in business in 1982 also still had at least one Washington lobbyist in 1982.

Figure 10. *The Stickiness of a Washington Office*



A second way to test the stickiness of lobbying is to use a time-series regression to see how much of the variation in lobbying is explained by a company's prior lobbying, controlling for size, year, and industry effects. Most time-series data involves a high degree of autocorrelation, since what you did yesterday is always the best predictor of what you will do today. But in order to test for true stickiness, I add not just one-year lags, but also two- and three-year lags for: 1) total lobbying presence (in-house plus outside); 2) in-house lobbying presence; and 3) outside lobbying presence. Since we are mostly interested in the effects of setting up an actual Washington office, I am going to limit the sample here to just those companies with a Washington office. Thus, I estimate:

Model 1: Total Lobbying = β_1 Total Lobbying (t-1) + β_2 Total Lobbying (t-2) + β_3 Total Lobbying (t-3) + β_4Sales + β_5Sales (t-1) + β_1Sales (t-2) + $\beta 6_1$Sales (t-3) + β_7 Industry Effects + β_8Year Effects

Model 1: In-house Lobbying = β_1 In-house Lobbying (t-1) + β_2 In-house Lobbying (t-2) + β_3 In-house Lobbying (t-3) + β_4Sales + β_5Sales (t-1) + β_1Sales (t-2) + $\beta 6_1$Sales (t-3) + β_7 Industry Effects + β_8Year Effects

Model 1: Outside Lobbying = β_1 Outside Lobbying (t-1) + β_2 Outside Lobbying (t-2) + β_3 Outside Lobbying (t-3) + β_4Sales + β_5Sales (t-1) + β_1Sales (t-2) + $\beta 6_1$Sales (t-3) + β_7 Industry Effects + β_8Year Effects

The data used are the *Washington Representatives* lobbying histories for S&P 500 companies from 1981 to 2005. The results are reported below in Table 6. In all three models, one, two, and three years of lagged lobbying are all substantial and significant predictors of current lobbying levels, suggesting that lobbying is very sticky indeed, and much of the variation can be explained by what companies did in past years.[25]

Table 6. *Testing the "Stickiness" of Lobbying*

	1: Total	2: In-house	3: Outside
Lobbying 1-Year Lag	0.760**	0.722**	0.755**
	(0.014)	(0.014)	(0.015)
Lobbying 2-Year Lag	0.093**	0.064**	0.118**
	(0.018)	(0.017)	(0.019)
Lobbying 3-Year Lag	0.082**	0.109**	0.052**
	(0.014)	(0.014)	(0.015)
Sales	0.112**	0.053**	0.059**
	(0.011)	(0.007)	(0.008)
Sales 1-Year Lag	-0.073**	-0.040**	-0.030**
	(0.017)	(0.011)	(0.012)
Sales 2-Year Lag	-0.037**	-0.016	-0.022*
	(0.019)	(0.012)	(0.013)
Sales 3-Year Lag	0.005	0.011	-0.004
	(0.015)	(0.009)	(0.010)
(Intercept)	0.122	0.333	-0.188
	(0.496)	(0.321)	(0.339)
Adj R squared	0.8877	0.8681	0.8166
N*	4825	4825	4825

** The N here is over 21 periods (1983 – 2004); The number of companies varies from year to year because this only includes active companies.*

So far, the quantitative evidence is suggestive of there being a learning process that keeps firms hanging around Washington. But what does this process look like? One way of understanding the process of learning is to explore the role that education and information play in the relationship between company lobbyists and corporate headquarters. As the behavioral, resource-based, and agent-based theories of the firm all suggested, education and information should play key roles in how firms make decisions about whether and how much to lobby, with more education and more information making firms more favorably disposed to lobbying. The agent-based theory especially

[25] I also tested 4-year lags. At four years, however, the effects are no longer significant.

highlighted the incentives that individual lobbyists have to educate and inform corporate managers about the value of Washington.

In conducting interviews I observed key distinctions in both the extent to which lobbyists had to educate managers on the importance of Washington and the frequency of information gathering. In general, the more companies believe in Washington, and the more communication there is, the more active the companies are in lobbying. This is not a surprise. But delving into the details of how this happens helps to show that there is process of learning that involves lobbyists actively educating and informing managers about the benefits of Washington, and that over time, this process can make companies value politics more.

The Learning Process

Roughly half of the lobbyists interviewed described a need to educate their superiors on what it is that they do, because management remains skeptical of how lobbyists actually benefit the company. I call these companies "doubters" to reflect their skepticism. Here are some typical comments from these doubter company lobbyists:

> We do a lot of work to educate the higher-ups. My purpose is to communicate what we are doing. The dots are being put together so they get why we're doing this.
>
> Half of my job is internal lobbying, letting the internal clients know we're here, that we have a Washington office. It's telling our tech guys that there's money here, and helping us to identify particular needs so we can identify champions and construct programs. It's an iterative process that goes back and forth.
>
> You have to justify yourself. On a daily basis we have to point to something that benefited the company in a way you can quantify.

On the other hand, at half of the companies, lobbyists did not have this problem, and reported that their bosses did place a high value on the role of government affairs in the company. Here are a few typical statements from lobbyists representing these companies:

> The good news is that our CEO and leadership understands how important government relations is.
>
> They think very highly of us. Washington is doing a lot that affects us…and we try to make our office part of the business and try to help the business grow
>
> Government affairs is very involved in the day-to-day management of the company. I understand the issues they're dealing with, what manufacturing and marketing people are dealing with, regulatory affairs, and I have a voice in decisions. I clearly have the ear of the chairman.

There is no significant difference in size among the two types (mean annual sales of $29.1 billion for doubters as opposed to $27.6 billion for believers), but the believers lobby much more on average (mean annual lobbying of $3.6 million as opposed to $1.5

million). Believers are more likely to have been around for a while – 63 percent set up offices prior to 1999, as compared to 40 percent of the doubters. I argue that being around longer makes one more likely to see Washington favorably.

The believers are also generally less likely to target their lobbying toward selective issues. Presumably, the lobbyists at believer companies have more leeway to work on a broader range of issues because they are not under so much pressure to clearly translate what they do into bottom line numbers. Lobbyists for doubter companies, by contrast, are presumably under greater pressure to connect what they do to the bottom line, and so are more likely to focus on selective issues whose benefits are easier to quantify.

Table 7. *Doubters vs. Believers*

	Mean / Median Sales	Mean / Median Lobbying	% In DC prior to 1999	% Selective Issues
Doubters (15)	$29.1B / $15.8 B	$1.5 M / $960 K	40%	57%
Believers (16)	$27.6 B / $15.2 B	$3.6 M / $2.1 M	63%	35%

Almost universally, company lobbyists say that they produce value for their companies. As one pharmaceutical lobbyist put it, "I say to lobbyists, if you can't multiply your costs by 10 times or 100 times, that's not doing your job." Of the 31 in-house representatives that I interviewed, at some point during the interview, 29 described specific examples of how they were making the company more profitable, either by adding to the company's sales (including direct sales to government) or by reducing the company's costs (mostly by reducing taxes and costs of goods, as well as limiting regulation). Consider these representative statements:

> We informally try to be a profit center. We have a new product coming out in two years. For that product, the Medicare program pays for only three years of drug coverage. It's an anomaly in Medicare, so one of my tasks is to change the policy so these particular drugs are treated like all other drugs, so instead of three years of government paying for them, there will be indefinite payments. And we can quantify how much money that means.
>
> I was able to get a provision into the budget worth $50 million to the company
>
> Our CEO knows that it's valuable... A team like our tax team has seen the monetary savings and therefore appreciates our work.

However, lobbyists at half of companies (almost entirely the "doubters") said they put special emphasis on finding ways to quantify the value, which they generally said can be quite difficult to do. After all, a significant share of lobbying activity involves stopping policies, and it is often hard to estimate the costs of what would have happened had a company not lobbied.

Looking at how lobbyists educate and show value highlights two important points. First, at many companies, lobbyists do a fair amount of work to convince their managers that lobbying is, in fact, a good investment. Even among those companies who have

Washington offices, there is still some convincing to do. And this convincing may take time. Among lobbyists at "believer" companies who had been around longer, there was a general consensus that corporate leadership hadn't always been as keen on Washington. "The DC office used to be hire one person, and leave 'em there," said one lobbyist. "It was difficult to show a bottom-line value." Moreover, the trend lines for even the growth industries show that the 1980s were a generally flat growth period. Perhaps this was because many companies were still "doubters," skeptical and cautious about the value of a Washington lobbying office.

The Role of Information

Another important thing that happens when a company opens up a Washington office is that it gets more political information, which alerts managers to more possible reasons to lobby. Organizational scholars find that more information in any area is likely to increase a manager's confidence in particular outcomes. And the more a manager is confident that action X will lead to result Y, the more likely the manager will be to commit to action X (Aldrich 1979; Daft and Lengel 1986; Thomas et al. 1993). Increased information use in all areas also increases the likelihood that managers will see issues as potential gains (Thomas and McDaniel 1990). This is especially important in politics, where there is such uncertainty.

Interviews revealed differences in the frequency of communication between government affairs offices and top management. Among the 31 lobbyists, 20 (65%) said they were in touch on at least a weekly basis, and five (16%) said they were in touch on a daily basis. The remaining six (19%) were in touch on at least a monthly basis. (See Table 8)

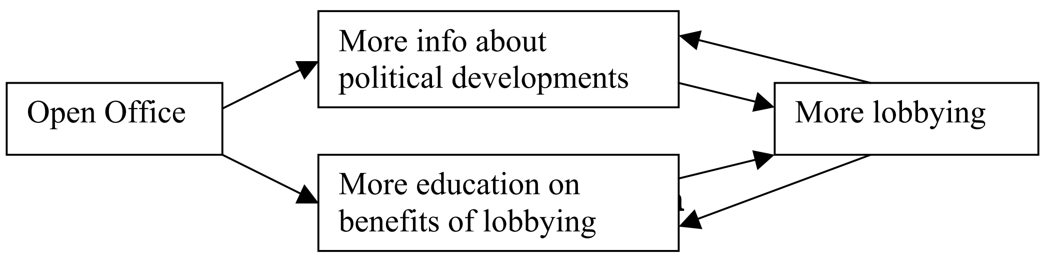
Table 8. *Companies by frequency of communication*

	Mean / Median Sales	Mean / Median Lobbying	% In DC prior to 1999	% Selective Issues
Daily (5)	\$18.5 B / \$9.7 B	\$4.2 M / \$3.1 M	40%	67%
At least weekly (20)	\$31.1 B / \$18.3 B	\$2.5 M / \$900 K	60%	39%
At least monthly (6)	\$27.1 B / \$10.7 B	\$1.1 M / \$650 K	33%	50%

Not surprisingly, the companies where there is the most frequent lobbyist-to-management communication are the most active. These companies spend on average \$4.2 million annually on lobbying, as compared to \$2.5 million for the weekly communicators and \$1.1 million for the monthly communicators. The daily communicators also tend to be smaller (mean sales of \$18.5 billion, smallest of any of the three groups), and three of five report to the CEO. Three of five are also relative newcomers to Washington, DC. Notably, this is the group with the highest percentage of selective issues (67%), which suggests targeted and aggressive lobbying on particular issues. By contrast, the companies in which government affairs communicates with headquarters on an only "at least monthly" basis tend to spend the least on lobbying, even though they are roughly the same size as the companies that communicate weekly. Still, the fact that 25 out of 31 companies (80%) get at least weekly communication from the Washington office ought to highlight just how much information is coming in.

With both information and expertise, there is a potential feedback process. The more information that comes in, the more aware companies will be of threats and opportunities, and the more confident they will be that they can have an impact. This will lead them to lobby more, which will further increase the amount of information. Figure 11 (below) posits a flow chart of how becoming educated and informed feedback once companies open an office.

FIGURE 11. *The effects of education and information*



Conclusions and Implications

The evidence presented here points to the growth of corporate lobbying as mainly a path-dependent learning process with particular policy fights sometimes playing a catalytic role. Companies may come to politics for a variety of reasons, but the act of establishing a Washington presence sets in motion several reinforcing processes, including more information, more competence, and internal advocates for lobbying. Companies learn what it means to lobby, and become convinced that it yields valuable benefits.

One lobbyist (who took a decidedly proactive view of corporate lobbying) put it this way: "When [company] started, they thought government relations was something else. They thought it was to manage public relations crises, hearings and inquiries. My boss told me: You've taught us to do things we didn't know could ever be done." A tech lobbyist, who had been in Washington, DC since 1985, described the evolution as a "gradual process of education":

> A lot of companies used to have somebody out in California and then hire somebody here, who'd educate and say this is why this is important, and over the years you start to see it. The people in Washington were able to speak to issues in a much more intelligent way than somebody just in general counsel. *It's a gradual process of education*. You get the CEOs more involved, testifying on the Hill, they get a little more familiar with the process and understand why it's important.

This story hews to the historical record. More than fifty years ago, when Bauer, Pool, and Dexter (1972) surveyed the state of business lobbying, they found business lobbyists to be generally disorganized and disengaged, lacking both resources and competence. Other accounts of business lobbying from the same time period reported similar findings. (Matthews 1960; Milbrath 1963; Wilson 1981). Companies generally didn't maintain government affairs departments (or in the rare case that they did, the departments were skeletal and not particularly connected to what the rest of the company was doing). This meant companies were unlikely to have internal advocates for political engagement, and corporate leaders were unlikely to be familiar and/or informed about politics and generally distrustful and even disinterested in politics (Bernstein 1953; Sutton et al. 1956; Vogel 1978). So even though the politics of the time were largely pro-business, companies didn't devote a lot of resources to taking advantage of opportunities. In a sense, the state of business lobbying was at an equilibrium – without lobbying capacity, business was unable to make lobbying a worthwhile investment, and without it being a worthwhile investment, there was little reason to develop capacity.

But in the late-1960s, the politics of Washington turned decidedly anti-corporate and upset the equilibrium. Initially, business leaders were caught off guard and didn't put up much of a fight against the new social regulation. But as leaders increasingly felt their autonomy and profitability under siege from a new array of government agencies, it became apparent that there was enough at stake to merit a significant investment in capacity-building, and the second half of the 1970s saw a significant increase in business political activity. (Vogel 1989; Harris 1989)

By the 1980s, the rush to regulate had subsided and in some respects been rolled back, and the growth of lobbying flattened out, reaching another equilibrium state. More businesses now had Washington offices, but there was no real reason to expand those offices. The threats had subsided, and companies were content to keep lobbyists around in a mostly defensive mode. As long as government didn't do anything major to challenge business, business wouldn't do anything major to challenge government. As one lobbyist recalled, "In the 1980s, the Washington office was a glad-handing goodwill ambassador, as opposed to a real policy professional. The guy's slogan was: if you're working more than 30 hours a week, you're doing something wrong."

But in the 1990s, businesses began growing more aggressive their lobbying efforts, entering a new state of disequilibrium that we currently inhabit. This paper has argued that this new period of more proactive lobbying is product of companies learning that politics is important, and developing more comfort and confidence in their ability to affect outcomes. Unlike the mostly defensive lobbying growth in the 1970s, the more recent lobbying reflects much more pressing to change the status quo. As one lobbyist put it: "I think 20 years ago, you have a Washington office to keep the government out of your business, and I think people have evolved to understanding now that there are opportunities, partnerships with government. We don't want to be a sort of business versus government. That doesn't work."

The growth in lobbying expenditures over the last ten years has continued to pick up pace with each passing year. Will it continue to escalate? Based on the research presented here, the answer appears to be yes. Lobbying seems to be a self-reinforcing process, and the amount of money is far from its upper limit. Companies still spend a relatively small amount on politics (roughly $3 billion) as compared to the $200 billion a year they spend on advertising or the $350 billion they spend a year on research and development.

Perhaps political activity was always a good investment.[26] But because of the power of routine and the costliness of information-gathering, as well as a generalized ideological aversion to being involved in politics, few corporate managers historically thought to devote substantial resources to politics. Corporations needed first to be mobilized in order to pay attention to politics and then to develop enough capacity to affect outcomes before politics seemed like a worthwhile strategy. Thus, Ansolabhere et al.'s puzzle, "Why is there so little money in politics?" (given the potential benefits) is only a puzzle if one maintains fealty to the neoclassical assumptions of perfect information and frictionless innovation. Focusing on education, information, and the slow process of capacity-building reveals that companies had to first overcome institutional and cognitive obstacles before becoming political.

Assuming companies are still in the learning phase (and that there is still money on the table), we are likely at a disequilibrium point, during which companies will continue to devote more and more resources into politics. There are, after all, many industries whose political capacity has so far remained mostly dormant, and could be awoken if the industry were challenged. For example, I conducted interviews with several retail companies and trade associations. Retail is an industry that devotes comparatively limited resources to lobbying (especially for its size), but industry lobbyists uniformly thought it was because there hadn't yet been a major political battle that made it clear to many in the industry why politics matters. Were there such a battle, the industry presumably would quickly expand its capacity, setting in motion the self-reinforcing logic of political activity. Meanwhile, companies already active will presumably continue to expand as long as the marginal impact of additional investment in politics exceeds the marginal cost, which it will presumably continue to be the case for at least the foreseeable future.

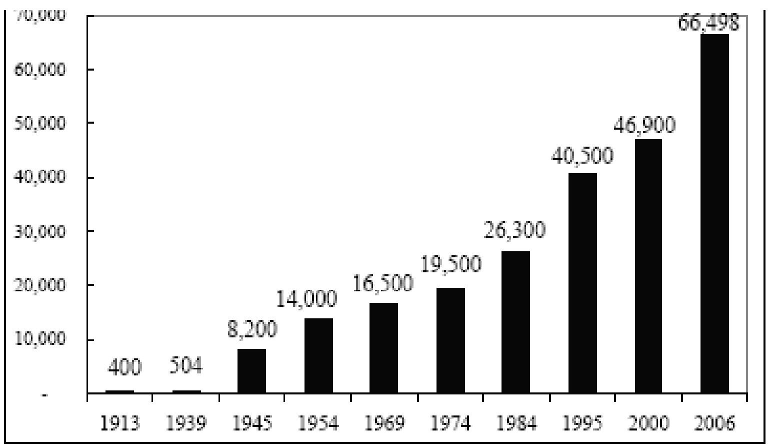
There are two potential consequences of this increasingly engaged and proactive business lobbying. One is that as companies develop more and more confidence in their ability to alter public policy, they will become increasingly greedy. So lobbying may involve more and more companies trying to affect wealth transfers – small changes in the tax code, contracts, appropriations, and other small benefits that fall in the low-salience, no-opposition penumbra of what Lowi (1964) called "distributive politics." Interviews have suggested that many company lobbyists are under some pressure to show that their efforts do in fact contribute to the bottom line, and as more companies lobby, there will

[26] The Carmen Group claims that it "collected $11 million in fees and delivered $1.2 *billion* in assistance to its clients -- a ratio of less than 1 to 100." (See Jeffrey Birnbaum, "Clients' Rewards Keep K Street Lobbyists Thriving," Washington Post, February 14, 2006; Business Week offers probably a more realistic estimate: 28-to-1, also based on contracts, see: "Inside the Hidden World of Earmarks," Business Week, September 17, 2007.

be more lobbyists, and in particular, more lobbyists looking for easily quantifiable reasons to justify their services.

Consider changes to the tax code. In 2005, a presidential panel noted that following the Tax Reform Act of 1986: "There has been nearly constant tinkering – more than 100 different acts of Congress have made nearly 15,000 changes to the tax code."[27] The report's cover letter noted: "Our tax code is rewritten so often that it should be drafted in pencil." Figure 11 (below) shows that between 1974 and 2006, the number of pages of federal tax rules more than tripled. More than half of those changes came between 1995 and 2006, and more almost a third came between 2000 and 2006.[28] Is it a merely a coincidence that lawmakers have suddenly had so many new and creative ways to re-write the tax code?

FIGURE 11. *Pages of Federal Tax Rules*



Source: The Cato Institute

On the other hand, there is reason to think that as companies become more comfortable with politics, they might be likely to see their interests more broadly. They might be less concerned with their narrow bottom line and more willing to compromise on a broad social benefit. This would fit with the "contemporary resurgence" that corporate social responsibility is enjoying (Vogel 2005). More and more companies want to be seen as good corporate citizens. As the scrutiny of their corporate political activity has increased, there may be more and more pressure for companies to also show a public-spiritedness in their lobbying activities. These two consequences are not mutually exclusive. Some businesses may push for narrow benefits in some areas, while others become more and more part of the Washington community and see their role as social leaders. But what does seem to be clear is that there has been a transformation in corporate lobbying, and we are entering a new world, where growth comes more and

[27] The President's Advisor Panel on Tax Reform, November 2005, "Simple, Fair and Pro-Growth: Proposal's to Fix America's Tax System" p. 16; Available at http://www.taxfoundation.org/blog/show/1156.html

[28] See Chris Edwards "Income Tax Rife with Complexity and Inefficiency" Cato institute Tax & Budget Bulletin, no. 33, April 2006 http://www.cato.org/pubs/tbb/tbb-0604-33.pdf

more comes from business leaders increasingly realizing the importance of political activity and feeling confident and justified in doing it, as opposed to simply responding to shifts in the government agenda. And as more businesses continue to learn about Washington and develop more and more confidence in the value of lobbying, political activity will likely only continue to grow.

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