

Commercial Lobbying Firms: Lobbying as Business*

Handbook Chapter

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Abstract

This chapter reviews the literature on commercial lobbying. It places this literature into the context of the broader lobbying literature. Commercial lobbyists work for for-profit organizations that sell their services as intermediaries between policymakers and special interest groups. This intermediation involves the transfer of resources from special interest groups to policymakers. These resources may be information, financial contributions, or direct involvement in legislating or campaigning. Commercial lobbyists' actions may either complement or substitute for the activities of in-house lobbyists. The incentives faced by commercial lobbyists may be designed either by special interest groups, policymakers, or a combination of the two and depend on the institutional structure within which the actors interact. They may involve problems related to collective action, transaction costs, agency, and repeated games.

Keywords: Commercial lobbying, Lobbying firms, Lobbyists, Reputation, Repeated agency

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1 Introduction

An extensive political economy literature has discussed the importance and influence of organized interest groups in shaping public policy.¹ The traditional focus has been on how special interest groups (SIGs) attempt to manipulate policymakers.² These organized interest groups are usually motivated by ideological or financial gains. They focus on a subset of policies relevant to their organizing principles and include corporations, unions, trade associations, political and religious organizations, or grassroots movements. Recently, growing attention has been given to understanding how special interest groups employ lobbyists.³ These lobbyists exploit personal relationships with policymakers to benefit their interest groups. Lobbyists can be divided into two professional types: in-house lobbyists, whom special interest groups directly employ, and commercial lobbyists, who work for for-profit independent lobbying firms. In-house lobbyists focus exclusively on the relevant subset of policies of their interest group. They primarily focus on monitoring the policymaking process or advocating for their group. Commercial lobbyists act on behalf of multiple interest groups and may be part of firms specializing in public affairs or branches of consulting or law firms. Their services range from direct advocacy to all branches of government, legal and political consulting, formation of coalitions across interest groups and stakeholders, public affairs and relations, legislative drafting, congressional testimony, and campaign support and fundraising. Commercial lobbyists are motivated by profit or career prospects rather than policy outcomes or ideological objectives. These lobbyists are significant and account for substantial lobbying expenditures and growth in the United States, as documented in this contribution.

In the remainder of this survey, we explore the various arguments put forward to explain the division of lobbying activities between in-house and commercial lobbyists and their respective sizes, and focus on problems related to collective action, transaction costs, agency, and repeated games.⁴

¹For detailed accounts of special interest group activities and lobbying, see Hansen (1991), Rosenthal (1993), Baumgartner et al. (2009), Stephenson and Jackson (2010), Nownes (2013), and LaPira and Thomas (2017).

²For extensive reviews of theoretical models of special interest group influence, see Potters and van Winden (1996), Persson and Tabellini (2000), Grossman and Helpman (2001), Hall and Deardorff (2006), and Gregor (2017). For empirical literature reviews, see Potters and Sloof (1996), de Figueiredo and Richter (2014), and Bombardini and Trebbi (2020).

³For introductions see Bertrand et al. (2014) and Groll and Ellis (2013, 2014, 2017).

⁴There is an extensive literature in organizational economics regarding a firm's make-it-or-buy-it -decision following Coase (1937), Alchian and Demsetz (1972), and others that point out incentives to integrate services. In our following discussion, we will see an interaction of intermediation, human-specific assets, and incomplete contracts in rewarding efforts in lobbying.

2 Special Interests and Policymakers

The traditional literature on lobbying treats lobbyists and special interest groups essentially as a single entity. It starts from the observation that interest groups typically share common objectives that may involve ideology, religion, occupation, the production of specific goods and services, or interest to influence policy outcomes and policymaker selection outside the traditional party and legislative system. However, as Olson (1965) discusses, interest groups face a collective action problem. Group formation involves individual costs but mutual benefits, creating incentives for free-riding. However, once formed and well-organized, interest groups have various means to affect policy outcomes.

An early tradition examined “rent-seeking” activities -pursuing privately favorable policies at the cost of social welfare losses (Tullock, 1967; Krueger, 1974; Buchanan, 1980). Early studies modeled rent-seeking as a “black box” of influence activities with a simple Tullock (1980) contest function. The likelihood of realizing particular policies and private rents then depended on the relative resources expended by the “contestants.”⁵ Various literature strands take this as a starting point by opening the black box of influence activities.

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⁵For a review of the rent-seeking literature, see Congleton et al. (2008).

2.1 Contributions in Exchange for Policies

One strand focuses on the role of money in influencing policy. This takes two forms: either money purchases policies from incumbent politicians as in menu-auction models (Bernheim and Whinston, 1986; Grossman and Helpman, 1994) or, via campaign contributions, purchases the election of political candidates who support the interest groups' desired policies (Baron, 1994; Grossman and Helpman, 1996). Indeed, money can play both roles by supporting electoral candidates or influencing electoral winners, as Felli and Merlo (2007) discuss.

2.2 Information Acquisition and Transmission

Another strand of the literature focuses on resources in the form of private information to influence imperfectly informed policymakers. The wisdom is that a special interest group may either possess valuable information or have advantages in information acquisition and use their informational advantage strategically for their benefit. Given the interest groups' incentives, information transmission often takes the form of cheap talk (Crawford and Sobel, 1982; Milgrom and Roberts, 1986; Gilligan and Krehbiel, 1989; Potters and van Winden, 1992; Schnakenberg, 2016) although in some circumstances interest groups combine their messages with costly signaling to gain full or partial credibility (Austen-Smith, 1994; Austen-Smith and Banks, 2000; Schnakenberg and Turner, 2021). Alternatively, competition between multiple senders, namely interest groups, may enable the policymaker to obtain better information about the state of the world (Krishna and Morgan, 2001).

While the provision of information is a resource to the policymaker, it is not fungible like money. Information benefits the policymaker, but it may induce a policy response that harms the interest group unless offset by direct financial contributions (Bennedsen and Feldmann, 2006; Dahm and Porteiro, 2008a,b).

2.3 Scarce Access and Lobbying as Legislative Subsidy

A third strand explicitly recognizes that special interests face policymakers who are time- and resource-constrained.⁶ Hence, when policymakers are time-constrained, they compete for access by offering financial contributions to present costless, verifiable, or public information

⁶For political science references, see Hall and Wayman (1990), Hansen (1991), Hojnacki and Kimball (2001), and Baumgartner et al. (2009). For recent empirical studies in economics, see Blanes i Vidal et al. (2012) and Bertrand et al. (2014).

(Austen-Smith, 1995; Lohmann, 1995; Cotton, 2009, 2012). When policymakers are resource-constrained, special interest groups may have to provide subsidies in the form of financial or informational resources to enable policymakers to implement additional policies (Hall and Deardorff, 2006; Ellis and Groll, 2020).

3 Lobbyists: Expertise and Relationships

The literature discussed above provides insights into lobbying by special interest groups but hides the role of lobbyists as intermediaries in the black box. Here we highlight a few of the approaches adopted in the economics and political science literature concerning how lobbyists act as intermediaries between special interests and policymakers and what motivates them to do so.

Lobbyists act both as intermediaries between special interests and policymakers and advisors to both. On the one hand, they offer advocacy and advice to interest groups. They represent interest groups in closed meetings with policymakers, offer advice about the feasibility and timing of political initiatives, and deliver financial and informational resources from their clients or employers to policymakers. On the other hand, lobbyists compete for the attention of policymakers on behalf of their clients or employers and prove themselves valuable to time- and resource-constrained policymakers. By successfully balancing and mediating special interests' and policymakers' interests, they can build ongoing relationships that ensure future political access and secure future clients and employers for themselves.

3.1 Intermediation and Rewards

The role of intermediaries who act as communication linkages between special interest groups and policymakers was introduced by Ainsworth and Sened (1993). These intermediaries possess information to facilitate the formation of special interest groups and coordinate the group and policymakers on policies. However, their activities improve welfare and are not the rent-seeking activities we may associate with lobbyists. Dewatripont and Tirole (1999) provide a theory of advocacy and show that when advocates' rewards are based on decisions, imperfectly informed policymakers are better off listening to advocates of competing interest groups rather than obtaining their information from a single unbiased expert. This follows from an incentive problem faced by a single expert who, under decision-based rewards, has no incentive to

generate conflicting information, which would lead to a continuation of the status quo and no reward. However, suppose two advocates may investigate only a single policy issue. In that case, their incentive is always to gather more information to increase the probability of realizing their decision-based reward. This leads the two competing advocates to collect all possible information. A classic example would be two lawyers in court who are incentivized by their respective clients to present arguments and information supporting their side. This legal competition allows a judge and jury to draw valuable inferences. However, as Dewatripont and Tirole (1999) recognize, advocates may receive information-based rewards. Such rewards are not dependent on the outcome but on rather the quality of the presented information. Relating it to the example above, a judge might reward a lawyer for their effort and the quality of information supplied, which would motivate the lawyer to gather a broader range of information, including information that may not necessarily help their client. In lobbying, these information-based rewards may take the form of future access to the policymaker, which is a valuable asset that a lobbyist can sell to future clients. Empirical observation reveals that lobbyists receive both decision-based rewards from their clients and information-based rewards from policymakers. Clearly, in reality, lobbyists perform multiple functions and are incentivized by various rewards. Then, the questions are, by whom and in which form are rewards offered to motivate lobbyists – by their clients to achieve preferred political outcomes, or by policymakers to supply information or other resources that help their decision making. The contracts faced by individual lobbyists may specify decision-based rewards. However, their behavior also reflects that they must consider the consequences for future political access. Lobbyists balance their responses to the decision-based rewards offered by special interests and the information-based rewards from policymakers. Lobbying reports in the United States and other countries where reporting obligations exist document lobbying expenses that show that lobbyists are directly compensated by their clients or employers. Still, a closer look reveals that lobbyists like to advertise both their technical and institutional expertise and their connections and relationships with policymakers. These connections and relationships are a valuable, scarce resource they offer to potential clients. Hence, the individual client may become less critical of the lobbyist than the relationship with a policymaker.

Empirical research has documented the repeated nature of relationships between lobbyists and policymakers. For example, Bertrand et al. (2014) show that lobbyists, measured by

campaign donations and reported policy issues, follow their political contacts and change their political work issues when those contacts change public offices, committee assignments, or political issues.

Kerr et al. (2013) focus on lobbying activities by corporations. They show there is persistence in the set of corporations involved in lobbying on immigration, and therefore those firms can build expertise and relationships. Empirical work by Krozner and Stratmann (1998) argues that the committee system in Congress provides an environment that involves repeated interactions that leads to reputation-building between special interest groups and politicians.

3.2 Relationship Market

The recognition that lobbyists play a significant role in the political process implies a lobbying labor market and a market for intermediation services. The demand for lobbyists derives from their institutional and technical expertise, political relationships, and policymakers' access. Instead of modeling lobbying as a pure exchange of policies for resources or information transmission between special interests and policymakers, one may also have to recognize the lobbyists' role, who establish, maintain, and leverage personal relationships for income and profit.

This idea is the basis of Groll and McKinley (2015), who discuss the theories of the "relationship market" and the allocation of political access between citizen donors, special interests, and lobbyists.⁷ Lobbyists form relationships with policymakers through repeated interactions and provide them with electoral, legislative, and private resources. These resources can be financial or informational, depending on the policymakers' requests. The exchange of political access for various kinds of support creates and preserves personal relationships between policymakers and lobbyists. Lobbyists then commodify their political access as an asset to sell to their clients or employers. However, they are constrained by balancing their interests against those of special interest groups and policymakers.

The relationships between politicians and lobbyists may change due to adverse shocks to special interests' reputations. Espinosa et al. (2022) document how U.S. legislators may distance themselves from countries those reputations have suffered, but simultaneously meet more often with their lobbyists. Hence, relationships seem quite dynamic and adapt to external

⁷For a more detailed discussion, see McKinley and Groll (2015)'s blog post.

shocks via differences in channels of communications and resource demands. They may also be more robust than publicly visible and essential in lobbying.

3.3 Revolving Door

The “revolving door” is a term coined to describe how individuals move between the roles of politicians (and staffers) and lobbyists. Lobbyists exploit their work experience and connections as politicians or staffers and the relationships from their past employment to offer political access to potential clients. Blanes i Vidal et al. (2012) document that U.S. federal lobbyists who took the revolving door earn substantial premia compared to other lobbyists without government experience. They also show that their revenues drop substantially when high-profile contacts leave public office. Bertrand et al. (2011) document that revolving door lobbyists do not offer more issue expertise than other lobbyists. Hence, the premia they earn follow from the value of lobbyists’ scarce political relationships. LaPira and Thomas (2014) show that revolving-door lobbyists join commercial lobbying firms compared to interest groups as in-house lobbyists by a ratio of 2:1. Furthermore, LaPira and Thomas (2017) find that the greater the lobbyist’s previous federal job experience, the more likely a more prominent lobbying firm will hire them. They also discuss how the decline in Congressional staff and research support has contributed to lobbying and revolving-door lobbying growth. Policymakers outsource these tasks to lobbyists and interest groups, and lobbying firms take up these services with experienced staff. Revolving door lobbyists have valuable connections to politicians and Congressional staffers, as McCrain (2018) points out. He also documents that revolving door lobbyists earn substantial premia and are more likely to be hired by lobbying firms rather than working as in-house lobbyists – which further supports and expands the empirical results by LaPira and Thomas (2014, 2017).

Figure 1 below provides a diagrammatic summary of the actors and exchanges in the lobbying industry.

4 Commercial Lobbying: Lobbyists and Firms

The recent trend in increased regulation of lobbying activities has provided greater transparency into the political process and shed more light on the lobbying industry and the actors

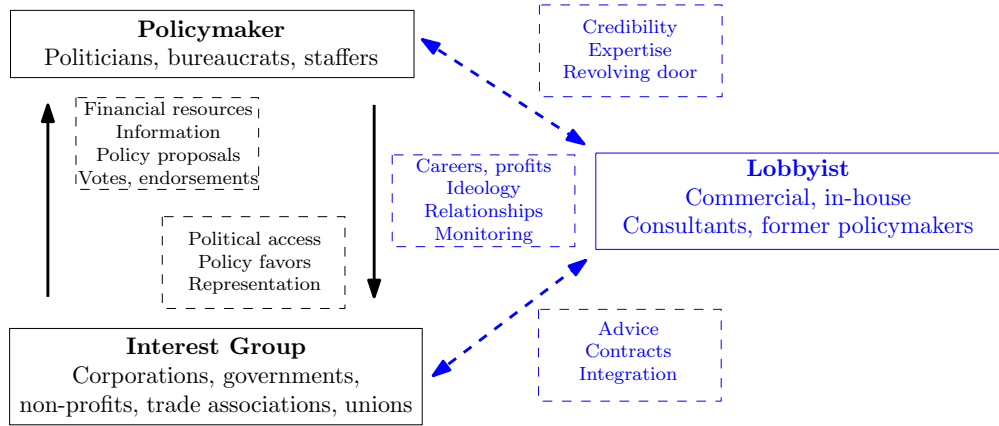


Figure 1: Political Influence Activities and Lobbying.

involved.⁸ Lobbying activities at the U.S. federal level comprise a multi-billion dollar industry that employs more than 10,000 registered lobbyists. Reported lobbying expenses exceed federal campaign contributions despite a significant degree of these activities being unreported.⁹ The reported activities tend to underestimate the industry due to an increase in “shadow lobbying” caused by loopholes involving financial reporting thresholds, definitions about who a lobbyist is or is not, and limited enforcement of the Lobbying Disclosure Act of 1995.¹⁰ The Honest Leadership and Open Government Act of 2007 attempted to close these loopholes, but despite this, reported activities have been falling continuously after that. This may have been compounded by the U.S. Supreme Court’s decision in *Citizen United vs. Federal Election Commission (FEC)* in 2010, which relaxed campaign finance rules for special interests and eliminated the contribution limits to independent Political Action Committees (PACs). The more robust lobbying reporting requirements and the elimination of barriers to campaign finance may have resulted in lobbyists strategically reporting less of their lobbying activities and engaging in shadow lobbying.

Self-reporting by lobbyists to the federal government reveals two types: “in-house lobbyists” working for organizations or firms and “commercial lobbyists” working for law or lobbying

⁸There are various country-specific studies. For example, Halpin and Warhurst (2015) provide an analysis of commercial lobbying in Australia, Hickey (2019) documents federal lobbying in Canada, and Greenwood and Dreger (2013) for the European Union. The current research of lobbying in Germany is still limited. However, the federal Government introduced a lobbying register in January 2022 that should allow more empirical research in the future. Polk (2021b,a) analyzes and comments the new legislation. Althaus (2015) provides details about career paths in lobbying in Germany gathering information from various surveys. Polk (2020) analyzes the role of information and money in German lobbying activities.

⁹For foreign lobbying in the United States reported under the Foreign Agent Registration Act, see You (2020).

¹⁰For the phenomenon of “shadow lobbying” in the United States and the trend of decreased reporting, see Thomas and LaPira (2017) and d’Este et al. (2020).

firms representing multiple clients on many issues. The data also document that commercial lobbying activities were dominant in the years before 2007 but absorbed a greater share of the subsequent fall in total lobbying activities. This is consistent with commercial lobbying firms having moved strategically towards shadow lobbying, implying that reported activities are lower than actual activities.

4.1 Trends in Reported Lobbying

Lobbyists must report their activities under the Lobbying Disclosure Act of 1995. They must disclose their clients or employers, lobbying revenues or expenses, policy issues, government agencies contacted, and their previous government position(s).¹¹ Lobbyists work for “clients” who employ them or work for a lobbying firm that a client retains.¹² The data for all figures and tables below are drawn from OpenSecrets, which provides a standardized U.S. federal lobbying reports database.¹³ Figure 2(a) reports the number of lobbyists who worked in a given year either as an in-house lobbyist, commercial lobbyist, or both. Figure 2(b) presents the same information using the classification of Bertrand et al. (2014), where a commercial lobbyist is any lobbyist who worked in their reported career as an external lobbyist (BBT classification in figures); this data highlights the pervasiveness of commercial lobbying. In Figure 2(b), we can see that most lobbyists have some commercial lobbying experience, and only a smaller fraction works exclusively as in-house lobbyists during their careers.

Both figures also document that reported activities shift towards in-house lobbying after the Honest Leadership and Open Government Act of 2007 and Citizen United vs. FEC in 2010. Hence, commercial lobbying seems to be less dominant, but this might be because commercial lobbyists have shifted significantly into unreported shadow lobbying activities. As we can see in Figures 2(a) and 3(a), the total number of lobbyists filing reports and lobbying amounts declined in the same period. Reported lobbying expenses and revenues grew substantially in the 2000s but then became flat in nominal and fell in real terms, following the legislative and

¹¹Public Law 104-65-Dec. 19, 1995 109 Stat. 695: “(10) Lobbyist. The term ‘lobbyist’ means any individual who is employed or retained by a client for financial or other compensation for services that include more than one lobbying contact, other than an individual whose lobbying activities constitute less than 20 percent of the time engaged in the services provided by such individual to that client over a six month period.” The Honest Leadership and Open Government Act of 2007 changed the reporting to quarters.

¹²Public Law 104-65-Dec. 19, 1995 109 Stat. 695: “(2) Client. The term ‘client’ means any person or entity that employs or retains another person for financial or other compensation to conduct lobbying activities on behalf of that person or entity. A person or entity whose employees act as lobbyists on its own behalf is both a client and an employer of such employees.”

¹³All bulk data can be downloaded from <https://www.opensecrets.org>.

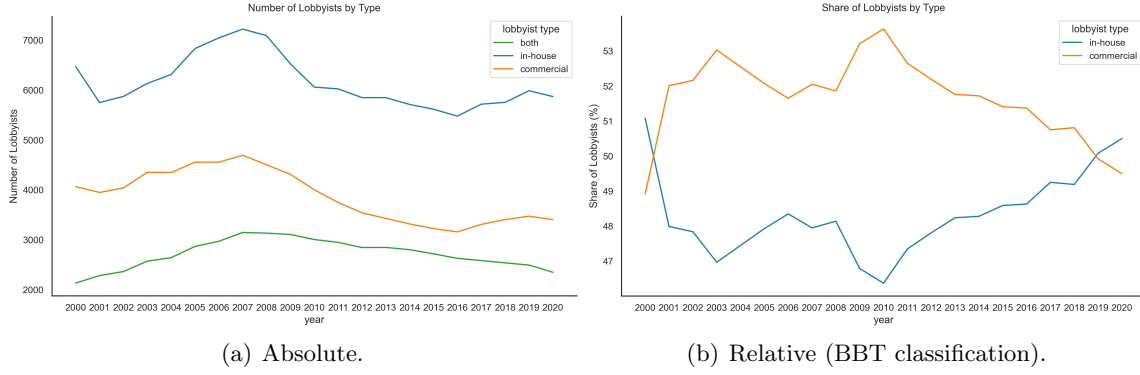


Figure 2: Active Lobbyists by Type.

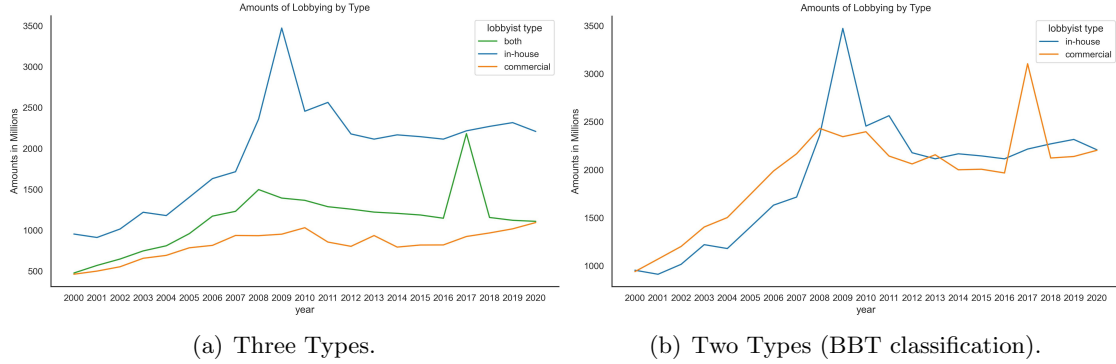


Figure 3: Lobbying Expenses and Revenues.

judicial reforms in 2007 and 2010. The same pattern holds if we divide lobbyists into in-house and commercial lobbyists following the alternative BBT-classification. Commercial lobbying revenues dominated in the 2000s and then flattened out at nominal levels similar to those of in-house lobbying expenses, as illustrated in Figure 3(b).

Overall, the data document that commercial lobbying is a significant – potentially the largest – part of the lobbying industry, but the role of commercial lobbyists and their employing firms operating for profit has not received much attention in the literature.

4.2 Lobbying Firms

The information surveyed above establishes that commercial lobbying represents the most significant part of the industry. So it is natural to ask about the nature of the firms that offer intermediation services and lobbying to special interest groups. We document the top 20 lobbying firms by revenue from the U.S. federal lobbying reports in Table 1. The largest reporting firms are either law firms with lobbying branches, pure lobbying firms providing advocacy for

	Firm	Type	Revenue in \$-million	Clients	Lobbyists	Issues	Agencies
1	Brownstein, Hyatt et al	law firm	52.02	271	60	49	51
2	Akin, Gump et al	law firm	50.52	294	70	61	43
3	BGR Group	lobbying firm	31.79	178	27	40	36
4	Cornerstone Gov. Affairs	public affairs	29.11	216	44	54	39
5	Holland & Knight	law firm	28.76	251	49	58	53
6	Squire Patton Boggs	law firm	25.5	201	58	56	42
7	Ballard Partners	lobbying firm	25.3	153	11	48	43
8	Invariant LLC	lobbying firm	21.23	104	23	45	34
9	Forbes Tate Partners	lobbying firm	19.57	135	24	55	18
10	Capitol Counsel	lobbying firm	19.52	138	28	43	22
11	K&L Gates	law firm	19	209	51	50	54
12	Mehlman, Castagnetti et al	lobbying firm	18.11	109	17	51	30
13	Cassidy & Assoc	lobbying firm	17.65	121	24	50	32
14	Peck Madigan Jones	lobbying firm	17.4	108	15	49	25
15	Van Scoyoc Assoc	lobbying firm	17.27	172	37	54	43
16	Crossroads Strategies	lobbying firm	16.61	121	20	49	39
17	Covington & Burling	law firm	16.5	94	47	36	26
18	American Continental Group	gov. affairs	15.69	110	18	45	32
19	Alpine Group	gov. affairs	15.04	102	17	50	17
20	Subject Matter	gov. commun.	14.64	81	12	46	8
	Top 20 of 2020	averages	23.56	158	32	49	34
	Top 20 of 2010	averages	20.96	151	41	42	39

Table 1: Top 20 Lobbying Firms in 2020 – Lobbying Revenues.

their clients, or firms specializing in a wide range of government and communication affairs. These firms employ large teams of lobbyists that represent multiple clients on various issues across many federal agencies.¹⁴ Though the specific firms of the top 20 firms in 2010 and 2020 have changed, their characteristics regarding the number of clients, issues, agencies, and revenues remained relatively unchanged.

Putting the top 20 and top 50 lobbying firms by revenue into industry perspective, we can see that they are relatively large compared to their competitors. Still, the overall industry is not highly concentrated. This description holds for the average number of clients as depicted in Figure 4(a) and the average expenses by special interests and revenues for lobbying firms shown in Figure 4(b).

The greater number of lobbyists employed by larger commercial lobbying firms is also reflected in the span of issues and agencies large commercial lobbying firms cover. Figures 5(a) and 5(b) illustrate significant differences between large and smaller firms, with the former offering expertise and connections across many more issues and federal agencies.

A lobbying firm’s size also matters concerning the number of its clients. Larger lobbying firms tend to have more clients for any amount of lobbying revenues. Further, there has been a recent upward trend in the number of clients. These conclusions follow from Figure 6.

¹⁴The registration and reporting requirements state 50 policy issues and 80 federal agencies that lobbyists have to disclose. Though the names of political contacts or the medium of contact are not reported on.

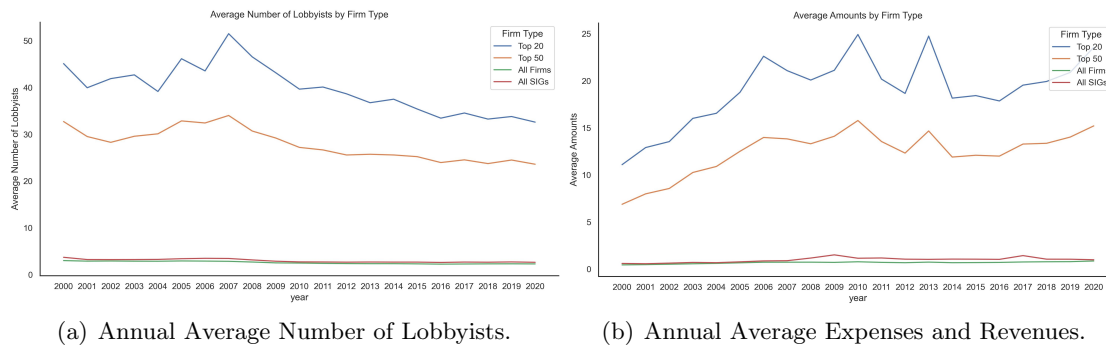


Figure 4: Top Firms and Industry – Lobbyists and Revenues.

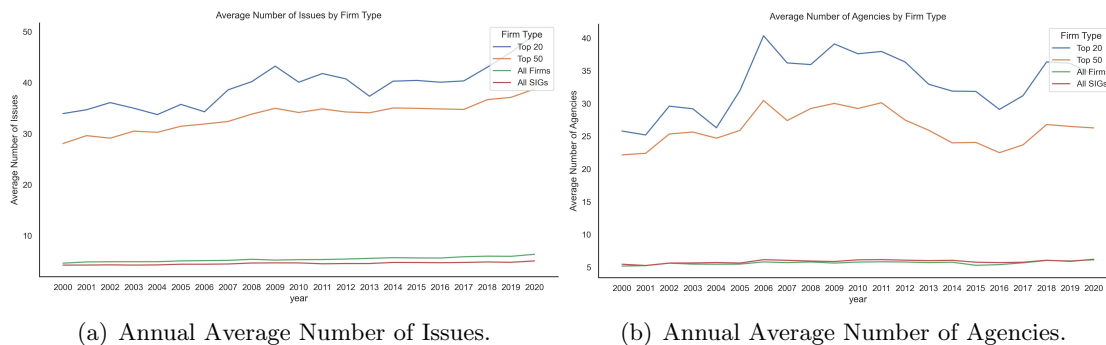


Figure 5: Top Firms and Industry – Issues and Agencies.

Over time, we see steady growth in the number of clients of larger commercial lobbying firms in the 2000s, followed by a period of decline after the legislative and judicial reforms of the late 2000s, the financial crisis, and the recovery after the Great Recession. However, there has been a turnaround since 2017.

In summary, we can see that most special interest groups and lobbying firms are relatively small in terms of the number of issues, agencies, and clients they represent. However, larger lobbying firms offer a somewhat more expansive range of technical and institutional knowledge and represent various clients across many issues and agencies. The growth in reported lobbying activities can be primarily attributed to larger lobbying firms.

4.3 In-House vs. Commercial Lobbyists: Connections and Expertise

The empirical literature has documented that commercial lobbyists working for lobbying firms are more likely to specialize in single issues and contribute more to politicians than in-house lobbyists working for special interests (Bertrand et al., 2011). This suggests that commercial lobbyists more frequently play an active role in policymaking. In contrast, in-house lobbyists

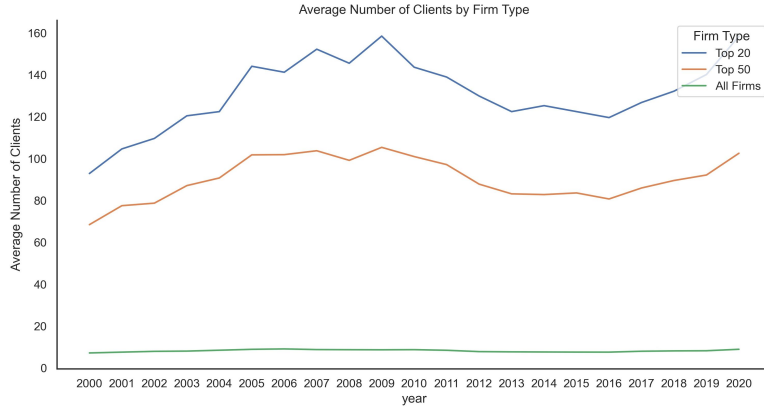


Figure 6: Annual Average Number of Clients.

tend to primarily monitor and report on this process, although both types of lobbyists engage in both types of activity. Ellis and Groll (2022b) argue that this is determined by the frequency of which issues are salient to policymakers. For reputational reasons in the credible transmission of information, frequently salient issues are lobbied upon by in-house lobbyists. Still, commercial lobbyists lobby upon infrequently salient issues. The reason is that commercial issues lobbyists have greater opportunities to establish reputations across issues and clients. One may infer that commercial lobbyists serve as “hired guns” for special interest groups when their policy issues become salient. Revolving door lobbyists may also have a reputational advantage through their prior political interactions with politicians and staffers, which may be of greater value within commercial lobbying firms (LaPira and Thomas, 2014, 2017; McCrain, 2018).

A policy issue may not just become suddenly salient but may also demand different issue expertise. Espinosa (2021) develops a model of issue expertise among lobbyists, and documents how British Petroleum (BP) outsourced lobbying activities in response to the Deepwater Horizon explosion and oil spill as well as the political aftermath involving a special commission investigating the event. Espinosa (2021) argues that the issue expertise necessary to respond to the investigation and potential regulation changes resulted in hiring more commercial rather than in-house lobbyists.

5 Principal-Agent Problems and Commercial Lobbying

The theoretical literature has also examined potential agency problems between special interests, lobbyists, and policymakers. Several obvious questions arise. First, who is the principal,

and who is the agent? Second, what is contracted over; information, financial benefits, or both? Third, given that there are three players in the lobbying game, special interest groups, intermediaries (who could be in-house or commercial lobbyists), and policymakers, it may be that an agent has two principals of different types or is a principal in one relationship and an agent in the other. In summary, relational contracts between lobbyists, special interests, and policymakers can arise within and across organizations (Baker et al., 2002), but they can also overlap as lobbyists face potentially two principals with different objectives, offering different incentives, and where policymakers may offer longer term career incentives.

5.1 Lobbyists and Policymakers

The theoretical literature presented here is motivated by various empirical facts and tries to explain them by studying agency problems between lobbyists and policymakers. A key feature is that the agency problems involving commercial lobbyists differ from those involving in-house lobbyists. In short, in-house lobbyists are simply the employees of special interest groups engaged in an agency relationship with policymakers. In contrast, commercial lobbyists are agents, in a sense, of both policymakers and their interest group clients. Because in-house lobbyists are purely incentivized by their interest group employers and represent them exclusively, they face great difficulty in credibly transmitting information to policymakers. This information transmission is less difficult for commercial lobbyists because they possess two unique features; first, because of their expertise, they may be thought of as possessing an independent verification technology that allows them to gather their information or evaluate policy proposals' welfare effects. Second, because they serve various clients over multiple issues and periods, they have a reputational incentive to report their information truthfully. This reputation for truth-telling earns them access to policymakers. Yet the need to maintain this reputation is exploited by those same policymakers that make informational and resource demands on commercial lobbyists. Hence, commercial lobbyists are agents of the special interest groups that employ them and of policymakers. In contrast, in-house lobbyists may be thought of as the principals in an agency relationship with policymakers who deliver resources in return for policy. These ideas are developed by Groll and Ellis (2014), Groll and Ellis (2017), and Ellis and Groll (2022b).

Groll and Ellis (2014) use a static general equilibrium framework to suggest reasons for the existence of commercial lobbying firms, the tasks they perform, and whether their contributions are socially desirable. They propose that commercial lobbying firms have the expertise to verify policy proposals and provide information concerning their social desirability. This informational role gives policymakers an incentive to allocate their scarce time and access to commercial lobbyists, who are not motivated by the policy but rather by profit. Essentially, commercial lobbyists sell the access to policymakers they have earned to their special interest group clients. However, policymakers both desire information and financial contributions. They maximize their payoffs by requiring a particular combination of information quality and financial contributions from commercial lobbyists. However, policymakers do not necessarily choose the socially optimal level of informational quality. This is for two reasons. First, they do not internalize the commercial lobbyists' information verification costs, which ultimately fall on their interest group clients and cause them to demand information of too high a quality. Second, they trade off information quality for privately beneficial financial contributions, which in contrast tends to cause them to request information of too low a quality. Hence, the quality of information can be either above or below the socially optimal.

Groll and Ellis (2017) develop these themes further in a simple dynamic general equilibrium model. They focus explicitly on how repeated interactions between policymakers, special interests, and commercial lobbyists explain the structure and growth of the lobbying industry. They derive four potential equilibria: in the first, only in-house lobbyists exist, and all lobbying consists of financial contributions; in the second, only commercial lobbyists exist, and all lobbying is purely informational; in the third, in-house lobbyists deliver financial contributions while commercial lobbyists deliver information, and finally in the fourth, in-house and commercial lobbyists engage in the delivery of financial contributions. This taxonomy follows from the facts that verification problems imply that only commercial lobbyists can deliver credible information and that commercial lobbyists enjoy economies of scale in bundling financial contributions. Their comparative static results show that a tightening of the policymakers' time constraint for policymaking, perhaps arising from the increasing need to engage in fundraising and campaigning, results in a growth in commercial lobbying in terms of the number of commercial lobbyists and their revenues. This is consistent with the empirical facts of declining legislative resources and the growth in commercial lobbying. Lastly, they illustrate how

repeated agency contracts, proposed by policymakers in a world of asymmetric information, allow policymakers to receive financial contributions and policy-relevant information in the presence of quid pro quo contracting and information asymmetries.

Furthermore, investigating the role of repeated agency, Ellis and Groll (2022b) look at which issues we might expect to be lobbied on by commercial lobbyists or in-house lobbyists. Their key observation is that commercial lobbyists are continuously involved in lobbying because they represent various clients over several issues. In contrast, in-house lobbyists may be actively engaged in lobbying only infrequently. This is because in-house lobbyists are involved in a smaller number of issues that may be salient to the policymaker and public with different degrees of frequency. Therefore, commercial lobbyists may always engage in the repeated interaction required for reputation building and the credible transmission of information. In-house lobbyists may only exploit these reputational mechanisms when their issues are salient with sufficient expected frequency. Otherwise, they cannot transmit information credibly. Special interest groups with frequently salient issues employ in-house lobbyists, whereas those less often salient must hire commercial lobbyists. Alternatively, commercial lobbyists act as costly signals for special interest groups that do not possess a reputation to deliver information credibly. How frequently a policy issue becomes sufficiently salient to receive a policymaker's attention and what sufficiently salient means depends on several political factors. If a policy is vital to a policymaker for ideological or other reasons, then the level of salience required to receive their attention may be pretty low, realized frequently, and will be presented by in-house lobbyists. If the policymaker's tenure is uncertain, then the necessary level of expected salience is higher as the policymaker effectively discounts the future more. This works against in-house lobbyists who may not interact with the policymaker very frequently. Hence, policymakers whose reelection prospects are uncertain would tend towards listening to commercial lobbyists.

The frequency with which a policy is salient, all else equal, determines whether it receives the policymaker's attention and who lobbies on the issue. However, an in-house lobbyist representing an issue with low expected salience may compensate for this by making financial contributions. Such financial contributions may be an alternative to employing commercial lobbyists. This suggests that financial contributions tend to be made via in-house lobbyists. The number of issues represented by commercial lobbyists is negatively correlated with the

level of financial contributions made by special interest groups. However, this substitution does not affect information transmission and policy quality; policymakers get the same volume of truthful information via another channel from an in-house lobbyist instead of a commercial lobbyist. The contributions by special interests increase their chances of being considered by the policymaker in the future and hence, increase their truth-telling incentives. In this function, money does not distort policies.

Hirsch et al. (2022) suggest an alternative approach whereby policymakers select lobbyists with whom they share an ideology. The lobbyist screens policy proposals on behalf of the policymaker. All else equal, lobbyists would be perfect agents. However, Hirsch et al. (2022) argue that lobbyists may be captured by special interests offering monetary rewards. Hence, lobbyists face a dilemma in balancing their ideological and financial incentives. They test their predictions using data on foreign lobbying in the United States, where commercial lobbyists are in the vast majority. Their empirical findings confirm that more ideologically aligned lobbyists choose policy proposals closer to policymakers' preferences.

5.2 Lobbyists and Special Interests

Like the policymakers, special interest groups also face adverse selection and moral hazard problems between in-house or commercial lobbyists. Various scholars have discussed the organization of lobbying between special interests and lobbyists, usually concerning theories of collective action, transaction costs, and agency problems. Lobbyists monitor political and public opinion, provide potential advocacy for their clients, and advise their clients on the timing and feasibility of policy proposals and strategic actions to pursue them. Hence, the agency problems between lobbyists and clients can be complex and differ from those between policymakers and lobbyists.

Stephenson and Jackson (2010) point out that agency problems may be more severe for interest groups with broader and more heterogeneous memberships. They face greater challenges in selecting and monitoring lobbyists. Their essay suggests four reasons why lobbyists may not act exactly as special interest groups wish. First, there is the standard principal-agent problem where lobbyists have to be incented to provide costly imperfectly observed effort. Second, lobbyists may have strong incentives to form long-term relationships with policymakers because of career concerns. This argument is related to our discussion above of decision-based versus

information-based rewards. Third, the lobbyist may have personal interests or is ideologically more aligned with the policymaker.¹⁵ Finally, lobbyists may form relationships with other lobbyists, create coalitions, and compromise on policy issues rather than putting maximum effort in for their clients. They note that some of these agency issues may be mitigated by a competitive market for lobbying services involving for-profit lobbying firms.

It is well-recognized that it is challenging to monitor lobbyists' efforts. However, Lowery and Marchetti (2012) argue that it is also difficult to evaluate the effects of lobbyists' efforts on policy outcomes. First, institutional complexity implies that even high levels of lobbyists' effort inefficiently applied may have little impact on policies, as lobbying may target the wrong policymakers, or institutional procedures and protocols are not met. Second, lobbyists typically operate in teams within their organization or as part of a coalition across organizations. Hence, it may be challenging to identify the effect of each lobbyist's contribution on the policy outcome. Third, lobbying efforts designed to maintain the status quo may have had little effect as the status quo would have been maintained in the absence of their efforts ("status quo bias"). Finally, policy changes may occur, but they can be incremental or drastic.

In selecting lobbyists to be their agents, de Figueiredo and Tiller (2001) point out that firms also worry about information leakages, whereby lobbyists reveal sensitive information to policymakers or competitors. Focusing on collective action and transaction cost theories, they analyze whether firms lobby alone, organize in trade associations, or do not lobby. They find that larger firms lobby the Federal Communication Commission (FCC) through trade associations, and smaller firms do not lobby. Firms tend to lobby with in-house lobbyists rather than collectively to protect sensitive information. In a follow-up empirical study, de Figueiredo and Kim (2004) show that firms rely on in-house lobbyists to protect sensitive information and contact top officials but employ external lobbyists from the association when the information is more general industry-wide.

The monitoring of lobbyists' efforts may be more difficult or important depending on the policy issue involved. LaPira et al. (2014) document that special interests employ lobbyists in-house in core political domains, whereas commercial lobbyists work on peripheral issues. Core domains are high-profile issues with high lobbying engagement, where special interests

¹⁵Furnas et al. (2019) document how lobbying firms contribute consistently to the same political parties in the United States and how their revenues are affected due to majority changes in the U.S. House or Senate. They argue that the ideological alignment between lobbying firms and policymakers reduce clients' uncertainty regarding access and lobbying efforts.

value closer monitoring sufficiently; peripheral domains are niche issues that can be undertaken by harder-to-monitor but specialized commercial lobbyists.

Lobbyists perform multiple tasks on behalf of special interest groups. As described in the studies above, they exert effort in lobbying. Still, they also enjoy private information considering the feasible outcomes of lobbying activities, and they advise their clients about this. In Holyoke (2017), lobbyists may misrepresent policymakers' policy preferences to the special interest group to argue that the outcome they realized was the best possible outcome. In truth, they have been incentivized to realize this outcome by policymakers controlling access. Even further, in Tyllström and Murray (2021), lobbyists persuade special interest groups as to when lobbying is feasible; in effect, they choose when and how lobbying takes place. They do this to further their agendas, which may or may not be aligned with the special interest group. If true, then the traditional idea of who is a principal and who is an agent in the interactions between special interests, lobbyists, and policymakers, as in Figure 1, may get quickly fuzzy and circular. Both studies point to normative concerns regarding lobbyists' conduct and the potential need for ethical codes of conduct in lobbying.

In summary, these observations illustrate that monitoring lobbyists' efforts and evaluating their successes are complex. This may explain why most firms and organizations do not engage in lobbying activities and those that do tend to be significant. Furthermore, monitoring and effort evaluation may also play an essential role in deciding whether to employ in-house lobbyists or hire commercial lobbying firms. In-house lobbyists are direct employees of special interest groups working on a small number of issues with a small number of political contacts. The effort levels of in-house lobbyists are relatively easily monitored within the organization. However, any other relevant in-house lobbyist characteristics that may be collectively called "quality" are challenging to monitor. This is because the key signal of quality is lobbying success, which is hard to evaluate. The difficulty arises as each in-house lobbyist is only involved in a small number of lobbying cases, policy outcomes may occur incrementally, and results are hard to attribute to a particular effort and lobbyist. All else equal, special interest groups would probably prefer to have their lobbying done by easily incented in-house lobbyists. However, in-house lobbyists do not necessarily enjoy the same political access as commercial lobbyists. This is because commercial lobbying firms lobby across a wider variety of issues across a larger number of policymakers. This allows them to exploit the reputational advantages of the

repeated agency. Policymakers, therefore, have greater trust that commercial lobbyists will report information truthfully. This suggests that policymakers would prefer to be lobbied by commercial lobbyists. The resolution of this tension between policymakers and special interest groups regarding whether they prefer in-house lobbyists or commercial lobbyists to be their representatives determines the lobbying industry's structure.

6 Summary

This chapter provided a review of the current literature on commercial lobbying and placed this work into the context of the broader lobbying literature. Commercial lobbyists work for for-profit organizations that sell their services as intermediaries between policymakers and special interest groups. This intermediation involves the transfer of resources from special interest groups to policymakers. These resources may be information, financial contributions, or direct involvement in legislating or campaigning. Commercial lobbyists' actions may either complement or substitute for the activities of in-house lobbyists. The literature argues that the division of lobbying activities between in-house and commercial lobbyists depends on resolving agency problems and how easy and costly it is for policymakers and special interest groups to incent the different types of lobbyists. It appears that in-house lobbyists may be induced to provide effort via standard agency contracts, whereas commercial lobbyists are incented by reputational concerns associated with the repeated agency. The literature on lobbying is ongoing. Perhaps the next question is to consider what determines the division of in-house lobbyists between those representing individual corporations and those representing coalitions of corporations such as trade associations. This needs to be placed in the overall context of the division of lobbying activities between in-house and commercial lobbyists.

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