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Modern Lobbying: A Relationship Market

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Introduction

To date, theoretical models of lobbying have assumed a simple transaction between policymakers and lobbyists and have not yet explained why lobbying is largely conducted through repeated interactions between policymakers and lobbyists, why the lobbying industry is so focused on building relationships, and what value is added by lobbying intermediaries. Recent empirical research has begun to highlight the importance of relationships to the lobbying industry and how the daily practice of lobbying is focused on perfecting and implementing the art of relationship building. Belying the reality that relationships are central to lobbying, little work has been done to explain and model the lobbying industry's fixation on relationships and reputation, or to address the simple fact that political access is a key scarce resource. Given the exponential growth in lobbying firms, which rely heavily on relationships, understanding the particularities of the relationship market has become increasingly important.

Before introducing and modeling the theory of the "relationship market," we briefly describe traditional notions from the literature that characterize lobbying as a single transaction of exchange, information, or subsidy. We then describe recent empirical work documenting the rise of lobbying intermediaries and the increasing emphasis on relationships within the lobbying industry. Finally, we introduce the "relationship market," a theory that incorporates the incentives of policymakers, lobbyists, and citizens as repeat players. We then explore the implications of the "relationship market" for our understanding of the influence industry, including the observation that policymakers have an incentive to provide greater access to citizen-donors and lobbyists with whom they have a relationship.

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Market for political influence and access

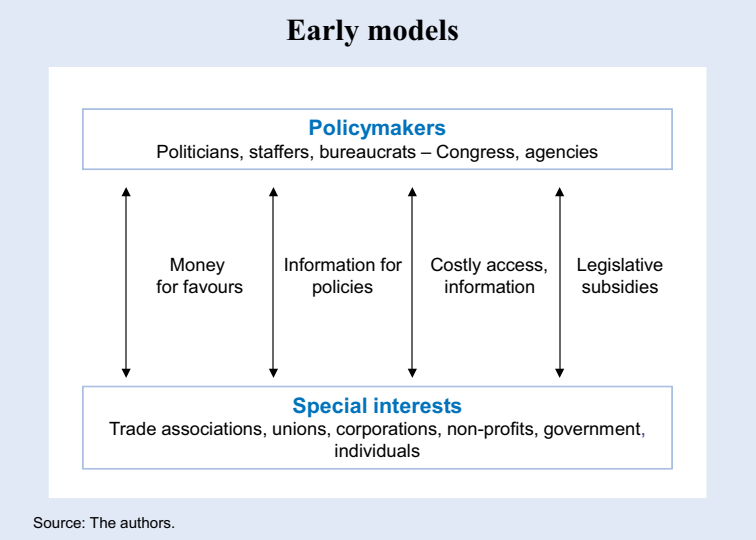
The literature on political influence activities spans separate fields of economics, law, and political science and has largely focused on lobbying activities as a form of market exchange between special interests and policymakers.

There are three broad theories that describe these markets for political influence and access.[3] The first – rather cynical – theory posits that special interest groups offer resources (such as campaign contributions, political endorsements, vote campaigns, campaign support, or future career opportunities) to policymakers in exchange for policy favors. Many of these contributions model the interactions between special interest groups with contest functions[4] or auction games[5] and study how special interests provide resources to policymakers to achieve their desired policy outcomes.

However, the literature is not conclusive as to whether special interests have been able to capture the political process by using campaign contributions as bribes. Belying this cynical view is the fact that most donations come from individual donors and specific demographics rather than organized special interest groups (Ansolabehere, de Figueiredo and Snyder 2003). Furthermore, most contributions do not capture the expected rents (Tullock 1972; Ansolabehere et al. 2003); put simply, special interests are not providing very large campaign contributions, given the windfall the special interests can expect from favorable policy. Moreover, the dollars invested in electoral campaigns might appear tremendous in isolation, but these figures pale in comparison to the amount spent on lobbying every year.

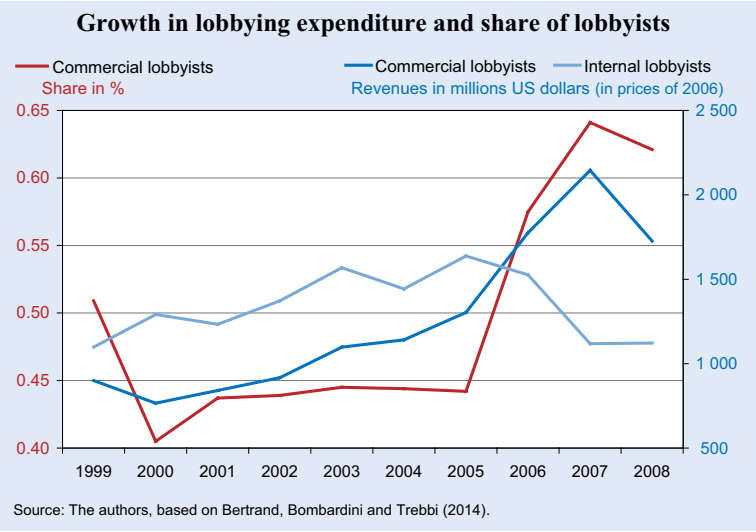
[3] For general reviews on special interest group and lobbying activities, see Olson (1965), Grossman and Helpman (2001), Hall and Deardorff (2006) and Congleton, Hillman and Konrad (2008).
[4] See, for example, Tullock (1980) for an introduction and Nitzan (1994) for a review.
[5] See, for example, Bernheim and Whinston (1986) and Grossman and Helpman (1994).

Figure 1



Source: The authors.

Figure 2



Source: The authors, based on Bertrand, Bombardini and Trebbi (2014).

Two alternative theories focus on the informational characteristics of lobbying. Special interest groups approach policymakers with a mix of private information and financial resources, where the latter does not buy policy, per se, but instead signals the credibility of their information or secures access to policymakers for presenting information. In these models special interests may either provide unverifiable or verifiable information. If the information is unverifiable for a policymaker, then she has to form an expectation about the accuracy of the interest group's provided information. A policymaker may either face a situation of "cheap talk," where the interest group's claims are unverifiable and not necessarily credible, with only a limited ability to learn about the political consequences of an interest group's objective or claim,[6] or the policymaker receives "costly signals" – that is, signals and access that are costly to the interest group and enhance the credibility of the information provided.[7]

A fourth theory, mostly present in the political science literature, is one of legislative subsidies by Hall and Deardorff (2006). This tradition posits that special interests with similar objectives support resource-and time-constrained policymakers with whom they share policy objectives and provide those policymakers with additional resources to consider more policy issues. Contributions free up a policymaker's time from fundraising obligations and express joint objectives and efforts in the policymaking process.

However, none of these four theories, illustrated in Figure 1, takes into account the growing market in Washington for relationships, largely facilitated by the growth of lobbying firms and their employees.

Growing market for intermediation and relationships

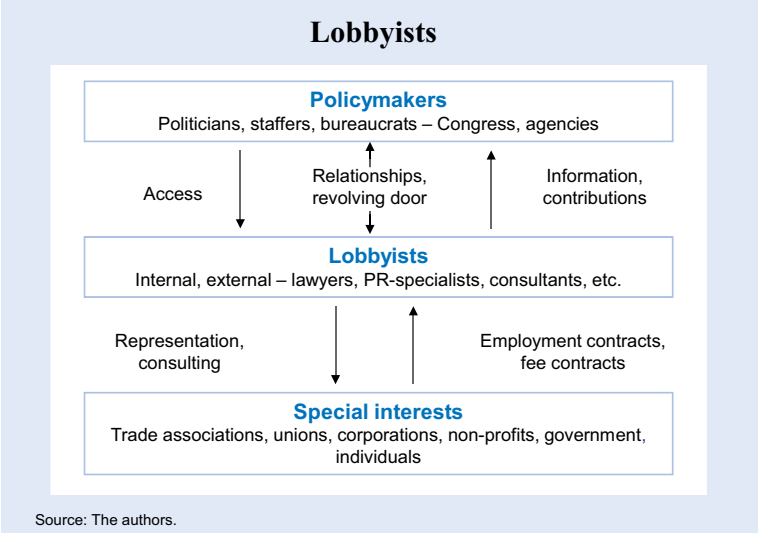
Economics and political science research have neglected the growing market for intermediation services. Rather than assuming only a single type of lobbyist, as earlier models did, we now observe two groups of professional lobbyists who are active in the hallways of both houses and government agencies. In addition to representatives of classical special interest groups, such as trade and occupational associations or larger corporations, lobbyists employed by commercial lobbying firms have joined the market for lobbying services. By contrast to special interest groups and their employed representatives, commercial lobbying firms and their employees, bound by a service contract alone,

[6] See, for example, Crawford and Sobel (1982).
[7] See, for example, Grossman and Helpman (1994) or costly access models that enhance credibility such as Austen-Smith (1995) or Lohmann (1995).

may not be directly affected by a policy they lobby on or have ideological preferences over policy outcomes.

Figure 2 illustrates data from Bertrand, Bombardini and Trebbi (2014) and shows how the growth in lobbying expenditure can be attributed to commercial lobbying firms, and that the majority of registered lobbyists are commercial lobbyists, working as "hired guns," rather than in-house lobbyists of special interests.

Figure 3



Source: The authors.

These commercial lobbying firms act as intermediaries between citizens, corporations or special interest groups and policymakers; they seek to make profits by selling their intermediation services to their clients and rely heavily on their existing relationships with policymakers. Their intermediation services include direct advocacy in all three branches of government, legal and political consulting, legislative strategy advice, formation of coalitions and grassroot organizations, legislative drafting for policymakers, legislative witness-hearing preparations, and public relations for both clients and policymakers. Despite the growing ubiquity of firm lobbyists, little theorizing has been done on the particulars of the firm lobbyist market and the implications of these distinctions on access and influence. Our work seeks to address this shortfall with the introduction of the theory of a "relationship market" and the implications for that market on who gets heard in the policymaking process.

The relationship market

Contrary to public misconception, the daily life of firm lobbyists is not filled with glamorous parties and smoke-filled backroom politicking where lobbyists engage in *quid pro quo* transactions of money for policy. Rather, these firm lobbyists focus their professional attention on honing the fine art of building relationships, primarily with members of Congress and their staffs, but also with potential clients, coalitions, and other individuals and organizations related to their clients and issue areas. This focus on relationships is reflected in the practices that fill their daily lives as they build, preserve, and then commodify these relationships.

The following previews work from McKinley and Richland (2015), introducing the theory of a "relationship market," illustrated in Figure 3, drawn from an eleven-month field study of federal lobbyists.

Cultivation

According to McKinley and Richland's observational data firm lobbyist participants reported spending a portion of each workday engaged in relationship cultivation practices. These practices included interacting repeatedly with policymakers or their staff or providing support, typically in the form of electoral, legislative, or personal support.

Repeat interactions

All participants reported cultivating relationships through repeated interactions with a member and her staff. The overwhelming majority of participant lobbyists reported being the primary initiator of most interactions with policymaker offices. In building a relationship with a policymaker and her staff, lobbyists reported that they often found it challenging to strike the delicate balance between contacting an office often enough to maintain a relationship and contacting an office too frequently. Respecting the time of a policymaker and her staff, the lobbyist participants reported, was paramount to relationship building. Accordingly, lobbyist participants reported engaging in a range of interaction-initiation practices – from least to most intrusive – that they varied based on context.

Lobbyist participants reported contacting policymaker offices most often with the least intrusive and most helpful practice: emailing information and news of genuine interest to the policymaker. Forwarded news content was less likely to (but could) contain information pertinent to the participant lobbyist's client, but was generally directed entirely toward the policymaker's informational concerns and, as an email, could be disregarded easily by the receiver. The forwarded content served more as a signal to the office that the lobbyist participant still held a relationship to the office and still understood the needs of the office, while taking little, if any, of the policymaker's time.

Another less intrusive relationship-building practice is informal interaction – e.g., catching staff at hearings or other formal legislative events and inviting staff for personal coffees or group lunches. Lobbyists rarely mention client concerns during these interactions, but both the emails and informal interactions afford time and attention to the lobbyist and serve as a reminder to the policymaker and her staff that the lobbyist is a supporter.

The most intrusive relationship-building practice is setting and attending formal meetings with policymakers and staff. In fact, were it not for the time spent together during the meetings, lobbyist participants might hardly consider the meetings relationship-building practices at all. Rather, formal meetings are seen as a prized commodity on the Hill and lobbyist participants reported that they would never schedule a formal meeting unless they had an "ask," i.e., a specific legislative request that the office might reasonably fulfill.

Support

In addition to initiating interactions with policymaker offices to signal and remind of ongoing relationships, lobbyist participants also built relationships by providing support. Generally, support took one of three forms: electoral, legislative, or personal.

Distinguishable from the stereotypical *quid pro quo* arrangement of goods for policy outcomes, lobbyists would provide support to policymakers and their staff as "gifts" – i.e., aimed at building solidarity and without any clear valuation or expectation of reciprocation. Rather, lobbyist participants engaged in extensive formality to frame support as gifts between political and legislative allies and friends. The general sense is that providing support in small amounts, at the "right" moments, served to build trusted relationships over time and to offset any inconvenience caused by taking the policymaker's time. A transaction or *quid pro quo* exchange, like borrowing money from a family member, would undermine the relationship and, thus, was to be avoided at all costs.

Drawing primarily from the work of French anthropologist Marcel Mauss (1954), scholars have equated the practices of providing support to policymakers and their offices by lobbyists to "a gift economy," i.e., a market where gifts are given to increase solidarity without any clear legal or contractual obligation on the receiver to reciprocate, but where solidarity (or the relationship) then provides the motivation to reciprocate (Lessig 2011). Fostering a gift economy, lobbyist participants would carefully provide each form of support – electoral, legislative, and personal – in order to maximize the likelihood that the support was received as a gift and minimize the appearance of a *quid pro quo* transaction.

Electoral support

The most well-known, as well as the most vilified, form of electoral support is the campaign contribution. But lobbyist participants also provided other forms of electoral support by rallying constituent clients for votes and other volunteer campaign support. These forms of support were limited in their utility to build relationships, however, because lobbyists could only offer certain forms of electoral support proximal to an election.

Unlike most other forms of electoral support, the practice of providing campaign contributions is available all year-round. Despite its year-round availability, however, criminal laws[8] make the practice of providing campaign contributions a bit more complicated. Under threat of a USD 5,000 sanction and up to three years in prison, a policymaker cannot receive a campaign contribution in her office, so the policymaker must hold the meeting where she receives the contribution off Capitol grounds. To accommodate the need for an off-site meeting location, each political party has set up a "club" just off of the Hill where policymakers, staffers, lobbyists, and individuals can build deeper relationships over coffee or a meal, and where the policymaker can receive contributions.

In addition to offering electoral support directly, lobbyist participants would often remind policymaker offices

[8] 18 U.S.C. § 607. This regulation is one, among many, that seeks to prevent *quid pro quo* arrangements of money for policy.

of other forms of electoral support provided by clients when discussing a client issue or setting up a meeting. Formal and informal meetings, especially with policymakers, often included some mention of past electoral support, usually in an expression of gratitude by the policymaker herself. Policymakers and staffers expressed a strong preference for meetings with constituents, often explicitly requiring the presence of at least one constituent in order to meet with the lobbyist, and expressed a similar preference for supporters.[9]

Legislative support

In addition to electoral support, lobbyist participants also provided legislative support to policymakers and their staffs, in the form of policy reports, draft statutory language, private information and data regarding constituent clients, insider political and legislative information, and lobbying support to gather cosponsors or rally defeats. This form of lobbying has been well-documented by the literature as providing a "legislative subsidy" to supportive policymakers' offices in order to incentivize scarce attention to your client's issues over others (Hall and Deardorff 2006). But these gifts also serve a similar function to electoral support in building relationships and provide another opportunity for a lobbyist to demonstrate trustworthiness and dependability.

Personal support

Finally, observational data showed (and participant lobbyists reported) the importance of providing personal support to offices, and to staffers in particular, in building relationships. Personal support, probably due to the danger of *quid pro quo* arrangements, most often took the form of advice or information provided to staffers regarding career or personal advice. Advice to staffers included a range of personal and professional advice; for example, information regarding which other policymaker offices were hiring or which non-Hill organizations (including lobbying firms) had openings at a time when a staffer's policymaker was either retiring or had lost an election, or sage advice from a participant lobbyist on how to navigate difficult office politics.

In addition to building new relationships, some lobbyists brought established relationships to private practice from earlier government employment. As noted, the profession of federal lobbyists in D.C. includes a number of former staffers who have left the Hill in search of a sustainable salary and more stable employment prospects (Rosiak 2012). Many offices have formal and informal norms to deter new lobbyists from engaging with former colleagues on staff, but for many new lobbyists, former relationships on the Hill become paramount. For the first few months on the job, a participant lobbyist reported relying heavily on former Hill and agency contacts both for assistance on substantive issues, as well as access for meetings and other connections, as the new lobbyist learned the substantive area of law and policy of his new position.

Established relationships with policymakers, especially for senior staff, also prove important to a lobbyist throughout her career (Blanes I Vidal, Draca and Rosen 2012). Participant lobbyists described policymakers for whom they worked as mentors and friends to whom they would turn for professional advice and support. Participants also described relationships with former policymaker employees as fraught with concerns over balancing the relationship with the policymaker against the demands of the lobbying business. On the one hand, the relationship with a policymaker could prove the most important to a client in gaining access. On the other hand, a lobbyist risked diminishing the relationship with the policymaker, as well as losing future mentorship and support, with every potential meeting and every potential "ask."

Preservation

In addition to building and accessing established relationships, lobbyist participants also engaged in a range of practices to preserve established relationships. Most notably, lobbyist participants reported experiencing a heightened concern over preserving their own professional reputation, especially with respect to honesty. Not only did participants feel that it was important to actually be honest within the profession, but they also felt that a lobbyist must aim to always be *seen* as honest, and they would invest incredible energy into preserving a reputation for honesty. Participant lobbyists reported verifying information extensively before providing it to a policymaker's office and also reported wariness of representing clients whom the lobbyist worried would provide unreliable information.

[9] Moreover, a constituent could always provide future electoral support, even if she has not done so already.

Commodification

Relationships, once established, were readily commodified. During each stage of the lobbying business process – from new client pitches to contracting with clients to strategy planning with colleagues and coalitions – relationships were treated as highly valuable goods that the lobbyist could convert into time with the policymaker or staffer with whom the lobbyist has a relationship.

In the context of new client pitches, lobbyist participants reported that they would present a substantive policy proposal and legislative strategy to potential clients. But, in order to convey the feasibility of the legislative strategy, they would also stress the fact that they or their firm had the relationships necessary to put the strategy into action. Clients and lobbyists would then codify those relationships into contracts, which would include promises to secure meetings with particular offices or to enact a legislative strategy necessarily dependent on those relationships.

Strategy meetings between firm lobbyist colleagues would focus similarly on relationships: many lobbyist participants described that strategy sessions centered around a spreadsheet that listed the names of necessary contacts for legislative action—paradigmatically, a list of possible co-sponsors to establish a House or Senate majority. Once the list of names was compiled, the strategy meeting would then turn to identifying those lobbyists, if any, who held a pre-existing relationship with policymakers listed on the spreadsheet.

Modeling the relationship market

Current work by Groll and Ellis (2015) seeks to answer the question of how policymakers allocate access to "citizen-donors" – individuals, citizens, or, broadly, special interest groups – and intermediaries, to whom they refer as "commercial lobbyists."[10] From their analysis, they conclude that policymakers are more likely to allocate access to citizen-donors and commercial lobbyists with whom they have developed a "relationship," or engaged in a series of exchanges over time. These relationships allow the policymaker to solve the problems she faces with information (which she needs, but cannot verify) and with contributions (which she needs, but for which she cannot contract). Over time, the policymaker can provide access to those citizen-donors and lobbyists whom she knows – based on earlier interactions – will provide reliable information and promised campaign contributions. Like a gift economy, these relationships form an implied contract, incentivizing future exchanges between policymakers and special interests and lobbyists. Their framework articulates why commercial lobbying firms coexist with traditional special interest groups such as associations, unions, firms and governments, and offers explanations for the recent substantial growth in the size of this industry and the current predominance of commercial lobbyists.

Groll and Ellis's (2015) general equilibrium model focuses on three types of agents: citizens, commercial lobbyists and policymakers. Citizens are endowed with policy proposals, which, if enacted by a policymaker, yield them a private benefit and generate a social spillover which can be either positive or negative. Commercial lobbyists possess some form of expertise that allows them to gain more information about a proposal's implications and operate for profit. Policymakers have a time endowment that allows them to enact a limited number of policy proposals. The enacted policy proposals can be presented by citizens directly or by commercial lobbyists on their behalf, and both types can offer financial contributions. This implies a two-sided market structure with a market for political intermediation for which citizens pay a market clearing fee to commercial lobbyists and a market for political access in which policymakers design access rules that allocate their time between citizen-donors and lobbyists.[11] Technically, individuals choose between the roles of citizen and lobbyist, but the analysis shows that policymakers create barriers to entry as an incentive device for allocating scarce political access and receiving informational and financial resources. The scarcity of political access and the policymakers' need to incentivize lobbyists for their unobservable effort create barriers to entry for citizens into the lobbying industry. Similarly, citizen-donors' financial contributions cannot be formally contracted, and therefore citizen-donors are awarded with future access as long as they honor their current promises. These access rules take the form of repeated agency contracts and are closer to relationships than *quid pro quo* interactions, though policy values are traded.

Groll and Ellis's model exhibits an equilibrium with both citizen-donors and commercial lobbying firms receiving political access. Special interests' advantag-

[10] Earlier work by Groll and Ellis (2014) focused on commercial lobbyists only.

[11] In this sense commercial lobbyists share features of "biased experts" and "advocates" (Krishna and Morgan 2001), but they are not directly affected by policy outcomes like biased experts or incentivized by their clients like advocates.

es are in contributing more per proposal as they fully internalize the private benefits of their policy proposals; commercial lobbyists' advantages are in the economies of scale in providing both credible information and bundling contributions. Citizen-donors' advantages are clear, as they can bid more per proposal, but they offer only one proposal to the policymaker from which she can draw an inference about the citizen's information, whereas commercial lobbyists represent many clients and policymakers observe more signals about the quality of exchanges. The better monitoring of commercial lobbyists enhances their credibility and allows policymakers to rely on their expertise. However, commercial lobbyists can also bundle contributions from many clients that reduce policymakers' cost of monitoring and collecting many contributions.

The growth in commercial lobbying can be explained with a change in politics, as the difficulty of accessing policymakers is rising. As political access becomes scarcer, the model predicts a growth in the number of commercial lobbyists and their revenues. It has been widely recognized that politicians are time-constrained and well-documented that Congress members face greater resource-demands for their electoral motives. Lessig (2011) reports that Congress members spend 30 to 70 percent of their work time in a given week on fund raising. The model explains how commercial lobbyists benefit from increasingly busy policymakers by providing them with much-needed resources and how policymakers rely more on those repeated lobbying partnerships to perform their own political tasks.

The alternative framework provides an understanding for the observed repeated agency, designed by policymakers in a world of asymmetric information. These interactions incentivize lobbyists to supply a desired mix of financial contributions and policy relevant information. In other words, these repeated implicit contracts are solving the policymaker's information and contracting problems. The need to solve these information and contracting problems provides an explicit explanation for the observed repeated interactions between policymakers, special interests and lobbyists. The analysis also shows that these repeated agency contracts, which may appear to involve cronyism, can in fact be socially desirable as they enable policymakers to gain socially beneficial information. However, there are the distortions introduced by the existence of commercial lobbying and their welfare implications, as policymakers do not internalize all social benefits and costs of policy proposals and lobbying and control access according to the weight they place on their information and contracting problem.

Conclusion

Our work demonstrates how in a "relationship market" policymakers have an incentive to provide greater access to citizen-donors and lobbyists with whom they have a relationship. Recognition of the relationship market has the potential to modernize the traditional models of lobbying that envisioned lobbying as a simple *quid pro quo* transaction or subsidy, by incorporating the dynamics of the growth of the contract lobbyist market in Washington and incorporating the incentives of policymakers, citizen-donors, and lobbyists as repeat players. Understanding the lobbying industry as a market for relationships could also shed light on recent lobbying research, which finds a consolidation of access and perspectives in Congress; if access to policymakers now requires a long-standing relationship, the policymaking process would probably begin to focus on those who are able to maintain those relationships in the long term.

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