# Grant Final Report

# Institute for New Economic Thinking (INET)

## Empirical Research on the Revolving Door
## 'Shadow Lobbyists'

Mirko Draca

University of Warwick

October 25th, 2015

Abstract

The US federal lobbying industry, based in Washington DC, is major focal point for political money and the exercise of influence, with expenditures peaking at approximately $2.5 billion per annum during the first Obama administration. Recently, there have been increasing concerns that some lobbying effort (and therefore political influence) has gone unmeasured, with lobbying firms potentially 'going underground' with some of their activity. We study potential unmeasured lobbying activity in the context of the so-called 'Daschle Rule' whereby lobbyists do not need to register their activities because, following the terms outlined by the 1995 Lobbying Disclosure Act (LDA), their lobbying effort is claimed to represent less than 20% of their overall working time. To study this, we construct a comprehensive database of ex-Congressman and former Congressional staffers as potential unregistered or 'shadow' lobbyists and map this into lobbying firm revenue data. We find that lobbying firm revenues significantly co-move with the entry and ongoing presence of these shadow lobbyists. The effects associated with comparable registered and unregistered lobbyists are similar, with 8-10% increases in revenue associated with each type of lobbyist. This indicates that either the shadow lobbyists have very high levels of productivity relative to registered lobbyists or, alternatively, that the spirit of the LDA's 20% rule is not being adhered to in practice.

## PROJECT OVERVIEW

I thank INET for funding this project. This is joint work with Christian Fon-Rosen as part of his INET grant coded #INO 1400030.

The report represents a summary of the core results and research design which will form the basis of an academic working paper.

Since the immediate earlier report (and presentation in Paris at the 2015 INET conference), the following was achieved:

- Extension of the database of shadow lobbyists and revenues up until the first half of 2014.
- Consolidation of empirical results. In particular, we have implemented a range of robustness exercises.

## Executive Summary

- In this project we investigate whether increased regulation in the lobbying industry has led to the unintended consequence of incentivizing lobbyists to find ways to hide in the shadows. In particular, we ask whether recent regulatory reforms, such as the 2007 HLOGA (Honest Leadership and Open Government Act) and the Obama administration's tighter regulations on employment of ex-lobbyists (introduced in 2009) have led lobbyists to avoid registering while still potentially conducting 'business as usual'.

- The basic research design maps potentially unmeasured lobbying activity by ex-Congressman and former Congressional staffers into the actual lobbying revenue reported by firms in Washington. Hence, while these ex-Congressional personnel may not have officially registered to lobby their work is still detectable from the 'shadow' they cast on the revenue data. That is, if their contribution attracts revenues to a commercial lobbying firm then this will be evident in co-movements between revenue the presence of these personnel at the firm.

- Our review of trends in the entry and exit of former Congressional staffers in the lobbying industry indicates a large increase in exits in the wake of reforms such as HLOGA, as well as a slowdown in entry. This is indicative of major changes in the incentive to remain registered or to register in the first instance. Our focus is on the slowdown in entry and whether there is a cohort of ex-staffers and Congressman who have an effect on lobbying revenue but have formally registered.

- We find evidence of significant revenue effects due to the presence of potential 'shadow' lobbyists. A one-unit increase in an unregistered ex-staffer is associated with a nearly 10% increase in revenue while a similar increase in an unregistered ex-Congressman is associated with an 18% boost to revenue.

- The magnitude of this co-movement – and, in particular, whether it is consistent with the 20% rule – is therefore important for understanding the possible extent of reporting evasion along these line in the industry. The cohort of shadow lobbyists considered here would need to have substantially higher levels of productivity to generate the same effect as the registered lobbyists.
- Follow-up work will look closely at the relative characteristics of the registered and unregistered groups, as well as the plausibility of different assumptions on productivity in order make an assessment of the possible extent of reporting evasion.

## 1. Introduction and Motivation

This project builds on earlier work (Blanes-i-Vidal, Draca, Fons-Rosen, 2012), where we measured the value of political connections for Washington lobbyists who formerly working as Congressional staffers. In that paper, political transparency regulations such as the 1995 Lobbying Disclosure Act (LDA) were crucial as they allowed us to carefully monitor and track the activities of 'revolving door' lobbyists, that is, lobbyists with previous government experience. These reporting regulations provided information on the activities and spending of organizations that aimed to influence decisions through making direct contacts with executives in different branches of government. Every 3-6 months, these organizations have to provide a list of lobbyists that they employed, the clients who have engaged them, the agencies contacted, the issues being targeted, and the total revenues or expenditure involved. This information allowed us to construct comprehensive panel data information on revenues and personnel at the firm and individual lobbyist level.

In this project we change the focus and examine whether increased regulation in the lobbying industry has led to the unintended consequence of incentivizing lobbyists to find ways to hide some activity in the shadows. In particular, we ask whether recent regulatory reforms such as the 2007 HLOGA (Honest Leadership and Open Government) Act and the Obama administration's tighter regulations on employment of ex-lobbyists (introduced in 2009) have led lobbyists to avoid registering while still conducting 'business as usual'. HLOGA requires information disclosure every 3 months, apart from requesting lobbyists to document their contributions to federal candidates, committees controlled by members of Congress, and leadership PACs. It also forced them to refrain from lobbying for up to 2 years after leaving office or employment in the Congress.

There is clear evidence that the federal lobbying industry has undergone some major financial and structural shifts since the mid-2000s. Figure 1 shows the yearly real lobbying expenditure since 1998. During 1998-2007, we observe a steady increase which goes from $1.5 to around $2.3 billion US dollars. This growing trend continued in the initial Obama years, and it is only after 2010 that we observe a decline in lobbying expenditures.

However, trends in the number of entering and exiting lobbyists show another picture. The net headcount of lobbyists has been falling with more lobbyists either becoming inactive (i.e., not working on lobbying contracts) or officially deregistering. For each year in the period 2000-2011, Figure 2 shows two bars measuring the number of entries and exits in the lobbying industry. Between 2000 and 2007, the number of entries has been pretty constant averaging 500 individuals, while the number of exits has been ranging from 100 to 500. Importantly, throughout this period the number of entries has clearly exceeded the number of exits. But this pattern switches from 2008 onwards, where the number of exits explodes until reaching almost 800 per year. In the meantime, the number of entries did not experience any significant change.

This has occurred at the same time that the regulation of lobbyist activities (in particular, restrictions on the 'revolving door') was tightened through initiatives such as HLOGA and Obama administration regulations on employment of ex-lobbyists. Since the career costs of being a lobbyist have increased, this provides an incentive for professionals to 'go underground' and potentially work as an unregistered lobbyists. This is facilitated by the 20% rule in the LDA, where a political professional does not have to register if less than 20% of their time is spent on lobbying activity. This arguably creates a loophole in lobbying reporting and recently there has been speculation that more lobbying activity is being passed through this 'unofficial' channel (Auble 2012).

In popular terms, this type of phenomenon has been called the "Daschle Rule Exemption" in reference to former Senator Tom Daschle who, after 20 years in the Congress, left to work for the lobbying-related professional service firms Alston & Bird and DLA Piper without officially registering as a lobbyist. These firms' revenues increased significantly in the years after he joined the firm, with some observers attributing the windfall to Daschle's presence (Kirkpatrick, 2009).

## 2. Research Design and Data

*Overview*

Our basic research design maps potentially unmeasured lobbying activity by ex-Congressional personnel into the actual lobbying revenue reported by firms in Washington. We can highlight two types of potential 'shadow lobbyists' that have been discussed in media commentary. First, ex-Congressmen or ex-Congressional staffers who work at lobbying firms but do not officially register as lobbyists at any point in time. Second, lobbyists who officially de-register but that most likely remain employed in the same lobbying organization were they worked while registered (CRP 2010; Auble 2012). There has been a large increase in official de-registrations since the introduction of HLOGA and the Obama administration's restrictions on employment. This means that lobbyists have been notifying the Senate Office of Public Records (SOPR) that they quit as lobbyists, even though many of them might still be working on K Street. This creates an important testable hypothesis: firm lobbying revenues should either drop or the firm must relocate other employees to compensate for the exit of these de-registering lobbyists.

Data

Following the analysis above, we explored data on deregistration and found the process labour intensive and infeasible for the allocated project time. They key distinction in the data is between 'inactivity' (ceasing active work as a lobbyists but remaining officially registered) and actual deregistration (where a lobbyist notifies the Senate Office of Public Records (SOPR) that they wish to officially take their names off of the lobbying register). Deregistration is a stronger condition because it implies that a lobbyist will cease their lobbying activity or at least limit their work according to the 20% rule. Hence any previous revenue effect associated with a particular lobbyist working in a firm should be attenuated if they deregister and limit their contributions to the firm's lobbying practice. However, this could not be systematically studied because the information on official deregistration was only available through a process of manual inspection of report forms, which was not practical given the thousands of lobbyists involved.

However, we were able to obtain rich data on ex-Congressmen and staffers that fit the description of possible 'Daschle Rule' lobbyists who never officially register after leaving work or office in the Congres. The data on ex-Congressional staffers was obtained from the political information company *LegiStorm* which holds both payroll data on the full universe of Congressional staffers since 2000, as well as keeping an extensive biographical library that includes career histories of

Figure 3 shows the number of unregistered ex-staffers working now in lobbying firms between 1998 and 2014. We observe that until around 2007, the number of active shadow lobbyists is close to 50 per year. From 2008 onwards, we observe a sharp increase reaching more than 80 at the beginning of 2012 and surpassing 120 by the end of 2014. The finding of this graph is consistent with shadow lobbyists influencing Washington to a greater extent than ever before. This trend of unregistered ex-staffers increasingly playing a role in lobbying firms is also clearly evident when we look at ex-Congressmen (Table 1). We can see that most of the entry by unregistered ex-Congressman takes place from 2011 onwards, which is compatible with HLOGA and other reforms creating incentives for ex-office holders to avoid registering.

To dig a bit deeper into the role played by shadow lobbyists in these firms, Table 2 shows some descriptive statistics on the top 10 firms by count of shadow lobbyists during 1998 and 2012. Here we measure the contribution of shadow lobbyists in terms of "labour inputs" based on the number of periods an ex-staffer works for a firm according to the LegiStorm entry and exit dates. This contribution represents roughly 10% of labour inputs across the cited firms.

## 3. Empirical Model

The data on potential unregistered lobbyists is matched with our firm-level panel which is based on LDA lobbying reports. This firm-level panel is defined at the 6-month period or "semester" level of frequency. The aim of the modeling is to study the co-movement between firm revenues and the entry of the shadow lobbyists. The main empirical specification is as follows:

$$ln(R_{it}) = \alpha_i + \beta L_{it}^U + \gamma L_{it}^O + \tau_t + \varepsilon_{it} \qquad (1)$$

where $\mathrm{R_{it}}$ is lobbying firm revenue in period t; $\mathrm{L_{it}^U}$ is a count of the the potential unregistered lobbyists; and $\mathrm{L_{it}^O}$ are the official, registered lobbyists reported through the LDA forms. We break up the $\mathrm{L_{it}^U}$ and $\mathrm{L_{it}^O}$ terms into different variables representing different typed of 'revolving door' lobbyists: ex-staffers, ex-Congressmen and those with government experience from outside Congress.

The $\alpha_i$ terms represents the firm fixed effects. The inclusion of these fixed effects is crucial to the specification because it means that out estimates of $\beta$ and $\gamma$ will be identified from the within-firm time variation in the count of the different types of lobbyists. Simply put, our estimates pick up the effects of changes in the count of lobbyists or personnel.

Additionally, the 'count' nature of our $\mathrm{L_{it}^O}$ and $\mathrm{L_{it}^U}$ variables means that the parameters $\beta$ and $\gamma$ measure the effect of a one-unit or 'one-body' change in either registered or potential unregistered lobbyists. This allows us to benchmark the effects of each type of lobbyist, keeping in mind that the $\beta$ parameter measuring the effect of the shadow lobbyists should be capturing the effect of their notionally more limited labour inputs, as per the stipulations of the 20% rule.

## 4. Results

Our sample consists of 118 firms and 2,635 observations. Table 3 presents the main results. In column (1) the variable of interest is the number of unregistered ex-staffers or ex-Congressmen working for a given firm during a semester. We find that if this count variable increases by one unit, then the revenue generated by that firm during that time period increases by more than 23%. Once we control for the number of officially registered lobbyists, our main coefficient of interest shrinks by half to 11% (column 2). In the last two columns, we split the count of unregistered individuals between ex-staffers and ex-Congressmen, so that each subgroup is given its own coefficient. Both coefficients are still statistically significant and, perhaps not surprisingly, the coefficient on the ex-Congressmen is twice as large as the one on ex-staffers. In particular, while an additional ex-staffer is associated with an increase in firm revenue of 10%, this number increases to 21% when we consider the effect of ex-Congressmen.

The final column directly compares the registered and unregistered lobbyists across different types. The important finding here is that the effects are comparable in magnitude. For example, a 1-unit (or 1-person) increase in shadow ex-staffers is associated with a 9.7% increase in revenue while a similar increase in registered ex-staffers is associated with a 7.8% effect. Formally, the two coefficients are statistically indistinguishable. A similar finding is evident for ex-Congressman, although the point estimate is noticeably higher for unregistered ex-Congressman.

The fact that the effects are comparable bears consideration in light of the 20% rule in the LDA. If the registered and unregistered ex-staffers and Congressman are compositionally the same, then the estimated coefficients measuring the effects of unregistered personnel should be lower than the coefficients for the registered lobbyists. Indeed, a basic linear model of inputs would put the unregistered coefficients at 20% of the registered effects.

As an additional, general robustness check we perform an 'event study' exercise using out pooled shadow lobbyist measure (ie: aggregating across ex-Congressmen and ex-staffers). This is shown in Figure 4. Here we condition on 'clean' before and after patterns where we have at least 4 periods before a shadow lobbyist entry and four periods after. This allows us to estimate within-firm revenue effects to study whether shadow lobbyist entry is associated with discrete level shifts and thereby rule out confounding trends. The evidence in Figure 4 is strongly suggestive of discrete shifts and provides additional confidence for our basic within-firm estimates, as presented in Table 3.

## 5. Conclusion and Next Steps

In this paper we have provided a number of important facts in the lobbying industry. Among other findings, we have shown that the number of potentially unregistered lobbyists has been growing dramatically in the last years, and that this increase in shadow lobbyists appears to be associated with higher revenue for the firms employing them.

Moreover, the measured effects across registered and unregistered personnel are comparable. This indicates that the strong possibility that 20% rule for reporting activity is not being adhered to. Practically, the main factor to consider is the composition of the different groups of registered and unregistered personnel. It is possible that the unregistered ex-staffers and Congressmen have higher intrinsic productivity than their registered counterparts. Follow-up work for the academic working paper version of this report will measure the relative characteristics of the registered and unregistered groups, as well as establishing the assumptions on differential productivity needed to explain the observed effects. This will allow us provide a detailed quantitative statement on the possible extent of reporting evasion.

## References

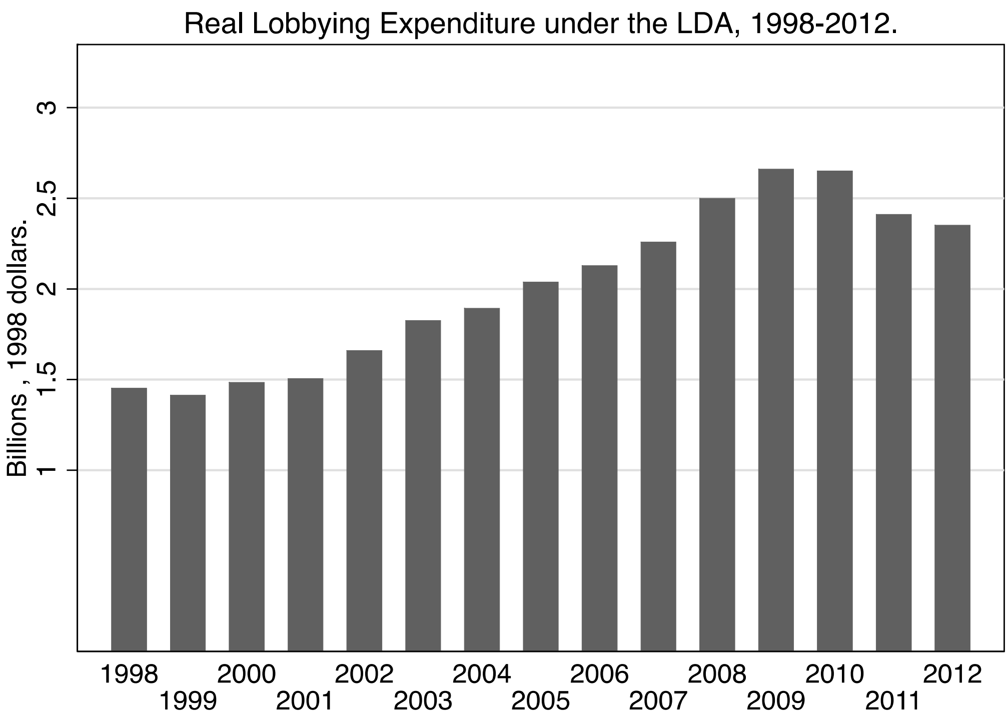

Auble, D (2012) “Out of the Game or Under the Radar”. Report by the Center for Responsive Politics

Blanes-i-Vidal, J; Draca, M and Fons-Rosen, C (2012) “Revolving Door Lobbyists”. *American Economic Review* 102 (7): 3731-3748

Center for Responsive Politics (2010) “The De-registration Dilemma”

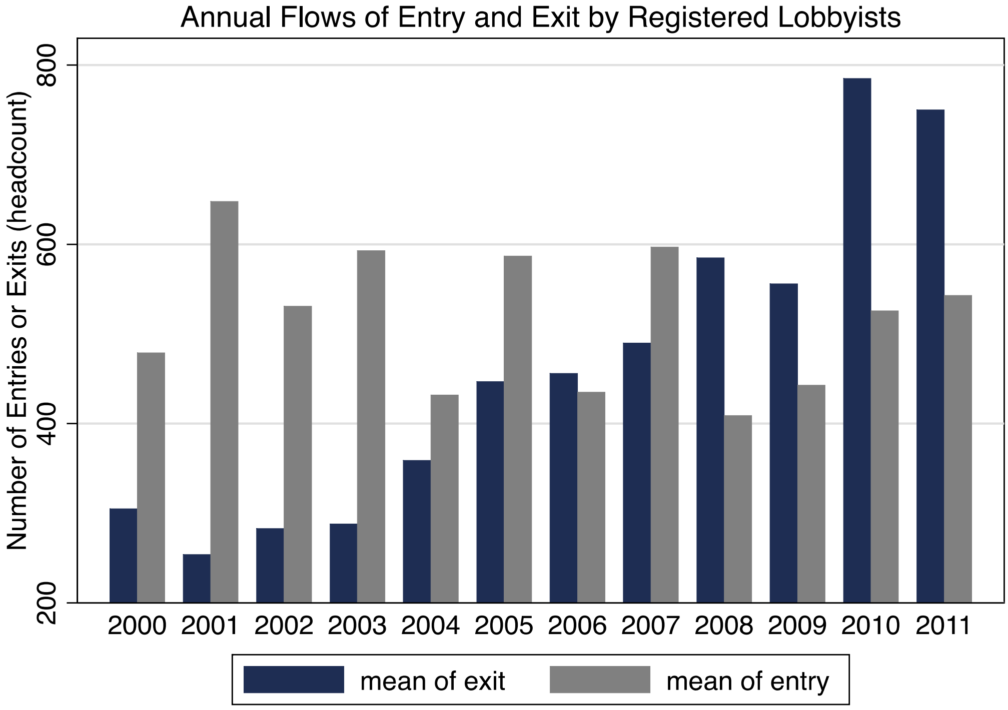
Kirkpatrick, D (2009) “Daschle Has Ear of White House and Industry”. New York Times, August 22nd

**FIGURE 1: REAL LOBBYING EXPENDITURE SINCE 1998.**



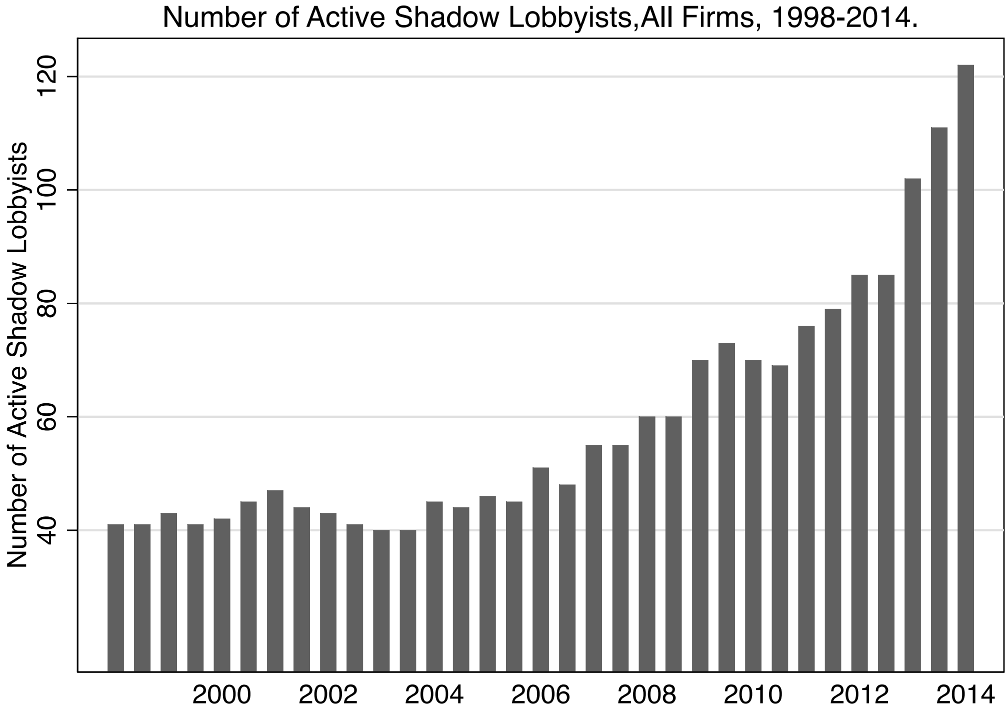

Notes: CRP figures for all lobbying expenditure (lobbying firms and in-house). Deflated to 1998 prices using national price deflator.

**FIGURE 2: ENTRY AND EXIT IN THE LOBBYING INDUSTRY, 2000-2011.**



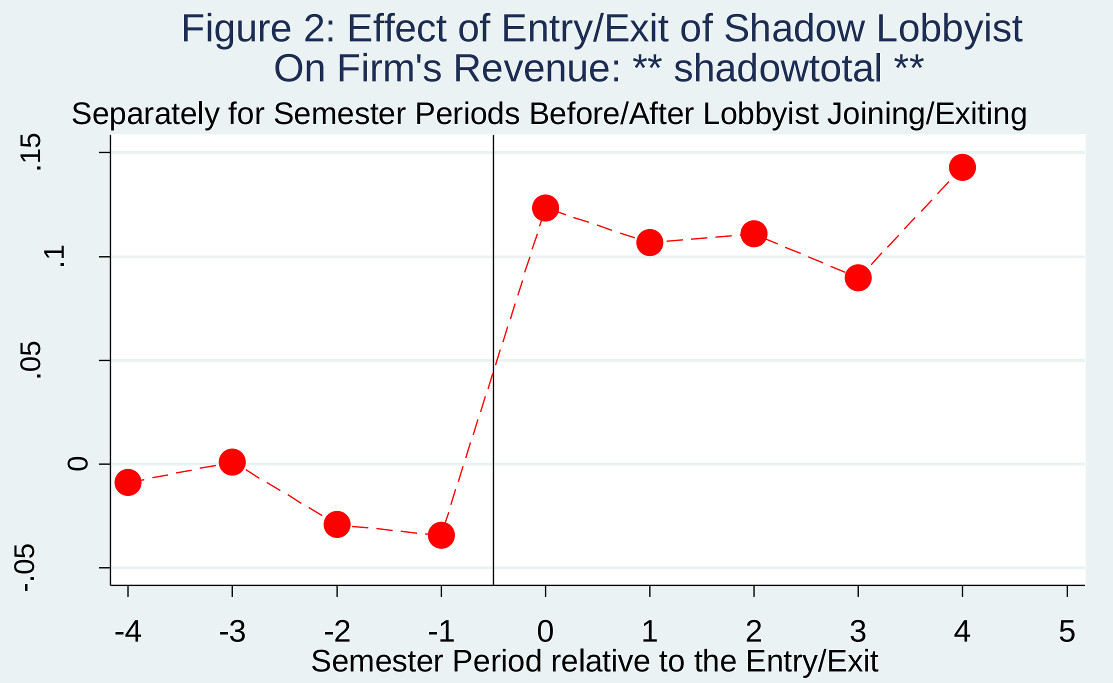

Notes: Based on lobbyist panel constructed from LDA reports. We include all lobbyists appearing for at least 3 semester periods in our universe of lobbyist to reduce noise. "Entry" is defined as the first appearance of a lobbyist in LDA reports while exit is defined as the last appearance. We truncate the sample in 1998/99 and then 2012/13 to allow for the cluster of 'first appearances' when the data begins.

**FIGURE 3: UNREGISTERED EX-STAFFERS WORKING IN LOBBYING FIRMS.**




Notes: Based on LegiStorm Biographical data on Congressional Staffers. This records all known ex-staffers working in registered lobbying firms but with no record of personal registration under the LDA. Total unique number of staffers is 243.

**FIGURE 4: EFFECT OF ENTRY OF SHADOW LOBBYISTS ON FIRM REVENUE.**




This Figure estimates separately the effects before and after a change in the composition of the lobbying firm. Shadow ex-politicians and non-ex-politicians have been aggregated. When a firm has a increasing the number of shadow lobbyists the periods -4 to -1 account for the periods before the increase. When a firm has a decrease in the number of shadow lobbyists the periods -4 to -1 account for the periods after the increase.

**TABLE 1: UNREGISTERED EX-CONGRESSMEN WORKING IN LOBBYING FIRMS.**

| ICSPR MEMBER ID | MEMBER NAME | LOBBYING FIRM | ENTRY YEAR |
|---|---|---|---|
| 14617 | Daschle, Thomas A. | Alston & Bird LLP | 2006 |
| 29749 | Watkins, Wes | Foley Maldonado & O'Toole | 2009 |
| 20127 | Ferguson, Mike | Ferguson Group | 2010 |
| 15010 | Boucher, Frederick C. | Sidley Austin LLP | 2011 |
| 20741 | Space, Zachary T. | Vorys, Sater, Seymour & Pease | 2011 |
| 20711 | Klein, Ron | Holland & Knight LLP | 2011 |
| 15443 | Skaggs, David E. | McKenna, Long & Aldridge | 2011 |
| 15501 | Bond, Christopher S. | Thompson Coburn LLP | 2011 |
| 29740 | Sununu, John E. | Akin Gump Strauss Hauer & Feld | 2011 |
| 14213 | Dodd, Christopher, J | Gephardt Group Government Affairs | 2011 |
| 49901 | Bayh, Evan | McGuireWoods Consulting | 2011 |
| 20933 | McMahon, Michael E. | Herrick, Feinstein LLP | 2011 |
| 29117 | Roemer, Timothy J. | APCO Worldwide Inc. | 2012 |
| 20302 | Davis, Artur | SNR Denton US LLP | 2012 |
| 14265 | Oberstar, James L. | National Strategies, LLC | 2012 |
| 20931 | Teague, Harry | Turner Government and Public Affairs | 2012 |
| 49500 | Abraham, Spencer | The Abraham Group | 2012 |
| 15600 | Campbell, Tom J. | Gibson, Dunn & Crutcher LLP | 2012 |
| 29363 | Barcia, James A. | The Livingston Group. | 2012 |
| 20350 | Davis, Lincoln | Advantage Associates International | 2012 |

Source: Post Congressional Career biographical research compiled by authors.

**TABLE 2: TOP 10 LOBBYING FIRMS BY COUNT OF SHADOW LOBBYISTS, 1998-2012.**

| firm_id | Firm Name | (1) Unique Shadow Lobbyists | (2) Total Shadow Units | (3) Total Worker Units | (4) Shadow Share in Units | (5) Mean Lobbyists | (6) Revenue per unit (1000s) | (7) Deviation from average revenue per unit |
|---|---|---|---|---|---|---|---|---|
| 1307 | Brownstein, Hyatt & Farber | 9 | 83 | 585 | 0.142 | 19.5 | 359.6 | 1.36 |
| 2158 | Covington & Burling LLP | 5 | 76 | 1049 | 0.072 | 35.0 | 129.0 | 0.33 |
| 8290 | Weil, Gotshal & Manges | 3 | 63 | 154 | 0.409 | 5.3 | 47.9 | -0.66 |
| 6179 | Patton Boggs LLP | 3 | 62 | 3314 | 0.019 | 110.5 | 181.6 | 0.67 |
| 6886 | Russ Reid Company | 2 | 43 | 335 | 0.128 | 11.2 | 214.1 | 0.84 |
| 4401 | King & Spalding LLP | 4 | 41 | 494 | 0.083 | 16.5 | 121.8 | 0.28 |
| 2195 | Crowel and Moring LLP | 3 | 38 | 378 | 0.101 | 12.6 | 72.1 | -0.25 |
| 4982 | McDermott, Will and Emery | 4 | 38 | 600 | 0.063 | 20.0 | 111.1 | 0.18 |
| 274 | Alston & Bird LLP | 4 | 38 | 642 | 0.059 | 21.4 | 193.9 | 0.74 |
| 3234 | Gibson Dunn & Crutcher | 2 | 35 | 242 | 0.145 | 8.1 | 85.2 | -0.08 |

Notes: Based on matched LegiStorm and LDA lobbying report data. Col (1) records the known number of unique shadow lobbyists working at the firm over 1998-2012. Column (2) measures 'labour units' for the shadow lobbyists in terms of the number of 6-month periods that they were confirmed to be working at the firm. Column (3) then gives the total amount of units for all registered lobbyists which allows us to calculate the shadow lobbyist share in labour units in Column (4). Finally, column (5) gives the firms average revenue per labour unit and column (7) reports the log deviation of revenue per unit for the firm with respect to average revenue per unit for all firms.

**TABLE 3: FIRM REVENUE AND SHADOW LOBBYISTS, 1998-2012.**

| | (1) Log(REVENUE) | (2) Log(REVENUE) | (3) Log(REVENUE) | (4) Log(REVENUE) |
|---|---|---|---|---|
| All Shadow | 0.232*** | 0.114*** | | |
| | (0.065) | (0.039) | | |
| Shadow Ex-Staffers | | | 0.099** | 0.097** |
| | | | (0.041) | (0.040) |
| Shadow Ex-Congressmen | | | 0.212*** | 0.182** |
| | | | (0.078) | (0.075) |
| Revolving Door (ex-staffers) | | | | 0.078*** |
| | | | | (0.015) |
| Ex-Congressmen | | | | 0.103*** |
| | | | | (0.034) |
| Revolving Door (non-staffers) | | | | 0.052*** |
| | | | | (0.009) |
| All Other Registered | | | | 0.044*** |
| | | | | (0.005) |
| All Registered | | 0.051*** | 0.052*** | |
| | | (0.005) | (0.005) | |
| Number of Firms | 118 | 118 | 118 | 118 |
| Number of Observations | 2,635 | 2,635 | 2,635 | 2,635 |

Notes: Standard errors clustered by firm in parentheses. “All Shadow” is a count variable for the number of unregistered ex-staffers or ex-Congressmen working at a firm in a give 6-month period. “Revolving Door (ex-staffers)” is a count of registered ex-Congressional staffers; “Ex-Congressmen” counts the registered former Congressmen; “Revolving Door (non-staffers)” counts registered lobbyists with known government experience but in the Congress; and “All Other Registered” is the remainder.