

THE VALUE OF CONNECTIONS IN LOBBYING

KARAM KANG AND HYE YOUNG YOU

ABSTRACT. We quantify the determinants of the value of political connections in the lobbying industry. Using data on lobbying contacts from reports mandated by the Foreign Agent Registration Act, we document that lobbyists receive a larger monetary premium for contacting politicians with whom they have pre-existing connections. We then provide estimates of the total value of a lobbying contact as a function of the attributes of politicians, foreign governments, and lobbyists' connections to politicians. We find that connections increase the contact value when the politician holds a leadership position or is running for reelection with a small expected vote margin. We also find that although an increase in US media attention to a particular foreign country in general increases the value of contacts with connections, the value decreases for nondemocratic governments from the Middle East or Africa.

1. INTRODUCTION

Recent empirical literature documents the importance of connections in the lobbying process. While lobbyists argue that the knowledge they possess about policies and the political process is a key asset (Eggen and Kindy, 2009), studies show that the committee assignment of connected politicians determines the issue areas on which lobbyists work (Bertrand, Bombardini and Trebbi, 2014) and the departures of connected politicians have a significant impact on lobbyists' revenue (i Vidal, Draca and Fons-Rosen, 2012). This is strong testimony to the fact that connection is an asset that is more highly valued than issue expertise in the commercial lobbying market.

Date: September 2016.

Kang: Assistant Professor of Economics, Tepper School of Business, Carnegie Mellon University. (email: kangk@andrew.cmu.edu). You: Assistant Professor, Department of Political Science, Vanderbilt University (email: hyeyoung.you@vanderbilt.edu). We are thankful for suggestions and comments from Attila Ambrus, Kenneth Chay, Joshua Clinton, Chris Cotton, Dennis Eppler, Jeffrey Frieden, Saumitra Jha, Brian Knight, Dave Lewis, Alessandro Lizzeri, Nolan McCarty, Jacopo Perego, Nicola Persico, Mattias Polborn, Edson Severnini, Jesse Shapiro, Keith Schnakenberg, James Snyder, Ken Shepsle, Alan Wiseman, and participants at the 4th Quebec Political Economy Conference, the 2015 European Political Science Meeting, the 2015 International Political Economy Society Meeting, and the 2016 Southern Political Science Meeting and the seminars at Brown University, Carnegie Mellon University, and Vanderbilt University. We also thank Kole Reddig for excellent research assistance.

And the presumed mechanism of why connection matters is that connection leads to access to politicians.

Access to policymakers is one of the most important and scarce resources sought after in the lobbying process (Truman, 1955; Langbein, 1986; Hansen, 1991; Lohmann, 1995; Wright, 1996; Austen-Smith, 1995, 1998). Scholars have relied on interviews with legislators and lobbyists to acquire information on lobbying contacts (Langbein, 1986; Wright, 1990) but measuring access using surveys has shortcomings such as non-randomness in response and the difficulty of measuring intensity of lobbying contacts (de Figueiredo and Richter, 2014). Therefore, lack of comprehensive lobbying contact information significantly limits scholars' endeavor to identify how politicians allocate access and how lobbying firms sell political access to lobbying clients. While i Vidal, Draca and Fons-Rosen (2012) and Bertrand, Bombardini and Trebbi (2014) assume that connection premium stems from connected lobbyists' access to time-constrained politicians, it is difficult to know whether connected lobbyists have different access patterns than non-connected lobbyists without detailed lobbying contact data.

We advance this issue by utilizing lobbying filings mandated by the Foreign Agent Registration Act of 1938 (FARA). FARA was passed in an attempt to prevent the influence of Nazi propaganda on US public opinion (Waters, 1988). Most empirical studies on lobbying are based upon domestic lobbying reports under the Lobbying Disclosure Act of 1995 (LDA), which does not include lobbying contact information. On the other hand, the FARA requires that lobbyists representing foreign entities submit a semi-annual report detailing all lobbying contacts, including information on who, when, why, and how those contacts were made. The lobbying contacts in the reports include individuals who are associated with both the legislative and executive branches of the US government, the media, and other institutions such as think tanks and universities. This comprehensive lobbying contact data, along with data on foreign country characteristics and lobbyists' work histories and campaign contributions, enables us to systematically study when and why connection matters in the market for lobbying.

Following the literature, we define that a lobbying firm is connected to a politician if any of the employees of that firm is a former staff member of the politician and/or gives campaign contributions to him/her (i Vidal, Draca and Fons-Rosen, 2012; Bertrand, Bombardini and Trebbi, 2014). Using over 20,000 lobbying contact records made between 2007 through 2010, we examine whether lobbying firms with connections tend to have different contact patterns than other lobbying firms.

We find that politicians grant access only to a very small number of lobbying firms, and lobbying firms with connections to a member of Congress are more likely to contact him/her on behalf of their clients than those without connections. We also find that making contacts to a politician with whom a lobbying firm has connections is associated with a statistically significant increase in lobbying fees compared to contacts to non-connected politicians. This supports the idea that communication through a lobbyist who has a relationship with a politician is more valuable than communication through someone lacking a relationship.

To understand the conditions under which contact via connected lobbyists is valued, we present a simple model incorporating a type of lobbyist - connected or non-connected. If we observe a contact to a politician mediated by a lobbyist on behalf of his client, it indicates the sum of the values of the politician and the client from a meeting minus the lobbyist's cost is the largest among the alternatives including no communication. We estimate the parameters of the model to explore the conditions under which connected lobbyists increase the net value of contacts.

We find that connections do not increase the value of contacts when the lobbying issue is under the jurisdiction of committees to which that the politician belongs or if the politician is a member of a regional caucus regarding the foreign client's country. We do, however, find that contacts through connected lobbyists change contact values depending on electoral cycles and changes in the US media attentions on the client country. Our estimates suggest that connections increase contact values when politicians are running for reelection with a small expected vote margin, or are in leadership positions. When US media's attention to a foreign client increases, which indicates the increase in visibility and salience of the issue (Manheim and Albritton 1984; Eisensee and Stromberg 2007; Durante and Zhuravskaya 2016), connections in general increase contact values, but this pattern reverses for authoritarian governments from the Middle East or Africa.

To our knowledge, this is the most comprehensive empirical analysis of the market for political access, using unique lobbying contacts. In the existing literature, some studies use survey data on lobbying contacts from legislators (Langbein, 1986) or from lobbyists (Wright, 1990; Hojnacki and Kimball, 2001; Hall and Houweling, 2012). Others use lobbyists' campaign contributions or their revolving-door career history to indirectly measure their access to members of Congress (Herndon, 1982; Bertrand, Bombardini and Trebbi, 2014). Although there is some suggestive evidence of a positive relationship between campaign contributions and lobbying contacts (Herndon,

1982; Langbein, 1986; Wright, 1990; Ainsworth, 1993), observing actual lobbying contacts has advantages because lobbyists may selectively allocate their political access to multiple clients and it allows analysis of the intensity with which different legislators are targeted - a topic that is missing from the literature (de Figueiredo and Richter, 2014).

The remainder of the paper proceeds as follows. We first describe the lobbying industry and provide background on the FARA in Section 2. Section 3 describes the data and Section 4 shows key patterns in the data regarding the relationship between contacts, connections, and lobbying fees. In Section 5, we describe our model, and the estimates of the model are presented in Section 6. We conclude in Section 7.

2. BACKGROUND

2.1. Lobbying Industry. The practice of lobbying in the US is as old as the history of the country (Allard, 2008). The founding fathers and writers of the Constitution were well aware of the “pressures that particular interests, like farmers, merchants, and churches, could put upon them” (Loomis, 2006). The right to petition the government is guaranteed by the First Amendment to the United States Constitution, which specifically prohibits the Congress from abridging “the right of the people...to petition the government for a redress of grievances.” In exercising such a right, an individual or an interest group may hire a professional lobbyist to contact government officials. In a series of rulings, the Supreme Court upheld the notion that the underlying First Amendment protection includes the right to pay individuals for advocacy activities (Allard, 2008).

Broadly speaking, individuals who contact government officials on behalf of their clients are lobbyists. There are two types of lobbyists: those who are hired by an interest group to exclusively work for that group (*in-house* lobbyists) and those who contract with, potentially multiple, interest groups (*external* lobbyists). In this paper, we focus on the latter.

As the scope of both the federal and state governments has expanded over the last 40 years, the number of external lobbying firms and their lobbyists has increased (Rosenthal, 2000; Schlozman, Verba and Brady, 2012). The market share of external lobbyists in the lobbying industry has grown over time, as have their revenues. In 2000, the market share of external lobbyists was 40% and their revenues were around \$1 billion at the federal level. In 2007, however, their market share

increased to around 65% and their revenues reached almost \$2.5 billion (Groll and Ellis, 2014).

One distinctive feature of the lobbying industry is the dominant role of lobbyists with political connections. The number of lobbyists with prior government experience grew from 482 in 1998 to 1,846 in 2012¹. According to i Vidal, Draca and Fons-Rosen (2012), lobbyists with political connections are responsible for more than a majority of the revenues generated by lobbying firms in the period between 1998 and 2008.

2.2. Foreign Agent Registration Act. The FARA regulates lobbying activities of foreign entities in the US (Waters, 1988). Under the FARA, any person who represents interests of a foreign entity or principal, by “engaging in political activities, acting as public relations counsel, soliciting money for the foreign principal, dispensing contributions, and representing the principal before any agency or official of the government” is defined as a “foreign agent” (Atieh, 2010). These foreign agents are mandated to be registered and to submit semi-annual lobbying disclosure reports.²

The Justice Department has made these reports public online, and ProPublica and the Sunlight Foundation have digitized the lobbying reports.³ We complemented the digitized data by collecting information that is missing in the dataset from additional lobbying reports.

After Congress passed the LDA in 1995, foreign businesses that have subsidiaries in the US have been allowed to report their lobbying activities via the LDA. As a result, most of the foreign entities that submitted reports under FARA since 1995 are foreign governments. This partially motivates us to focus on the lobbying activities conducted on behalf of foreign governments.

Unlike the LDA, the lobbying reports under the FARA are unique in that they list detailed information on lobbying contacts. The LDA regulates lobbying activities on behalf of domestic clients. It requires that lobbyists disclose the names of the government bodies they contact, but it does not require them to specify any further details about their lobbying contacts. Each contact record specifies (i) the name of the contacted individual, (ii) the method by which the individual was contacted (phone call, email, in-person meeting, etc.), and (iii) the issues discussed with the contact. Although some foreign governments hire in-house lobbyists, their activities

¹Sunlight Foundation, 2014, “How Revolving Door Lobbyists Are Taking Over K Street,” Jan 22.

²A sample lobbying report can be found in the Appendix.

³The lobbying reports can be found in <http://www.fara.gov>, and one can refer to <http://foreignlobbying.org> for more details about the digitization project by ProPublica and the Sunlight Foundation.

seem to be limited in comparison to external lobbyists who predominantly contact government officials on behalf of their clients. In our dataset, 94.3% of contacts made to the US government was made by lobbying firms.

Also, non-compliance - such as missing reports or false statements on reports - is punished more stringently by FARA than LDA. And, while a violation of the LDA is considered a civil offense, violations of FARA are criminal and penalties range from removal of aliens to five years' imprisonment and a \$5000-\$10,000 fine (Atieh, 2010).

3. DATA

We focus on lobbying activities on policy issues that are potentially relevant to legislation during 2007 through 2010, covering two Congresses (the 110th and the 111th Congresses), on behalf of foreign governments. In doing so, we analyze all lobbying reports that include at least one congressional contact via phone call or in-person meeting.⁴ We restrict our attention to the lobbying activities by national governments, as opposed to local governments. There are 693 such reports of lobbying activities on behalf of 74 foreign governments in the data.⁵

3.1. Lobbying Firms. Table 1 presents the summary statistics of lobbying firms that represented foreign governments and contacted the Congress on behalf of their foreign clients during the period of our study.⁶ Among the 102 lobbying firms in our data, 68 firms represented domestic clients as well as foreign clients (i.e., they were registered by both the LDA and the FARA lobbying acts). These firms tended to reap larger yearly revenues, have more foreign clients, contact a larger set of politicians, and employ more lobbyists than those registered by the FARA only. It is notable that out of 27 domestic lobbying firms that reaped over \$10 million per year during the period, 12 had at least one foreign government as a client. This suggests that the conclusions of our study could have general implications for the US lobbying industry.

We define that a lobbying firm has connections to a politician at a certain time period if either of the following two conditions are satisfied: (i) if at least one of the

⁴In these reports, we identify 20,606 contact records, consisting of contacts to the Congress (73.5%), the executive branches of the federal government (18.8%), the media (2.9%), and others (4.8%) such as think tanks, labor unions, firms, universities, and non-profit organizations. We do not consider emails or party encounters, which are most likely to be one-sided, as contacts.

⁵The number of unique lobbying reports submitted by lobbyists is 434. Many reports describe the lobbying activities for multiple clients separately, leading to 693 lobbying "reports" for our analysis.

⁶Some lobbying firms focused on media and/or executive contacts on behalf of their foreign clients. These firms are not included in the analysis.

TABLE 1. Lobbying Firms Representing Foreign Governments

Variables	LDA & FARA		FARA Only	
	Mean	SD	Mean	SD
Annual Revenue (\$)	764,434	945,803	584,861	764,434
Number of Client Countries	2.73	2.63	1.41	2.63
Number of Contacted Members	52.18	63.54	35.97	44.27
Number of Connected Members ^a	15.77	19.62	4.62	7.26
FARA Registration Year	2002.0	9.25	2005.1	5.39
Number of Lobbyists	10.85	11.06	3.71	4.14
Number of Lobbyists of				
Identified Career History ^b	4.53	3.72	1.53	2.08
Former Member of Congress	0.50	0.92	0.20	0.53
White House Experience	1.54	1.44	0.45	0.77
Congress Experience	2.44	2.32	0.81	1.51

Notes: There are 68 lobbying firms that registered in both lobbying acts and 34 firms that registered in the FARA only in the data, based on lobbying filings in 2007 through 2010. As for the variables related to lobbyists (number of connected members and number of lobbyists), the summary statistics are over the average value of each variable across multiple filings for each lobbying firm. a. Connections are defined by the campaign contributions in the FARA reports and the career history of hired lobbyists. b. For each lobbyist hired by a firm, we match the career history records available at www.lobbyists.info.

employees of the firm at the time made campaign contributions to the politician during the time period; or (ii) if at least one of the employees of the firm at the time had worked as staff for the politician prior to employment at the firm. Bertrand, Bombardini and Trebbi (2014) used the former condition to define connections between lobbyists and politicians, and i Vidal, Draca and Fons-Rosen (2012) used the latter. We use both conditions to define connections, and given this, we find that a lobbying firm registered in both the LDA and FARA has connections with 15 members of Congress on average, while a firm registered only with FARA has four connections.

To measure their campaign contributions, we use the records of lobbyists' campaign contributions in the FARA reports, instead of using the campaign contribution records by the Federal Election Commission. Using the latter records requires name matching between donors and lobbyists, leading to potential mismatches. See Bertrand, Bombardini and Trebbi (2014) for their arguments on why campaign contributions can be used as proxies for connections. Lobbyists, like other individual donors, follow the partisan line when they donate (Drutman 2010), and interviews with lobbyists indicate that lobbyists give campaign contributions to politicians whom they have known for a long time or whom they consider a "friend" (Leech 2013). It is interesting to note

that the amount of campaign contributions by lobbying firms is small. For example, the average amount that all employees of a lobbying firm collectively contributed to a member of the 111th Congress during the period of our study, conditional on nonzero contribution, is \$2,190.

As for the career history of lobbyists, we rely on the data from www.lobbyists.info, which is maintained by Columbia Books and Information Services. Note that not all lobbyists identified in the FARA reports appear on www.lobbyists.info. Among the 1,397 unique pairs of a firm and a lobbyist's name identified in the FARA reports, we were able to match 476 with their career history records (34%). It can be seen that the lobbying firms that were registered by both lobbying acts tended to hire more high-profile lobbyists, such as former members of Congress or those who worked in the legislative and/or executive branches, compared to those who represented foreign clients only.

3.2. Members of Congress. Table 2 presents summary statistics at the member-of-Congress level for those who served in the 111th Congress.⁷ We provide the summary statistics for three different groups of legislators: (i) those who were contacted by more than five lobbying firms (149 members), (ii) those who were contacted by less-than-or-equal-to five firms (356 members), and (iii) those who were not contacted at all during the 111th Congress (49 members). Among the members who had at least one contact with a lobbyist who represented a national foreign government, members who were contacted by more than five firms are more likely to have had a leadership position and a longer tenure in the Congress, and to come from a less competitive district.

Figure 1 presents the distribution of contact patterns among legislators who served in the 111th Congress. The histogram on the left shows the distribution of the number of total foreign contacts, and the one on the right shows the number of foreign governments that contacted each member of Congress. During the Congress, the average number of contacts per member is 11, ranging from 0 to 109, and the average number of foreign governments with which a member interacted is 3.9, ranging from 0 to 30. It is interesting to note that John Kerry (D-MA), who had the highest total number of contacts as well as total number of interactions with foreign governments, was the Senate Foreign Relations Committee chair during the 111th Congress.

In Figure 2, we graphically present a different lobbying network between two prominent democratic senators during the period: Blanche Lincoln (D-AR) and John Kerry

⁷The summary statistics for the members who served in the 110th Congress are similar.

FIGURE 1. The Distribution of Contacts to the 111th Congress

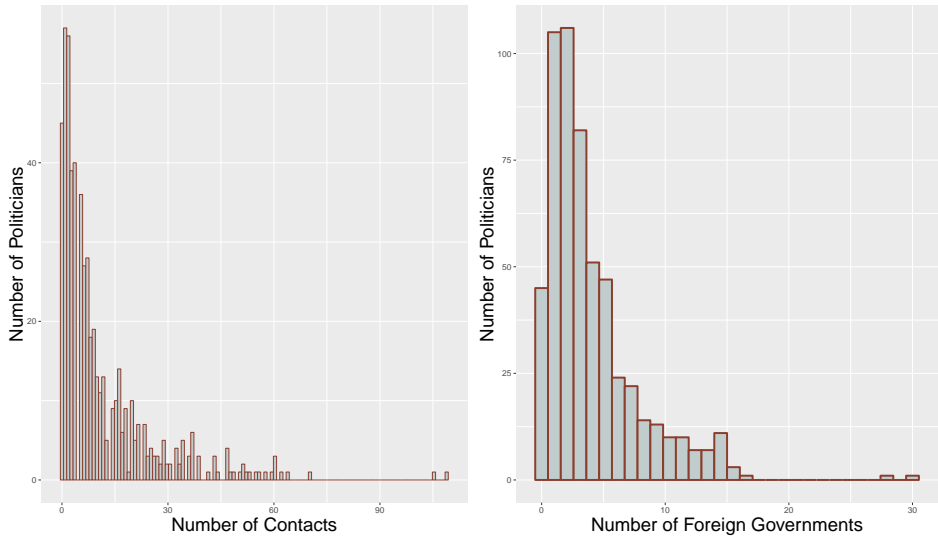
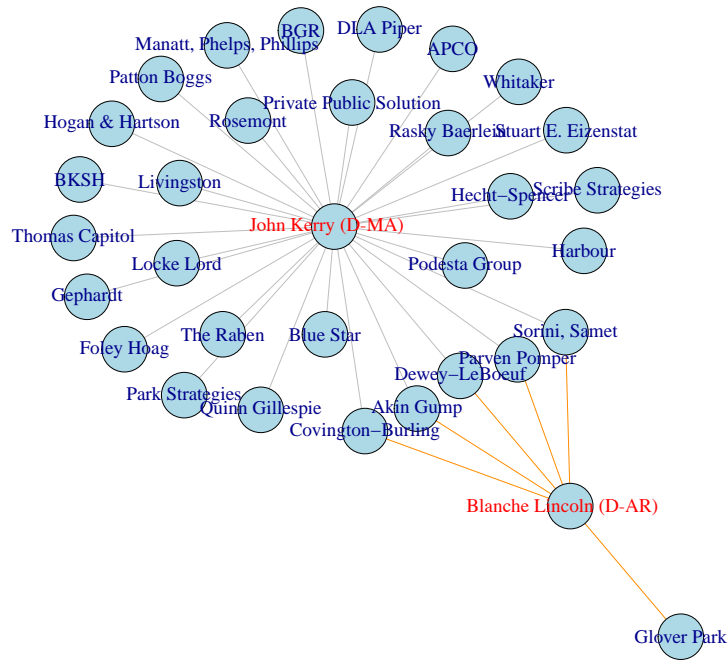


FIGURE 2. Lobbying Firm Contacts to Senators Kerry and Lincoln



Notes: Each line indicates that a contact was made by a firm. For the graph of Senator Kerry, we exclude lobbying firms who contacted him less than three times.

TABLE 2. Members of Congress

Variables	>5 Firms		≤5 Firms		Not Contacted	
	Mean	SD	Mean	SD	Mean	SD
Number of Contacting Firms	9.26	3.58	2.59	1.31	0	-
Number of Contacting Countries	7.60	3.64	2.29	1.15	0	-
Number of Total Contacts	26.16	16.34	5.50	5.62	0	-
Democrat	0.63	-	0.57	-	0.53	-
Leadership	0.03	-	0.00	-	0.00	-
Tenure	14.93	10.23	9.78	9.69	10.93	7.96
Running for Tight Reelection ^a	0.21	-	0.30	-	0.26	-
Security Committees ^b	0.21	-	0.12	-	0.02	-
Trade Committees ^c	0.41	-	0.28	-	0.24	-

Notes: Based on lobbying filings in 2010, there were 149 members of the 111th Congress who were contacted by at least 5 lobbying firms and 356 who were contacted by less than 5 firms; the remaining 49 members were not lobbied. a. A reelection race is defined to be tight, if the vote share of the most recent election's winner is at most 60%. b. We consider House committees on Foreign Affairs, Armed Services, and Homeland Security and Senate committees on Foreign Relations, Armed Services, and Homeland Security as *security* committees. c. We consider House committees on Foreign Affairs, Appropriations, Budget, Energy and Commerce, and Ways and Means and Senate committees on Foreign Relations, Appropriations, Budget, and Finance as *trade* committees.

(D-MA). Both held prominent roles in the Senate: Senator Lincoln was the chairwoman in the Senate Agriculture Committee and Senator Kerry was the chairman of the Senate Foreign Relations Committee during the period of study. While John Kerry had over 100 contacts with 30 lobbying firms, Blanche Lincoln had only ten contacts with six different lobbying firms.

3.3. Foreign Countries. Table 3 presents the summary statistics on country characteristics. In the table, we restrict our attention to the 162 countries for which the polity score of year 2005 from the polity IV data set (Marshall and Jaggers 2002) is available. We provide the summary statistics for three different groups of countries, based on whether or not there was at least one contact to a member of Congress via lobbyists during the period and if so, whether at least one of the hired lobbying firms is well-connected (i.e. maintaining connections to more than 15 members of Congress). Those who hired lobbying firms with many connections (55 countries) tended to spend more money on lobbying, hire more firms, and contact more politicians than those who hired firms with relatively few connections (19 countries).

As can be seen in Table 3, many foreign governments hire more than one lobbying firm. Even if a foreign government lobbies regarding the same issue, it sometimes hires

TABLE 3. Foreign Governments

Variables	Hired Firms with > 15 Connections		Hired Firms with ≤15 Connections		Not Lobbied	
	Mean	SD	Mean	SD	Mean	SD
Spending (\$ thousand)	3,167.5	3,792.5	539.1	505.7	0	-
Number of Firms Hired	3.58	2.87	1.36	0.49	0	-
Number of Members Contacted	64.32	82.01	14.26	13.51	0	-
Lobbying Issues ^a						
Security	0.80	-	0.42	-	-	-
Trade/Budget	0.82	-	0.52	-	-	-
Administrative/Other	0.96	-	0.73	-	-	-
2005 Polity IV Score ^b	0.60	-	0.63	-	0.55	-
2005 Per capita GDP (\$)	8,912	13,032	8,398	13,100	10,209	16,816
2005 US Aid Recipient	0.72	-	0.73	-	0.69	-
Middle East or Africa	0.38	-	0.31	-	0.44	-
Asia	0.20	-	0.26	-	0.17	-
Avg. Num. of Security Articles ^c	82.07	136.74	35.92	42.93	-	-
Security News Surge ^d	0.44	-	0.29	-	-	-
Avg. Num. of Trade Articles ^c	38.86	57.97	22.29	29.66	-	-
Trade News Surge ^d	0.48	-	0.52	-	-	-

Notes: There are 55 countries that hired a lobbying firm with more than 15 political connections, 19 countries that hired lobbying firms with 15 or fewer connections, and 88 countries with no congressional lobbying records, based on the lobbying filings of 2007 through 2010. a. We categorize lobbying issues into security, trade/budget, and administrative/other based on the written description of lobbying issues for each contact. Each lobbying issue variable in this table represents a dummy variable that takes one if the issue was lobbied during the period of study. b. The Polity IV score is from the Polity IV dataset (Marshall and Jaggers 2002); a score of 10 reflects a perfect democracy and a score of -10 reflects a perfect autocracy. The 2005 polity IV score of Turkey, for example, is 8. c. We count the number of all new articles in the *New York Times* regarding either security or trade issues of a given country per year. The source of the data is the LexisNexis database. d. We define the event of a *surge* in certain news articles to occur if the number of the related articles during a year is 50% larger than the 4-year average. The variable in question is a dummy variable that takes 1 if there was at least one *surge* event during the period of study.

multiple lobbying firms. For example, the government of South Korea hired Akin, Gump, Strauss & Hauer, Fierce, Isakowitz & Blalock, and Loeffler Group to advance its free trade agreement with the US during the period of our study. Figure 3 presents the members of Congress who were contacted by these three lobbying firms on behalf of the South Korean government about the trade issue. Although they lobbied on behalf of the same country regarding the same issue during a similar time period, the set of contacted politicians differed, with a small overlap. We also find that when a foreign government hires multiple lobbying firms, there exists a significant variation

TABLE 4. Relationship between Contacts and Connections

	Connected	Not Connected
Contacted	520 (20.15%)	2,154 (4.09%)
Not Contacted	2,061 (79.85%)	50,549 (95.91%)
Total	2,674 (100%)	52,610 (100%)

Notes: Each observation is a firm-politician pair. There are 102 lobbying firms that were active in 2009 through 2010, and there were 542 members of the 111th Congress, in total. Therefore, the total number of observations is 55,284 (102×542). Connections are measured by campaign contributions and work relationships, and we only consider contacts via phone calls or meetings.

in the ratio of contacts to Democrats across the hired firms, as can be seen in Figure 4.

Note that the amount of lobbying spending by a country in Table 3 reflects the amount spent on all lobbying firms that contacted at least one member of Congress on behalf of that country, not including the lobbying fees to other lobbying firms and the in-house lobbying expenditures.⁸

4. CONTACTS AND CONNECTIONS

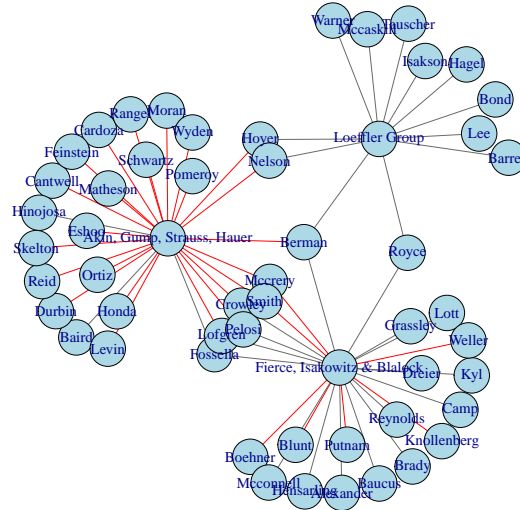
As can be seen in Table 4, the likelihood that a lobbying contact by a firm to a member of Congress exists - conditional on connections - is 20%, which is five times as high as its counterpart - conditional on no connections. We note, however, that contacts can occur without (observed) connections.

Another notable observation from Table 4 is that connections are not always utilized for a lobbying contact. This is related to our finding that depending on the clients, lobbying firms contact different sets of politicians. For example, Figure 5 shows that the contacts that DLA Piper made on behalf of the government of Germany are very different from those for the government of Afghanistan. We also find that there exists a large within-firm variation in the ratio of Democratic contacts per client. For example, when Livingstone Group represented the foreign governments of Egypt and the Republic of Congo, the firm mainly focused on Democrats for Egypt (96% of the congressional contacts) while it made only 6% of its congressional contacts to Democrats on behalf of the Republic of Congo.

We examine how connections and contacts affect lobbying fees. Specifically, we consider the following lobbying fee equation for firm ℓ and foreign government g

⁸The foreign governments in our dataset paid their lobbying firms \$184 million in total during the four years from 2007 through 2010, and the total lobbying expenditure by all foreign governments, including expenditures by in-house lobbyists, during the same period is \$821.5 million.

FIGURE 3. Contacted Politicians by Three Lobbying Firms Representing South Korea on Trade



Note: The graph shows the names of the politicians who were contacted by three lobbying firms (Akin Gump Strauss Hauer; Fierce, Isakowitz & Blalock; Loeffler Group) hired by the government of South Korea. Red (gray) line indicates that there was at least one contact by the firm to the politician, to whom the firm is connected (not connected).

FIGURE 4. Ratio of Contacts to Democrats by Foreign Government and Firm

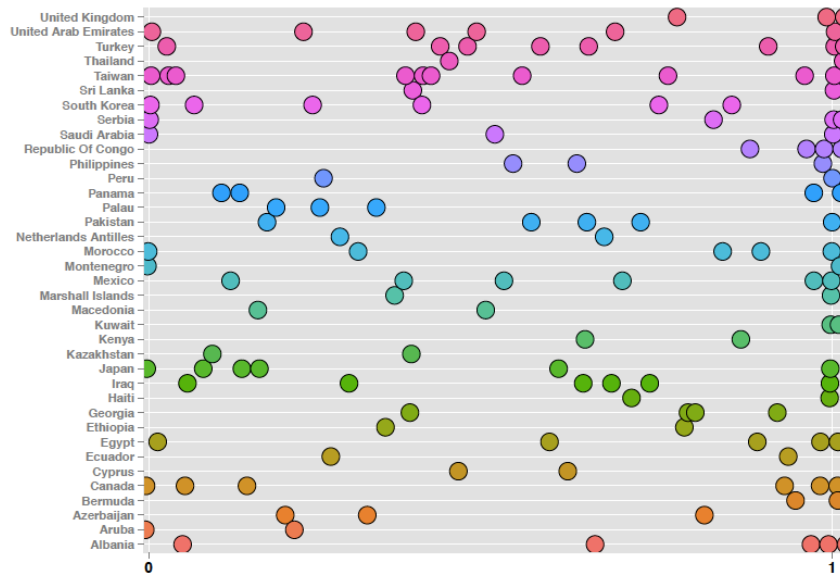
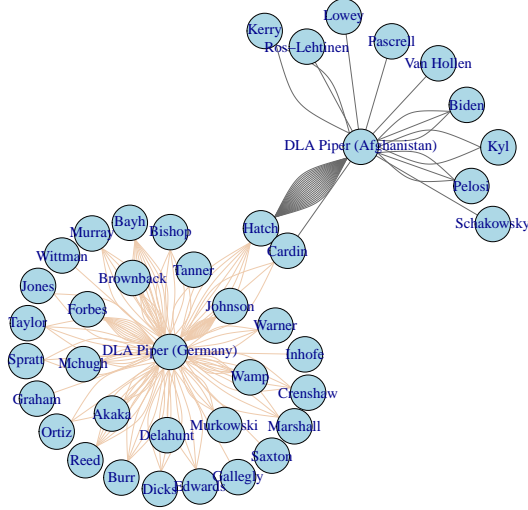


FIGURE 5. DLA Piper Network with Two Clients (Germany and Afghanistan)



Note: Each line indicates a record of a contact with a legislator on behalf of a given foreign government.

during year t :

$$\log(fee_{\ell gt}) = \gamma Z_{\ell gt} + \nu_{\ell} + \xi_g + \phi_t + \eta_{\ell gt},$$

where $Z_{\ell,g,t}$ includes the number of contacted members of Congress who are connected to firm ℓ , the number of contacted members who are not connected to the firm, whether the firm made contacts to officials in the executive branch or the US media, whether there was a large increase in media attention to government g during period t regarding either security or trade issues, and the categories of lobbying issues. Table 5 shows the regression results.

We find that lobbyists receive a large monetary premium for contacting connected members of Congress. Based on the estimates of specification (3) in Table 5, making contacts to one additional connected member is associated with a 5% increase in the lobbying fee, which is about five times larger than the counterpart of making contacts to non-connected members.

Note that this finding is complementary to those of i Vidal, Draca and Fons-Rosen (2012) and Bertrand, Bombardini and Trebbi (2014). All of these findings suggest that lobbyists' connections are highly valued in the lobbying market. Our finding, in

TABLE 5. The Price of Access to Members of Congress

	<i>Dependent var.: (log) Lobbying fee</i>		
	(1)	(2)	(3)
Number of Contacted Members who are			
Any	0.0143*** (3.91)	-	-
Connected	-	0.0892*** (5.15)	0.0496*** (2.01)
Not-connected	-	-	0.0093* (1.75)
Made Executive Contacts	0.408** (2.05)	0.430** (2.23)	0.405** (2.04)
Made Media Contacts	0.0607 (0.33)	0.0626 (0.35)	0.0527 (0.29)
Security News Surge	-0.179 (-0.98)	-0.214 (-1.16)	-0.191 (-1.04)
Trade News Surge	0.252 (1.52)	0.300* (1.80)	0.267 (1.61)
Country, Firm, Congress, Issue FE	Yes	Yes	Yes
N	375	375	375
R^2	0.762	0.760	0.764

Notes: Unit of observation is a pair a lobbying firm and its foreign government client for a given year. Standard errors are clustered at the foreign government level, and t-values are in brackets. Significant at the 1 percent (***), 5 percent (**) and 10 percent (*) levels.

particular, suggests that lobbying firms are rewarded more highly if they use their connections.

To better understand the nature of the role that connections play in the market for political access, we introduce a simple model whose equilibrium determines whether there will be communications between a politician and an interest group, and if so, which lobbyist will be engaged in mediating the communications.

5. A SIMPLE MODEL OF MARKET FOR ACCESS

We begin by describing a transferable utility model of the lobbying market. There are L lobbyists, who mediate communication between politicians and interest groups. Lobbyists are hired by interest groups at a mutually negotiated lobbying fee, and there is no search friction in this market.⁹ There are a finite number of politicians and interest groups, and we assume that no externalities exist: The payoff from each

⁹In Gomes and Pavan (Forthcoming), for example, lobbyists may price-discriminate, which can provide another source of frictions in the market. This is not considered in our framework.

individual communication to any participant does not depend on other concurrent communications.

Politicians could benefit from such mediated communications with interest groups through useful information and potential monetary contributions. Let us denote politician p 's utility from communicating with interest group g through lobbyist ℓ by $u(p, g, \ell)$, and the politician's utility from the outside option, either not communicating at all or communicating through different channels such as formal diplomatic routes, by $\underline{u}(p, g)$. Interest groups also benefit from communicating with politicians. Let $v(p, g, \ell)$ denote group g 's utility from communicating with politician p through lobbyist ℓ , and $\underline{v}(p, g)$ denote the utility from the outside option. It is costly for lobbyists to engage in communicating with politicians, and that cost is denoted by $c(p, g, \ell)$.

Let us denote the total surplus or value of a communication, $u_t(p, g, \ell) + v_t(p, g, \ell) - c_t(p, g, \ell) - \underline{u}_t(p, g) - \underline{v}_t(p, g)$ at time period t , by $\tilde{u}_t(p, g, \ell)$. The necessary and sufficient condition for a communication between politician p and group g through lobbyist ℓ to occur is

$$\tilde{u}_t(p, g, \ell) > \max\{0, \max_{\ell' \neq \ell} \tilde{u}_t(p, g, \ell')\}.$$

We further assume that the expected (net) values that a lobbyist creates regarding a pair of a politician and an interest group differ only by the lobbyist's connection to the politician. Let \mathcal{L}_p denote the set of lobbyists who are connected to politician p . We then make the following parametric assumptions for ℓ :

$$\tilde{u}_t(p, g, \ell) = \beta_c 1\{\ell \in \mathcal{L}_p\} \mathbf{X}_{pgt} + \beta_n 1\{\ell \notin \mathcal{L}_p\} \mathbf{X}_{pgt} + \epsilon_{pglt},$$

where ϵ_{pglt} are independent and follow the Type I extreme distribution. \mathbf{X}_{pgt} is a vector of observed characteristics of politician p and group g at period t , including variables related to (i) whether there was a large increase in US media attention to group g on certain issues, (ii) whether the lobbying issue of the group during the period is in general related to the committee or the regional caucus to which that politician belongs, (iii) whether the politician is running for reelection with a small expected vote margin during the period, and (iv) time and match invariant attributes such as the politician's leadership position and committee assignments as well as the group's geographic location and economic/political indexes.

The difference between β_c and β_n can help shed light on the role of connections in lobbying. If $\beta_c = \beta_n$, then lobbyists' connections do not create additional value to

communication between politicians and groups. We allow that the connections' value may depend on their time/match-specific attributes, and consider various hypotheses about the determinants of the connections' value.

6. DETERMINANTS OF THE VALUE OF CONNECTIONS

Table 6 presents the estimates of β_c and β_n for the House and the Senate separately. By comparing β_c and β_n that are associated with each attribute of member and/or foreign country, we find the following three key trends.

First, we investigate how changes in media attention to foreign governments affect the value of connection. Media has played an important role in shaping the visibility and the salience of the issue and the issues regarding foreign nations are no exception (Manheim and Albritton 1984). We find that if the number of articles on a foreign client in the *New York Times* on security or trade issues increases by more than 50 percent over the previous year (*Security News Surge*, *Trade News Surge*), it leads to an increase in contacts with members of Congress, both with and without connections. This overall increase in contacts could be driven by the desire of US politicians who want to learn more about events in foreign governments or higher demand for lobbying from foreign clients when issues concerning their countries become salient in the US.

Although the overall contact increased under this situation, connections further increase the value of contacts. A larger increase in contact values with connections may suggest that lobbyists provide their connected politicians with more credible advice or information when there is a sudden increase in media attention. This idea is further corroborated by our finding that when such an increase in media attention to authoritarian governments from the Middle East or Africa occurs, contact value decreases, and this is especially true for contacts through connected lobbyists. The decrease in contact values - and, therefore, fewer contacts - could be driven by a decrease in the value politicians or foreign clients place on contacts, or the increase in connected lobbyists' costs to make contacts (for example, Hirsch and Montagnes

2015).¹⁰ Either way, the fact that connections do not always increase contact values may point to one of the sources of the credibility of connected lobbyists.

Second, contact values increase if a foreign client wants to address the issues considered by a member’s committee assignment (*Issue Match: Security, Issue Match: Trade*). This can be driven by potentially mutual interests of politicians and foreign clients who can extract relevant information from each other. However, there is no distinctive difference between connected and non-connected lobbyists regarding an issue-relevant match. Connected lobbyists do not necessarily increase the probability of issue-relevant matches.

Third, members in leadership (*Leadership*) are more likely to communicate with foreign governments and this pattern strengthens with connections. Members who expect a tight reelection race during an election year (*Running for Tight Reelection*) are less likely to grant access but connected lobbyists alter that pattern, especially in the Senate. There are multiple potential mechanisms that could explain why connections increase contact values when a politician is running for a tight reelection. It is possible that connected lobbyists provide more helpful advice or information and members in leadership or in tight races may value credible information more highly especially because their time is particularly constrained (Cotton, 2012). Another possibility is that connected lobbyists help raise funds for these members, who face huge pressures to bring in financial resources. It is reported that connected lobbyists often funnel multiple contributions (also known as “bundling”) to candidates and their political parties (Eggen, 2010).

7. CONCLUSION

Using unique lobbying contact data constructed from foreign lobbying reports, we show that connected lobbyists enjoy a disproportionately high share of access to politicians, and clients pay more for access through connected lobbyists. We show

¹⁰From politicians’ perspective, there are potential costs of granting access to lobbyists who represent “questionable” foreign governments. According to the Chicago Council on Foreign Relations survey (“Global View 2008: American Public Opinion and Foreign Policy”), countries that are categorized as authoritarian countries in Middle East, such as Saudi Arabia or Iran, have much lower favorable feeling than other countries such as Germany and Japan. Close ties to certain clients or lobbyists could damage the reputation of a politician and, accordingly, could harm her electoral prospects. There is ample anecdotal evidence that politicians are attacked by their opponents regarding their potential ties with repressive foreign regimes. For example, Senator Chris Dodd was criticized because his staffer, Amos Houchstein, had represented Equatorial Guinea as a lobbyist at Cassidy & Associates. See Joshua Kurlantzick’s article, “When Lobbyists Work for Authoritarian Nations,” in *Newsweek*, July 26, 2010, for further details.

TABLE 6. Parameter Estimates: When Does Connection Matter?

	House		Senate	
	β_n	β_c	β_n	β_c
<i>Issue Salience</i>				
Security News Surge	0.921*** (11.64)	1.560*** (8.92)	0.324*** (2.87)	0.711*** (3.44)
Trade News Surge	0.258*** (2.77)	0.826*** (4.96)	-0.0293 (-0.24)	0.332 (1.42)
Security Surge \times Middle East	-2.048*** (-11.63)	-3.697*** (-7.72)	-0.985*** (-4.06)	-0.538 (-1.41)
Trade Surge \times Middle East	-0.350*** (-2.64)	-0.991*** (-4.50)	0.278* (1.73)	-0.800** (-2.33)
<i>Issue/Caucus Match</i>				
Issue Match: Security	1.397*** (10.99)	1.213*** (5.64)	1.887*** (11.31)	2.205*** (3.98)
Issue Match: Trade	1.318*** (16.50)	1.281*** (7.39)	1.249*** (6.24)	0.861** (2.27)
Caucus Match	1.471*** (20.32)	1.610*** (13.00)		
<i>Politician Characteristics</i>				
Leadership	1.395*** (9.54)	3.089*** (11.87)	1.001*** (10.14)	1.495*** (8.46)
Running for Tight Reelection	-0.319*** (-3.43)	0.181 (1.11)	-0.192 (-1.56)	0.853*** (3.67)
Security Committee	-0.544*** (-4.87)	-0.256 (-1.43)	-0.521** (-2.15)	-0.421 (-0.90)
Economics Committee	-0.435*** (-3.45)	0.0702 (0.29)	-0.941*** (-4.50)	-1.243* (-1.81)
<i>Government Characteristics</i>				
Autocracy	-0.588*** (-9.05)	-0.782*** (-7.39)	-0.481*** (-5.84)	-0.704*** (-7.28)
Middle East	1.288*** (17.91)	1.525*** (11.76)	0.880*** (9.53)	1.036*** (7.45)
Asia	1.562*** (16.41)	2.479*** (13.81)	0.485*** (4.61)	1.487*** (7.95)
Year Dummies	Yes		Yes	
N	125,244		29,110	
pseudo R-sq	0.130		0.071	

Notes: Unit of observations is a pair of a foreign government and a politician. We consider all possible pairs for the foreign governments that have at least one lobbying contact with a member of Congress during 2007 through 2010. The party affiliation and the tenure of politicians, the log of the GDP per capita, and a dummy variable on whether a country received US aid in 2005 are included in the regressions, but the coefficients are not reported due to space limitations. We provide t-statistics in parentheses.

that the higher quantity of access and lobbying fee premiums that connected lobbyists enjoy are not necessarily driven by more issue-relevant matches than non-connected lobbyists. Instead, we find that the value of connection depends on electoral cycles and changes in the US media's attention to the client country. Our estimates suggest that connections increase contact values when politicians are running for reelection with a small expected vote margin, or are in leadership positions. When US media's attention to a foreign client increases, connections in general increases contact values, but this pattern reverses for authoritarian governments from the Middle East and Africa. A further study on the role of connections in lobbying that explains our empirical findings could be very important in understanding the policy-making process and the welfare implications of the regulation of lobbying.

REFERENCES

- Ainsworth, Scott.** 1993. "Regulating Lobbyists and Interest Group Influence." *Journal of Politics*, 55(1): 41–56.
- Allard, Nicholas.** 2008. "Lobbying Is An Horrible Profession: The Right To Petition and The Competition To Be Right." *Stanford Law Review*, 19(1): 23–68.
- Atieh, Jihad.** 2010. "Foreign Agents: Updating FARA to Protect American Democracy." *University of Pennsylvania Journal of International Law*, 31: 1051–1088.
- Austen-Smith, David.** 1995. "Campaign Contributions and Access." *American Political Science Review*, 89(3): 566–581.
- Austen-Smith, David.** 1998. "Allocating Access for Information and Contributions." *Journal of Law, Economics, and Organization*, 14(2): 277–303.
- Bertrand, Marianne, Matilde Bombardini, and Francesco Trebbi.** 2014. "Is it whom you know or what you know? An Empirical Assessment of the Lobbying Process." *American Economic Review*, 104(12): 3885–3920.
- Cotton, Christopher.** 2012. "Competing for Attention: Lobbying Time-Constrained Politicians." *Journal of Public Economic Theory*, 18(4): 642–665.
- de Figueiredo, John M., and Brian Kelleher Richter.** 2014. "Advancing the Empirical Research on Lobbying." *Annual Review of Political Science*, 17: 163–185.
- Drutman, Lee.** 2010. "The Complexities of Lobbying: Toward a Deeper Understanding of the Profession." *PS: Political Science & Politics*, 43(4): 834–837.
- Durante, Ruben, and Ekaterina Zhuravskaya.** 2016. "Attack When the World Is Not Watching? U.S. News and the Israel-Palestinian Conflict." *Working paper*.

- Eggen, Dan.** 2010. "New Records Show Some Lobbyists Are Top Fundraisers for Political Candidates." *Washington Post*.
- Eggen, Dan, and Kimberly Kindy.** 2009. "Familiar Players in Health Bill Lobbying." *Washington Post*.
- Eisensee, Thomas, and David Stromberg.** 2007. "News Droughts, News Floods, and U.S. Disaster Relief." *Quarterly Journal of Economics*, 122(2): 693–728.
- Gomes, Renato, and Alessandro Pavan.** Forthcoming. "Many-to-Many Matching and Price Discrimination." *Theoretical Economics*.
- Groll, Thomas, and Christopher J. Ellis.** 2014. "A Simple Model of the Commercial Lobbying Industry." *European Economic Review*, 79: 299–316.
- Hall, Richard L., and Robert Van Houweling.** 2012. "Lobbying Without Buying Time." *UC Berkeley Working Paper*.
- Hansen, John Mark.** 1991. *Gaining Access: Congress and the Farm Lobby, 1919-1981*. Chicago: University of Chicago Press.
- Herndon, James F.** 1982. "Access, Record, and Competition As Influence on Interest Group Contributions to Congressional Campaigns." *Journal of Politics*, 44(4): 996–1019.
- Hirsch, Alexander V., and B. Pablo Montagnes.** 2015. "The Lobbyist's Dilemma: Gatekeeping and the Profit Motive." *California Technology Institute Working Paper*.
- Hojnacki, Marie, and David Kimball.** 2001. "PAC Contributions and Lobbying Contacts in Congressional Committees." *Political Research Quarterly*, 54(1): 161–180.
- i Vidal, Jordi Blanes, Mirko Draca, and Christian Fons-Rosen.** 2012. "Revolving Door Lobbyists." *American Economic Review*, 102(7): 3731–3748.
- Langbein, Laura.** 1986. "Money and Access: Some Empirical Evidence." *Journal of Politics*, 48(4): 1052–1062.
- Leech, Beth.** 2013. *Lobbyists at Work*. New York: APress.
- Lohmann, Susanne.** 1995. "Information, Access, and Contributions: A Signaling Model of Lobbying." *Public Choice*, 85(3/4): 267–284.
- Loomis, Burdett.** 2006. "From the Framing to the Fifties: Lobbying in Constitutional and Historical Context." *Extensions*, Fall.
- Manheim, Jarol, and Robert Albritton.** 1984. "Changing National Images: International Public Relations and Media Agenda Setting." *American Political Science Review*, 78(3): 641–657.

- Rosenthal, Alan.** 2000. *The Third House: Lobbyists and Lobbying in the States*. Washington D.C.: CQ Press.
- Schlozman, Kay Lehman, Sidney Verba, and Henry Brady.** 2012. *The Unheavenly Chorus: Unequal Political Voice and the Broken Promise of American Democracy*. Princeton, N.J.: Princeton University Press.
- Truman, David.** 1955. *The Governmental Process*. New York: Alfred A. Knopf.
- Waters, Robert.** 1988. "Foreign Agents Registration Act: How Open Should the Marketplace of Ideas Be?" *Missouri Law Review*, 53(4): 1–12.
- Wright, John.** 1990. "Contributions, Lobbying, and Committee Voting in the U.S. House of Representatives." *American Political Science Review*, 84(2): 417–438.
- Wright, John.** 1996. *Interest Groups and Congress: Lobbying, Contributions, and Influence*. New York: Longman.

U.S. Department of Justice
Washington, DC 20530

Supplemental Statement
Pursuant to Section 2 of the Foreign Agents Registration Act
of 1938, as amended

OMB NO. 1124-0002

For Six Month Period Ending Dec. 31, 2008
(Insert date)

I - REGISTRANT

1. (a) Name of Registrant (b) Registration No.
Akin Gump Strauss Hauer & Feld, LLP 3492
- (c) Business Address(es) of Registrant
1333 New Hampshire Avenue, NW
Washington, DC 20036

2. Has there been a change in the information previously furnished in connection with the following:

- (a) If an individual:
- | | | |
|---------------------------|------------------------------|-----------------------------|
| (1) Residence address(es) | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| (2) Citizenship | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| (3) Occupation | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
- (b) If an organization:
- | | | |
|--------------------------|------------------------------|--|
| (1) Name | Yes <input type="checkbox"/> | No <input checked="" type="checkbox"/> |
| (2) Ownership or control | Yes <input type="checkbox"/> | No <input checked="" type="checkbox"/> |
| (3) Branch offices | Yes <input type="checkbox"/> | No <input checked="" type="checkbox"/> |
- (c) Explain fully all changes, if any, indicated in items (a) and (b) above.

IF THE REGISTRANT IS AN INDIVIDUAL, OMIT RESPONSE TO ITEMS 3, 4 AND 5(a).

3. If you have previously filed Exhibit C¹, state whether any changes therein have occurred during this 6 month reporting period.

Yes ☐ No ☒

If yes, have you filed an amendment to the Exhibit C? Yes ☐ No ☐

If no, please attach the required amendment.

2009 JAN 27 PM 2:0
CRM/CES/REGISTRATION UN

¹ The Exhibit C, for which no printed form is provided, consists of a true copy of the charter, articles of incorporation, association, and by laws of a registrant that is an organization. (A waiver of the requirement to file an Exhibit C may be obtained for good cause upon written application to the Assistant Attorney General, National Security Division, U.S. Department of Justice, Washington, DC 20530.)

Formerly CRM-154

FORM NSD-2
SEPTEMBER 2007

APPENDIX: AN EXAMPLE OF A FARA LOBBYING REPORT

We provide a scanned copy of a few selective pages of the FARA report submitted by Akin, Gump, Strauss, Hauer & Field in January 2009 on their lobbying activities for its foreign clients during the second half of 2008.

(Continued)

(PAGE 3)

II - FOREIGN PRINCIPAL

 7. Has your connection with any foreign principal ended during this 6 month reporting period?
Yes ☐ No ☒

If yes, furnish the following information:

Name of foreign principal

Date of termination

 8. Have you acquired any new foreign principal² during this 6 month reporting period?
Yes ☒ No ☐

If yes, furnish the following information:

Name and address of foreign principal
 Kili/Bikini/Ejit Local Government Council
 PO Box 1096
 Majuro, Marshall Islands 96960

Date acquired
 December 2008

 9. In addition to those named in Items 7 and 8, if any, list foreign principals² whom you continued to represent during the 6 month reporting period.

Government of British Columbia
 Embassy of Panama
 Embassy of the Republic of Korea
 Embassy of the United Arab Emirates

10. EXHIBITS A AND B

(a) Have you filed for each of the newly acquired foreign principals in Item 8 the following:

Exhibit A³ Yes ☒ No ☐
 Exhibit B⁴ Yes ☒ No ☐

If no, please attach the required exhibit.

(b) Have there been any changes in the Exhibits A and B previously filed for any foreign principal whom you represented during the 6 month period? Yes ☐ No ☒If yes, have you filed an amendment to these exhibits? Yes ☐ No ☒

If no, please attach the required amendment.

² The term "foreign principal" includes, in addition to those defined in Section 1(b) of the Act, an individual organization any of whose activities are directly or indirectly supervised, directed, controlled, financed, or subsidized in whole or in major part by a foreign government, foreign political party, foreign organization or foreign individual. (See Rule 100(a) (9).) A registrant who represents more than one foreign principal is required to list in the statements he files under the Act only those principals for whom he is not entitled to claim exemption under Section 3 of the Act. (See Rule 208.)

³ The Exhibit A, which is filed on Form NSD-3 (Formerly CRM-157), sets forth the information required to be disclosed concerning each foreign principal.

⁴ The Exhibit B, which is filed on Form NSD-4 (Formerly CRM-155), sets forth the information concerning the agreement or understanding between the registrant and the foreign principal.

(Continued)

Name of Registered Individual: Hal S. Shapiro

Name of Client: Embassy of United Arab Emirates			
Activity/Contact (name, title and office/agency)	Type of Activity/ Method of contact	Topic	Date
Rep. H. Berman, Chairman, House Committee on Foreign Affairs	Meeting	US-UAE relations, status of pending arms sale, international nuclear fuel bank regional issues	7/31/08
Alan Makovsky - Senior Staff, House Committee on Foreign Affairs	Meeting	US-UAE relations, status of pending arms sale, international nuclear fuel bank regional issues	7/31/08
Alan Makovsky - Senior Staff, House Committee on Foreign Affairs	Phone call and email message	Status of pending arms sale and satellite sale	8/5/08
Alan Makovsky - Senior Staff, House Committee on Foreign Affairs	Email message	Status of pending arms sale and satellite sale	8/6/08
Alan Makovsky - Senior Staff, House Committee on Foreign Affairs	Email message	Status of pending arms sale	9/8/08
Alan Makovsky - Senior Staff, House Committee on Foreign Affairs	Email message	Status of pending arms sale	9/19/08
Rep. C. Rangel, Chairman, House Ways & Means Committee	Meeting	Regional issues, bilateral relationship, international nuclear fuel bank	9/23/08
Tim Reif, Majority Chief Trade Counsel, House Ways & Means Committee	Meeting	Regional issues, bilateral relationship, international nuclear fuel bank	9/23/08
Jennifer McCadney, Majority Trade Staff, House Ways & Means Subcommittee on Trade	Meeting	Regional issues, bilateral relationship, international nuclear fuel bank	9/23/08
Tim Reif, Majority Chief Trade Counsel, House Ways & Means Committee	Email message	Meeting request on regional issues	11/11/08