



A podcast about the economics of trade & policy
with Chad P. Bown

Episode 198. Inside Washington's lobbying industry

[Episode webpage](#)

December 3, 2023

Transcript

(lightly edited)



Chad Bown: Lobbying is incredibly important. As government officials try their best to make informed economic policy, these policymakers are finding it harder and harder. Industries and supply chains keep getting more complicated. Officials are being asked to implement industrial policy, tariffs, regulations, and export controls, which all require incredibly detailed information.

Communicating the right information to government officials to help them make those policies is now more crucial than ever. And lobbyists are often the people tasked with doing that communication.

At the same time that lobbying is becoming more important, the public seems to know less and less about it. And what the public does know about lobbying it doesn't like...

CSPAN (January 3, 2006) *Earlier today, in U.S. District Court here in Washington, DC, former lobbyist Jack Abramoff plead guilty to three separate felony offenses: conspiracy, mail fraud, and tax evasion. Abramoff has agreed to cooperate in the ongoing public corruption probe led by the Department of Justice...*



A podcast about the economics of trade & policy
with Chad P. Bown

Chad Bown: This episode explores Washington’s lobbying industry. What do lobbyists do? How do they do it? How does lobbying affect whether sectors in the real economy organize politically? How does that then impact the policies that come out of Washington, including on trade? How can lobbyists be held more accountable?

To tackle all of this, I will be joined by a very special guest.

Matilde Bombardini: Matilde Bombardini, UC Berkeley, Haas School of Business .

Chad Bown: Matilde Bombardini is an economics professor at the University of California Berkeley. She is an expert on trade, on firms, and especially on lobbying. Matilde has spent most of the last two decades studying lobbyists and today, she is going to share some of her research to help us understand the lobbying industry in Washington.

Chad Bown: Hi, Matilde.

Matilde Bombardini: Hi, Chad.

Chad Bown: You are listening to an episode of *Trade Talks*, a podcast about the economics of trade and policy. I’m your host, Chad Bown, the Reginald Jones Senior Fellow, at the Peterson Institute for International Economics in Washington.

THE EPISODE

Chad Bown: Matilde, to start, how do you define lobbying, and what are some of the basic tradeoffs associated with lobbying?

Matilde Bombardini: Lobbying is some communication of some information that comes from either a firm or a corporation in general that is received by the policy maker. The policy maker could be a regulatory agency, it could be a politician, or anybody that designs a policy.

That information can be useful to politicians. And then sometimes we think that that information may not be useful to conduct solid policymaking. So the different models that come both from economics and from political science are essentially there to guide our thinking about when this is good and when it is not, and when does it lead to a better policy and when it doesn't lead to better policy.



A podcast about the economics of trade & policy
with Chad P. Bown

Chad Bown: Tell us more about the theory and these models from economics and political science. How does political influence affect the process of making economic policy?

Matilde Bombardini: There are two different theories of political influence. One is the theory of lobbying, and we tend to call that informational lobbying. And it is the process by which you try to communicate some information although the person that you are trying to communicate the information to, in this case, politicians, know that you are biased in your position. And so, only in some cases do you manage to convey that information credibly. But when you do manage to convey that information, you do produce better policies – i.e., policies that are more informed.

For example, in the aftermath of the financial crisis, one of the pieces of legislation was the Dodd-Frank Act, and this required firms to keep some of the securities that they issued on their books. And different types of banks may have found that rule to be more or less costly. In particular, smaller financial institutions may have found that to be especially costly. And so they needed to communicate that to the regulator. Being able to communicate that credibly to the politician can lead to a better assessment of costs and benefits of the rule.

The second type of influence is referred to as *quid pro quo*, but it is really the idea that you are offering campaign contributions in exchange for tilting policy in your favor. For example, when you are offering campaign contributions to put a tariff on a good that you produce so that it may increase the price, reduce the availability, and make it more profitable for you.

Chad Bown: Lobbying is one way to get access to policymakers. Another that you mentioned is through campaign contributions, as some policymakers are politicians who need to be elected to their office by the voting public. Lots of listeners will have made campaign contributions and so are going to have some familiarity with that. But client companies who demand lobbying services can also make contributions to a politician's campaign.

In the United States, what is the difference between what a client firm gets out of lobbying compared to what a client firm gets from offering campaign contributions.

Matilde Bombardini: Lobbying is really the process by which a firm or another entity communicates to a politician a specific position on a policy.

Campaign contributions are funding for elections that is passed – sometimes from a firm and sometimes from an individual – to a politician. There are different types of contributions. One is



A podcast about the economics of trade & policy
with Chad P. Bown

individual contributions that a person makes, and they can report their employer, but it's coming from them individually.

And then there are what we call Corporate PACs, which is Corporate Political Action Committees. They are essentially a bucket to collect donations on behalf of a specific firm – e.g., the United Airlines PAC – that will collect donations from their employees, and then will donate to specific politicians in the name of the firm. Often the reason why you want to donate through the corporate PAC is that you may want to support a policy position that you have advocated via lobbying.

These two activities become complimentary in the sense that you are talking to the politician about the specific policy position and your lobbyist also recommends that you, as a firm, give a donation to open the conversation with that politician.

But lobbying by itself does not involve any transfer of money.

Chad Bown: In terms of the dollars at stake in the political process, which is bigger – what these client firms spend on campaign contributions or what they spend on lobbying?

Matilde Bombardini: Maybe because data on campaign contributions became available much earlier, in the 1970s, when the Federal Election Commission was established, we have spent much more time measuring and writing papers about campaign contributions.

But the truth is that lobbying is a lot larger. Campaign contributions range from \$200 to \$300 million per year, whereas spending on lobbying is an order of magnitude bigger at \$3-\$4 billion per year.

Chad Bown: One reason why we might care about lobbying is that it involves a lot of money - a \$4 billion a year industry seems important. Why else does the public care about lobbying?

Matilde Bombardini: The reason we care about lobbying is twofold.

The first one appears more superficial, but in reality it's not. It's because people care about lobbying, and the perception is that there's an appearance of corruption that is associated with lobbying. That is one of the reasons why we regulate it, and per se, may be enough to give us a



A podcast about the economics of trade & policy
with Chad P. Bown

reason to regulate it. If lobbying reduces the trust of the public in the political system, then we have to bring more transparency to it.

The other reason is because theoretically lobbying brings better decisions sometimes and worse decisions sometimes. And again, the lobbying process itself is like a communication by a party that's informed to a party that's not informed but who has to make some decisions.

And so the politician can end up regulating banking or trade or health care and, with some extra information, may be getting to better policy. But because the information comes from a biased party, this may not always happen.

Chad Bown: What does the American public think about lobbying and the lobbyists who are doing the industry's work?

Matilde Bombardini: The American public clearly thinks that lobbying is not good.

Pew did a poll in 2018 and more than 50 percent of people said lobbying was a very big problem. Just to give you a reference point, illegal immigration – which has filled pages of newspapers and TV airtime – only 38 percent of the public said illegal immigration was terrible.

Even compared to other occupations that are not viewed very favorably – like bankers – that's 25 percent who are viewed unfavorably. So lobbyists are perceived as worse than bankers.

Chad Bown: What about you personally? What do you think about lobbying?

Matilde Bombardini: What I think about lobbying has changed over the years. I started off with very much this position that lobbying was bad, that it was primarily some form of quid pro quo.

But now I have developed a more nuanced view, and I think that there are so many difficult areas to regulate and that regulation in many areas is so complicated and so complex and so information-intensive that it is impossible to regulate effectively without specific information that only the people that we regulate have.

So given this premise and this conviction that I've developed, the goal has been to try to measure how much of the lobbying is actually driven by information and how much of it is driven by all the other things that we believe are so nefarious.



A podcast about the economics of trade & policy
with Chad P. Bown

Chad Bown: Now, I want to turn to research. To begin, how easy is it for researchers to even measure informational lobbying and then to trace it to how much lobbyists affect economic policy?

Matilde Bombardini: It is quite difficult to measure the extent of informational lobbying. There are cases in which you can measure what is told to the policymaker by firms. And that is the case, for example, for rulemaking – i.e., for the notice and comment procedure.

For various regulations made by a federal agency like the SEC, you will have a rule that's issued and then you will have comments by several parties involved. And we can measure the change in the rules from their preliminary version to the final version to see whether the comments – e.g., of banks – have affected the rule more in the direction of the comments or not.

But in other cases, it will be very hard to detect the role of lobbying because the very role of lobbying may be to *prevent* a piece of legislation from ever seeing the light of day. And so in those cases, we will never be able to tell what the effect of lobbying was.

Chad Bown: One of the things you do in your research is to compile data about the lobbying industry. You have spent much of your career looking at data on lobbyists. What can you tell us about the people who work in Washington on K Street – what do we know about these lobbyists?

Matilde Bombardini: Thankfully there is a lot of data now, thanks to the Lobby Disclosure Act of 1995, that allows us to observe what lobbyists lobby on, the topics that they lobby on, and how much they are paid. And so we can measure what topics they lobby on over their entire career, and the data is at the lobbyist level. For each individual, we know what they have worked on over their entire lobbying career at the federal level. We can tell who gets paid more.

The lobbyists that are paid more are what we call generalists, as opposed to the specialists or the experts that focus their entire career on one topic.

Chad Bown: Why are the generalists paid more? Why are those generalists more valuable to their lobbying clients than the subject matter specialists who might be more informed about the details of any given policy? That seems counterintuitive.



A podcast about the economics of trade & policy
with Chad P. Bown

Matilde Bombardini: I'm not entirely sure, but that was one telltale sign that told us that perhaps it's not the information that is dominating why lobbyists are paid, but maybe the type of connections that lobbyists have.

About 20 percent of lobbyists have political experience that we can observe. We can classify them as about half and half, Republicans and Democrats. The sort of political experience that they have is that they were either former aides or former members of Congress or in the Executive branch.

And these connections are important because they make them credible to the politicians that they talk to.

Chad Bown: How do you measure political connections? And, once you measure it, what is the relationship between how much lobbyists are paid and their political connections?

Matilde Bombardini: The way we measure connections is we look at campaign contributions that lobbyists have given to a politician. It will be rare for a politician to talk to a lobbyist and not have received a campaign donation, even a small one, around the time that they talk.

The research that we did showed that the most highly paid lobbyists are those that have a lot of connections with different politicians and they lobby on a variety of topics.

Chad Bown: How else did you examine whether these lobbyists are subject experts – like in tax or health or trade and thus really providing useful information – as compared to whether they are just an expert at having the right policymaker connections?

Matilde Bombardini: The other way that we try to measure whether lobbyists are really experts or if instead they are experts in terms of the connections that they have is that we observe what happens when a Congressman/Congresswoman moves from one committee to another committee. So let's say they will start at the Financial Services Committee and then move to the Healthcare Committee.

The question that we ask is, is the lobbyist that was previously lobbying the politician that was on the Financial Services Committee sticking with lobbying on financial issues? Or is that lobbyist now lobbying on healthcare?



A podcast about the economics of trade & policy
with Chad P. Bown

And the answer is that we find quite a substantial amount of following the politician that you are expert on. So there's a lot of expertise that is more about knowing maybe what a politician needs to hear in making yourself credible and investing in that specific relationship.

Chad Bown: Tell us more about these lobbyists and where they work.

Matilde Bombardini: In our data sets, there are 10,000 to 15,000 lobbyists registered per year.

And there are two main types of lobbyists. One does it in-house. Companies that are large – like Google or Bank of America – will have their own, in-house lobbyists that specialize in knowing their business and speaking on their behalf.

Then we have lobbying firms, which are sometimes very small (e.g., one person) and sometimes they are very large. And they are hired, sometimes continuously, by other firms that need their services.

It has been the case that lobbying has been shifting from in-house to external over time. One reason could be that smaller (client) firms have had to start lobbying more, because regulations have been increasing over time. And to be able to support your own in-house lobbyist, you need to be a very large firm, and that, again, can be only done by large firms – i.e., those are already lobbying. So the marginal/new lobbying firms that enter tend to be smaller.

Chad Bown: OK, what about the client firms of these lobbyists? Who hires the lobbyists to get their connections and their access to policymakers?

Matilde Bombardini: Clients can range from individual firms to nonprofits. Some of them are, again, large, corporations. Some of them are industry associations, like the Chamber of Commerce or the National Association of Realtors.

Large firms are disproportionately involved and small firms never appear as individual clients. They always appear as part of an industry association, which is why those are pretty large.

In terms of industries, the financial industry, insurance, healthcare, and banking – those are the regulation-heavy industries and therefore are the ones that are more represented by lobbyists.



A podcast about the economics of trade & policy
with Chad P. Bown

Chad Bown: Because this is *Trade Talks*, I have to ask you about trade policy. To start, why might businesses need to lobby over trade policy?

Matilde Bombardini: Lobbying can target some very big votes that have been taken over the years. For example, go back to NAFTA or the US granting to China permanent normal trade relations and even more recently NAFTA 2.0 – i.e., the USMCA.

But the truth is that there are many other more subtle dimensions of trade policy that can be targeted by lobbying. For example, if you think about the lists of goods that were subject to tariffs in the several waves under President Trump – these lists were announced, and then the rulemaking was opened up for comments. Then different groups would argue in favor of a certain good being placed on the list because they produce that good and so they're happy that the good is subject to tariffs. Other firms may lobby against a specific intermediate good being placed on the list (because they are buyers of it). So you may see that these lists are shaped very much by lobbying.

It is not just tariffs. In fact, if you go to the present day, it is also about export controls. Listeners are very familiar with semiconductor export restrictions. And those rules are also subject to comments. You can shape what kind of chips are going to be hit by the export controls. And we see that these adjustments are quite frequent over time. That's where I think that lobbying can be effective because it is also at the margin, and so you're not really doing anything major, but they can be very effective for specific companies.

Chad Bown: Now I want to turn to your research on lobbying for trade policy. What got you started on trade lobbyists?

Matilde Bombardini: One of the things that struck me when I started looking at the lobbying data, which at the time was quite novel, when I started working on this, was that I could observe lobbying by individual firms, and then quite a bit of lobbying was done by industry associations. And so we started puzzling about why a firm would make that choice.

So if you are an individual firm, let's say Pfizer, you have a choice of lobbying as an individual firm, so hire your own lobbyist and make your argument. Or you could be part of one of the pharmaceutical industry associations and then lobby as a group. It's the same thing if you imagine a corn farmer. The corn farmer can lobby on their own, as an individual producer, or they could be part of the National Corn Grower Association.



A podcast about the economics of trade & policy
with Chad P. Bown

When looking at lobbying for trade policy we really wanted to understand why, in some cases, you observe lobbying on trade policy by individual firms versus in other cases you saw lobbying for trade reasons by trade associations.

Chad Bown: What are the tradeoffs that a firm has to consider when it is making the collective action choice - whether to lobby on its own or as part of the group? What is the basic theory?

Matilde Bombardini: Obviously, a very important issue that arises is the collective action problem, which is the fact that if I lobby and obtain protection for an entire industry, everybody in the industry is going to benefit from that.

As with all public goods, unless you find a way to solve this collective action problem, you may have free riding and so under provision of this (lobbying) public good.

Chad Bown: This creates a puzzle. Lobbying is costly for firms. They would prefer to have someone else pay to lobby and enjoy the collective benefits of tariffs. But if everyone in the industry thinks this way then no one lobbies – this is the free rider problem – and no one in the industry gets any tariff protection. How do you investigate this puzzle?

Matilde Bombardini: One dimension that could be important in explaining this puzzle is that firms really have a choice of either lobbying for a tariff, or some sort of protection that covers the entire sector, or they can really carve out more targeted protection on specific goods that they are producing.

You know how fine the tariff schedule is in terms of different types of steel. And so a firm can also decide to focus on very specific tariff lines that they want to target.

Conceptually, you can imagine that a firm has an option either to join other firms in lobbying for a tariff that covers the entire steel sector or, if it goes at it alone, it has less of this free rider problem and it can really target their lobbying efforts at one specific type of steel that they produce.

Chad Bown: Tell us more about the economic incentives here to lobby for tariff protection if, say, you are a company that makes steel.

Matilde Bombardini: If I'm a steel producer and I produce a very specific type of steel, I can focus my lobbying effort on that one product, and then the tariff may raise the price on that



A podcast about the economics of trade & policy
with Chad P. Bown

product. But if my product is very substitutable with other types of steel, then the moment I succeed in raising this tariff, I may see some of my customers leave to go to other producers that produce somewhat similar and substitutable products.

Whereas if the entire industry lobbies for protecting the entire steel industry, then I don't face this potential loss of business.

Given this logic, in sectors where goods are very substitutable, firms are not going to want to go at it alone because raising the tariff on the good that you specifically produce will increase your profits but only to a certain extent because you're going to lose business to your competitors. And so in those industries we expect that the lobbying will be done in an organized way through a trade association.

Chad Bown: That is the theory. When you examine all of the lobbying for trade policy in the United States, across all sectors, what do you find?

Matilde Bombardini: What we find is that the sectors where there is more competition are the ones where we observe more lobbying done as an industry association, which is counterintuitive because you may think that the more competitive industries are those where firms are trying to get an edge by doing things individually.

We find that in industries where both the number of firms is larger or they are less concentrated and in sectors where goods are more substitutable, more of the trade lobbying is done by trade associations.

Let me give you an example about grapes. Imagine that I have green grapes and red grapes and I'm thinking about the green grape growers.

From their point of view, if they succeed in placing a tariff on green grapes, what customers are going to do is to substitute and buy red grapes. Obviously I don't want to do that. I would like to place a tariff on all types of grapes, which is why typically, the lobbying is done by the National Grape Growers Association, who would represent both the green grape growers and the red grape growers.



A podcast about the economics of trade & policy
with Chad P. Bown

Chad Bown: What does this result teach us about the tradeoffs associated with lobbying and the political organization of firms, as well as the impact that this has for a country's tariff protection?

Matilde Bombardini: So in the end, the sectors that do manage to organize through a trade association end up having higher tariffs, despite the collective action problem, which is something that we did not expect at all to begin with.

What I found fascinating about this is that you may think that, in the Grape Growers Association case, that they may have a hard time collecting funds to then use for lobbying because, again, there is a collective action problem.

But on the other hand, we find that a dollar spent by a trade association is more effective in obtaining higher tariffs than a dollar spent by individual firms. Yes, there's less money paid by industry associations, but they are more effective.

I think it's because politicians like to have support and granting a tariff in support of an entire industry – instead of picking and choosing individual producers to protect – may be why it is more effective.

Chad Bown: Stepping back from your research, I want to return to the big picture on lobbying and ask you more about trends in the underlying lobbying data. You've told us how the policymaking process works in the US. Regulations and trade policy are getting more and more complicated, and policymakers would seem to benefit from more informational lobbying. Lobbying would seem to be a boom industry.

Has the number of lobbyists been going up over time?

Matilde Bombardini: One thing that has emerged in the data over the years is that for a long time, the number of registered lobbyists, was increasing. And then at some point in the early 2010s, the number of lobbyists that are registered and the amount of lobbying revenues that are reported started slowing down and then declined, which went against other numbers that showed that the total revenues of lobbying firms kept going up.

So we are now a bit suspicious of the fact that everybody that should be reporting is reporting that they are lobbying.



A podcast about the economics of trade & policy
with Chad P. Bown

There is a strict rule that defines you as a lobbyist only if you spend 20 percent of your time as a lobbyist. But then there are ways of obviously defining what your total time is so that you can skirt this rule. And so some of the declines that we've seen have cast some doubt on whether we're capturing the entirety of lobbying activity.

Chad Bown: It is worrying if the federal data on the lobbying industry is becoming less accurate because lobbyists are skirting around their reporting requirements.

Matilde, as my last question, if you had one request for policymakers, when it comes to lobbying, what would it be?

Matilde Bombardini: For policymakers, I think one goal should be to improve the transparency of the lobbying process. This means collecting more information. Now, it is true that the US is a leader in terms of putting out information about lobbying. So, we are ahead, but we could do more.

And because information is so easy to disseminate now, we can do it quite easily. One particular thing that I have been advocating for is to report in the lobbying forms which member of Congress you are lobbying. Surprisingly, at this point, you only have to declare which agency or branch of government you are lobbying. You don't have to say which of the 435 Congressmen/Congresswomen you are lobbying.

It is hard to trace influence if you only can see that someone lobbied the Senate or the House of Representatives. This is one small change that is easy to make in the forms and that could make a big difference to those of us trying to detect the bad forms of lobbying from the good forms of lobbying.

Chad Bown: Matilde, thank you very much.

Matilde Bombardini: Thank you so much. It was great.

GOODBYE FOR NOW

Chad Bown: And that is all for *Trade Talks*.

A huge thanks to Matilde Bombardini at the University of California Berkeley. Do check out Matilde's research on lobbying. She has written and published so many amazing articles that we



A podcast about the economics of trade & policy
with Chad P. Bown

have talked about today – there are too many to mention, but I will post links to them on the episode page of the *Trade Talks* website.

Thanks to Melina Kolb, our supervising producer. Thanks to Sarah Tew, on digital. As always, thanks to Collin Warren, our audio guy.

Do follow us on Twitter or X, we're on @Trade__Talks. That's not one but two underscores, @Trade__Talks. ■

Read more...

- Bombardini, Matilde and Francesco Trebbi. 2020. [Empirical Models of Lobbying](#). *Annual Review of Economics* 12: 391-413.
- 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, no. 12: 3885-3920.
- Bombardini, Matilde and Francesco Trebbi. 2012. [Competition and Political Organization: Together or Alone in Lobbying for Trade Policy?](#) *Journal of International Economics* 87, no. 1: 18-26.