

The Relationship Market: How Modern Lobbying Gets Done

[Edmond J. Safra Lab Blog Post, February 13, 2015](#)

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I. Introduction

The 114th Congress is exceptional in many ways—it includes the youngest woman ever elected to the House, for one—but its first day looked like the first day of any other new Congress: much like the first day of school. Despite the hustle, bustle, and chaos, somehow both houses were able to convene, new lawmakers were sworn in, and the daily work of making our nation's laws got done. This is the familiar story that we could all watch on C-Span.

A lesser-known fact about the first day of Congress is that the doors of every lawmaker's office, including the newest staff with their box-strewn hallways, are thrown open to welcome the public with snacks and punch. Ardent supporters and family members attend, no doubt, but the lack of publicity for the annual "open house" tends to skew attendance toward familiar faces in the Capitol—namely, the professional lobbyists who recognize the ebb and flow of the institution like they know the sound of their own heartbeats. To them, the first day of Congress is very important, because first impressions, even first impressions between old friends, fuel an industry grounded on reputation and relationship.

For a lobbyist, the first day of Congress is not the day to break in new shoes. Running from office to office, a lobbyist will introduce herself to new lawmakers and greet new staff, share information about her clients and any issues her clients might have, memorize bios of key staffers, and drop off business cards (just to let the lawmaker know she took the time to stop by). Meetings run as short as a few minutes or as long as a half an hour, and are usually focused on renewing old ties with reminders about connections to the lawmaker and her district, learning new facts about lawmakers and staff, and finding common ground with new lawmakers to build relationships quickly. Before the open house, lobbyists have read up on every office, memorizing each office's political and personal background, and they use that background information to select which offices to visit and which stories to tell. And by showing up, on that notable day every two years, each lobbyist can demonstrate concretely that she is in it for the long haul, through good times (majority party) and bad (minority party). By showing up, she can demonstrate that she is a steadfast friend of each office and invested enough to stay.

That first day is a microcosm of the life of a lobbyist in the modern lobbying market. The business of lobbying is relationships, and the daily life of a lobbyist is focused on perfecting and implementing the art of relationship building. Belying the reality that relationships are central to lobbying, much of the political science and economics literature around lobbying focuses on a single interaction between a lobbyist and a lawmaker. Little work has been done to explain and model the lobbying industry's fixation on relationships and reputation, and to address the simple fact that political access is a key scarce resource. To date, empirical studies of lobbying have assumed a simple *quid pro quo* transaction between lawmakers and lobbyists, and have not yet explained why lobbying is largely conducted through repeated interactions between lawmakers and lobbyists, why the contract lobbying industry is so focused on building relationships, and what value is added by contract lobbyist intermediaries. Given the exponential growth in the external lobbying industry, understanding the particularities of the relationship market has become increasingly important.

In this essay, we bring together current work from McKinley and Richland (2015), previewing findings from an eleven-month field study of federal lobbyists, with work from [Groll and Ellis \(2015\)](#), presenting a formal economic model, to challenge the simple *quid pro quo* understanding of lobbying and to explain the role of relationships in the modern, increasingly specialized business of lobbying.

II. Discussion

A. Two Kinds of Lobbying Markets

1. The Traditional View: Market for Political Influence and Access

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

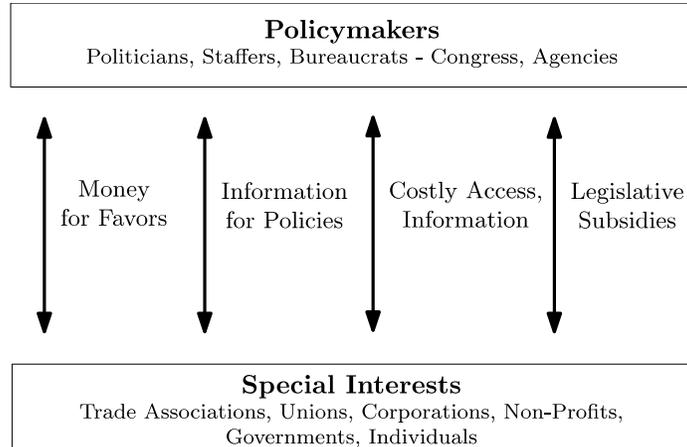


Fig. XY

There are three broad categories that describe these markets for political influence and access.

The first—rather cynical—tradition posits that special interest groups offer resources, such as campaign contributions, political endorsements, vote campaigns, campaign support, or future career opportunities, to lawmakers in exchange for policy favors.¹ Many of these contributions model the interactions between special interest groups with contest functions² or auction games³ and study how special interests provide resources to lawmakers to achieve their desired policy outcomes.

However, the literature is not conclusive as to whether special interests have been able to capture the political process by using campaign contributions as bribes. Belying this cynical view is the fact that most donations come from individual donors and specific demographics rather than organized special interest groups.⁴ The literature has also observed that most contributions do not capture the expected rents⁵; put simply, special interests are not providing very large campaign contributions, given the windfall the special interests can expect from favorable policy. We may be concerned about five-digit campaign contributions to a lawmaker by the financial industry; but we should also wonder why it would be so inexpensive to capture a lawmaker given the large expected rents from financial (de-)regulation.⁶ Moreover, the dollars invested in electoral campaigns might appear tremendous in isolation, but these figures pale in comparison to the amount spent on lobbying every year.

A second tradition focuses on the informational characteristics of lobbying. Special interest groups approach lawmakers with a mix of private information and financial resources, where the latter does not buy policy, per se, but instead signals credibility of their information or secure access to lawmakers for presenting information. In these models special interests may either provide unverifiable or verifiable information. If the information is unverifiable for a lawmaker, then she has to form an expectation about the accuracy of the interest group's provided information. A lawmaker may either face a situation of "cheap talk," where the interest group's claims are unverifiable and not necessarily credible, with only a limited

ability to learn about the political consequences of an interest group’s objective or claim⁷; or the lawmaker receives “costly signals,” that is, signals that are costly to the interest group, that enhance the credibility of the provided information.⁸

A third perspective that is mostly present in the political science literature is the one of legislative subsidies. Special interests with similar objectives support resource and time constrained lawmakers with whom they share policy objectives and provide those lawmakers with additional resources to consider more policy issues.⁹ Contributions free up a lawmaker’s time from fundraising obligations and express joint objectives and efforts in the policymaking process.

None of these three perspectives, illustrated in Figure XY, however, take into account the growing market in Washington for relationships, largely facilitated by the growth in external or contract lobbying.

2. The Growing Market for Intermediation Services and Relationships

Economics and political science research has neglected the growing market for intermediation services. Rather than assuming only a single type of lobbyist, as did earlier models, we observe nowadays two groups of professional lobbyists who are active in the hallways of both houses and government agencies. In addition to representatives of classical special interest groups, such as trade and occupational associations or larger corporations, there are employees of commercial lobbying firms. By contrast to special interest groups and their employed representatives, commercial lobbying firms and their employees, bound by a service contract alone, may not be directly affected by a policy they lobby on or have ideological preferences over policy outcomes.

Figure XY1 illustrates data from Bertrand, Bombardini and Trebbi (2014)¹⁰ and shows how the growth in lobbying expenditures can be attributed to commercial lobbying firms and that the majority of registered lobbyists are nowadays commercial lobbyists, working as “hired guns,” rather than in-house lobbyists of special interests.

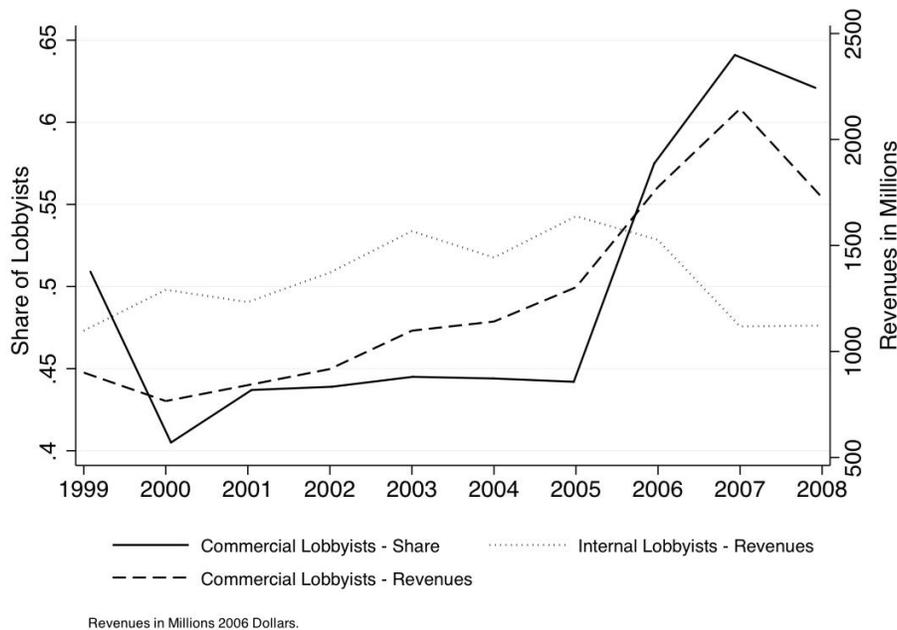


Fig. XY1

These commercial lobbying firms act as intermediaries between citizens, corporations or special interest groups and lawmakers; they seek to make profits by selling their intermediation services to their clients and rely heavily on their existing relationships with lawmakers. Their intermediation services include direct advocacy in all three branches of government, legal and political consulting, legislative strategy advice, formation of coalitions and grass root organizations, legislative drafting for lawmakers, legislative witness hearing preparations, and public relations for both clients and lawmakers. Despite the growing ubiquity of firm lobbyists, little theorizing has been done on the particulars of the firm lobbyist market and the implications of these distinctions on access and influence. The following few sections seek to remedy this dearth with the introduction of the idea of a “relationship market” and the implications for that market on who gets heard in the lawmaking process.

B. Introducing the “Relationship Market”

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

The following previews work from McKinley and Richland (2015) introducing the theory of a “relationship market,” illustrated in Figure XY2, drawn from an eleven-month field study of federal lobbyists.

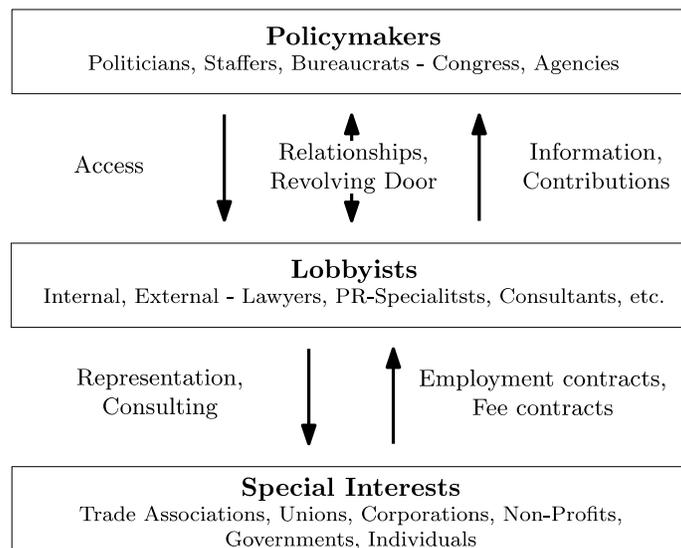


Fig. XY2

1. Relationship Building Practices

McKinley and Richland’s observational data showed and firm lobbyist participants reported spending a portion of each workday engaged in relationship building practices. These practices included interactions with lawmakers or their staff, usually initiated by the lobbyist, or providing support, typically in the form of electoral, legislative, or personal support. Distinguishable from the stereotypical *quid pro quo* arrangement of goods for policy outcomes, lobbyists would provide support to lawmakers and their staff as “gifts”—i.e., aimed at building solidarity and without any clear valuation or expectation of reciprocation.

a) Repeat Interactions (Formation of Networks)

In their data, at least one lobbyist participant had developed a more symbiotic relationship with a lawmaker office, within which the office seemed to reach out to the lobbyist participant as much as or more than the lobbyist contacted the office. The overwhelming majority of participant lobbyists, however, reported that they were usually the initiator of most interactions with lawmaker offices. In building a relationship with a lawmaker and her staff, lobbyists reported that they often found challenging the delicate balancing act between contacting an office often enough to maintain a relationship and contacting an office too frequently. Respecting the time of a lawmaker and her staff, the lobbyist participants reported, was paramount to relationship building. Accordingly, lobbyist participants reported engaging in a range of relationship building practices—from least to most intrusive—that they varied based on context.

Lobbyist participants reported contacting lawmaker offices most often with the least intrusive and most helpful practice: emailing information and news of genuine interest to the lawmaker. In fact, most participants reported that their daily work routine began first thing in the morning, usually alongside checking their email, with a review of trusted news sources or an RSS feed and a few emails sent off to the Hill (office staff, most often) forwarding relevant news regarding the lawmaker's district and the lawmaker's general interests. Forwarded news content was less likely to, but could contain information pertinent to the participant lobbyist's client, but was generally directed entirely toward the lawmaker's informational concerns and, as an email, could be disregarded easily by the receiver. The forwarded content served more as a signal to the office that the lobbyist participant still held a relationship to the office and still understood the needs of the office, while taking little, if any, of the lawmaker's time.

Another less-intrusive relationship building practice is informal interaction—e.g., catching staff at hearings or other formal legislative events, inviting staff for personal coffees, and inviting staff to group lunches. At each of these events conversation shifted naturally between personal matters, gossip about the Hill and politics, and information regarding clients and their concerns. Throughout the informal interactions, however, the lobbyist participant speaks of clients in only general terms, usually only as anecdotes about the lobbyist's experience at work, unless prompted by a lawmaker or her staff to provide client-specific perspectives. Both the emails and informal interactions afford time and attention to the lobbyist and serve as a reminder to the lawmaker and her staff that the lobbyist is a supporter. The lobbyists do not walk away empty-handed either: responses to emails and informal conversation can generate an incredible amount of valuable legislative and political information for the lobbyist.

The most intrusive relationship building practice is setting and attending formal meetings with lawmakers and staff. In fact, were it not for the time spent together during the meetings, lobbyist participants might hardly consider the meetings relationship building practices at all. Rather, formal meetings are seen as a prized commodity on the Hill and lobbyist participants reported that they would never schedule a formal meeting unless they had an "ask," i.e., a specific legislative request that the office might reasonably fulfill. To schedule a meeting in the absence of an "ask," that is, simply to have a conversation or catch up, would offend a lawmaker's office and be interpreted as disrespectful of the lawmaker's time.

b) Support

In addition to simply making contact with lawmaker offices to signal and remind of ongoing relationships, lobbyist participants built relationships also by providing support. Generally, support took one of three forms: electoral, legislative, or personal. Again, contrary to public misconception, lobbyist participants did not engage in *quid pro quo* bribery of public offices. Lobbyist participants engaged in extensive formality to frame support as gifts between political and legislative allies and friends. It was only on the rare occasion that exchanges of legislative action for resources took the appearance of *quid pro quo* transactions: for example, a lawmaker would remind a lobbyist participant of an upcoming fundraiser following a hearing where the lawmaker asked a requested question; lobbyist participants struggled to meet projected goals for fundraising events at the risk of angering the lawmaker's fundraiser. But the general sense is that providing support in small amounts, at the "right" moments, served to build trusted relationships over time and to offset any inconvenience caused by taking the lawmaker's time. A transaction or *quid pro quo* exchange,

like borrowing money from a family member, would serve to undermine the relationship and, thus, it was to be avoided at all costs.

Drawing primarily from the work of French anthropologist, Marcel Mauss, scholars have equated the practices of providing support to lawmakers and their offices by lobbyists to “a gift economy,” i.e., a market where gifts are given to increase solidarity without any clear legal or contractual obligation on the receiver to reciprocate, but where solidarity (or the relationship) then provides the motivation to reciprocate.¹¹ This description aligned closely with lobbyist participants’ perspectives on gift giving and with ethnographic observations. Lobbyist participants would carefully provide each form of support—electoral, legislative, and personal—in order to maximize the likelihood that it was received as a gift and minimize the appearance of a *quid pro quo* transaction.

i) Electoral Support

The most well-known, as well as the most vilified, form of electoral support is the campaign contribution. But lobbyist participants also provided other forms of electoral support by rallying constituent clients for votes and other volunteer campaign support. Unlike most other forms of campaign support, however, the practice of providing campaign contributions is available year-round. Instead, lobbyist participants would often remind lawmaker offices of other forms of electoral support provided by clients when discussing a client issue or setting up a meeting. Formal and informal meetings, especially with lawmakers, often included some mention of past electoral support, usually in an expression of gratitude by the lawmaker herself. Lawmakers and staffers expressed a strong preference for meetings with constituents, often requiring explicitly the presence of at least one constituent in order to meet with the lobbyist, and expressed a similar preference for supporters.¹²

Despite its year-round availability, criminal laws¹³ make the practice of providing campaign contributions a bit more complicated. Under threat of a \$5,000 sanction and up to three years in prison, a lawmaker cannot receive a campaign contribution in her office, so the lawmaker must hold the meeting where she receives the contribution off of Capitol grounds. In part, to accommodate the need for an off-site meeting location, each party has set up a “club” just off of the Hill where lawmakers, staffers, lobbyists, and individuals can meet over coffee or a meal, and where the lawmaker can receive contributions. The irony of this result bears noting: an ethics restriction, likely enacted to prevent the appearance of a transactional relationship, actually serves to make the receipt of campaign contributions a stronger tool for relationship building.

The data also show that engaging in electoral support practices does indeed build relationships. For example, researchers tracked lobbyists’ campaign contributions over time to certain “contacts,” or particular lawmakers, on the Hill. Their initial findings were unsurprising: the lobbyists provide contributions to contacts that share their issues. However, the study also found that, when the “contacts” changed committees and issues, the lobbyists, rather than shifting their contributions to a new contact, continued to contribute to that contact and shifted their issues.¹⁴ While there is necessarily a link between providing electoral support and wanting a politician to remain in office because of shared substantive issues, the relationship building aspect of the practice seems as much, if not more important to the lobbying community.

ii) Legislative Support

In addition to electoral support, lobbyist participants also provided legislative support to lawmakers and their staffs, in the form of policy reports, draft statutory language, private information and data regarding constituent clients, inside political and legislative information, and lobbying support to gather cosponsors or rally defeats. This form of lobbying has been well-documented by the literature as providing a legislative subsidy to supportive lawmakers’ offices in order to subsidize legislative action and incentivize use of scarce attention to your client’s issues over others.¹⁵ But these gifts also serve a similar function to electoral support, and provide another opportunity for a lobbyist to demonstrate trustworthiness and dependability with the goal of building solidarity.

iii) Personal Support

Finally, observational data showed and participant lobbyists reported the importance of providing personal support to offices, and to staffers in particular, in building relationships. Personal support, likely because of the danger of *quid pro quo* arrangements, most often took the form of advice or information provided to staffers regarding career advice or advice regarding other personal life choices. Advice to staffers included a range of personal and professional advice; for example, information regarding which other lawmaker offices were hiring or which non-Hill organizations (including lobbying firms) had openings at a time when a staffer's lawmaker was either retiring or had lost an election or sage advice from a participant lobbyist on how to navigate difficult office politics. As is true for the general population of federal lobbyists, many participant lobbyists have served as staff in lawmakers' personal and committee offices, and are generally senior to the staffers with whom they build relationships. Information and experience on the Hill is a scarce commodity, and lobbyists prove to be an incredible resource for staffers to obtain information regarding other offices and about the professional world more generally.

c) Established Relationships

In addition to building new relationships, some lobbyists bring established relationships to private practice from earlier government employment. As noted, the profession of federal lobbyists in D.C. includes a number of former staffers who have left the Hill in search of a sustainable salary and more stable employment prospects.¹⁶ Many offices have formal and informal norms to deter new lobbyists from engaging with former colleagues on staff, but for many new lobbyists, former relationships on the Hill become paramount. For the first few months on the job, a new participant lobbyist reported relying heavily on former Hill and agency contacts both for assistance on substantive issues, as well as access for meetings and other connections, as the new lobbyist learned the substantive area of law and policy on which his new position focused. Each new lobbying position—whether in house at a trade association or a firm—often has a substantive learning curve, and providing access to an employer by calling upon former Hill colleagues can support a new lobbyist for the first few months in private practice.

Established relationships with lawmakers, especially for senior staff, often prove important to a lobbyist throughout her career. Participant lobbyists described lawmakers for whom they worked as mentors and friends to whom they would turn for professional advice and support. Participants also described relationships with former lawmaker employees as fraught with concerns over balancing the relationship with the lawmaker against the demands of the lobbying business. While less true for former colleague staffers, most participants found the decision whether to lobby a former employer lawmaker, and how to conduct that lobbying, a complicated ethical and professional consideration. On the one hand, the relationship with a lawmaker could prove the most important to a client in gaining access to the key decision-maker. On the other hand, a lobbyist risked diminishing the relationship with the lawmaker with every potential meeting and every potential “ask,” and risked losing future mentorship and support from the lawmaker.

Belying the conflicts expressed by participant lobbyists over lobbying their former lawmaker employers, a study of “revolving door lobbyists,” formerly employed by the Senate, found that when a former employer senator leaves office, either due to retirement or a failed reelection campaign, lobbyists suffer an average 24 percent drop in generated revenue.¹⁷ One theory to explain this apparent conflict is that participant lobbyists did not seem to express the same hesitancy with respect to lobbying former *colleagues* in the office of their former employer. When a senator leaves office her employees are required to seek new employment, which could be in another government position or in private practice. Accordingly, when a former lawmaker employer leaves office, not only does the lobbyist lose contact with that particular lawmaker, but the lobbyist also loses access to established former colleagues in that former lawmaker's office.¹⁸

2. Relationship Preserving Practices

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

3. Relationship Commodifying Practices

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

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

Strategy meetings between lobbyist colleagues would focus similarly on relationships: many lobbyist participants described that strategy sessions centered around a spreadsheet that listed the names of necessary contacts for legislative action—paradigmatically, a list of possible co-sponsors to establish a House or Senate majority. Strategy meetings would first focus on brainstorming which lawmakers' names to list as possible contacts, which would include researching each lawmaker's voting record and personal and political background. Once the list of names was compiled, the strategy meeting would then turn to identifying those lobbyists, if any, who held a pre-existing relationship with lawmakers listed on the spreadsheet. If a lobbyist held a relationship with a lawmaker, then the attendees would list the lobbyist name adjacent to the lawmaker name. If no lobbyists held a relationship with a lawmaker, because it is generally assumed too difficult to form a relationship with a lawmaker quickly, the hired lobbyists might turn to third parties for support, including hiring sole practitioner lobbyists or other firms, or turn to coalition partners for support. Sole practitioner lobbyists often focused on relationships with particular lawmakers or a certain subset of lawmakers—the democratic membership of a particular committee, for example—and would retain a great deal of business based on activating those relationships alone. Once assigned to a particular lawmaker on the spreadsheet, that lobbyist would then have the responsibility of converting that relationship into access.

C. Modeling Lawmakers' Allocation of Access in a Relationship Market

Recent empirical studies have shown that these relationships do in fact yield greater access.¹⁹ Despite the importance of relationships emphasized by the lobbying community, however, most economic models recognize the importance of resource contributions, in the form of campaign contributions or otherwise, for signaling purposes only and do not analyze the effect of these contributions on the formation of relationships and lawmaker's allocation of access.

Most formal models recognize interactions between lawmakers and special interests, not as the cynical view of money for policy, but as a transaction of money for access.²⁰ As earlier sections describe, campaign contributions and other forms of informational or electoral support are used to secure time with lawmakers. These models first envision that donors submit their contributions to lawmakers who necessarily must

allocate their time amongst donors. Then the models assume that special interests use that allocated time to present policy relevant information. Because time is restricted, it makes access costly and allows lawmakers to sort among advocates. If a special interest succeeds in getting its law passed, these models, in a reduced form analysis (or simplified form) look like a *quid pro quo* of money for policy. The reality, however, is that the interest group just bought a chance of being considered. What these models do not address is how lawmakers decide to whom to grant access, given that time is a limited resource.

Current work by Groll and Ellis (2015) seeks to answer the question of how lawmakers allocate access to “citizen-donors”—individuals, citizens, or, broadly, special interest groups—and firm lobbyists, to whom they refer as “commercial lobbyists.”²¹ From their formal model, they conclude that lawmakers are more likely to allocate access to citizen-donors and commercial lobbyists with whom they have developed a “relationship,” or engaged in a series of exchanges over time. These relationships allow the lawmaker to solve the problems she faces with information, which she needs but cannot verify, and with contributions, which she needs but for which she cannot contract. Over time, the lawmaker can provide access to those citizen-donors and lobbyists whom she knows, based on earlier interactions, will provide reliable information and promised campaign contributions. Like a gift economy, these relationships form an implied contract, incentivizing future exchanges.

1. Citizen-Donor Objective

In their model each citizen-donor has a policy proposal per period t that if enacted yields them a private benefit, π_t^c , but also an ex ante unknown spillover, s_t^c , to society that can be either positive or negative. Each citizen-donor can attempt to approach a lawmaker directly to present her proposal or hire a contract lobbyist to do so. The direct access to a lawmaker may come at a cost of a promised financial contribution, f_t^c , whereas hiring a lobbyist incurs a cost of a fee paid to the lobbyist. The citizen-donors’ objective is to maximize their net benefit from the enacted policy proposal minus potential financial contributions or lobbying fees.

2. Lobbyist Objective

Hired lobbyists collect revenues from the fees of their clients and have some form of expertise, referred to as an “information technology,” which allows them to investigate the likely consequences from the spillovers of their clients’ policy proposals. The findings of their costly investigations can be imperfectly shared with lawmakers. Lobbyists incur costs of investigating proposals from their clients, operating their business, making contributions to politicians, f_t^l , but also realize a share of spillovers in each time period t :

$$\Pi_t^l = \text{Revenues}_t - \text{Costs}_t(\text{investigation, operation, contributions}) + \text{Spillover Share}_t.$$

3. Lawmaker Objective

Every lawmaker must decide how to allocate time across both citizen-donors and lobbyists, and can only enact a finite number of policies. Lawmakers care about both private benefits from citizen-donors and lobbyists in the form of financial contributions, which can be seen broadly beyond pure campaign contributions, and their share of social spillovers, an externality from the policy proposal. However, lawmakers face direct costs when they have to collect financial contributions, $B(\cdot)$. Lawmakers also internalize the quality of information provided by lobbyists as they receive a share of spillovers from enacted policies. In other words, lawmakers’ payoffs depend on a mix of privately beneficial contributions and socially beneficial information in the form of better expected spillover shares. Each lawmaker’s payoff in period t can be described by

$$\Pi_t^p = \alpha * \text{Contributions}(f_t^c, f_t^l) + \text{Spillover Share}_t(\text{investigated, uninvestigated}) - B(\text{donors}).$$

4. Lawmaker Access Rules and Expectations

As described, lawmakers' time is limited and they must decide how to allocate it. Because citizen-donors benefit from enacted policy proposals, citizens and special interests compete for access to lawmakers. However, each citizen, or special interest, can only present one cause (her own) during her allotted time, and her ability to convey credible information is limited. On the other hand, contract lobbyists possess political or legal expertise and can present many clients and causes. This creates an interesting difference between the incentives when creating relationships with citizen-donors than with contract lobbyists. Citizen-donors are directly affected by policy outcomes and lack credibility, whereas contract lobbyists represent many clients for economic profit and the misrepresentation of information for one client may have adverse effects for many clients. Lawmakers recognize these differences and act accordingly when they determine the rules and expectations under which they grant access to citizens and lobbyists.

Lawmakers then announce the expectations and rules under which they grant access to competitive citizen-donors and lobbyists. The access rules for citizen-donors, $\tilde{a}^{cp}(\cdot)$, consist of a citizen-donor's ability to receive access in exchange for a financial contribution. Citizen-donors with such access to Lawmakers are considered to be supporters, or "citizen-donors." Citizen-donors receive access today and if they donate the expected contribution, then they will receive access in the future, too. The access rules for lobbyists, $\tilde{a}^{lp}(\cdot)$, are twofold: like citizen-donors, lawmakers may expect financial contributions from lobbyists, but lawmakers will also expect policy relevant information due to the expertise that the lobbyist possesses. Although the investigative efforts and signals of the lobbyists' are unobservable in the current interaction, lawmakers observe both the number of presented proposals and the number of proposals with positive realized spillovers. The share of proposals with positive spillovers is positively correlated with the lobbyists' investigation efforts and serves the lawmaker as performance signal. The lawmaker, therefore, does not announce how many proposals have to be investigated but how many presented proposals should yield positive spillovers in exchange for future political access. In other words, lawmakers reward future access to citizen-donors who honor their promised contributions and to lobbyists who are more likely to undertake current unobservable efforts:

$$\tilde{a}^{cp}(\cdot) = \tilde{a}^{cp}(\text{future access, contribution})$$

$$\text{and } \tilde{a}^{lp}(\cdot) = \tilde{a}^{lp}(\text{future access, quality of presented proposals, contribution}).$$

Both types of access rules try to solve a lawmaker's contracting and information problems. The contracting problem refers to the collection of promised but not formally binding contributions from citizen-donors and lobbyists in the absence of formal *quid pro quo* contracts. The information problem refers to the moral hazard problem that lobbyists' costly investigation efforts and signals are unobservable to lawmakers. If citizen-donors or lobbyists fail to meet the lawmakers' expectations and announced rules, lawmakers end the relationships and establish relationships with others.

5. Response to the Access Rules and Expectations

Potential citizen-donors and lobbyists take the access rules as given and form best-responses. Citizen-donors honor their promises, if the required financial contribution does not exceed the expected benefits from being a citizen-client. Lobbyists compare the costs of their current efforts in the form of potential financial contributions and costly investigation required to gain future access with the expected benefits from the ongoing relationship. The lobbyists' incentives to maintain this close relationship with a lawmaker require rents that exceed the rents of using current access for current proposals. Because of their unobservable efforts and the underlying moral hazard, lawmakers have to incentivize lobbyists with profitable "information rents." The lobbyist's expected lifetime payoff can be described as the sum of current revenues minus current costs plus the expected benefits from keeping a relationship and the possibility of being replaced by the lawmaker in the future:

$$\Pi^l = \text{Revenues} - \text{Costs}(\text{investigation, operation, contributions}) + \text{Pr}(\text{continued}) \Pi^l + \text{Pr}(\text{dropped}) \Pi^c.$$

The comparative advantage for citizen-donors is that their willingness to donate is greater as they internalize the private benefits from policy proposals, whereas the comparative advantage of lobbyists are

economies of scale in providing information—the more proposals lobbyists present the more accurate the performance signal—and in bundling financial contributions.

6. Lawmaker Access Allocation

Lawmakers take the best-responses of citizen-donors and lobbyists as given and determine the optimal access rules that induce citizen-donors and lobbyists to deliver the desired amounts of contributions and quality of presented policy proposals yielding an expected payoff from social spillovers. Determining their demands in the form of contributions and quality of presented information portfolios, lawmakers have to respect the citizen-donors' participation constraints and lobbyists' participation constraint and provide sufficient future access to lobbyists. The lawmaker's problem is then to choose the expected minimum amounts of contributions from citizen-donors and lobbyists, \bar{f}^c and \bar{f}^l , and minimum quality of presented lobbyist-portfolios in exchange for future access for citizen-donors, c^p , and lobbyists, \bar{a}^{lp} :

$$\max \Pi^p = \alpha * \text{Contributions} + \text{exp. spillover share invest. proposals} \\ + \text{exp. spillover share uninvest. proposals} - B(\text{donors})$$

Depending on the lawmakers' preferences for spillover shares relative to receiving financial contributions, α , and the lobbyists' information technology, lawmakers allocate their time either entirely to non-lobbyists to maximize financial contributions, entirely to lobbyists to maximize the informational benefits from lobbyists' expertise and bundling benefits, or to both citizen-donors and lobbyists. Citizen-donors will gladly donate the expected contributions as long as their private benefits cover the expenses, and lobbyists will provide the efforts and resources that yield them the future access that they can then commodify and sell to their clients.²²

7. Conclusions from the Model

Because of the moral hazard problems for both receiving financial contributions and policy relevant information, lawmakers engage in close repeated interactions with citizen-donors and lobbyists. These close repeated relationships, promising contributions for future access and current unobserved information efforts for future access, create barriers to entry for new entering lobbyists and special interests, which make access and the business of lobbying lucrative. Lobbyists then commodify their established relationships to lawmakers, as they are exclusive and valued by special interests.²³

D. Implications of the Relationship Market on the Influence Market

What these data and model show is that the contract lobbying market has become a market for relationships, rather than a simple market that trades influence for policy, and that these relationships yield greater access to the lawmaking process for clients who can afford to leverage the lobbyist's relationships or afford to provide campaign contributions. These findings challenge the traditional understanding of lobbying as a series of isolated transactions of exchange or subsidy, and could help shed light on how the influence market actually functions.

For example, from an analysis of the LDA records from 1998 until 2012, Drutman, Grossman, and LaPira²⁴ concluded that, while the interest group community in Washington has expanded, the composition of the top lobbying entities has stayed relatively steady from year to year and has remained largely business focused. Despite changes in which party was in power and shifts in public ideology, the core group of powerful lobbying entities remained the same. Recognizing the lobbying market in Washington as a gift economy for relationships and access, rather than a simple *quid pro quo* of money for policy, sheds new light on these results. The relationship market could explain the entrenchment of an elite set of groups that either hold relationships with lawmakers of Congress or can afford to contract with third-party lobbyists who have developed these relationships. As these data and formal model show, these relationships are costly and require a steady contribution of resources over time. It follows that the cost of acquiring or

contracting for these relationships could create a barrier to entry for access and could, therefore, lead to an increasingly entrenched and elite core of lobbying groups with access to the lawmaking process.

Theorizing the lobbying industry as a relationship market could also explain recent empirical work finding that, although the amount of resources expended on lobbying did not have a discernable correlation with policy *outcomes*, there was a strong correlation between the agenda of lobbying groups and the policy *agenda* in Congress. Drawing upon data from their comprehensive 1999-2003 study, Baumgartner, et al.,²⁵ recently compared the agenda of lobbying groups in Washington with the agenda of Congress and the general public. They found that congressional agenda, measured by the number of congressional hearings and types of laws passed, matched more closely with the issues identified as important by the lobbying community and had little to no correlation with issues identified as important to the public. Again, theorizing the lobbying industry as a relationship market could clarify the finding that the real influence in Washington begins with the ability to build and maintain relationships in order to gain access to the scarce resource of lawmakers' time. If entrenched groups with the resources to establish and maintain the relationships necessary to gain access can monopolize lawmakers' time, they will also narrow the issues about which Congress hears and narrow the information that Congress receives about those issues.

III. Conclusion

In this essay, we have brought together current work from McKinley and Richland (2015) introducing the "relationship market" with work from [Groll and Ellis \(2015\)](#) modeling how lawmakers have an incentive to provide greater access to citizen-donors and lobbyists with whom they have a relationship. Recognition of the "relationship market" has the potential to modernize the traditional models of lobbying that envisioned lobbying as a simple *quid pro quo* transaction, by incorporating the dynamics of the growth of the contract lobbyist market in Washington and incorporating the incentives of lawmakers, citizen-donors, and lobbyists as repeat players. Understanding the lobbying industry as a market for relationships could also shed light on recent lobbying research, which finds a consolidation of access and perspectives in Congress; if access to lawmakers now requires a long-standing relationship, the lawmaking process would likely begin to focus on those who are able to maintain those relationships long-term.

Finally, although beyond the scope of this essay, recognition of lobbying as a relationship market also has clear implications for future reform efforts with respect to lobbying regulation. Rather than designing lobbying law to deter *quid pro quo* arrangements only, future reform efforts should take the relationship market into consideration when designing regulatory regimes. Future reform efforts should also be wary of the inadvertent consequences of regulatory regimes that aim to deter *quid pro quo* transactions only. To provide one example: As described, current criminal laws prohibit the acceptance of campaign contributions in lawmaker offices.²⁶ This prohibition is aimed at preventing *quid pro quo* transactions only. McKinley and Richland (2015) show that an inadvertent consequence of this prohibition is that lawmakers now must meet with contributors in local dining clubs, or expensive restaurants, over coffee or a meal in order to collect the contribution, providing contributors with greater and a more personal form of access. Recognition of the relationship market could allow future reform efforts to take these inadvertent consequences into consideration when designing lobbying regulatory policy.

1. For general reviews on special interest group and lobbying activities see Mancur Olson, *The Logic of Collective Action* (Harvard University Press, 1965); Gene M. Grossman and Elhanan Helpman, *Special Interest Politics* (MIT Press, 2001); Richard L. Hall and Alan V. Deardorff, "Lobbying as Legislative Subsidy," *American Political Science Review* 100.1 (2006): 69-84; and Roger D. Congleton, Arye L. Hillman, and Kai A. Konrad, eds., *40 Years of Research on Rent Seeking*, Volumes 1-2, (Springer, 2008).

2. Gordon Tullock (1980) "Efficient Rent Seeking" in James M. Buchanan, Robert D. Tollison and Gordon Tullock, eds., *Toward a Theory of the Rent-Seeking Society* (Texas A & M University Press, 1980), 153-179; and Shmuel Nitzan, "Modelling Rent Seeking Contests," *European Journal of Political Economy* 10.1 (1994): 41-60.

3. B. Douglas Bernheim and Michael D. Whinston, "Menu Auctions, Resource Allocation, and Economic Influence," *Quarterly Journal of Economics* 101.1 (1986): 1-31; and Gene M. Grossman and Elhanan Helpman, "Protection for Sale," *American Economic Review* 84.4 (1994): 833-850.

4. Stephen Ansolabehere, John M. de Figueiredo, and James M. Snyder, Jr., "Why Is There So Little Money in U.S. Politics," *Journal of Economic Perspectives* 17.1 (2003): 105-130.

5. Gordon Tullock, "The Purchase of Politicians," *Western Economic Journal* 10.3 (1972).
 6. Ansolabehere, de Figueiredo, and Snyder, "Why Is There So Little Money in U.S. Politics."
 7. Cheap talk refers to situations in which communication is direct and costless, and the informed, and potentially biased, expert may have an incentive to understate or inflate the true value of her information to increase the likelihood of achieving her preferred outcome. See, for example, Vincent P. Crawford and Joel Sobel, "Strategic Information Transmission," *Econometrica* 50.6 (1982): 1431-1451.
 8. Signaling refers to communication that is designed to affect the perception of a decision-maker. A credible costly signal implies that only individuals with specific objectives would bear the cost of the signal. The decision-maker can then infer from the costly signal the individual's objective and act upon it. See, for example, David Austen-Smith, "Campaign Contributions and Access," *American Political Science Review* 89.3 (1995): 566-581 or Susanne Lohmann, "Information, Access, and Contributions: A Signaling Model of Lobbying," *Public Choice* 85.3-4 (1995): 267-284.
- The dilemma of missing credibility is very often an issue of interactions that do not rest on close or repeated relationships between lobbyists and lawmakers. This "repeat player" status between lobbyists and lawmakers allow lawmakers to evaluate a lobbyist's quality of information provision and lobbyists to establish a reputation that enhances the credibility of their claims, lowering the risks to lawmakers associated with interactions.
- Alternatively, special interest groups may make financial contributions to lawmakers for getting their attention and time, which would allow them to present their claims. The idea is that lawmakers are time constrained and have to find mechanisms of how to allocate their attention across various topics and competing advocates. A lawmaker may "screen" advocates and their issues based on referrals, ideologies, or just contributions. These contributions then do not purchase policy outcomes or necessarily enhance the credibility of a lobbyist's information but secure valuable time with a lawmaker, which can be used to present information.
9. Hall and Deardorff, "Lobbying as Legislative Subsidy."
 10. Marianne Bertrand, Matilde Bombardini, and Francesco Trebbi, "Is It Whom You Know or What You Know? An Empirical Assessment of the Lobbying Process," *American Economic Review* 104.12 (2014): 3885-3920.
 11. Lawrence Lessig, *Republic, Lost: How Money Corrupts Congress—And A Plan to Stop It* (Twelve, 2011); Marcel Mauss, *The Gift: The Form and Reason for Exchange in Archaic Societies* (W.W. Norton and Co., 1954).
 12. Moreover, a constituent could always provide future electoral support, even if he has not done so already.
 13. 18 U.S.C. § 607. This regulation is one, among many, that seeks to prevent *quid pro quo* arrangements of money for policy.
 14. Bertrand, Bombardini, and Trebbi, "Is It Whom You Know or What You Know?"
 15. Hall and Deardorff, "Lobbying as Legislative Subsidy."
 16. Luke Rosiak, "Congressional Staffers, Public Shortchanged by High Turnover, Low Pay," *Washington Times*, June 6, 2012, <http://www.washingtontimes.com/news/2012/jun/6/congressional-staffers-public-shortchanged-by-high/?page=all#pagebreak>.
 17. Jordi Blanes i Vidal, Mirko Draca, and Christian Fons-Rosen, "Revolving Door Lobbyists," *American Economic Review* 102.7 (2012): 3731-3748.
 18. Id.
 19. Joshua L. Kalla, David E. Broockman (forthcoming) "Campaign Contributions Facilitate Access to Congressional Office: A Randomized Experiment," *American Journal of Political Science*; Bertrand, Bombardini, and Trebbi, "Is It Whom You Know or What You Know?"; Richard L. Hall and Frank W. Wayman, "Buying Time: Moneyed Interests and the Mobilization of Bias in Congressional Committees," *American Political Science Review* 84.3 (1990): 797-820; and Laura I. Langbein, "Money and Access: Some Empirical Evidence" *Journal of Politics* 48.4 (1986): 1052-1062. For the effects of campaign contributions on access to state legislatures, see also: Lynda W. Powell, *The Influence of Campaign Contributions in State Legislatures: The Effects of Institutions and Politics* (University of Michigan Press, 2012).
 20. Austen-Smith (1995) "Campaign Contributions and Access"; Lohmann, "Information, Access, and Contributions"; David Austen-Smith, "Allocating Access for Information and Contributions," *Journal of Law, Economics and Organization* 14.2 (1998): 277-303; Christopher Cotton, "Should We Tax or Cap Political Contributions? A Lobbying Model With Policy Favors and Access," *Journal of Public Economics* 93.7-8 (2009): 831-842; and Christopher Cotton, "Pay-to-Play Politics: Informational Lobbying and Contribution Limits When Money Buys Access," *Journal of Public Economics* 96.3-4 (2012): 369-386.
 21. Thomas Groll and Christopher J. Ellis (2015) "[Repeated Lobbying by Special Interests and Commercial Lobbyists](#)" focuses on both interest groups and commercial lobbyists and extends earlier work that focuses on commercial lobbyists only (Thomas Groll and Christopher J. Ellis, "A Simple Model of the Commercial Lobbying Industry," *European Economic Review* 70 (2014): 299-316).
 22. Informational benefits from lobbying activities are more likely, i) if lawmakers receive greater spillover shares, or in other words, are more likely to be affected by the quality of their policy choices, ii) the lower the desire or need for financial contributions, iii) the more effective the lobbyists' expertise to sort policy proposals and their spillover effects, and iv) the easier it is to incentivize lobbyists to provide policy relevant information.
 23. The normative question that arises is whether these relationships—which appear as a form of cronyism and are mutually beneficial to lawmakers, individual citizens and lobbyists—are actually socially beneficial or should be of public and regulatory concern. The famous answer is, it depends. The social benefits of the repeated, close relationships depend on the specific lawmakers' expectations and needs. If lawmakers use their close relationships with lobbyists to solve their contracting problem and demand, or need, privately beneficial contributions—rather than asking for valuable expertise and information—then the public should be concerned that the socially beneficial potentials of lobbying are not optimally employed. Alternatively, if lobbyists have no incentives to provide

valuable information because they are not rewarded for their efforts—and lawmakers are trying to solve their information problem—then lawmakers are limited in their abilities to receive socially beneficial information. The institutional focus should therefore be not on whether lobbying is allowed or not, but on how it is employed and whether institutions and lawmakers' incentives are designed to maximize the social benefits from lobbying activities or face a need for campaign contributions.

24. Lee Drutman, Matt Grossman, and Tim LaPira, "The Interest Group Top Tier: More Groups, Concentrated Clout," APSA 2014 Annual Meeting Paper, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2453733.

25. Frank R. Baumgartner, Jeffrey M. Berry, Marie Hojnacki, David C. Kimball, and Beth L. Leech, "[Money, Priorities, and Stalemate: How Lobbying Affects Public Policy](#)," *Election Law Journal* 13.1 (2014): 194–209; see also Frank R. Baumgartner, Jeffrey M. Berry, Marie Hojnacki, David C. Kimball, Beth L. Leech, *Lobbying and Policy Change: Who Wins, Who Loses, and Why* (University of Chicago Press, 2009).

26. 18 U.S.C. § 607.