

# BUSINESS INSIDER

## Here's Everything You've Always Wanted To Know About Lobbying For Your Business

[Steven Strauss](#) November 25, 2011

Discussing lobbying within the entrepreneurial community is a bit like talking with family members about sex - the discussions can be crucial, but don't always take place when they should.

If your business (no matter how small) is in anyway dependent on government (e.g., as a major customer, regulations are key to your business, etc.), you should have a lobbying strategy. This might be an independent strategy, or something developed in participation with a trade association.

Let's focus on some of the benefits from lobbying.

- **Tax Benefits:** A recent study shows that, in expectation for every \$1 a firm spends to lobby for targeted tax benefits, the return is between 6x and 21x! As an example, returns from lobbyists' expenditures to modify the American Jobs Creation Act of 2004 to create a tax benefit was \$220 for every dollar spent. (1;2)
- **Improved Cash Flows:** On average, and controlling for other factors, firms that engaged in lobbying received more generous depreciation treatment. (2)
- **Increased Market Value:** Another study demonstrates that firms which lobby 'significantly outperform non-lobbying firms with respect to increased market value of equity'. This can be as high as adding another 2% per year to returns. (3)
- **Protection:** A separate analysis found that "compared to non-lobbying firms, firms that lobby, on average, have a significantly lower hazard rate of being detected for fraud, evade fraud detection 117 days longer, and are 38% less likely to be detected by regulators." (4)

These results are from research done by non-partisan academics, using rigorous statistical techniques, and are not anecdotes or rumors.

In essence, lobbying can:

1. Provide a return on investment that far exceeds any other activity (are you aware of any other lawful activity that can return 6x the investment?),

2. The stock market will reward your investment in lobbying by increasing your market value, and
3. Best of all, by partying with Congressmen and Senators, you are statistically less likely to be challenged by regulators.

Doesn't this sound good?

BTW if you doubt the value of lobbying, consider that American corporations now spend about \$3.5 billion/year on lobbying ([www.opensecrets.org](http://www.opensecrets.org)). It has been estimated by the Cato Institute that the value of the resulting corporate welfare is about \$90 billion/year.

Above all - remember, that if you decide not to participate in the lobbying game - and your competitors do - you (or your industry) may end up at a strategic disadvantage e.g., paying higher taxes, getting unfavorable treatment on depreciation, inappropriate treatment of intellectual property, etc. One might ask (in this context) what the difference is between investing in lobbying and paying protection money to the mob ... Good question.

Now, before you go and drop off a bag of cash off with your local elected representative (which would probably get you arrested), consider these few suggestions:

- Lobbying is about access and relationships: So hire an experienced lobbyist, preferably a former Congressman or Senator. Lobbyists are expensive (making something like \$.5-1 million/year), but their connections are worth it.
- Lobbying is a long term activity: Politicians like to see consistency in campaign contributions.
- [Where](#) possible, pick an obscure issue: Ask for assistance with lesser-known regulatory issues only a few people understand. This can be very lucrative and much easier to accomplish.
- Don't leave a paper trail: Unkind people might be suspicious of your success, and remember as Martin Lomasney said "never write if one can call, never call if one can speak, never speak if one can nod, and never nod if one can wink."

If this all seems exciting and something you want to pursue - Congratulations you are well suited to doing business in 21st Century America! If (like me) you are feeling appalled, I suggest you read *Republic, Lost: How Money Corrupts Congress--and a Plan to Stop It* (Lawrence Lessig, 2011), and consider joining the fight.

About the Author: Steven Strauss was founding Managing Director of the Center for Economic Transformation at the New York City Economic Development Corporation. He will be an Advanced Leadership Fellow at [Harvard University](#) for 2011-2012. He has a Ph.D. in Management from [Yale University](#).

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Sources:

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- (2) Brian Kelleher Richter, Krislert Samphantharak, and Jeffrey F. Timmons, "Lobbying and Taxes," *American Journal of Political Science* (2009).

- (3) Matthew D. Hill, G. W. Kelly, G. Brandon Lockhart, and Robert A. Van Ness, "Determinants and Effects of Corporate Lobbying," [Unpublished working paper] (2011).
- (4) Frank Yu and Xiaoyun Yu, "Corporate Lobbying and Fraud Detection," *Journal of Finance and Quantitative Analysis* (2011).