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Actually, Corporations That Lobby and Make Campaign Contributions Get Special Benefits

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Recent reports reveal that: GOP Presidential candidate Newt Gingrich received nearly $2 million for activities (not technically within the definition for lobbying) resembling lobbying, and former GOP Congressman Tauzin -- the country's highest paid lobbyist -- received $11.6 million.

With rare bi-partisan consensus, all members of Congress assure their constituents that money spent lobbying them and campaign contributions to their campaigns does not influence their judgment. Yet, despite these assurances, 75% of all Americans believe money influences Congress.

Several recent academic studies support the public's concern:

• Tax Benefits: Recent research shows that, in expectation for every $1 a firm spends to lobby for targeted tax benefits, the benefit is between 6x and 21x. (See 1;2 below.)

• 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. Correlation is not causality, but basically it appears that lobbying and campaign contributions can confer special benefits to corporations, while corporations breaking the law can reduce the probability of getting caught.

If you doubt the value of lobbying or campaign contributions, consider that American corporations now spend about $3.5 billion/year on lobbying alone. The Cato Institute estimates the value of the resulting corporate welfare at about $90 billion/year.

The recent Supreme Court decision (Citizens United) held that corporations are people for First Amendment purposes (and thus entitled to make unlimited investments supporting or opposing candidates). To our nation's detriment, large corporations may consequently decide that investments in lobbying and campaign contributions (i.e., investments for preferential treatment at the expense of the rest of society) -- are safer and more lucrative than producing innovative goods and services.

If a firm decides not to participate in the lobbying game (or doesn't have the money 'to pay to play') -- when its competitors do -- the non-lobbying firm will likely be strategically disadvantaged (e.g., pay higher taxes, receive unfavorable depreciation treatment, inappropriate treatment of intellectual property, etc.) compared to its competitors. One might ask (in this context) what the difference is between paying for lobbying and paying protection money. Good question!

While all the GOP presidential candidates have spoken eloquently about small businesses, entrepreneurs, and start-ups -- these are exactly the persons/entities least likely to be able to afford access to Gingrich et al.

The Securities Industry and Financial Markets Association (SIFMA) reported that its member firms collectively lost pre-tax $34 billion in 2008 (an amount equal to the prior 2 years' profits). Despite massive and unprecedented losses, the financial industry did not reduce its expenditures on lobbying and campaign contributions. Instead, it increased lobbying and campaign spending by about 40% over the prior presidential cycle -- from $690 million in 2004, to $956 million in 2008.

This investment in political advocacy appears to have paid off handsomely! In 2008-2009, the Federal government made up to $7 trillion available to support America's banks -- and on such generous terms -- that the banking industry's 2009 recorded profits were double those of its best prior year. All while many American small businesses (unable to afford such generous campaign contributions to their elected officials) suffered record losses/layoffs.

If (like me) you are appalled, consider reading Lawrence Lessig's *Republic, Lost: How Money Corrupts Congress--and a Plan to Stop*, and join the fight.

I welcome your thoughts and comments.

Much of the above analysis is derived from the Lessig book, but I am solely responsible for any errors and opinions in this essay.

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Sources: All campaign and lobbying data is from www.opensecrets.org, unless otherwise noted.

(1) Raquel M. Alexander, Stephen W. Mazza, and Susan Scholz, "Measuring Rates of Return on Lobbying Expenditures: An Empirical Case Study of Tax Breaks for Multinational Corporations," *Journal of Law and Policy* (2009).

(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).