



# The Takeaway

Policy Briefs from the Mosbacher Institute for  
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## Lobbying in Good Times and in Bad



ANASTASIA SHCHERBAKOVA AND HELEN WAKEFIELD  
Department of Agricultural Economics, Texas A&M University

*Money plays a big role in US politics. There are two primary ways of amassing political influence: donations to campaigns and political action committees (PACs) and lobbying. With no limits on lobbying expenditures, this activity has historically garnered the largest spending. In today's markets, firms cannot be successful without considering their political environment. Because of this, competitive market behavior and political rent-seeking (like lobbying) have become strategic complements, and firms redistribute their spending across market and political activities based on which arena offers the best chance at increasing revenues.*

Lobbying is defined as “the transfer of information in private meetings and venues between interest groups and politicians, their staffs, and agents.”<sup>1</sup> Thus, successful lobbying depends on delivering a persuasive message. Firms hire lobbyists to craft and deliver such messages, and the best lobbyists (those well-

### WHAT'S THE TAKEAWAY?

**Lobbying is an important complement to firms' market activities.**

**Large firms with more resources tend to lobby more, amassing significant political influence.**

**Smaller firms and those with limited resources also find a way to lobby when the stakes are particularly high.**

**Firms compete in both the economic and political markets.**

**Firms' market behavior is shaped by their political environment.**

connected to politicians<sup>2</sup>), are naturally expensive. As a result, the larger and wealthier the firm, the more likely it is to lobby.<sup>3</sup> Despite the high cost, firms with limited resources find ways to engage in lobbying as well. They do so by pooling their limited resources via trade associations and by organizing sporadic concerted lobbying campaigns when the stakes are particularly high. Below we offer descriptive case studies of agricultural and energy firms to illustrate how market conditions affect firms' political strategies.

## ENERGY

The energy industry offers clear examples of the heterogeneity in political strategy. Oil and gas companies lobby all the time. They tend to be large firms and they can use their natural resource base to secure financing. Renewable energy producers, by contrast, have less cash to invest in activities like lobbying because they do not own the inputs they use to produce energy. As a result, renewable producers engage in sporadic targeted lobbying efforts, often under the umbrella of an industry trade association. This difference is illustrated by the lobbying frequencies in Table 1. Between 1999 and 2019, publicly traded oil and gas companies filed about as many reports, on average, as there are disclosure periods in a year. Publicly traded solar firms, however, filed fewer reports than the number of reporting periods.

Renewable companies have not been profitable on their own until recently, so they have faced strong incentives to lobby, despite having few resources. In 1990, small solar and geothermal companies successfully lobbied to eliminate size restrictions on generating facilities that qualified for preferential treatment under the Public Utilities Regulatory Policies

Act (PURPA)—1978 legislation that aimed to promote renewable generation and energy conservation.<sup>4</sup>

Large electric utilities had long considered some PURPA requirements unfavorable. Regulated utilities are allowed to earn profits only on their investments in physical infrastructure (e.g., building new power plants). PURPA, however, requires utilities to purchase renewable generation from small independent facilities at prices set by the state. This limits utilities' ability to invest in generating infrastructure and thus reduces their profits. So utilities face incentives to lobby against such requirements. Over time, as the cost of renewables fell, utilities faced a more competitive market environment and increased their lobbying efforts to weaken what they considered to be expensive PURPA requirements. As a result, in 2015, three Congressional lawmakers requested that the Federal Energy Regulatory Commission (FERC) reexamine PURPA,<sup>5</sup> and in 2020, FERC introduced amendments that appeared consistent with utilities' interests and that the renewable industry promptly challenged in court.

Between 1999 and 2017 Congress legislated twelve Acts that included provisions for renewable energy tax credits. The tax credits were temporary and faced expirations every two years or so. Anticipating a negative shock

**Table 1: Average number of lobbying reports, per firm per year**

	Oil & Gas	Solar
1999-2007 (semi-annual reporting)	1.8	0.3
2008-2019 (quarterly reporting)	4.4	2.6

*Note:* Averages are based only on publicly traded companies and exclude lobbying by private firms and industry/trade associations. *Source:* author calculations using Lobbying Disclosure Act (LDA) reports.

after the expiration of tax subsidies, solar and wind firms lobbied intensively before expirations and were successful in getting the credits renewed, in some cases retroactively.

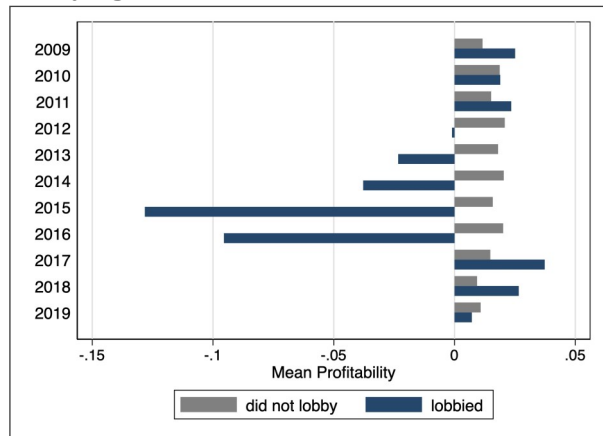
**AGRICULTURE**

Agriculture offers another illustration of the interdependence between market and political strategies. Agriculture provides a path toward rural development, sustainability, decreasing poverty, and national security. Because of these and other factors, protection for domestic farming has been enshrined in law for decades.<sup>6</sup>

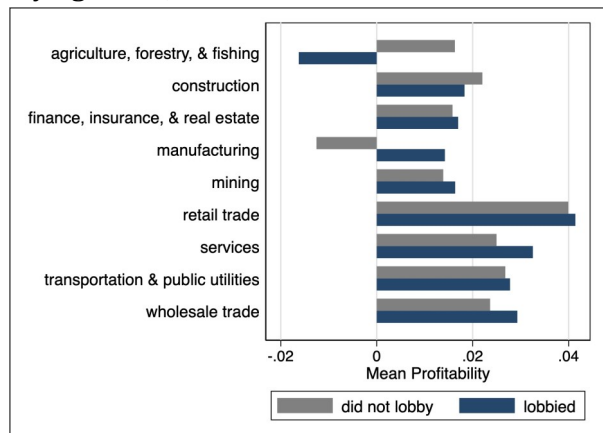
Farming tends to have inelastic supply—farmers cannot quickly alter supply in response to a change in demand. This means that producers must absorb the adjustment costs if commodity prices decrease.<sup>7</sup> This vulnerability incentivizes agricultural producers to secure protection through political means, including lobbying.<sup>8</sup> Between 2009 and 2019, the US economy experienced one of the longest periods of economic expansion. The ag sector, however, saw a period of low prices between 2013 and 2017. Figure 1 shows how the downturn affected lobbying incentives. Among the publicly traded agricultural companies represented in the data, before the fall in crop prices, there was a positive relationship between lobbying and profitability. During the period of low prices that relationship flipped. Those with negative profitability lobbied, while those that earned positive profits did not lobby. Firms that faced difficulties in the competitive market turned to the political process for relief. This was not the case in industries that did not face a downturn. Figure 2 shows that between 2009 and 2019, lobbyists in most other industries were more profitable, on average, than their non-lobbying peers.

To better understand the incentives involved, consider the types of policies for which agricultural firms and farmers lobby.<sup>9</sup> The US farm bills have typically included direct payments, price supports, loans, and other policies that either raise market prices of agricultural commodities or raise farm incomes through government purchases above market prices. So the lower the profits, the greater the incentive to lobby. When commodity prices are low, it is

**Figure 1: Agricultural profitability, by year and lobbying status, 2009-2019**



**Figure 2: Average industry profitability by lobbying status, 2009-2019**



Source for figures: Authors’ calculations using Lobbying Disclosure Act (LDA) reports and Compustat data. Note: Horizontal bars represent each industry’s average profitability during time periods when the industry lobbied and did not lobby. Only publicly traded companies are represented, due to availability of financial data. Profitability is calculated as EBITDA/assets.

difficult for firms to remain profitable by producing and selling those commodities, so firms, unions, and cooperatives step up their lobbying efforts.<sup>10</sup>

Agricultural subsidies have persisted largely because of the industry's engagement in lobbying. Ag entities lobbied to widely expand producer protections under the 2008 Farm Bill, write additional commodity subsidies and crop insurance programs into the 2014 Farm Bill, and to extend these protections in the 2018 Farm Bill. The 2008 effort was particularly fruitful, as it increased crop subsidies and expanded other benefits to farmers "at a time of high food prices and record farm income."<sup>11</sup> Firms spent an estimated \$173.5 million lobbying for this bill; hiring former congress members and staffers to petition on their behalf.<sup>12</sup> In May of 2008, President Bush vetoed the bill on the grounds of its fiscal irresponsibility, but after the bill returned to Congress, the House and Senate overrode the presidential veto by sizable margins (316-108 in the House and 82-13 in the Senate) and with bipartisan support.

## CONCLUSION

Lobbying has been shown to be very effective at generating the kinds of benefits firms want. Although lobbying is typically the realm of the moneyed, even firms with limited resources find ways to engage in lobbying when the stakes are particularly high. As the above examples show, today firms compete in both the economic and political markets, redistributing resources toward one or the other based on the perceived opportunities to earn profits.

**Anastasia Shcherbakova** is an assistant professor in the Department of Agricultural Economics and a Mosbacher Research Fellow at Texas A&M University.

**Helen Wakefield** is a Texas A&M student working on a Ph.D. in agricultural economics.

### Notes:

- <sup>1</sup> de Figueiredo, J.M. and Richter, B.K. (2014). Advancing the empirical research on lobbying. *Annual Review of Political Science*, 17(1), 163–85.
- <sup>2</sup> Bertrand, M., Bombardini, M. and Trebbi, F. (2014). Is it whom you know or what you know? An empirical assessment of the lobbying process. *American Economic Review*, 104(12), 3885-920.
- <sup>3</sup> For a review of this literature, see de Figueiredo and Richter (2014).
- <sup>4</sup> Dunlop, B. (1991). Qualifying facilities under PURPA: What qualifies? *Environ*, 15(1), 7-17.
- <sup>5</sup> Murkowski, L., Upton, F., and Whitfield, E. to the Honorable Norman Bay, Washington, DC, November 6, 2015. <https://www.energy.senate.gov/services/files/c004b917-0859-478b-a16c-1b52a3e76b2e>
- <sup>6</sup> Anderson, K. (1992). International dimensions of the political economy of distortionary price and trade policies. In *Open Economies: Structural Adjustment and Agriculture*, edited by Goldin, I. and Winters, L.A., eds. 290-310. Cambridge: Cambridge University Press.
- <sup>7</sup> Thies, C.G. and Porche, S. (2007). The political economy of agricultural protection. *Journal of Politics*, 69(1), 116-27.
- <sup>8</sup> Gawande, K. and Hoekman, B. (2006). Lobbying and agricultural trade policy in the United States. *International Organization*, 60(3), 527-61.
- <sup>9</sup> Small farmers do not usually lobby independently. Instead, they join unions and farm cooperatives that lobby on their members' behalf. For example, the National Council of Farmer Cooperatives, the National Farmers Union, Dairy Farmers of America, American Sugar Alliance, the National Cotton Council, and the National Pork Producers Council all represent the interests of small producers.
- <sup>10</sup> For example, in 2019, the National Farmers Union sent over 300 representatives to Washington DC to lobby for more income protections for family farms, while the National Pork Producers Council stepped up its lobbying efforts against the Trump administration's trade war with China.
- <sup>11</sup> Food, Conservation, and Energy Act of 2008—Veto message from the President of the United States (H. Doc. No. 110-115), *Congressional Record*, 154(84), H4402-H4412, May 21, 2008.
- <sup>12</sup> Food & Water Watch (2016). *Cultivating Influence: the 2008 Farm Bill Lobbying Frenzy*. [https://docuri.com/download/cultivating-influence-the-2008-farm-bill-lobbying-frenzy\\_59bf3a9df581716e46c4d8f2\\_pdf](https://docuri.com/download/cultivating-influence-the-2008-farm-bill-lobbying-frenzy_59bf3a9df581716e46c4d8f2_pdf)

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4220 TAMU, Texas A&M University  
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Email: [bushschoolmosbacher@tamu.edu](mailto:bushschoolmosbacher@tamu.edu)  
Website: <http://bush.tamu.edu/mosbacher>

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