The value of (corrupt) lobbying

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ABSTRACT

Does corporate lobbying add value simply by allowing firms to communicate expert information to policy makers, or is it valuable also because it facilitates *quid pro quo* arrangements, where policy makers receive private benefits in exchange for favorable policy decisions? Using the corruption scandal involving the top lobbyist Jack Abramoff as an exogenous negative shock to the ability of firms to lobby, we examine whether lobbying and illegal lobbying practices affect the market value of firms. The results suggest that firms that lobby experience significantly negative returns following the guilty plea by Mr. Abramoff to bribery and corruption. A firm that spends $100,000 on lobbying prior to the event year experiences an average decrease of $1.4 million in value in a 3-day event window. We also find that legislation that curbed potential *quid pro quo* arrangements in lobbying significantly reduces firm value. A one standard deviation increase in lobbying expenses ($6.77 million) is associated with an average decrease in market value of $41 million in a 3-day event window. Lastly, firms with a poor reputation for social responsibility experience a greater decrease in value following the scandal. These results suggest that lobbying creates shareholder value and that this value, at least partly, derives from corrupt lobbying practices.

I. Introduction

In the theoretical literature, the lobbying process is modeled as one of information transmission, where interest groups communicate their specialized knowledge of particular issues to uninformed or overburdened policy makers (see Grossman and Helpman, 2001, for an extensive survey).[1] However, lobbying may also be wasteful and not sufficiently informative under some circumstances (Grossman and Helpman, 2001, p. 27, 168).[2] Despite the fact that corporations and special interest groups spent over $30 billion to lobby Congress and federal agencies between 1998 and 2010 (Center for Responsive Politics, 2010), there is an absence of robust empirical evidence on the returns to lobbying. In this paper, we start out by investigating whether the stock market considers lobbying expenditures to be a value-enhancing investment for firms.

The influence of lobbying on government policy has received considerable media attention in recent times, with the popular view being that lobbyists use unethical or even illegal means to influence policy.[3] This raises a question as to whether lobbying adds value merely by conveying the opinions of experts to policy makers, or whether it also adds value by facilitating *quid pro quo* arrangements, where policy makers receive private benefits in exchange for making policy decisions that benefit particular groups.[4] To investigate the latter mechanism we examine whether limiting *quid pro quo* arrangements between policy makers and lobbyists through

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[1] Even though interest groups may be experts on a particular topic, policy makers may discount their information if the groups have a reason to be biased and the information is unverifiable. By sending a costly signal through lobbying even biased experts may credibly communicate with policy makers. Some important contributions include Crawford and Sobel (1982), and Austen-Smith (1994).

[2] For example, if there are fixed costs to lobbying that are independent of the information provided then policy makers cannot infer much about the policy environment from the size of the expenditure. Or, if lobbying costs are endogenous and there are multiple lobbying groups, then groups may spend more than what is necessary to signal the strength of their convictions (Grossman and Helpman, 2001, p. 168-170).

[3] According to a 2007 Gallup Poll asking Americans to rate the honesty and ethical standards of different professions, lobbying, car sales, and advertising tied for the lowest rank ("Lobbyists Debut at Bottom of Honesty and Ethics List," Gallup, December 10, 2007).

[4] For example, Bertrand, Bombardini, and Trebbi (2011) show that lobbyists are valued not for their expertise on particular issues, but for their connections to policy makers.

increased disclosure of lobbying, greater penalties for illegal acts, and restricted "revolving door" employment practices, affects the value of lobbying to firms.

The challenge of estimating the impact of lobbying on firm value arises from the endogenous nature of lobbying activity. Namely, firms that choose to spend money on lobbying are also more likely to expect to benefit from it, in which case simply asking whether higher lobbying expenditures are associated with higher market value would lead us to overestimate its effect. Our identification strategy therefore is to use an event that affects the ability of firms to lobby, but is exogenous to the determinants of firm value.

To examine the impact of lobbying on firm value, we use the Jack Abramoff corruption scandal, described as the "biggest public corruption scandal in a generation (that) took down one of the best-connected lobbyists in Washington," ("Case bringing new scrutiny to a system and a profession," *The Washington Post*, January 4, 2006). Specifically, we consider the January 3, 2006 event where Mr. Abramoff pleaded guilty to criminal felony counts related to the bribing of public officials.[5] Jack Abramoff and his lobbying firm were accused of giving gifts and campaign contributions to legislators in exchange for votes on legislation related to the gambling interests of several Native American tribes, among other illegal acts. The scandal led to the indictment of several lawmakers including the former U.S. House Majority Leader, Tom Delay, administration officials, congressional staffers, numerous lobbyists, and businesses.

Following the Abramoff scandal, there was intense public scrutiny of lobbying, making it politically damaging for politicians to be associated with lobbyists, and potentially reducing the

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[5] Although Jack Abramoff's lobbying firm's practices had first come under scrutiny in 2004, the guilty plea in 2006 was expected to have huge consequences as Mr. Abramoff had agreed to provide information about half a dozen House and Senate members, Congressional staff, and administration officials. He pled guilty to fraud, tax evasion and conspiracy to bribe public officials in a deal that required him to provide evidence about members of Congress ("Abramoff Pleads Guilty to 3 Counts," *The Washington Post*, January 4, 2006). The guilty plea also triggered special investigations within the U.S. Congress, and led to widespread media focus on the scandal.

political access and influence of lobbyists. From a NBC news report, "…Senators, congressmen and their aides now are insisting on paying for their own meals (if they're even willing to be seen in public with a lobbyist)," ("In D.C., Abramoff scandal cools free lunches," January 26, 2006, NBC News). The scandal also spurred efforts on Capitol Hill to address the perceived disproportional influence of lobbyists. A *New York Times* editorial described House Speaker Dennis Hastert's efforts to "do something credible to mop up the Abramoff mess," ("Abramoff effect: Leaping out of bed with the lobbyists," *The New York Times,* January 16, 2006). Following Mr. Abramoff's guilty plea, Congress introduced several pieces of legislation intended to increase the transparency of lobbying activity and penalties for illegal lobbying.

Using the Abramoff scandal as an exogenous shock to the ability of firms to lobby policy makers, we consider three questions. First, we ask whether lobbying generates value by examining the market response to the guilty plea by Jack Abramoff on January 3, 2006, for firms that lobby (i.e. "lobbying firms") and non-lobbying firms. Second, we investigate the value of corrupt practices in lobbying by examining whether legislation intended to limit *quid pro quo* arrangements between politicians and lobbyists has an impact on firm value. Following this line of inquiry, we also examine whether firms with lower social responsibility rankings are affected by the Abramoff scandal. Third, we investigate whether firms can use alternative channels of political influence, such as political connected board members, when lobbying activities are restricted. To the best of our knowledge this is the first paper to use an exogenous shock to identify the value of lobbying, and the value of non-transparent, illegal lobbying practices in particular.[6]

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[6] Jayachandran (2006) uses an event study framework to measure the value of campaign contributions. However, 334campaign contributions are theoretically distinct from lobbying as the former more likely reflect the political preferences of donors, whereas the latter are directly linked to issues (Ansolabehere, de Figuiredo, and Snyder, 2003). Campaign contributions are also much smaller than lobbying expenditures. Between 1998 and 2008, U.S.

Our analysis starts with the 617 firms that are included in the S&P 500 index between 2000 and 2008 and have stock price information on our event date. Of this initial sample, 421 firms report positive lobbying expenditures in the three years prior to 2006. Examining the market-adjusted cumulative abnormal returns of these firms in a 3-day window around the guilty plea by Jack Abramoff on January 3, 2006, we find that firms with positive lobbying expenditures experience a significant decline in value compared to firms that do not lobby. When the sample is restricted to lobbying firms, we find that the response to the indictment is significantly more negative for companies that spend more on lobbying. For example, for the sample of firms that lobby, a one standard deviation increase in average lobbying expenditures over the period 2003 to 2005 ($6.77 million) is associated with an average decrease in abnormal returns of 0.38%, or about $57 million, in a 3-day window around this event. These results are robust to controlling for firm-specific characteristics and industry fixed-effects.

The Abramoff scandal increased the likelihood that future lobbying activity would face restrictions. Thus, the observed decrease in firm value following the guilty plea is consistent with the view that lobbying generates shareholder value. The negative market reaction may arise due to potential restrictions that limit information flows to policy makers. Or, it may occur because of an anticipated crackdown on dishonest lobbying practices that influence rather than simply inform politicians.[7] We focus on whether lobbying only adds value by allowing firms to better educate policy makers on relevant issues, or whether some of this value obtains from corrupt and non-transparent lobbying practices that provide private benefits to politicians in a potential *quid pro quo* exchange for favorable policy.

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congressional candidates raised $11 billion for campaigns compared to more than $30 billion spent on lobbying in the same period.

[7] Senator John McCain, a sponsor of the McCain-Feingold Act of 2002 that regulated campaign finance, noted in his memoir, "Money does buy access in Washington, and access increases influence that often results in benefiting the few at the expense of the many," (McCain and Salter, 2002, *Worth the Fighting For,* page 337).

To examine the value of unethical and opaque lobbying practices, we consider the stock price reaction to the introduction and passage of the first lobbying-related bill passed by the U.S. Congress following Mr. Abramoff's guilty plea. The "Lobbying Accountability and Transparency Act of 2006" was introduced in the U.S. Senate on March 1, 2006, passed by the Senate on March 29, 2006, and passed by the House on May 23, 2006. This bill increased lobbying disclosure by requiring the reporting of contributions and gifts to legislative branch officials, mandating disclosure to the public, increasing the frequency of filing, and increasing civil and criminal penalties for not complying with disclosure requirements. The legislation also limited *quid pro quo* arrangements between lobbyists and policy makers by increasing criminal and civil penalties for illegal bribes and gifts, restricting gifts to government officials, slowing the revolving door in terms of employment of government officials by lobbying firms, restricting appropriations measures containing earmarks, and increasing oversight of lobbyists, among other rules (See Appendix IV for the summary of the bill from the Library of Congress). Thus, examining the stock market response to this bill would allow us to investigate whether corrupt lobbying practices add market value.

The results show that firms that lobby experience a significant decline in market value compared to non-lobbying firms, and the decline is greater for firms that spent more on lobbying in the three years prior to the passage of the "Lobbying Accountability and Transparency Act of 2006". For example, for the sample of firms that lobby, a one standard deviation increase in lobbying expenses between the years 2003 to 2005 ($6.77 million), is associated with an average decrease in market value of nearly $41 million in the 3-day window around this event. These results suggest that lobbying practices that may allow policy makers to extract private benefits in

exchange for supporting policies consistent with the lobbyists' positions, add value for shareholders.

If corrupt lobbying practices add value, then the value from lobbying may be greater for firms that are more likely to engage in such acts. To investigate, we consider firms' reputation for socially responsible business practices, which may be correlated with the likelihood of engaging in corrupt lobbying. We use Newsweek magazine's "Green" measure of the environmental reputations of the largest U.S. publicly traded firms that ranks companies based on a weighted measure of environmental impact relative to size, policies to manage the impact, and a reputation score from a survey of experts. Providing additional support for the view that unethical lobbying practices add value, we find that companies that score below the median in the "Green" rank (poor ethical reputation) experience a significantly greater decline in value in the 3-day event window surrounding the Abramoff guilty plea. This suggests that firms with a reputation for less socially responsible practices that are more likely to engage in unethical practices benefit more from lobbying. Note that these results control for industry fixed effects and firm size.

Recent studies have shown that the political connections of corporate boards may also affect firm value (Goldman, Rocholl, and So, 2009). We investigate whether firms with access to these alternative channels of political influence may be protected from the negative effect of the anticipated restrictions on lobbying. Examining the political connections of corporate board members, we find that following the Abramoff guilty plea firms connected to the Democratic Party experience significantly higher announcement returns relative to firms connected to the Republican Party, and unconnected firms. Since Republican lawmakers were more visibly associated with Jack Abramoff, Democratic lawmakers may have been subject to less scrutiny

following the scandal.[8] The political connection results also suggest that lobbying expenditures are issue based rather than based on partisan views. Since the partisan preferences of firms are likely to be reflected in their political connections, the result that lobbying matters after controlling for these connections indicates that lobbying reflects firms' positions on issues.

The main challenge in the empirical literature lies in the endogeneity of lobbying, where lobbying expenditures are likely to be correlated with observable and unobservable firm characteristics, which would bias estimates of the impact of lobbying in a linear regression specification. In a recent study, Chen, Parsley, and Yang (2010) show that firms that lobby experience better financial and accounting performance relative to non-lobbying firms. Chen, Parsley, and Yang (2010) estimate an instrumental variable specification where the instruments, imports and lobbying at the industry level, are based on the strong assumption that they are uncorrelated with the financial performance of firms. Relatedly, Hill, Kelly, and Van Ness (2011) find that the decision to lobby is affected by firm-specific observable factors such as size, investment opportunities, and industry effects, and that the annual excess returns of lobbying firms are higher than those of non-lobbying firms. Hill, Kelly, and Van Ness (2011) estimate a pooled linear regression with controls for observable firm characteristics but not unobservable factors. In contrast, our event study approach provides a clean test since it examines the market reaction to an event that affects the effectiveness of lobbying, but is not correlated with firm characteristics.

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[8] Mr. Abramoff was one of Washington's most prominent Republican lobbyists. *The Washington Post* reported that Jack Abramoff was "among the lobbyists most closely associated with the K Street Project, which was initiated by his friend Tom DeLay (R-Tex.), now the former House majority leader, once the GOP vaulted to power," and in the same article "Republicans worry…that Abramoff, known for his close ties to DeLay, mostly implicates Republicans as a result of his plea agreement," ("Case Bringing New Scrutiny To a System and a Profession," *The Washington Post*, January 4, 2006).

Our study is also related to the literature examining lobbying outcomes. Examining the effects of lobbying de Figueiredo and Silverman (2006) estimate that the returns to lobbying by universities for educational earmarks are larger when the university is located in the state (district) of a Senate (House) Appropriations Committee member; Richter, Sampantharak, and Timmons (2009) show that U.S. firms that spend more on lobbying have lower effective tax rates; and, Yu and Yu (2010) show that lobbying firms are less likely than non-lobbying firms to be detected committing fraud. We focus on a different question, the impact of lobbying expenditures on shareholder value.

Another related literature looks at the impact of campaign contributions on firm value.[9] In particular, Jayachandran (2006) uses the departure of Senator Jim Jeffords from the Republican to the Democratic Party, which resulted in a shift in power in the Senate from Republicans to Democrats, to show that this event led to a decrease in the value of firms that donated to Republicans. In a recent study, Claessens, Feijen, and Laeven (2008) show that Brazilian firms that contributed to election campaigns experienced higher stock returns than firms that did not; and, Mian, Sufi, and Trebbi (2010) show that campaign contributions by subprime mortgage lenders and borrowers may have influenced government policy during the subprime mortgage credit expansion.

The political science literature argues that campaign contributions are a means for political participation rather than a major channel for influencing policy (Chappell, 1982; Ansolabehere, de Figuiredo, and Snyder, 2003), which is supported by the fact that the majority of campaign contributions are made by individuals.[10] For example, Ansolabehere, de Figueiredo,

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[9] See Stratmann (2005) for a recent survey.

[10] In January 2010, the U.S. Supreme Court in Citizens United v. Federal Election Commission struck down campaign financing laws that prohibited corporations and unions from broadcasting "electioneering

and Snyder (2003) find that controlling for constituent and legislator effects, there is little relationship between contributions and legislator votes; and, Groseclose, Milyo, and Primo (2000) show that corporate lobbying activity is much larger than campaign contributions, and more likely to capture political influence. Hence, lobbying expenditures provide a more direct measure of corporations' attempt to influence policy and to generate value. As we argue earlier, unlike campaign contributions, lobbying activity tends to be issue based rather than based on partisan preferences.

Lastly, our paper also contributes to the growing literature on political connections (Roberts (1990), Fisman (2001), Khwaja and Mian (2005), Faccio (2006), Faccio et. al. (2006), Jayachandran (2006), and Goldman, Rocholl, and So (2009, 2011)). These studies consider the role of political connections and not the effects of lobbying, which is the focus of our study.

The remainder of the paper is organized as follows: Section II describes the events, Section III describes our data, Section IV presents the results, and Section V concludes.

II. Events

We identify two main exogenous events that are likely to affect the ability of firms to lobby. The first is the guilty plea by top lobbyist Jack Abramoff on January 3, 2006 to charges of fraud, conspiracy, and tax evasion. The guilty plea, which required Mr. Abramoff to provide evidence against members of Congress, Congressional staff, and executive branch officials, led to the eventual indictment of thirteen such individuals, including elected members of the U.S. House of Representatives. It notably ended the political career of the House Majority Leader, Tom Delay (R-TX). The scandal, described as the "biggest public corruption scandal of a

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communications", which refer to third-party advocacy ads directed at political candidates prior to elections. This decision does not affect our study as it occurred 4 years after our event date.

generation", intensified public scrutiny of lobbying practices and political influence in Washington ("Case Bringing New Scrutiny To a System and a Profession," *The Washington Post*, January 4, 2006).[11] For these reasons we take this announcement as an event that led to increased expectation that future lobbying will face restriction.

While the Abramoff scandal broke a year prior to this event, the guilty plea revealed new information about the scandal, implicated more individuals, and focused widespread public attention on what had been until then, a Washington D.C. event. In Figure I we show the number of news articles returned from a Factiva search between January 2004 and December 2006 using key-words such as "Abramoff", "lobbying", "regulation", among others. The guilty plea on January 3rd, 2006 clearly marks enhanced public scrutiny and awareness of Jack Abramoff and his lobbying practices.

In the aftermath of the Abramoff guilty plea, Congress also debated and enacted a number of bills to regulate lobbying. Seven legislative bills related to lobbying were introduced between 2006 and 2007, only two of which were voted on and passed both the U.S. Senate and the House.[12] The first bill is S.2349 or the "Bill to Provide Greater Transparency of the Legislative Process" sponsored by former Senator Trent Lott (Republican from Mississippi). Bill S.2349 was introduced in the Senate on March 1, 2006. It was voted on by the Senate on March 29, 2006 and by the House on May 23, 2006. We focus on the first bill as it was the first major piece of legislation introduced immediately following the Abramoff guilty plea. The dates of the events we consider are summarized in Appendix II.

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[11] See the Pulitzer Prize winning investigation of the Jack Abramoff scandal by the *Washington Post* ("Investigating Abramoff: Special Report," 2006 Pulitzer Prize Award for Investigative Reporting).
[12] We conducted a search of all bills related to lobbying activities introduced in the 110th and 111th sessions of Congress. We focused on bills with "floor action", i.e. procedural actions taken during floor considerations of legislation.

We consider changes in firm value in a 3-day event window to ensure that we capture any information leakage. We measure lobbying expenditures in the three years prior to 2006, and consider both companies with positive expenditures as well as companies that have zero lobbying expenditure during that period.

The exogenous event study approach mitigates many of the identification issues regarding the endogeneity of lobbying expenditures to firm value. Since the Abramoff event had the potential of restricting lobbying activities, we will compare the market value of lobbying and non-lobbying firms in response to the guilty plea to investigate whether lobbying is value enhancing to shareholders. We will examine the market reaction to the legislation to restrict corrupt lobbying practices to establish whether lobbying also adds value by facilitating corrupt exchanges with policy makers.

III. Data

We start with all 753 companies that were included in the S&P 500 index between 2000 and 2008. We hand-collect data on the lobbying expenditures for each of these firms for the years 2003 to 2005, the three year period prior to the Abramoff guilty plea in January 2006, from the Center for Responsive Politics (CRP). CRP collects all lobbying disclosure reports filed with the Secretary of the Senate's Office of Public Records by any entity engaged in lobbying activities whose costs exceed $10,000 in any given 6-month period. CRP includes spending by companies and their subsidiaries through "in-house" lobbyists and through professional lobbyists and lobbying firms.[13]

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[13] A detailed description of the methodology used by the Center for Responsive Politics (CRP) is available on their web-site at http://www.opensecrets.org/lobby/methodology.php.

We drop 105 firms that stopped trading before our event date of January 3rd, 2006 (most were involved in a merger/acquisition), and 19 firms that started trading after that date. We winsorize the data at the 1st and 99th percentile of the abnormal returns variable to mitigate the effect of potential outliers. The number of firms used in the empirical analysis varies between 617 and 607 firms, depending on the event dates. From this sample, 421 firms report lobbying expenditures over the three year period, 2003 to 2005. The remaining 196 companies comprise the non-lobbying group.

We measure lobbying activity in two ways. First, we construct the variable *Lobbying Expenses$_i$*, which is the total dollar amount of lobbying expenditures for company *i* in the three years preceding the Abramoff guilty plea (2003-2005). In unreported analyses we also verify the robustness of our findings using lobbying expenditures for the year immediately preceding the event. The second measure is *Lobbying Rank*. The lobbying firms are split into 10 deciles based on the three-year average lobbying expenses prior to 2006. Companies with the highest lobbying expenses are assigned a rank of 10, and rank 1 is assigned to companies with the lowest lobbying expenses. We assign a rank of 0 to all non-lobbying firms. In Appendix III we describe the cutoff points for each of the ten deciles.

Table I describes our data. From Panel A, we note that on average, S&P 500 firms spent $2.6 million on lobbying between the years 2003 and 2005. In Panel B, we note that on average lobbying firms spent nearly $4 million during this period, with substantial cross-sectional variation. For example, the biggest spender is General Electric Company, which spent about $56 million on lobbying. Consistent with the minimum filing requirement, the smallest reported lobbying expense is $10,000. We also note that the average lobbying rank of our full sample,

which includes non-lobbying firms, is 3.74 (Panel A), while the average rank of firms that lobby is 5.48 (Panel B).

We use Newsweek magazine's "*Green Score*" as a measure of corporate social responsibility. The *Green Score* is a weighted sum of three separate scores: Environmental Impact score (weight of 45%), Green Policies score (weight of 45%) and Reputation score (weight of 10%). The Environmental Impact score is provided by Trucost which specializes in environmental performance measurement, the Green Policies score is determined by KLD, an expert in corporate social responsibility, and the Reputation score is based on a survey of CSR professionals, academics and experts conducted by CorporateRegister.com (see http://www.newsweek.com/2009/09/16/green-rankings-2009-methodology.html).   Newsweek started publishing the *Green Score* in 2009. Since these rankings are unlikely to change much over time, we use the 2009 measures in our analysis. From Table I we note that the average *Green Score* for our sample is 71, where the minimum is 0 and the maximum is 100. Note that these scores are available for a smaller sample of 390 firms.

We obtain data on the political connections of corporate board members of the firms in our sample from Goldman, Rocholl, and So (2009). Using this data we construct three connection measures.[14] First, *Democrats' Board (Yes = 1)*, takes the value of 1 if the firm is connected only to the Democratic Party, and 0 otherwise (if the firm is connected to the Republican Party, to both parties or if the firm is not connected to any party).[15]   Second, *Republicans' Board (Yes = 1)* takes the value of 1 if the firm is connected only to the Republican Party, and 0 otherwise (if the firm is connected to the Democratic Party, to both parties, or if the

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[14]These data are from proxy statements (submission type Def 14a) for all S&P 500 companies in 2006. For more details see Goldman, Rocholl and So (2009).

[15] As pointed out in Goldman, Rocholl, and So (2009), most politically connected directors are former U.S. Senators and Representatives.

firm is not connected to any Party). We also define *Connection Indicator (CI)* that takes the

value of (-1) if the company is connected to the Democratic Party only, 0 if it is not connected,

and (+1) if it is connected to the Republican Party, or to both the Republican and Democratic

parties.

Using financial and accounting data from Compustat and CRSP, we construct the 3-day

cumulative abnormal returns experienced by each firm around the relevant event. In Table I,

CAR (-1,+1) is computed as the market-adjusted cumulative abnormal return in a 3-day window

centered at the January 3rd, 2006 announcement date. The company returns are adjusted by the

CRSP value-weighted index.[16] Throughout the paper we tabulate and report results for the 3-day

market-adjusted cumulative abnormal returns. However, to verify the robustness of our findings,

we also use the market-model adjusted returns, and 7-day window (-3, +3) returns. The results

are similar, albeit statistically less significant for the longer event window.

While the 3-day cumulative abnormal returns around the January 3rd 2006 event is zero

for the full sample (Panel A of Table I), lobbying firms on average experience a negative

abnormal return of -.01% around the event date (Panel B), and firms that do not lobby report

positive abnormal returns of .02% (Panel C). We note that the average market capitalization of

lobbying companies is $25.3 billion compared to $7.68 billion for non-lobbying companies. We

control for firm size in the regression analysis.

III. Results

A. Does lobbying add value?

We start out by investigating the market response to the guilty plea by Jack Abramoff on

January 3rd 2006 to charges of corruption and bribery of public officials. This event significantly

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[16] We estimate $\Sigma(R_{it} - R_{Mt})$, where R_{Mt} is the return on the CRSP value-weighted index.

heightened public scrutiny of lobbying practices and raised expectations of restrictions on lobbying. Since this event was exogenous to the individual lobbying decisions of firms, the response to the Abramoff guilty plea would indicate whether investors view lobbying as a value enhancing investment. We start with the following specification:

$$CAR_i(-1,+1) = \alpha + \beta_1 Lobbying_i + \beta_2 Firm\,Size_i + Industry\,FE + \varepsilon_i, \qquad (1)$$

where *CAR (-1,+1)* is the market-adjusted cumulative abnormal returns in percentages for a 3-day window centered at the announcement date; *Lobbying* measures the company's lobbying activity, *Firm Size* is market capitalization in the year preceding the event, and industry fixed-effects are based on the Fama-French 12 industry classification. Note that the standard errors are corrected for heteroskedasticity.

The results are reported in Table II. Columns (1) and (2) show that following the guilty plea by Jack Abramoff, firms that spend more on lobbying as measured by a higher value of *Lobbying Rank* experience a significant decrease in abnormal returns compared to firms that spend less on lobbying and firms that do not lobby. For example, from column (2) we note that compared to firms in the 1st decile of *Lobbying Rank* with the lowest lobbying expenditures (average expenditures of $66,557), firms in the 10th decile with average lobbying expenditures of $20,591,305, experience a significant decrease in abnormal returns of 0.6% around this event.[17] Focusing on firms that lobby in columns (3) to (5), we note that companies that spend more on lobbying, experience a larger decrease in abnormal returns at the time of the Abramoff event. From column (4) we note that an increase in $100,000 in lobbying expenditures is associated with a decrease of $1.4 million in value around the time of the event.

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[17] We multiply the coefficient of *Lobbying Rank*, -.068, by 9.

The observed market response to an exogenous event that increased the probability of future restrictions on lobbying suggests that the market views lobbying as a value-enhancing investment for shareholders. The negative market reaction to the guilty plea suggests that the market expects future profits from lobbying activity to decrease because these firms will have less political influence due to increased scrutiny and regulation of lobbying following the Abramoff scandal.

B. Does corrupt lobbying add value?

Our results suggest that lobbying adds value for shareholders. But is it value-enhancing only by allowing firms to inform overburdened policy makers, or does it also add value by facilitating *quid pro quo* arrangements where politicians extract private benefits from lobbying in exchange for enacting favorable policies? To investigate the latter mechanism, we examine the stock market's response to the introduction and passage in the U.S. Congress of the first law following the Abramoff scandal that increased disclosure of lobbying, increased penalties for illegal acts, and restricted *quid pro quo* arrangements. The "Lobbying Accountability and Transparency Act of 2006" was introduced in the Senate on March 1, 2006 and was passed on March 29, 2006. The bill was then passed in the U.S. House of Representatives on May 23, 2006. We examine the cumulative abnormal returns for the firms in our sample for a three-day window of (-1 +1) surrounding these three dates. The results are reported in Table III.

This provisions of this bill were directed towards reducing the potential for private benefits If companies that lobby experience a decline in value in response to the introduction and passage of this bill, this suggests that the market views unethical and non-transparent lobbying activities as value-enhancing investments. Our results suggest that this is indeed the case. In particular, from column (1) of Table III we note that firms that lobby more, as captured by a

higher lobbying rank, experience a greater decrease in their stock market value in the 3-day window surrounding the introduction of the bill in the Senate on March 1, 2006. For example, from column (1) we note that compared to firms in the 1st decile of *Lobbying Rank* with the lowest lobbying expenditures (average expenditures of $66,557), firms in the 10th decile with average lobbying expenditures of $20,591,305, experience a significant decrease in abnormal returns of 0.6% on average around this event. Focusing on the sample of lobbying firms in column (2), we find that firms that spend more on lobbying, experience a greater decrease in abnormal returns when the legislation is first introduced. The magnitude is economically meaningful. From column (2) of Table III we note that an increase in $100,000 in lobbying expenditures is associated with a decrease of $1.04 million in value around the time of the event.

In columns (3) and (4) of Table III we find the same effect around the event of the passage of the bill in the Senate on March 29, 2006. For example, from column (3) we find that compared to firms in the 1st decile of lobbying expenditures, firms in the 10th decile with the highest lobbying expenditures in the sample, experience a decrease in cumulative abnormal returns of 0.51%. Considering lobbying firms only in column (4), we note an increase in $100,000 in lobbying expenditures is associated with a decrease of $0.84 million in value around the time of the event.

We also examine the announcement returns around the passage of the bill in the U.S. House of Representatives in columns (5) and (6). While the estimated coefficients have the same sign as in the previous estimates, they are not statistically significant. This is not surprising since the bill was voted on in the House more than three months after the introduction of the bill in the Senate, suggesting that the market may have already incorporated its expectations of the passage of the bill by the time this event occurred.

The negative market response to restrictions on *quid pro quo* arrangements and increased transparency and oversight of the lobbying process suggests that the market views unethical and opaque lobbying practices as value-enhancing. At least some of the shareholder value from lobbying derives from potentially illegal lobbying practices.

C.   Do less socially responsible firms benefit more from lobbying?

Our results suggest that lobbying adds value, and this value partly derives from corruption and not just from informing politicians. This raises a question whether some firms may benefit more lobbying than others. For example, are firms associated with unethical business practices more likely to engage in unethical lobbying practices? Comparative measures of ethical business practices are difficult to come by because of a lack of consensus on the definition, as well as a dearth of consistent measures. Our approach is to use a ranking of environmental reputation published by Newsweek magazine. As discussed earlier, the *Green Score* ranks the largest U.S. firms according to their environmental footprint relative to size, policies implemented to reduce this impact, and reputation for environmental friendliness. Note that we observe these scores for a subsample of firms.

These results reported in Table IV suggest that firms with a poor reputation for socially responsible practices experience a greater decrease in value in response to the Abramoff event. From the results reported in column (3) of Table IV we note that on average firms that score above the median *Green Score*, with a better (worse) reputation for environmentally responsible policies, experience positive (negative) abnormal returns in response to the Abramoff guilty plea. Considering the interaction with lobbying, we note from the results reported in column (2) that among firms of average lobbying rank, those with a better (worse) reputation for socially responsible policies, experience .14% higher (lower) abnormal returns in response to the event.

These results suggest that firms that are known for more socially responsible business practices are less affected by restrictions on lobbying, possibly because they do not engage in corrupt lobbying.

D.   Impact of alternative measures of political influence

Firms seeking access to politicians may employ multiple channels of political influence, including lobbying. We investigate whether lobbying may pick up the effect of one such alternative mechanism: the political connections of firms. Moreover, firms that have access to politicians through alternative channels may be relatively protected from the effects of lobbying restrictions. Political connections may also be driven by the partisan positions of firms, whereas firms are more likely to lobby on issues. By controlling for firm-level political connections, we can investigate whether lobbying expenditures are driven by ideological or partisan positions.

We examine whether the market reactions to the indictment and to the follow-up regulation vary based on the political connections of firms. The results are reported in Tables V and VI. From the results reported for the full sample of firms in column (1) of Table V, we note that on average firms with political connections to the Democratic Party experience significantly positive abnormal returns compared to firms with Republican Party connections, and firms without connections. This effect is more statistically significant in column (4) for the sample of lobbying firms.

In contrast, connections to the Republican Party do not add value (the coefficient is negative but not significant in columns 2 and 5 of Table V). Since the Abramoff scandal mainly implicated Republican members of Congress, this result suggests in the aftermath of the scandal Republicans may have faced greater scrutiny than Democratic Party policy makers, so that firms

with connections to the latter still had political access whereas firms with Republican connections faced greater restrictions.

We also note that the coefficients of *Lobbying Rank* and *Lobbying Expenses* remain negative and statistically significant, after controlling for connections. This result suggests that lobbying is not a proxy for multiple channels of influence, and lobbying expenditures are less likely to be based on partisan views, since firms' political connections are likely to control for partisan preferences.

In column (3) we construct a connection indicator that takes the value of 1 for Democratic Party connections, a value of -1 for Republican Party connections, and a value of zero for all other companies. The results suggest that political connections to the Democratic Party results in a positive stock return relative to firms connected to the Republican Party and unconnected firms. The results are similar for the sample of lobbying firms in column (6).

In Table VI we examine the importance of political connections for the impact of the legislation that followed the Abramoff scandal. Panel A of Table V uses the introduction of the as the event of interest, and Panels B and C use the Senate and House votes on the bill, respectively. For the sake of brevity, we only report our estimation results using the whole sample. The results are similar for the sample of lobbying firms. The results suggest that lobbying still matters but that the significance of board connections disappears. The fact that political connections are no longer significant for this later event suggests that the events are more informative about the lobbying channel, whereas information about political connections may have already been incorporated into the stock price.

IV. Conclusion

Despite the fact that corporations and interest groups spend more than $3 billion annually on lobbying policy makers, there is a lack of robust empirical evidence on whether lobbying expenditures are value-enhancing. The literature has also not provided evidence of corruption in lobbying, despite the public perception that lobbyists engage in corrupt practices wielding undue influence on policy.

In this paper we use an exogenous shock to lobbying activity to identify the causal impact of lobbying on the value of firms. In particular, we use the corruption scandal involving top lobbyist Jack Abramoff that implicated several lawmakers and administration officials, as an exogenous shock to the ability of firms to lobby because it heightened expectations of, and eventually led to, increased restrictions on lobbying. Using an event study approach, we find that lobbying is associated with an increase in firm value.

In the aftermath of the scandal, the U.S. Congress passed legislation intended to reduce unethical and corrupt lobbying practices. In particular, the legislation increased disclosure of lobbying, limited *quid pro quo* arrangements where policy makers could extract private benefits from lobbyists in exchange for enacting favorable policies, and increased penalties for violating rules. Our results provide evidence of corruption in lobbying. We observe a negative market response to these restrictions on corrupt practices, which suggests that stock market participants view corrupt lobbying as value-enhancing. That some of the value may be due to potentially illegal arrangements with politicians is also supported by the evidence that firms that have poor social responsibility reputations, experience a greater decrease in value following the Abramoff scandal.

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Appendix I

Variable	Description
CAR(-1;+1) in %	The cumulative abnormal return of each firm calculated over a 3-day window centered at the respective event date. The abnormal returns are in percentage. Abnormal returns are market-adjusted using the CRSP value-weighted index. Source: CRSP.
Lobbying Expenses	A continuous variable that measures the amount of money (in $'s) spent on lobbying by a firm in the three-year period 2003-2005 (included). It is constructed as the sum of lobbying expenses made by each firm over this period. Source: OpenSecrets.org
Lobbying Rank	An ordinal variable that measures the rank of each firm in terms of lobbying activity. To construct this variable, we split all firms with non-zero lobbying over the period 2003-2005 into 10 deciles. The variable is decreasing in lobbying expenditures. Decile 10 (Decile 1) includes firms with the largest (smallest) lobbying expenses. Lobbying Rank takes the value of the decile in which a firm falls based on its lobbying expenses. All firms which have no lobbying activities in the period 2003-2005 (included) are assigned a lobbying rank of 0.
Log(Lobbying Expenses)	Natural logarithm of the sum of the lobbying expenses (in $) made by a firm during the 3-year period 2003-2005 (included).
Firm Size	Market capitalization (in billion $) as of the end of year 2005. Source: CRSP.
Industry Effect FF12	Indicator variable for each of the 12 industry groups following the Fama and French 12 industry classification. Source: Kenneth French's website.
Above Median Green Score	Indicator variable that takes the value of 1 if the *Green Score* is above the sample median score. *Green Score* lies between 0 and 100, where a higher score means a stronger reputation for environmental responsibility. The score is from 2009.
Connection Indicator (CI)	A step variable that measures the directions of a firm's political connections. The variable takes the value of +1 if the firm has political connections to the Republican Party or both Republican and Democratic Parties. It takes the value of −1 if the firm has political connections to the Democratic Party only. If the firm has no political connections, the value of the indicator is 0. Source: Goldman, Rocholl and So (2009).
Democrats' Board (Yes = 1)	An indicator variable that takes the value of 1 if the firm is connected only to the Democratic Party and 0 otherwise (if the firm is connected to the Republican Party, to both parties or if it is not connected). Source: Goldman, Rocholl and So (2009).
Republicans' Board (Yes = 1)	An indicator variable that takes the value of 1 if the firm is connected only to the Republican Party and 0 otherwise (if the firm is connected to the Democratic Party, to both parties or if it is not connected). Source: Goldman, Rocholl and So (2009).

Appendix II

Event	Date
Jack Abramoff pleads guilty	3-January-2006
Introduction of the Bill by T. Lott	1-March-2006
Senate votes the Bill by T. Lott	29-March-2006
House votes the Bill by T. Lott	23-May-2006

Appendix III

Lobbying Rank	Mean Lobbying Expenses	Min Lobbying Expenses	Max Lobbying Expenses
0	$0	$0	$0
1	$66,557	$10,000	$120,000
2	$205,308	$130,000	$280,000
3	$403,121	$284,000	$520,000
4	$644,799	$540,000	$880,000
5	$1,120,786	$900,000	$1,340,000
6	$1,702,172	$1,356,716	$2,005,000
7	$2,647,358	$2,066,288	$3,320,000
8	$4,049,645	$3,350,000	$5,050,000
9	$7,132,875	$5,267,201	$10,520,000
10	$20,591,305	$10,640,000	$55,960,000

Bill S.2349
Latest Title: 527 Reform Act of 2006
Sponsor: Sen Lott, Trent [MS] (introduced 3/1/2006) Cosponsors (None)
Related Bills: H.RES.772, H.R.513, H.R.4575, H.R.4667, H.R.4948, H.R.4975, H.R.4988, H.R.5677, S.RES.525, S.2128
Latest Major Action: 5/23/2006 Resolving differences -- Senate actions. Status: Senate disagreed to House amendments, requested a conference, and appointed conferees. Lott; Stevens; McConnell; Dodd; Inouye.
Latest Action: 5/23/2006 Message on Senate action sent to the House.

SUMMARY AS OF:
5/23/2006--Passed House amended. (There are 3 other summaries)

Lobbying Transparency and Accountability Act of 2006 - 527 Reform Act of 2006 - **Title I: Enhancing Lobbying Disclosure** - (Sec. 101) Amends the Lobbying Disclosure Act of 1995 (LDA) to require: (1) quarterly instead of semiannual filing of lobbying disclosures reports; (2) electronic filing; and (3) maintenance of certain lobbying disclosure information in an electronic data base, available to the public free of charge over the Internet.

(Sec. 104) Extends from two years to seven years before the first date of acting as a lobbyist the look-back period for mandatory registration disclosure by a registered lobbyist of service by any of its employees as a covered executive or legislative branch official.

(Sec. 105) Requires registered lobbyists to include in their mandatory semiannual reports specified information about any contributions to federal candidates or related committees, gifts to covered legislative branch officials, and funds contributed to an entity named for, established, financed, maintained, or controlled by a covered legislative branch official. Exempts from this reporting requirement any payments or reimbursements made from funds already required to be reported under the Federal Election Campaign Act of 1971(FECA).

(Sec. 106) Increases from $50,000 to $100,000 the civil penalty for knowing failure to remedy a defective lobbyist filing or comply with any LDA requirement. Amends the federal criminal code to establish criminal penalties of fines or imprisonment for up to: (1) three years for knowing and willful failure to comply with LDA requirements; or (2) five years for knowing, willful, and corrupt failure to do so.

(Sec. 107) Subjects registered lobbyists, employees, and clients to civil penalties of up to $50,000 for offering gifts to a covered legislative branch official of the House in knowing violation of House rules.

Title II: Slowing the Revolving Door - (Sec. 201) Amends the federal criminal code to require former Members of the House, officers, or employees to be notified of certain post-employment restrictions.

(Sec. 202) Amends the Code of Official Conduct to require public disclosure by Members of the House of employment negotiations. Urges them to refrain from voting on any pending legislative measure if such negotiation creates a conflict of interest. (Sec. 203) Amends the Code to prohibit a Member, officer, or employee of the House from wrongfully influencing, on a partisan basis, an entity's employment decisions or practices.

Title III: Suspension of Privately-Funded Travel; Curbing Lobbyists Gifts - (Sec. 301) Prohibits Members, officers or employees of the House from accepting a gift of travel (including any transportation, lodging, and meals during such travel) from any private source unless the House Committee on Standards of Official Conduct (Committee) pre-certifies in writing that such travel complies with House rules and standards of conduct.

(Sec. 302) Requires the Committee to report its recommendations to the House Committee on Rules on changes to Rule XXV (Limitations on Outside Earned Income and Acceptance of Gifts) of the Rules of the House regarding exceptions to such Rule.

(Sec. 303) Prohibits registered lobbyists from traveling on flights as passengers or crew members of aircrafts not licensed by the Federal Aviation Administration (FAA) to operate for compensation or hire (corporate flights), if a Member, officer, or employee is a passenger or crew member on such flights.

(Sec. 304) Amends Rule XXV to declare that a gift of a ticket to a sporting or entertainment event shall be the face value of the ticket, or equivalent.

Title IV: Oversight of Lobbying and Enforcement - (Sec. 401) Requires the Office of Inspector General of the House (OIG) to: (1) have access to all lobbyists' disclosure information received by the Clerk of the House; and (2) randomly audit such information to ensure LDA compliance. Authorizes the OIG to refer potential violations by lobbyists of LDA to the Department of Justice (DOJ) for disciplinary action.

(Sec. 402) Requires the Inspector General to review on an ongoing basis, and report annually to Congress about, the lobbyist registration and disclosure enforcement activities of the Clerk of the House.

Title V: Institutional Reforms - (Sec. 501) Makes it out of order to consider appropriations measures containing earmarks if the legislation, its accompanying reports, or managers' joint explanatory statements do not list such earmarks or name the requesting Members.

(Sec. 502) Amends Rule II (Other Officers and Officials) of the Rules of the House to prohibit the Chief Administrative Officer from paying compensation to House employees for any pay period during which the employee is not in compliance with the applicable requirements of regulations promulgated pursuant to Rule XI (Procedures of Committees and Unfinished Business). Amends such Rule XI to require the Committee to establish a program of regular ethics training for House employees and promulgate related regulations.

(Sec. 503) Requires the Committee to publish biennially an up-to-date ethics manual for Members, officers, and employees.

Title VI: Forfeiture of Retirement Benefits - (Sec. 601) Amends federal civil service law regarding the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS) to exclude from retirement accounting any service as a Member of Congress of an individual finally convicted of a felony involving bribery of public officials and witnesses, conspiracy to commit an offense or to defraud the United States, or acting as an agent of a foreign principal. Entitles such individual, all the same, to so much of his or her lump-sum credit as is attributable to such service.

Title VII: Leadership PACS - (Sec. 701) Amends FECA to permit a leadership political action committee (PAC) to use its funds for: (1) otherwise authorized expenditures in connection with campaigns for election for federal office; (2) tax deductible charitable contributions; and (3) transfers to a national, state, or local committee of a political party (subject to applicable FECA limitations). Defines leadership PAC as a political committee directly or indirectly established, maintained, or controlled by a candidate for federal office or an individual holding federal office, but which is not an authorized committee of the candidate or individual. Excludes from the meaning of leadership PAC, however, any political committee of a political party.

Title VIII: Ethics Training for Lobbyists - (Sec. 801) Requires the Committee, during each Congress, to provide an eight-hour ethics training course to registered lobbyists. Subjects registered lobbyists who fail to complete such course at least once during each Congress to LDA penalties to the same extent as for LDA noncompliance.

Title IX: Miscellaneous Provisions - (Sec. 901) Amends the federal criminal code subjecting individuals to fines and penalties for bribery of public officials and witnesses to include as an "official act" (which might be influenced in violation of such law) any decision or action on an earmark.

Title X: 527 Reform Act of 2006 - 527 Reform Act of 2006 - (Sec. 1002) Amends the Federal Election Campaign Act of 1971 (FECA) to include in the definition of political committee any applicable 527 organization. (Thus subjects such organizations to the requirements of the Act. A 527 organization, as defined by section 527 of the Internal Revenue Code, is an organization, not controlled by or involving a particular candidate for office, whose function is to influence or attempt to influence the selection, nomination, election, or appointment of any individual to any federal, state, or local public office or office in a political organization, or the election of presidential or vice-presidential electors, whether or not such individual or electors are selected, nominated, elected, or appointed.) Requires the organization to give notice to the Secretary of the Treasury under section 527 that it is to be treated as an organization described in section 527 of the Internal Revenue Code. Excepts from the definition of 527 organization under FECA a committee, club, association, or other group of persons (organization) which: (1) is a 527 organization under the Internal Revenue Code; (2) is organized, operated, and makes disbursements exclusively for paying certain tax-deductible business expenses or expenses of a certain kind of political newsletter fund; (3) consists solely of candidates for or individuals holding state or local office, but only if the organization refers only to one or more nonfederal

candidates or applicable state or local issues in all of its voter drive activities, without reference to any federal candidate; or (4) whose election or nomination activities relate exclusively to elections where no candidate for federal office appears on the ballot, or to influencing the selection, nomination, election, or appointment of one or more candidates to nonfederal offices or individuals to non-elected offices, or influencing one or more applicable state or local issues. Denies the treatment of any such organization as meeting such exclusivity requirement if it makes disbursements aggregating more than $1,000 for: (1) a public communication that promotes, supports, attacks, or opposes a clearly identified candidate for federal office during the one year period ending on the date of the general election for the office sought by the candidate (or if a runoff election is held with respect to such general election, on the date of the runoff election); and (2) any voter drive activity during a calendar year, except a drive in only one state with no reference to federal office candidates.

(Sec. 1003) Sets forth rules for allocation and funding for certain expenses relating to federal and nonfederal activities, including payments of 100% or 50% from a federal account in several specified circumstances. Limits individual donations to a political committee that is a separate segregated fund or nonconnected committee to an annual aggregate of $25,000 for its qualified nonfederal account.

(Sec. 1004) Repeals the limit on the amount of party expenditures on behalf of candidates in general elections. Raises the limits for House and Senate candidates facing wealthy opponents.

(Sec. 1006) Prescribes special rules for actions brought for declaratory or injunctive relief to challenge the constitutionality of any provision of this Act. Requires such an action to be filed in the U.S. District Court for the District of Columbia, and to be heard by a three-judge panel. Makes any final decision by the panel reviewable only by the U.S. Supreme Court. Authorizes Members of Congress to: (1) bring an action challenging the constitutionality of this Act; and (2) intervene in any action in which the constitutionality of any provision of this Act is raised. Applies such special rules only to actions brought on or before December 31, 2008.

Figure 1

The figure shows the number of articles returned from a Factiva key-word search over the period January 2004-December 2006. The search imposes the following conditions: 1) at least two mentions of "Abramoff" and "lobb*" and one of the following terms: "accus*", "fraud*", "investig*", "regula*", "reform*" "restric*", "scand*", "strict*", "unlaw*", and 2) the article contains at least 1000 words.
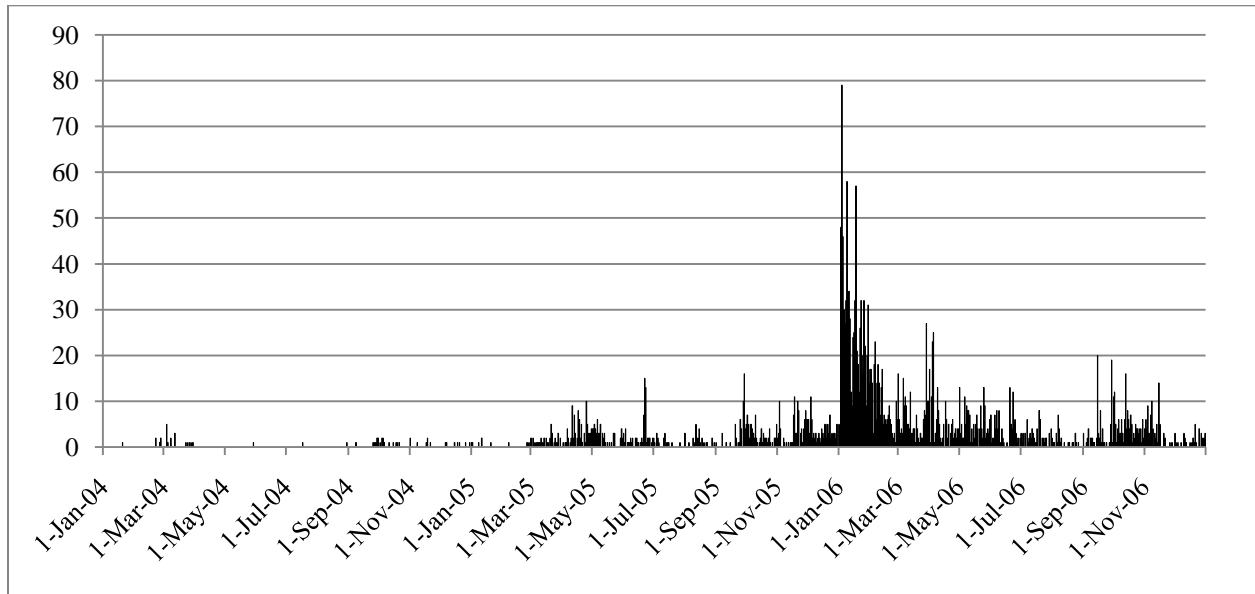
Table I: Summary Statistics

The table reports summary statistics for the sample of firms used in the event study analysis of Jack Abramoff's guilty plea (January 3, 2006). All variables are described in Appendix I. Panel A provides summary statistics for the entire sample of firms, while panels B and C show summary statistics for the sub-samples of lobbying and non-lobbying firms, respectively. The sample is trimmed at the 1st and 99th percentile.

Panel A: All Firms (N = 617)	Mean	StDev	Min	Max
Lobbying Expenses (in $)	2,632,157	5,874,164	0	55,960,000
Lobbying Rank	3.74	3.50	0	10
Firm Size	19.71	35.85	0.06	370.34
Green Score	71.22	10.38	1	100
Connected Firm (Yes = 1)	0.32	0.47	0	1
Democrats' Board (Yes = 1)	0.11	0.32	0	1
Republicans' Board (Yes = 1)	0.15	0.35	0	1
Connection Indicator (CI)	0.09	0.56	-1	1
CAR (-1;+1) in %	0.00	2.43	-5.44	8.77
Panel B: Lobbying Firms (N = 421)				
Lobbying Expenses (in $)	3,857,579	6,772,746	10,000	55,960,000
Log(Lobbying Expenses)	14.00	1.70	9.21	17.84
Lobbying Rank	5.48	2.90	1	10
Firm Size	25.31	41.98	0.45	370.34
Green Score	71.66	11.34	1	100
Above Median Score (Yes = 1)	0.54	0.50	0	1
Connected Firm (Yes = 1)	0.39	0.49	0	1
Democrats' Board (Yes = 1)	0.14	0.35	0	1
Republicans' Board (Yes = 1)	0.17	0.38	0	1
Connection Indicator (CI)	0.11	0.62	-1	1
CAR (-1;+1) in %	-0.01	2.46	-5.44	8.35
Panel C: Non-Lobbying Firms (N = 196)				
Firm Size	7.68	7.12	0.06	52.12
Green Score	69.84	6.31	47.94	83.74
Above Median Score (Yes = 1)	0.38	0.49	0	1
Connected Firm (Yes = 1)	0.15	0.36	0	1
Democrats' Board (Yes = 1)	0.05	0.22	0	1
Republicans' Board (Yes = 1)	0.10	0.30	0	1
Connection Indicator (CI)	0.05	0.38	-1	1
CAR (-1;+1) in %	0.02	2.38	-5.21	8.77

Table II: Cumulative Abnormal Returns around Abramoff's Guilty Plea

The table reports results from cross-sectional regressions that estimate the value-relevance of corporate lobbying using the event date of Jack Abramoff's guilty plea (January 3, 2006). All variables are described in Appendix I. Columns (1) and (2) use the entire sample of firms in the estimation. Columns (3) through (5) use the sub-sample of firms with positive lobbying expenditures. The table reports coefficient estimates, followed in parentheses by p-values based on robust standard errors. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)
Lobbying Rank	-0.080***	-0.068***	-0.113***		
	(0.001)	(0.009)	(0.006)		
Log(Lobbying Expenses)				-0.222***	-0.204***
				(0.001)	(0.003)
Firm Size		-0.002	-0.002		-0.002
		(0.240)	(0.379)		(0.478)
Constant	-0.471	-0.487	-0.098	2.373**	2.138**
	(0.121)	(0.110)	(0.807)	(0.010)	(0.035)
Industry Effect FF12	Yes	Yes	Yes	Yes	Yes
N	617	617	421	421	421
R^2	0.303	0.304	0.341	0.342	0.342

Table III: Abnormal Returns around Various Stages of the Bill by Trent Lott

The table reports results from cross-sectional regressions that estimate the value-relevance of corporate lobbying using as event date each of the three stages of the Bill to Provide Greater Transparency of the Legislative Process (Bill S.2349) sponsored by Senator Trent Lott. The three stages, with their respective event dates in parentheses, are: 1) Introduction (March 1, 2006), 2) Senate Vote (March 29, 2006), and 3) House Vote (May 23, 2006). All variables are described in Appendix I. Columns (1) and (2) show estimation results for the Introduction of the bill. Columns (4) through (6) show results for the Senate Vote on the bill. Columns (7) through (9) show results for the House Vote on the bill. Columns (1), (4), and (7) use the entire sample of firms, while the rest of the columns use the sub-sample of l firms with positive lobbying expenditures. The table reports coefficient estimates, followed in parentheses by p-values based on robust standard errors. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Introduction		Senate Vote		House Vote	
	(1)	(2)	(3)	(4)	(5)	(6)
Lobbying Rank	-0.074***		-0.057**		-0.016	
	(0.007)		(0.031)		(0.564)	
Log(Lobbying Expenses)		-0.160**		-0.130*		-0.063
		(0.032)		(0.078)		(0.382)
Firm Size	-0.003	-0.001	-0.004	-0.003	0.010***	0.010***
	(0.139)	(0.483)	(0.116)	(0.281)	(0.001)	(0.001)
Constant	-0.119	1.840	0.542*	2.300**	-0.797**	-0.083
	(0.696)	(0.113)	(0.086)	(0.033)	(0.014)	(0.936)
Industry Effect FF12	Yes	Yes	Yes	Yes	Yes	Yes
N	616	420	614	420	607	412
R^2	0.202	0.173	0.150	0.178	0.092	0.116

Table IV: Abramoff's Guilty Plea and "Green" Firms

The table reports results from cross-sectional regressions that estimate the value-relevance of corporate lobbying using the event date of Jack Abramoff's guilty plea (January 3, 2006). All variables are described in Appendix I. Columns (1) and (2) use the entire sample of firms in the estimation. Columns (3) and (4) use the sub-sample of firms with positive lobbying expenditures. The table reports coefficient estimates, followed in parentheses by p-values based on robust standard errors. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)
Above Median Green Score	0.268	-0.360	0.470*	-1.633
	(0.224)	(0.312)	(0.073)	(0.457)
Lobbying Rank	-0.062*	-0.124***		
	(0.059)	(0.002)		
Lobbying Rank × Above Median Green Score		0.141**		
		(0.017)		
Log(Lobbying Expenses)			-0.193**	-0.254**
			(0.025)	(0.018)
Log(Lobbying Expenses)× Above Median Green Score				0.148
				(0.329)
Firm Size	-0.003	-0.004*	-0.003	-0.003
	(0.213)	(0.074)	(0.228)	(0.156)
Constant	-0.800*	-0.622	1.679	2.509
	(0.069)	(0.153)	(0.207)	(0.116)
N	390	390	295	295
R-square	0.349	0.359	0.411	0.413

Table V: Lobbying and Political Connections – Abnormal Returns around Abramoff's Plea

The table reports results from cross-sectional regressions of event date abnormal returns around Jack Abramoff's guilty plea (January 3, 2006). All variables are described in Appendix I. Columns (1)-(3) uses the full sample of firms, Columns (4)-(5) uses the sub-sample of firms with positive lobbying expenditures. The table reports coefficient estimates, followed in parentheses by p-values based on robust standard errors. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
Lobbying Rank	-0.074***	-0.066**	-0.065**			
	(0.005)	(0.010)	(0.012)			
Log(Lobbying Expenses)				-0.212***	-0.199***	-0.190***
				(0.002)	(0.004)	(0.006)
Democrats' Board (Yes = 1)	0.494*			0.669**		
	(0.098)			(0.035)		
Republicans' Board (Yes = 1)		-0.238			-0.238	
		(0.237)			(0.315)	
Connection Indicator (CI)			-0.323**			-0.378**
			(0.026)			(0.018)
Firm Size	-0.003	-0.002	-0.002	-0.002	-0.001	-0.002
	(0.170)	(0.271)	(0.274)	(0.317)	(0.514)	(0.503)
Constant	-0.518*	-0.475	-0.496	2.152**	2.101**	1.956*
	(0.085)	(0.121)	(0.102)	(0.032)	(0.039)	(0.052)
Industry Effect FF12	Yes	Yes	Yes	Yes	Yes	Yes
N	617	617	617	421	421	421
R^2	0.308	0.306	0.310	0.351	0.344	0.351

Table VI: Lobbying and Political Connections – Abnormal Returns around Lott's Bill

The table reports results from cross-sectional regressions of event date abnormal returns. The events represent that three stages of the Bill to Provide Greater Transparency of the Legislative Process (Bill S.2349) sponsored by Senator Trent Lott. The three stages, with their respective dates in parentheses, are: 1) Introduction (March 1, 2006), 2) Senate Vote (March 29, 2006), and 3) House Vote (May 23, 2006). Panel A analyzes the event date returns around the *Introduction* of the bill, while Panels B and C analyze the returns around the *Senate Vote* on and *House Vote* on the bill, respectively. All variables are described in Appendix I. The table reports coefficient estimates, followed in parentheses by p-values based on robust standard errors. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Introduction (All Firms)			
	(1)	(2)	(3)
Lobbying Rank	-0.074***	-0.074***	-0.073***
	(0.009)	(0.008)	(0.009)
Democrats' Board (Yes = 1)	-0.058		
	(0.851)		
Republicans' Board (Yes = 1)		0.012	
		(0.952)	
Connection Indicator (CI)			-0.100
			(0.514)
Firm Size	-0.003	-0.003	-0.003
	(0.155)	(0.137)	(0.147)
Constant	-0.115	-0.119	-0.122
	(0.706)	(0.696)	(0.688)
Industry Effect FF12	Yes	Yes	Yes
N	616	616	616
R^2	0.202	0.202	0.202

Panel B: Senate (All Firms)

	(1)	(2)	(3)
Lobbying Rank	-0.059**	-0.053**	-0.054**
	(0.027)	(0.044)	(0.039)
Democrats' Board (Yes = 1)	0.215		
	(0.421)		
Republicans' Board (Yes = 1)		-0.459**	
		(0.045)	
Connection Indicator (CI)			-0.232*
			(0.099)
Firm Size	-0.004*	-0.003	-0.004
	(0.092)	(0.126)	(0.103)
Constant	0.531*	0.565*	0.539*
	(0.093)	(0.075)	(0.088)
Industry Effect FF12	Yes	Yes	Yes
N	614	614	614
R^2	0.151	0.155	0.153

Panel C: House (All Firms)

	(1)	(2)	(3)
Lobbying Rank	-0.016	-0.021	-0.018
	(0.575)	(0.461)	(0.526)
Democrats' Board (Yes = 1)	-0.014		
	(0.954)		
Republicans' Board (Yes = 1)		0.464**	
		(0.028)	
Connection Indicator (CI)			0.127
			(0.347)
Firm Size	0.010***	0.009***	0.010***
	(0.001)	(0.001)	(0.001)
Constant	-0.796**	-0.818**	-0.795**
	(0.015)	(0.012)	(0.014)
Industry Effect FF12	Yes	Yes	Yes
N	607	607	607
R^2	0.092	0.098	0.093