

# Lobbying: K Street's Influence On Wall Street

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Author Donald E. deKieffer of "A Citizen's Guide to Lobbying Congress" (2007) notes, "there is not an American today who is not represented (whether he or she knows it or not) by at least a dozen special interest groups."

Power and influence are the trademarks of Washington D.C.'s K Street, a major thoroughfare that is known as a hotbed for lobbyists, advocacy groups and think tanks. Investors may be more familiar with Wall Street newsmakers like Goldman Sachs (NYSE:GS) and ExxonMobil (NYSE:XOM) than the names of the most influential lobbying firms on K Street, but the stealth-like qualities of K Street lobbying firms adds to the mystique of these behind-the-scenes dealmakers, earmark creators and legislative advocates.

Through the use of contacts, promises and political will, money is allocated and laws are written in response to designs laid out by lobbying firms. Let's explore how these groups' powerful influence can shape the marketplace and impact your investment portfolio.

## What Is Lobbying?

Lobbying is the act of persuading lawmakers to make decisions regarding legislation and appropriations in favor of individuals or interest groups. The right to "peaceably assemble, and to petition the government for a redress of grievances" is protected by the First Amendment of the U.S. Constitution. As such, governments, universities, corporations, mom and pop businesses, nonprofits and individuals recognize the power of lobbying and hire firms - or do the legwork themselves - to ensure that their interests are presented to legislators on Capitol Hill. The lobbying firms often employ well-connected former congressional members. For example, Bob Dole, a former Republican Senate majority leader, was hired by lobbying firm Alston & Bird LLP in 2003.

The term "lobbying" is rumored to have its origin from the nineteenth century, when legislators would meet in the lobbies of the Willard Hotel in Washington, D.C., to push the agenda of a particular group.

A satirical view of lobbying is portrayed in the 2006 film "Thank You for Smoking", in which a tobacco industry lobbyist is given the job of promoting smoking to the public just as the health risks of cigarettes are coming to light. The lobbyist's seemingly impossible task - and the arguments and twisted logic he often employs to make his case - highlight what are often perceived as the negative aspects of lobbyists' influence on government. The shifty side of the lobbying business was brought to light in 2005 during the trial and eventual conviction of Jack Abramoff, a former K Street lobbyist found guilty of fraud, tax evasion and conspiracy to bribe public officials.

## Lobbying and Your Portfolio

The best way to spot companies that may benefit from the lobbying dollars spent on Capitol Hill is to monitor the records kept by the Center for Responsive Politics (CRP) at [Opensecrets.org](http://Opensecrets.org). Investors can also review the Washington Post, and news site [Washingtonian.com](http://Washingtonian.com) for current lobbying news and any projects being taken on by a company's director of government affairs. It is possible that the

companies or entities that spend the most stand to outperform their competition, but just as in politics, nothing can be considered a sure thing.

### **Types of Lobbyists**

Influential lobbying firms represent large entities like foreign governments, states, universities, hospitals and corporations. Other large and small lobbying firms may specialize in fields like health and education policy, international trade and small business. Lobbyists representing nonprofits like the Alliance/Advancing Nonprofit Healthcare also exist. In other cases, individuals like Brian Hart can make lobbying a personal crusade. After losing his soldier son in Iraq in 2003, Hart lobbied Congress for armored Humvees and body protection for U.S. troops until, in January 2004, the Army agreed to double its order of armored Humvees .

### **Law Firm Lobbying vs. Private Lobbying**

In terms of ownership, law firms tend to operate major lobbying firms. However, as of 2008, private lobby shops are becoming increasingly popular, and are operating unconstrained by the American Bar Association (ABA) restrictions followed by law firms. For example, the Dewey Square Group, which at one time advocated for "Mayors Against Illegal Guns", and the Ogilvy Government Relations, which counts the National Rifle Association (NRA) among its clients, are both owned by the U.K. based marketing services company WPP. There are also independent and volunteer lobbyist firms. The American League of Lobbyist (ALL) is a nonprofit organization that offers a comprehensive list of lobbyists and their areas of interest.

### **Funding**

Lobbying fees can fall between \$700,000 to \$1 million per year depending on the project in question or the needs of the advocate. According to the CRP, the top three lobbying firms in 2007, Patton Boggs LLP, Akin Gump, and Van Scoyoc Associates earned \$42.2 million, \$31.7 million and \$25.3 million in fees, respectively. In other words, the top three lobbying firms generated \$99.2 million in fees during 2007, compared to \$86 million in 2004. The CRP also notes that total lobbying spending has increased from \$1.45 billion in 1998 to \$2.82 billion in 2007.

### **By Issue and Client**

According to the CRP, issues related to the federal budget and appropriations have outpaced all other causes from 1998 to 2008. Top issues following appropriations, include health issues, taxes, defense and transportation. The top spenders by client records indicate that the U.S. Chamber of Commerce has been the top spender, having paid out over \$398 million during the same time frame, followed by expenditures by the American Medical Association (AMA) and the multinational conglomerate General Electric (NYSE:GE).

### **Examples of Influence**

The hands that can affect these decisions may go unseen, but the following examples offer some illumination in industries that have been touched.

#### **1. Pharmaceuticals**

According to the Center for Public Integrity, the pharmaceutical industry spent a record \$168 million in 2007 lobbying on Capitol Hill. Among other achievements, pharmaceuticals' lobbying efforts helped them avoid media restrictions related to their drug advertisements in the U.S. Major drug companies with strong ad campaigns affected by this decision include Bristol-Myers (NYSE:BMJ), Pfizer (NYSE:PFE) and Eli-Lilly (NYSE:LLY).

## **2. Defense**

Washingtonian.com named the Podesta Group as one of the "50 Most Influential Lobbying Firms" in 2007. Along with representing large petroleum firms, the firm also lobbies Congress on behalf of defense contractors Lockheed Martin (NYSE:LMT) and General Dynamics (NYSE:GD).

## **3. Oil Services**

Washingtonian.com also named Ogilvy Government Relations as one of the "50 Most Influential Lobbying Firms" in 2007. When a Chinese oil company attempted to buy Union Oil Company of California, Ogilvy led the charge against the deal, allowing its client Chevron (NYSE:CVX) to under-bid and win the battle for the takeover.

## **4. Telecommunications**

During the first quarter of 2008, telecommunications providers, including AT&T (NYSE:T), Verizon (NYSE:VZ) and Comcast (Nasdaq:CMCSA) spent nearly \$13 million on lobbying fees, seeking protection from surveillance lawsuits tied to illegal wire-tapping implemented after the September 11, 2001 attacks.

## **The Bottom Line**

It is clear that lobbyists have gained considerable influence in Washington and their work can affect corporate performance and, as a result, financial outcomes for shareholders. Staying on top of the actions that the companies in your portfolio take on Capitol Hill is just one more way to get to know your investments and get a better sense of how they are likely to perform in the future.

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