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The Economics of Corporate Lobbying

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Abstract

Prior literature examines motivations and impact of corporate lobbying and presents inconclusive evidence. We examine the association of corporate lobbying with firm performance by focusing on how this relationship varies by firm characteristics. Addressing various endogeneity concerns, our analysis shows that corporate lobbying has a negative association with firm performance. We find that the negative association of corporate lobbying on firm performance is largely driven by operationally complex firms. On the other hand, firms with high growth opportunities benefit more from lobbying than low-growth firms. Lobbying seems to provide limited tangible benefits in terms of government contracts obtained or the success of congressional bills passed. These results suggest that agency costs dominate the strategic benefits of lobbying activities. However, there is some evidence that firms benefit when there is political alignment between the firm and the party in power.

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