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Taxpayer-Funded Lobbying: Runaway Government Growth

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Most taxpayers want smaller government and lower taxes. Decades of polling data consistently show this preference, and in recent elections, both parties laid claim to fiscal conservatism. And yet, government continues to grow. Why?

One of the reasons is that taxpayer dollars are being used to lobby directly against taxpayer interests. While ordinary Americans are busy working, their hard-earned tax dollars are being used to pay for lobbyists who are fighting for higher taxes and bigger government.

Taxpayer-funded lobbying is a largely unnoticed barrier to enacting pro-growth, limited government policies. Taxpayer-funded groups descend on Washington and state capitals every time legislation to limit the size, cost, and intrusiveness of government is under consideration.

State governments, local governments, public universities, transportation authorities, and public water utilities spent an astonishing \$138.1 million on federal lobbying in 2007, up 151 percent from an already siz-

able \$52.9 million in 1998. They spent another \$77.8 million on lobbying in the first half of 2008, the most recent data available. Over the entire 1998 through first-half 2008 period, taxpayer-funded lobbying totaled a staggering \$1.09 billion. While a billion dollars is an incomprehensibly large amount in itself, the explosion in taxpayer-funded lobbying led in turn to an egregiously high increase in earmarks directly from these lobbying efforts, which has led to an even more costly overall breakdown in fiscal discipline.

The biggest increases were in lobbying spending by local governments and by public universities. Local government lobbying of the federal government jumped 240.9 percent from \$20.3 million in 1998 to \$69.3 million in 2007. Public universities increased their federal lobbying spending from \$10.1 million to \$32.3 million over that period, a 219.8 percent jump.

Taxpayer-funded lobbying is a self-perpetuating problem: the national effect of taxpayer-funded lobbying, though difficult to quantify, is much greater than the \$1 billion spent

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directly on lobbyists. The *New York Times* has reported that taxpayer-funded lobbying is a central component of the dramatic growth in pork-barrel earmarks, writing: “Enlisted almost exclusively to land earmarks, lobbyists for local governments have boomed alongside a broader explosion in such appropriations.”²

Many in Washington, including Senator Tom Coburn, believe that this explosion in earmarks has, in turn, created a culture of reckless spending. This recklessness explains the dramatic overall growth in the size of government, including an overall federal spending increase of over \$1.3 trillion, about 78.8 percent, from 1998 to 2008.

The actual total amount of taxpayer dollars spent on lobbying is even more than the figures presented here because the data, compiled by the Center for Responsive Politics from Senate lobbying disclosures, was coded by industry group but not by whether entities are public, which limited us to including only those entities we were able to identify as public. Moreover, while some associations of public entities were included in the data, many large non-profit organizations with substantial lobbying presences, such as AARP, receive taxpayer funding, but they are not included in the scope of this study.

Even more significantly, lobbying by implicitly-governmental entities like Fannie Mae and Freddie Mac is discussed but not included in our quantitative analysis, although events have proven that the funds they spent on lavish lobbying operations were ultimately dependent on taxpayers. Their lobbying drove a dramatic, ongoing expansion in the size of government in attempts to contain the financial damage wrought in part by these politi-

cally-privileged entities.

Moreover, these numbers are restricted to lobbying expenditures that are subject to disclosure. Public entities have a unique exemption in congressional gift rules that apply to lobbyists that allow them to shower gifts on members of Congress and their staffs without any limit or disclosure. It is therefore impossible to measure the pervasiveness of the practice, which is a problem that is unique to taxpayer-funded lobbyists. Lobbyists working for private entities are currently subject to a strict \$50 gift limit in the Senate and an outright ban in the House, but lobbyists getting paid with tax dollars can give unlimited, undisclosed gifts.

Finally it is worth noting that evidence from states where local government lobbying at the state level has been analyzed, indicated the phenomenon is even more pervasive at the state level than at the federal level. Americans for Prosperity Foundation has found that, in Texas alone, annual taxpayer-funded lobbying expenditures by localities may be as high as \$50 million annually- suggesting that the \$132.7 million in taxpayer-funded lobbying at the federal level is just a fraction of the size of a much larger phenomenon in the states.

State and Local Governments

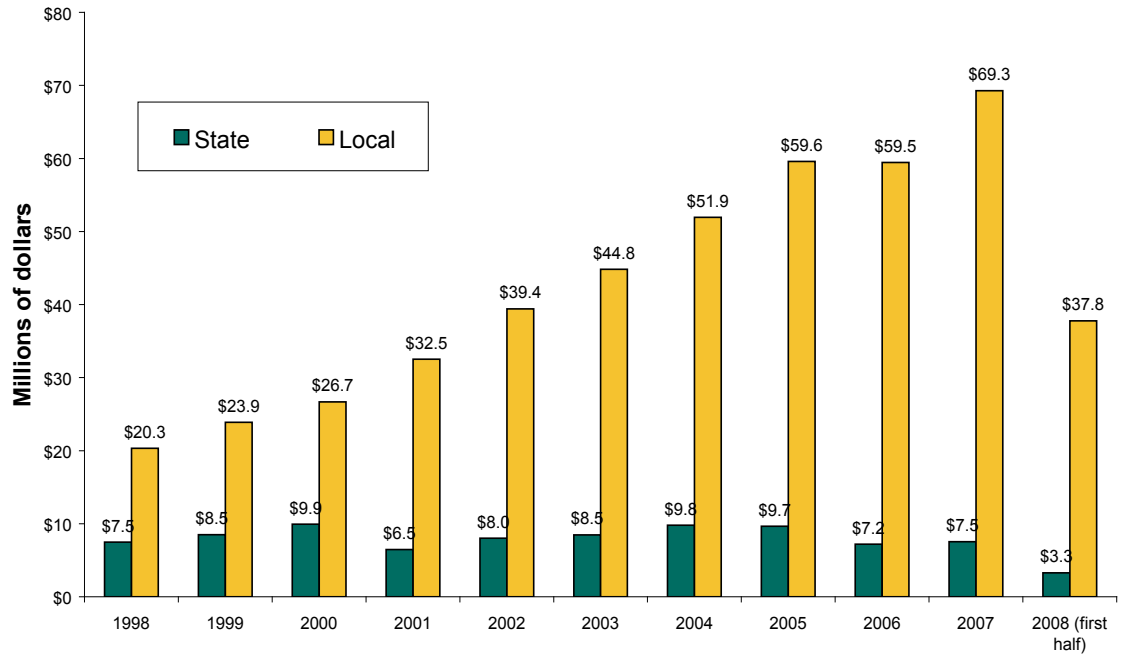
As Chart 1 demonstrates, lobbying expenditures by local governments have skyrocketed while expenditures by state governments have fluctuated slightly but stayed relatively flat, even ending the nine-year study period at the same level where they started.

Lobby spending by local governments increased far more rapidly than

²Jodi Rudoren and Aron Pilhofer, “Hiring Federal Lobbyists, Towns Learn Money Talks,” *New York Times*, July 2, 2006. www.nytimes.com/2006/07/02/washington/02 earmarks.html

Between 1998 and 2007, local government lobbying expenditures increased an astonishing 240.9 percent...

Chart 1: Federal Lobbying by State and Local Governments



Source: Americans for Prosperity Foundation based on data from the Center for Responsive Politics.

lobby spending by state governments starting around the turn of the century. Between 1998 and 2007, local government lobbying expenditures increased an astonishing 240.9 percent and appear to have continued increasing rapidly in 2008.

Local governments lobby because it works. From their perspective, a relatively small investment of local tax dollars can return a substantially larger sum of tax dollars from the federal treasury.

Large and medium-sized cities in the United States receive extraordinary amounts of money in earmark spending. Take for instance Stamford, CT. Stamford has a population of roughly 125,000, and is the fourth largest city in Connecticut. While certainly not among the largest cities in the United States, it still has a sizable population for a New England city. As a medium-sized city with a growing population, Stamford certainly feels entitled to its fair share of the Congressional appropriations pie. In 2007, Stamford paid \$120,000. For this investment in

lobbyist services, Stamford received an extraordinary \$7,346,840 in earmarks for FY 2008. This included an incredible \$4,000,000 for the restoration of the Stamford Mill River. The city, so it seems, is utterly stuffed on pork.

At a population of roughly 170,000, Huntsville, Alabama is not all that bigger than Stamford. Huntsville is the county seat of Madison County, and the largest city in Northern Alabama. Although not nearly as big as Birmingham, Huntsville is no small town. In 2007, Huntsville paid lobbyists \$100,000 for their services. For FY 2008, Huntsville received \$4,742,824 in earmarks.

In medium to large cities like Huntsville and Stamford, it's possible that members of Congress would pursue earmarks even in the absence of taxpayer-funded lobbying, although these cities must believe lobbyists are worth their cost. In smaller, politically insignificant localities, however, taxpayer-funded lobbying is almost certainly the definitive cause of earmark spending.

One lobbyist..., reported his specific lobbying issue as “Earmark.”

In the state of Georgia, there is a tiny island in the easternmost part of the state named Tybee Island. At 2.7 square miles, Tybee Island is of no obvious political significance. This island does, however, have the distinction of being the birthplace of the Days Inn hotel chain. As of 2000, the entire island has a population of 3,731. Located in Georgia’s 1st Congressional District alongside such cities as Savannah, Valdosta and Brunswick, Tybee Island’s 3,731 citizens do not exactly determine elections. Yet this tiny town was somehow able to scrap together \$40,000 to retain the lobbying services of the Marlowe & Company lobbyist firm. In 2007, Tybee Island received an earmark of \$6,319,248 for “construction” in the Energy and Water Appropriations Bill; approximately \$1,694.71 for every person on the island. Seeing a return of such magnitude is an accomplishment that merits concern for all federal taxpayers.

Similarly, some small cities in Florida have a particular affinity for using local tax dollars to lobby for federal tax dollars. Flagler Beach, Florida is a community of 5,228 on the

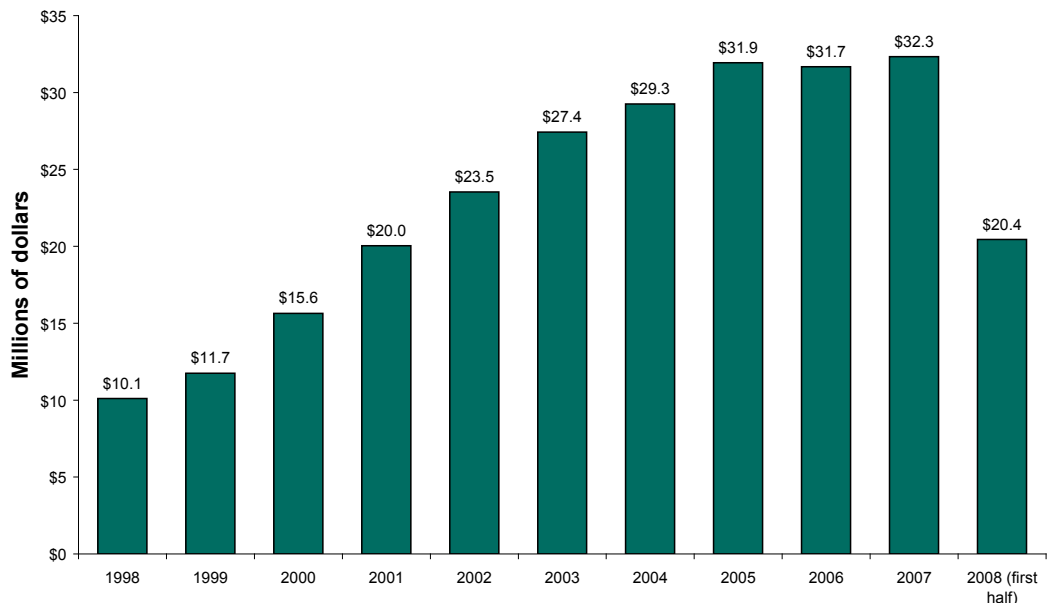
east coast of the state. Flagler Beach is located in Florida’s 7th Congressional District, which includes Deltona, DeLand, Daytona Beach and St. Augustine. With a \$40,000 investment in lobbyist services, Flagler Beach was able to obtain \$685,300 in federal earmarks.

While some lobbyist disclosures are vague and make it difficult to connect the dots between taxpayer-funded lobbying and earmark spending, some are quite open about the process. One lobbyist from LNE Group, working on behalf of the City of Mayfield Heights in Ohio (paid \$40,000), reported his specific lobbying issue as “Earmark.” Mayfield Heights did in fact get an earmark to the tune of \$492,000.

Public Universities

Lobbying by taxpayer-funded public universities has increased dramatically in recent years, as Chart 3 (below) shows. Universities have been heavily engaged in lobbying for earmarks, which accounts for the upward trend in their lobbying activities. The most recent study of pork spending

Chart 2: Federal Lobbying by Public Universities



Source: Americans for Prosperity Foundation based on data from the Center for Responsive Politics.

*In 2007
alone, public
universities in
46 states em-
ployed lobbyists.*

doled out to universities by the Chronicle of Higher Education found that it totaled \$2 billion in 2003, and it has likely grown substantially since then.

Earmarks are quickly supplanting competitive grants as the universities' preferred source of government funding because of their certainty. The effectiveness of lobbying efforts has surpassed the competitive grant-making process for many universities. While there are millions of dollars in research money to be awarded by the competitive grant process, there is a potentially unlimited amount to be won without merit-based competition through the earmark lobbying game. The money is not as closely monitored this way, resulting in limited accountability for the universities.

In 2007 alone, public universities in 46 states employed lobbyists. As government entities, funding for these lobbyists come from the taxpayers of that state. Between 1998 and the first half of 2008, the State University of New York spent \$16.3 million on lobbying. In 2007 alone, the University of Alabama system paid \$400,000 in lobbying expenses to Van Scoyoc Associates, a major lobbying firm in Washington, DC. These numbers, and the aggregate numbers in the chart above, are repaid many times over in earmarks from the federal treasury.

From the university perspective, earmark lobbying is an extremely lucrative investment. Take, for example, North Dakota State University. With fewer than 13,000 students, North Dakota State University is a medium-sized state research university. In 2007, North Dakota State University retained the services of Lee & Smith, PC. Lee & Smith reported lobbying income of \$160,000 for 2007. In their disclosure report on their lobbying on

behalf of North Dakota State University, they reported having lobbied for the Agriculture, Defense, Energy and Water, Commerce/Justice/Science, Labor/HHS/Education, Interior, and Transportation Appropriations Bills. According to the Chronicle of Higher Education's academic earmark analysis, North Dakota State University obtained \$28,236,135 in non-shared earmarks, located in appropriation bills Lee & Smith had engaged in lobbying activity. The rate of return on North Dakota State University's investment in lobbying services was 17,547%. Granted, some or all of these earmarks might have been received even in absence of lobbying, but even so, this is a remarkably large return of federal tax dollars for a relatively small expenditure of state tax dollars.

In 2007, Oklahoma State University paid lobbyist firms \$220,000 in costs, including \$80,000 to Capitol Hill Consulting to lobby for "general appropriations issues for the University."³ The earmark return for this university: 5,350%.

Not every university, however, participates in lobbying-for-earmarks. The University of Michigan, one of the top research institutes in the country, maintains a strict no-earmark policy. According to their Office of the Vice President for Research, "The University of Michigan supports competitive peer review as the primary and best mechanism to allocate Federal research funds. Consequently, it is the policy of OVPR not to seek or accept government earmarks in support of faculty research."⁴ Despite University of Michigan's non-earmark policy, the university still used \$595,551,058 of federal money for research.⁵

In their statement on earmarks, the University of Michigan endorses

³ <http://disclosures.house.gov/ld/pdfform.aspx?id=200058193>

⁴ <http://www.research.umich.edu/policies/earmarkpolicy.html>

⁵ http://www.research.umich.edu/research_guide/annual_reports/FY07/FY07FinancialSummary.pdf

...for 920 institutions, a 25% increase in the number of institutions since 2003.

competitive government grants as the honest source of funding. In a competitive grant process, the merits of a proposed research project are carefully scrutinized to ensure that the project is sustainable, practical, and useful. Grants in a competitive system are awarded based on merit, not on legislative favors. The process of competitive project assessment, or peer review, is designed in such a way to allow experts in a field to make the determinations as to merits of project.

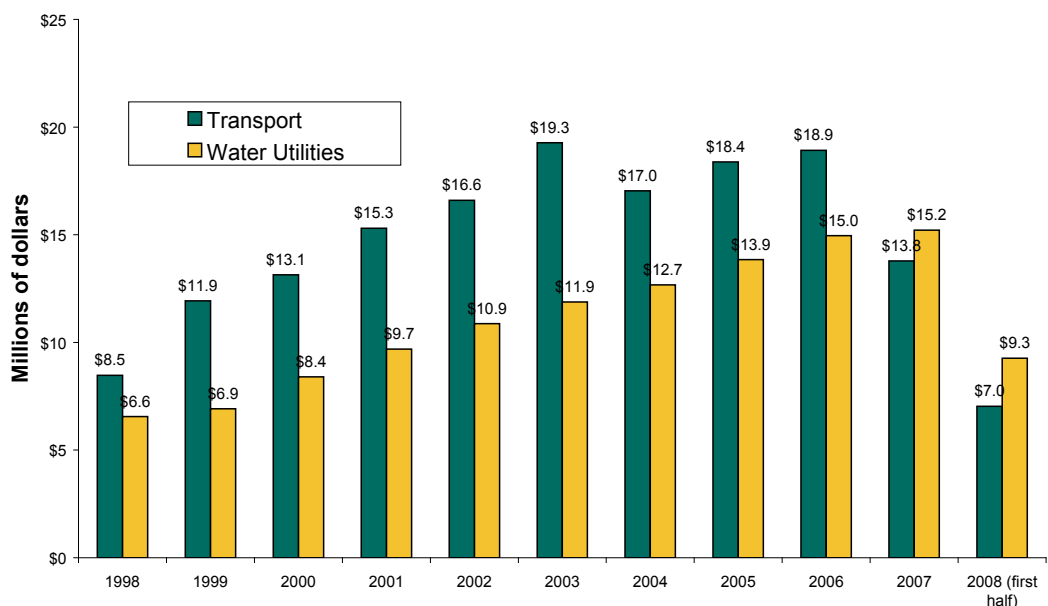
The National Institute for Health (NIH), for example, has a very intricate and well-defined procedure for reviewing grant applications. Grant applications submitted to NIH are assigned to a group of 20 or more scientists, as well as to an NIH institute or center. Grant reviewers submit preliminary critiques and then convene for about two days to discuss the grant proposal and to evaluate its merits.⁶ This rigorous evaluation process, involving expert evaluators, ensures that only the most meritorious projects

receive federal funding. Since every dollar granted is a dollar of taxpayer money, having oversight and project-funding accountability is essential in ensuring that money is not spent frivolously on projects that are unviable or unhelpful.

This entire peer review system is sidestepped by earmarking. Most members of Congress are not professional scientists able to make an educated assessment as to the viability or merit of a research grant. A competitive grant process takes the politics out of scientific research; university earmarks put the political wrangling and deal-making right back in to the mix.

In a special report released in March 2008, The Chronicle of Higher Education reports the explosion of university earmarking. The journal reported that for the 2008 fiscal year, legislators earmarked 2,300 projects for 920 institutions, a 25% increase in the number of institutions since 2003. According to the same report, university

Chart 3: Federal Lobbying by Transportation Authorities and Water Utilities



Source: Americans for Prosperity Foundation based on data from the Center for Responsive Politics.

⁶ <http://cms.csr.nih.gov/ResourcesforApplicants/PolicyProcedureReview+Guidelines/OverviewofPeerReviewProcess>

pork totaled \$2.25-billion, with \$1.6-billion for research. Officials at universities in impoverished or rural states such as Mississippi State University, the report claims, justify earmarks with the assumption they are unable to obtain federal competitive grants—a pitch their taxpayer-funded lobbyists have used very effectively. The report goes on to debunk this justification, as the National Science Foundation has special competitive grants, Experi-

demonstrates, lobbying expenditures for these entities grew rapidly over the study period: 62.8 percent for transportation authorities (even after a substantial 2007 decline) and 132 percent for water utilities.

There are clear upward trends here. Transportation lobbying has increased sporadically and more closely resembles the consistently high lobbying expenditures by state governments than the rapid increases we saw by local

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Taxpayer-Funded Lobbying Hall of Shame					
1998 to First Half 2008			2007		
	Taxpayer-Funded Entity	1998-2008 (First Half) Federal Lobbying		Taxpayer-Funded Entity	2007 Federal Lobbying
1	Commonwealth of Puerto Rico	\$26,900,797	1	Commonwealth of Puerto Rico	\$1,753,000
2	State University of New York	\$16,305,474	2	Commonwealth of Pennsylvania	\$1,590,000
3	Miami-Dade County, FL	\$14,755,000	3	Los Angeles County, CA	\$1,345,000
4	Los Angeles County, CA	\$13,843,381	4	California State University	\$1,120,000
5	California State University	\$12,507,000	5	State University of New York	\$846,529
6	Metro Water District/Southern California	\$10,976,267	6	Purdue University	\$811,000
7	American Public Transportation Assn	\$8,750,000	7	Miami-Dade County, FL	\$775,000
8	Commonwealth of Pennsylvania	\$8,510,000	8	University of Massachusetts	\$640,000
9	San Diego County, CA	\$8,314,000	9	University of Utah	\$640,000
10	State of New York	\$7,973,000	10	Metro Water District/Southern California	\$571,800
11	University of California	\$7,768,599	11	University of California	\$560,000
12	American Assn of Port Authorities	\$7,751,602	12	State of New York	\$520,000
13	State of Illinois	\$7,356,000	13	City of Philadelphia, PA	\$511,000
14	Florida State University	\$6,979,380	14	Orange County, CA	\$500,000
15	City of New Orleans, LA	\$6,667,000	15	San Diego County, CA	\$500,000
16	University of Massachusetts	\$5,817,400	16	State of Nevada	\$500,000
17	City & County of Denver, CO	\$5,703,000	17	Florida State University	\$470,190
18	Riverside County, CA	\$5,654,935	18	Port of Corpus Christi Authority	\$470,000
19	University of Utah	\$5,562,500	19	City of Chicago, IL	\$460,000
20	University of Alabama	\$5,530,000	20	Riverside County, CA	\$450,000

Source: Americans for Prosperity Foundation based on data from the Center for Responsive Politics

mental Program to Stimulate Competitive Research, allocated specifically for universities with historically low amounts of federal research funding.⁷

governments and public universities. Water utility lobby spending was more in line with local governments, though less rapid.

Transportation Authorities and Water Utilities

We looked at two other public sectors with substantial lobbying presences for this study: transportation, including airports and seaports, and public water utilities. As Chart 3

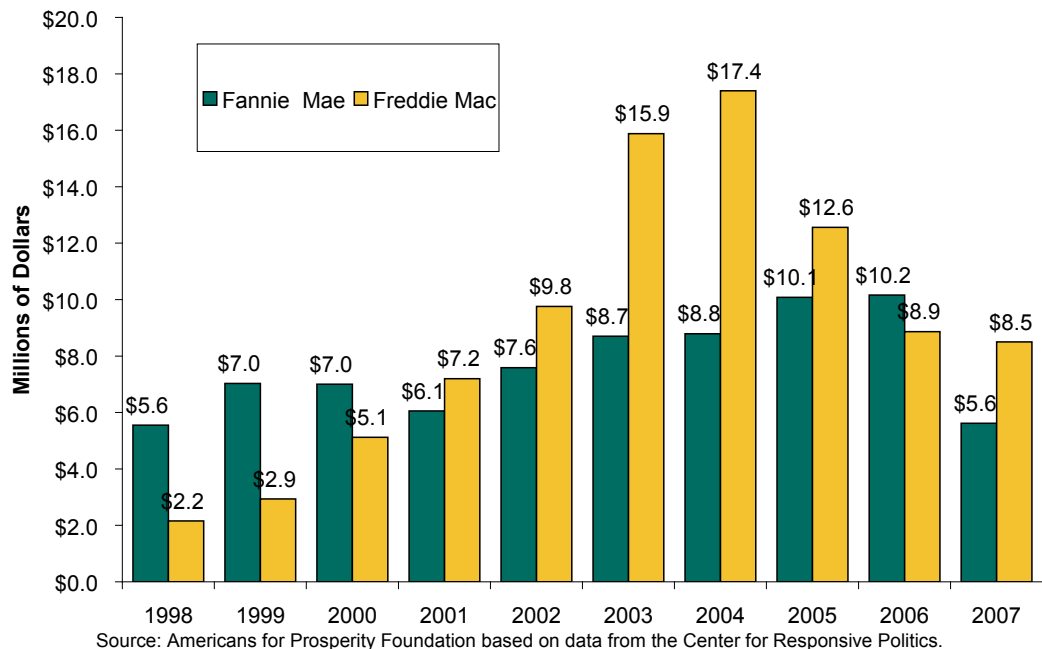
The Taxpayer-Funded Lobbying Hall of Shame

Based on our data set from the Center for Responsive Politics, we compiled these lists of the public entities with the highest federal lobbying expenditures, both in 2007, our most

⁷<http://chronicle.com/free/v54/i29/29a00101.htm>

Some ostensibly private entities are able to use taxpayer dollars to lobby for special favors from government...

Chart 4: Fannie and Freddie, Lobbying Powerhouses



recent full year, and over the entire study period of 1998 through the first half of 2008.

Fannie Mae and Freddie Mac

Some ostensibly private entities are able to use taxpayer dollars to lobby for special favors from government, even though they don't show up in the statistics in this report. They include any number of special interest organizations from AARP to ACORN that receive federal grant money. But the most notable examples are the government-sponsored housing enterprises, Fannie Mae and Freddie Mac.

Fannie and Freddie were technically private companies when they engaged in lobbying activities of an unprecedented scope to secure the policies that helped create the housing bubble. They enjoyed at the time only an implicit subsidy from taxpayers, based on the belief of markets that they would never be allowed to fail. This gave them an interest rate advantage they arbitrated to create trillion dollar portfolios, producing enormous prof-

its for their shareholders and insiders. They have since been explicitly bailed out, making it reasonable to retroactively examine their lobbying expenditures as taxpayer-funded.

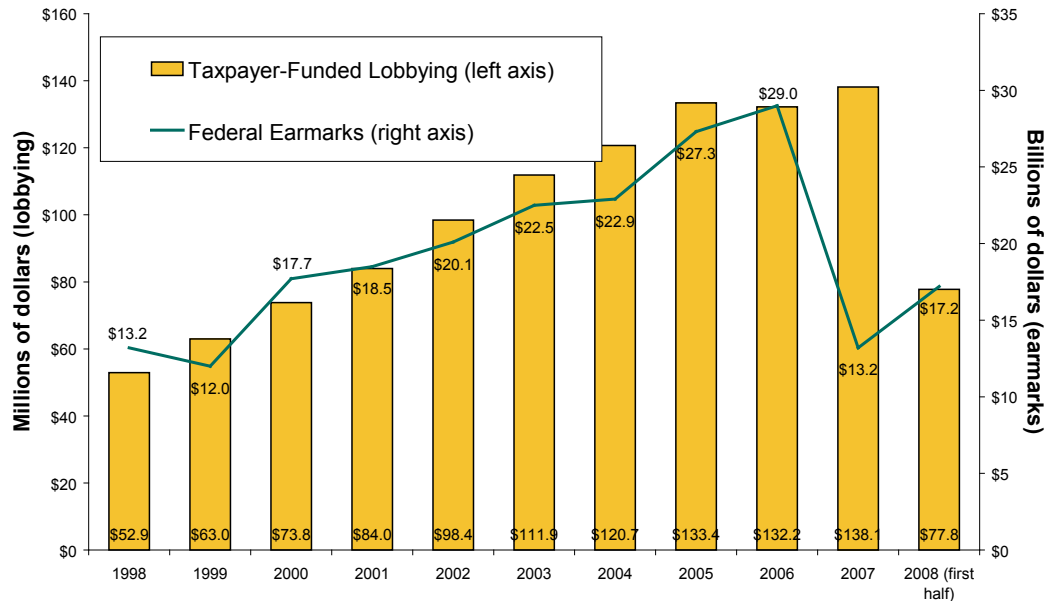
As the chart above shows, these two government-sponsored entities ramped up lobbying spending dramatically during the period of the housing bubble. While the financial crisis is an enormously complicated issue that should not be simplified, there is an inherent danger in allowing entities for which taxpayers are ultimately responsible to engage in lobbying activities.

The Big Government Perpetual Growth Machine

The dramatic increase in taxpayer-funded lobbying, especially at the local government level, has coincided with a dramatic increase in earmarks that goes well beyond the examples used in this paper. Wasteful spending almost by definition, earmarks are local projects that are funded directly by Congress, bypassing the normal competitive processes for winning funding

Taxpayers are, often unknowingly, picking up the tab for a process that is spiraling upward toward ever larger and more intrusive government.

Chart 5: Taxpayer-Funded Lobbying and Federal Earmarks



Source: Americans for Prosperity Foundation based on data from the Center for Responsive Politics. Earmark totals from Citizens Against Government Waste.

through federal and state agencies. Their purpose is to substitute political judgment for professional judgment, resulting in real or perceived corruption as funds are steered directly to favored projects regardless of merit.

As Chart 5 shows, the growth of earmarks closely tracked the increase in taxpayer-funded lobbying from 1998 to 2006. The cost of earmarks has declined sharply in 2007 and 2008, as the profile of the earmarks issue was raised dramatically with the public. In 2007, the use of a year-long continuing resolution prevented most of that year's earmarks from being enacted into law. While the number of earmarks was increased sharply in 2008, the total dollar amount remained relatively low. Taxpayer-funded lobby spending, however, has continued to increase and we may therefore see an acceleration in earmark spending in the next couple of years.

The dramatic increase in earmarks has driven an even larger expansion of overall government spending. There is a strong correlation between earmark spending and overall spending. There

are two likely explanations for this relationship. The first is that earmarks can be used to entice members of Congress to vote for expensive bills they would otherwise be inclined to oppose. The second is that earmarking has created a culture of reckless spending in Washington that has eroded overall fiscal discipline.

This problem is self-perpetuating. As more taxpayer money is spent on lobbying for bigger government, it drives an expansion of the federal government in the form of more earmarks and higher spending. That higher spending, in turn, is used to further boost lobbying expenditures to push for even more spending and higher taxes. Taxpayers are, often unknowingly, picking up the tab for a process that is spiraling upward toward ever larger and more intrusive government.

The Gift-Ban Loophole

The data in this study comes from lobbying disclosures compiled by the Center for Responsive Politics. While we've tried to include all available

... the gift-ban loophole is indefensible and should be immediately closed.

information, we know that there is at least one large area of taxpayer-funded lobbying that we were unable to quantify because it is undisclosed and unlimited. That area consists of gifts from lobbyists to Members of Congress and their staffs.

In the Senate, gifts from lobbyists are strictly limited to a value of \$50. In the House, the gift limit was recently lowered to zero—which is to say that gifts from lobbyists are essentially banned. Indeed, the House rules go even further, prohibiting gifts from any person whose employer engages in lobbying. Many Americans, under these rules, can't even buy a Member of Congress a cup of coffee.

Yet even these stricter House rules leave intact an exemption that says if you're a lobbyist for a government entity, including all of the entities in the scope of this study, you can give any gifts you want if the gifts are paid for by the government entity. No limit. The assumption here is that lobbyists working for private companies are inherently suspect and should be strictly limited, whereas taxpayer-funded lobbyists are inherently virtuous.

While broader reforms are needed to rein in taxpayer-funded lobbying, the gift-ban loophole is indefensible and should be immediately closed. Gifts from taxpayer-funded lobbyists should be subject to even greater scrutiny than gifts from corporate lobbyists because they are likely bought with tax dollars, without the knowledge of taxpayers who are footing the bill. Clearly, taxpayer-funded lobbyists should not have any special exemptions that would give them an unfair advantage over their private or not-for-profit colleagues. Until the loophole is closed, taxpayer-funded lobbyists are subject to a substantially lower standard and can influence legislators, via gifts, without even being subject to disclosure rules.

Ending Taxpayer-Funded Lobbying

The big government perpetual growth machine must be shut down. State and local governments already have their interests represented in Congress—by the senators and representatives whose job it is to represent their constituents. The enormous diversion of taxpayer resources entailed in siphoning off tax dollars at the state and local level to pay for lobbyists who push for ever bigger government must stop. Tax dollars should be used to deliver necessary government services, not to lobby for bigger government.

The biggest challenge for reform is that taxpayer-funded lobbying achieves its purpose, narrowly, in the sense that the state and local governments that hire lobbyists tend to bring home more federal earmark funding. It does this at the expense of a breakdown in fiscal discipline that leaves all taxpayers worse off, but there is little incentive for any individual government to fire their lobbyists while the favor factory keeps running. This creates a coordination problem that penalizes the localities that do the right thing and refrain from spending tax dollars on lobbyists. In light of this problem, strong prohibitions should be enacted on entities that receive tax dollars who are concurrently engaging in lobbying activities to end this practice once and for all.