Substituting Campaign Money and Revolving Door Employment: Evidence from the U.S. States

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Abstract

In this article, I provide evidence that campaign finance laws have an impact on "revolving door" employment, and that regulation of post-office employment affects patterns of campaign contributions. First, I exploit the fact that the U.S. Supreme Court's *Citizens United* decision induced an exogenous change of campaign finance regulation in some states in a difference-in-differences research design. Tracking several thousand state legislators, I show that more permissive campaign finance laws cause a drop in the probability that politicians leave office to take up a lobbying position. Second, I exploit the differential timing of the introduction of "cooling off" laws at the state level in another difference-in-differences design. I show that placing restrictions on the revolving door leads to a significant reallocation of interest group campaign contributions. While the theoretical literature has long predicted such "hydraulic" effects, this paper is among the first to demonstrate them empirically in a clean way.

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In January 2010, the U.S. Supreme Court declared in *Citizens United vs. FEC* that banning or limiting independent election expenditures of corporations and unions was a violation of their constitutional right to free speech. This decision was met with widespread criticism and fear that it would further increase the influence of special interests on the political process. President Obama stated that the decision "reversed a century of law that I believe will open the floodgates for special interests – including foreign corporations – to spend without limit in our elections."[1] Both nominees for the 2016 Presidential election have denounced *Citizens United* as well, with Hillary Clinton vowing to nominate justices who will overturn the ruling and Donald Trump calling Super PACs a "total phony deal".[2] Such criticism is shared by an overwhelming majority of citizens, as four out of five have a negative view of *Citizens United*.[3]

However, it is not clear that loosening restrictions on campaign finance necessarily leads to more political spending by special interest groups *overall*. There is a long history of constraining election finance laws, and they may succeed in limiting or eliminating certain types of spending. But if politicians are willing to accept special interest money, and groups find it useful for their mission to spend it, they can do so through other channels (Issacharoff and Karlan, 1998). As a consequence, special interest money continues to find its way into political systems all over the world (Transparency International, 2013). Conversely, if existing campaign finance restrictions are removed, this might not change the overall level of interest group spending, but instead lead to a rerouting of money from existing channels into the newly opened one. And while the formerly dry channel will fill up quickly once the floodgates are removed, levels in other channels may actually fall, although in a less spectacular and visible manner.

[1] https://www.whitehouse.gov/the-press-office/remarks-president-state-union-address (accessed May 24, 2016).

[2] http://edition.cnn.com/2016/01/21/opinions/hillary-clinton-citizens-united-more-democracy/ and http://www.bloomberg.com/politics/articles/2015-08-04/trump-the-developer-loves-low-interest-rates-trump-the-candidate-sees-a-bubble- (accessed May 24, 2016).

[3] http://www.bloomberg.com/politics/articles/2015-09-28/bloomberg-poll-americans-want-supreme-court-to-turn-off-political-spending-spigot (accessed May 24, 2016).

In this paper, I provide evidence that changing a law related to one form of money in politics has countervailing effects on other forms. Specifically, I focus on the substitution between campaign spending and so-called "revolving door" employment, where interest groups hire lawmakers as lobbyists once they leave office. The revolving door has become increasingly popular in recent decades and is a common sight in many advanced industrial democracies, including the U.S. (e.g. Hillman, Zardkoohi and Bierman, 1999; Eggers and Hainmueller, 2009; Blanes i Vidal, Draca and Fons-Rosen, 2012; González-Bailon, Jennings and Lodge, 2013; Palmer and Schneer, 2016; Lazarus, McKay and Herbel, 2016). Hiring former legislators as lobbyists can be a good way for a special interest group to achieve its objectives, either because ex-politicians are more effective influence peddlers (e.g. Lester et al., 2008; Blanes i Vidal, Draca and Fons-Rosen, 2012; LaPira and Thomas, 2014), or because sitting politicians act a certain way in anticipation of a lucrative post-office career. If laws prevent interest groups from spending their "optimal" amount on political campaigns, one might expect that they instead expend more resources on hiring revolving door lobbyists to achieve their goals. Similarly, if politicians are limited in raising money for their reelection campaigns from special interest groups, a revolving door position is comparatively more attractive. Removing restrictions on special interest campaign spending should therefore lead to lower probabilities that politicians leave office and go through the revolving door.

Using newly collected data and a causal research design, I show that this is indeed the case. I exploit the fact that the Supreme Court's *Citizens United* decision induced an exogenous change in campaign finance regulation. The 2010 ruling invalidated all laws banning independent corporate and union campaign expenditures, thus loosening the restrictions on campaign finance considerably (Coates, 2012; Spencer and Wood, 2014; Dawood, 2015). Importantly for identification, 21 states had such laws and were affected by the ruling, while the others did not have restrictions in the first place. This allows me to cleanly estimate the effect of an exogenous change in campaign finance regulation on the prevalence of the revolving door with a difference-in-differences design.

Using information from the states' disclosure agencies, I track more than 8,000 state Representatives between 2006 and 2013 and record whether they left office and were subsequently registered as lobbyists. I show that the exogenous removal of restrictions on independent campaign spending by corporations and unions caused a significant drop in the probability that members of the state Houses left politics to take up a lobbying position. The effect is larger for Republicans, who tend to be more business-friendly. A placebo test demonstrates that *Citizens United* had no significant impact on non-revolving door retirement for Republicans, and that it increased it among Democrats. This suggests that campaign money was substituted for revolving door jobs, rather than the finding being due to increased special interest spending on behalf of all incumbents.

Having demonstrated that a change in campaign finance laws affects the revolving door, I then examine the substitution effect in the other direction. I show that introducing laws that prevent legislators from going through the revolving door lead to a change in the pattern of interest group campaign contributions. I make use of the fact that between 1990 and 2012, 21 states introduced (and one state abolished) rules that mandate "cooling off" periods, preventing lawmakers who leave office from becoming lobbyists for a certain time. Exploiting the differential timing of the changes to these laws in another difference-in-differences design, I first show that waiting periods have an asymmetric partisan effect. When they are introduced, Republican legislators become much less likely to go through the revolving door, while the effect on Democrats is small and not significant. Then, I analyze the consequences of cooling off laws on the pattern of campaign contributions by interest groups. Consistent with their asymmetric partisan effect, the share of interest group contributions given to Republican candidates increases by more than 8 percent.

Taken together, these two findings suggest that changing a law pertaining to one type of special interest money has consequences for the amount of spending on *other* types. While scholars have long suspected the presence of such "hydraulic" effects (Issacharoff and Karlan, 1998), this paper is among the first to empirically show them in a clean way.

First and foremost, this advances the literature on special interest politics. Many existing contributions focus on one way through which special interests allocate money in isolation, be it campaign spending, lobbying expenditures, or the revolving door. But as I show here, spending on one of those types is connected to spending on the others. This contributes to a growing, mostly theoretical literature on the strategic choice between different venues of special interest influence (Bennedsen and Feldmann, 2006; Campos and Giovannoni, 2007; Nyblade and Reed, 2008; Naoi and Krauss, 2009; Harstad and Svensson, 2011; Kaufmann and Vicente, 2011; Gingerich, 2014). By showing the connection between revolving door employment and campaign finance laws, the paper also relates work on campaign spending to the literature on the causes and consequences of political connections (e.g. Fisman, 2001; Faccio, 2006; Jayachandran, 2006; Eggers and Hainmueller, 2009; Richter, Samphantharak and Timmons, 2009).

Second, the article contributes to the growing literature on the revolving door specifically. Existing studies focus on the U.S. Senate and House of Representatives and stress individual-level factors. They argue that former politicians have expertise and connections that make them valuable as lobbyists to interest groups (Salisbury et al., 1989; Heinz et al., 1993; Esterling, 2004; Lester et al., 2008; Parker, 2008; Blanes i Vidal, Draca and Fons-Rosen, 2012; LaPira and Thomas, 2014; Lazarus, McKay and Herbel, 2016). Human capital such as expertise and connections is well equipped to explain variance within a certain chamber – why some legislators become lobbyists upon leaving office while their colleagues do not. However, it cannot tell us why lucrative post-office careers are more common today than they were in the past (Lessig, 2011; Lazarus, McKay and Herbel, 2016), why they are more common in some U.S. states than in others (see below), and why there are cross-national differences (Stanig and Kayser, 2014). This article takes a step towards explaining these differences by being one of the first to show that institutions and regulations play an important role in determining how likely politicians are to leave office to take up a lobbyist position.[4] This

[4] For an exception see Cain and Drutman (2014).

connects studies of the revolving door to the broader literature on political careers, which has long stressed the importance of institutions (e.g. Kiewiet and Zeng, 1993; Groseclose and Krehbiel, 1994; Hall and van Houweling, 1995; Diermeier, Keane and Merlo, 2005; Mattozzi and Merlo, 2008; Keane and Merlo, 2010).

Finally, the paper has important implications for the contemporary debate about the impact of special interest money on the democratic process. *Citizens United* has been met with widespread criticism, most of it based on the fear that it increases the political influence of the wealthy few at the expense of the average voter. The ruling did indeed increase independent campaign spending by corporations and unions (Spencer and Wood, 2014), which had a significant effect on election outcomes (Klumpp, Mialon and Williams, 2016). However, as I show here, it also lowered incidences of politicians becoming lobbyists. It is therefore not clear whether *Citizens United* increased the overall influence of moneyed special interests on the political system. More broadly, the paper demonstrates that if one way for special interest money to enter politics is legally blocked, politicians and interest groups can (and do) shift to other channels. Reforms that narrowly focus on restricting only a certain type of money may thus not be as effective in limiting special interest influence as many hope. This paper should encourage us to take unintended downstream effects into account, and think about the general equilibrium consequences of special interest regulation.

Campaign Spending and the Revolving Door

Politicians in the U.S. spend a lot of time and effort on fund-raising. For example, former U.S. Representative Walt Minnick of Idaho stated in an interview that he "would spend two or three hours a day as a congressman trying to raise money." This is confirmed by Illinois Senator Dick Durbin: "I think most Americans would be shocked – not surprised, but shocked – if they knew how much time a United States senator spends raising money."[5]

[5] Both quotes: `http://www.thisamericanlife.org/radio-archives/episode/461/transcript` (accessed May 24, 2016).

And by all accounts, many are willing to give. In 2012, Barack Obama and Mitt Romney's campaigns each raised around $1 billion. And of course, there were also almost three dozen Senate races, hundreds of campaigns for the House, and thousands of candidates for state legislatures.

What are the returns on interest group contributions? For a long time, there was little evidence that campaign donations change legislators' behavior in a way that is beneficial to donors, for example measured through roll call votes (for overviews see Ansolabehere, Figueiredo and Snyder, 2003; Stratmann, 2005). More recent research, however, shows that there are tangible returns. There is evidence that interest group donations are motivated by the goal of gaining access to influential lawmakers (Fouirnaies and Hall, 2014; Barber, 2016; Grimmer and Powell, 2016), a strategy that appears to be successful (Kalla and Broockman, 2016). Studies that look at specific, industry-relevant legislation find evidence that contributions do affect legislators' voting behavior (Stratmann, 2002; Mian, Sufi and Trebbi, 2010, 2013). This has a positive effect on their valuation: Companies that make higher contributions, especially to parties in government, have larger stock returns (Cooper, Gulen and Ovtchinnikov, 2010; Huber and Kirchler, 2013; Gaikwad, 2013).

Because campaign spending plays such an important role in the American political system, it is regulated in various ways. To examine the consequences of this regulation, scholars have mainly relied on variation between the states. Hall (2016) finds that a ban on direct corporate contributions increases the percentage of the total donations that go to Democrats, shifting electoral fortunes in their favor. With respect to bans on corporate and union *independent* campaign spending, La Raja and Schaffner (2014) do not find systematic effects of their introduction. However, Klumpp, Mialon and Williams (2016) show that their removal through *Citizens United* did lead to an increase of Republicans' election probabilities.

These studies focus on the immediate consequences of changes to campaign finance laws. But direct and indirect campaign spending is only one way through which special interest money enters politics. It is therefore conceivable that a change in the regulation of one type also has implications for other types: "[T]he desire for political power cannot be destroyed, but at most, channeled into different forms (...) every reform effort to constrain political actors produces a corresponding series of reactions by those with power to hold onto it" (Issacharoff and Karlan, 1998, 1705).

In recent years, a small and mostly theoretical literature examining the choice between different venues of special interest influence has started to develop. The contributions point out that economic, political, and legal conditions determine in what way special interest groups try to influence policy in their favor. The focus has been primarily on whether they try to impact politicians or bureaucrats (Campos and Giovannoni, 2007; Naoi and Krauss, 2009; Harstad and Svensson, 2011), whether their involvement is legal or illegal (Kaufmann and Vicente, 2011), and whether their money is used for personal or political ends (Nyblade and Reed, 2008; Gingerich, 2014). Bennedsen and Feldmann (2006) show formally that when an interest group is able to use campaign spending to try to influence political decisions their incentive to engage in lobbying is reduced, so the two types are substitutes.

I advance this literature by making an *empirical* contribution: If it becomes easier (or harder) for special interests to spend money on elections, what happens to their spending on other types of special interest money? I examine the interplay between campaign finance and a type of special interest spending that has come under close scrutiny in recent years: the so-called revolving door, where former politicians seamlessly move from office into the lobbying sector and are hired by the very special interests on whose regulations they used to decide. In some years, more than half of the Members of Congress leaving office become lobbyists (Lazarus, McKay and Herbel, 2016), which has lead some to describe Congress as a "farm league" for the lobbying industry (Lessig, 2011). In addition, almost 50% of former Senators serve on at least one board of directors for a publicly traded company (Palmer and Schneer, 2016).

Existing evidence suggests that campaign spending and revolving door employment could at least partially act as substitutes both from the perspective of interest groups as well as from the perspective of politicians. For the former, hiring revolving door lobbyists seems to be an effective way to advance their political interests. There is a debate about whether former politicians are valued as lobbyists because of *what* they know or *who* they know (Bertrand, Bombardini and Trebbi, 2014; de Figueiredo and Richter, 2014). Earlier studies find that revolving door lobbyists have more expertise than their career lobbyist counterparts (Salisbury et al., 1989; Heinz et al., 1993; Esterling, 2004; Parker, 2008). More recent work, however, presents evidence that those with political experience are mostly sought after because of their extensive networks of connections (Hillman, 2005; Blanes i Vidal, Draca and Fons-Rosen, 2012; LaPira and Thomas, 2014). There is also the suspicion that sitting politicians may act a certain way in anticipation of a lucrative post-office career.[6] Either way, if an interest group is prevented from spending as much on campaigns as it deems optimal, hiring politicians as lobbyists potentially can go a way in achieving its goals.

Similarly for politicians, if campaign finance regulations are stringent they receive less financial support for their reelection bids than they would have in a constraint-free environment. This limits their reelection chances, making it more attractive to "cash in" on their relations with interest groups by taking up a lobbyist position, usually with substantial financial returns (e.g. Etzion and Davis, 2008; Eggers and Hainmueller, 2009; Blanes i Vidal, Draca and Fons-Rosen, 2012; González-Bailon, Jennings and Lodge, 2013; Bertrand, Bombardini and Trebbi, 2014; Palmer and Schneer, 2016). In turn, if campaign finance restrictions are removed and the previous limit was a binding constraint, politicians can now obtain more campaign money. This should make it less likely that they go through the revolving door.[7]

[6] See e.g. the following statement by an anonymous member of Congress: "Committee assignments are mainly valuable as part of the interview process for a far more lucrative job as a K Street lobbyist. You are considered naive if you are not currying favor with wealthy corporations under your jurisdiction." `http://www.vox.com/2015/2/5/7978823/congress-secrets` (accessed May 24, 2016).

[7] The research design in this paper is not equipped to determine whether a change in the revolving door in response to campaign finance laws is driven by politicians or interest groups. However, there is good theoretical reason to believe that how much and in what way special interest money enters politics is the result of an implicit, jointly optimal bargain between both sides (Grossman and Helpman, 2001).

Thus, for politicians as well as for interest groups, there are incentives making it likely that changes in the regulation of one type of special interest money has countervailing consequences for other types. If one way becomes more restricted, interest group spending might not decrease but go through other channels instead. And vice versa, if one previously restricted channel is opened up, interest groups might not increase their total political spending, but shift expenditures from one type to another.

Data: The Revolving Door in the U.S. States

What effect does a change in the regulation of one type of special interest money have on another type? The empirical leverage to evaluate the consequences of campaign finance laws on the revolving door comes from the U.S. Supreme Court's *Citizens United* decision, which exogenously changed regulation in 21 of the states, while the remaining 29 were unaffected. Existing data on the revolving door in the U.S. only covers the national level. To study the phenomenon at the subnational level, I create a new dataset that tracks whether state legislators left office and subsequently took up a lobbying position.[8]

Information on legislators comes from the *State Legislative Election Returns* dataset (Klarner et al., 2013).[9] I follow the convention in the literature and exclude members of Nebraska's unicameral, bipartisan legislature from the analysis. Using the elections from 2006 to 2012, this leads to a sample of 8349 state Representatives (4050 Democrats, 4299 Republicans).[10] To determine whether these legislators went through the revolving door, I use information from the official lobbyist registries for the years 2006-2013, published by the respective state disclosure agencies and compiled by the *National Institute on Money in*

[8] Because *Citizens United* primarily affected state Houses but not state Senates (Klumpp, Mialon and Williams, 2016), I focus the main analyses in this paper on the lower chambers. I present all analyses for the state Senates in the Online Appendix.

[9] I supplement the original dataset with the 2011-2012 addendum (Klarner, 2013).

[10] The starting point of 2006 is determined by the availability of the lobbyist records for every state.

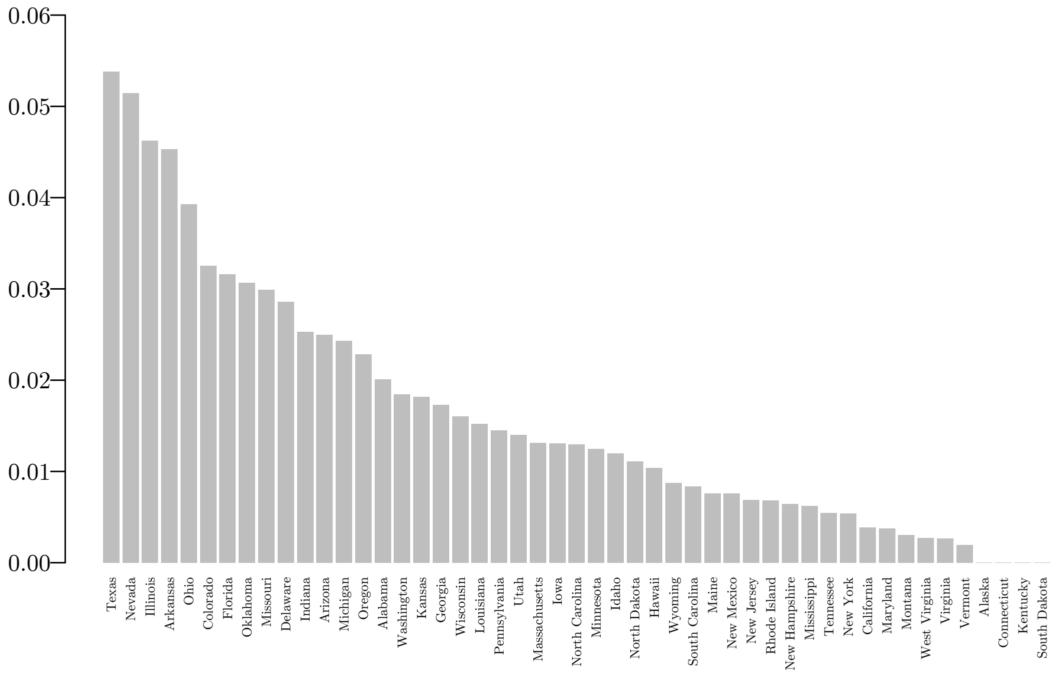


Figure 1: Share of Representatives going through Revolving Door. Proportion of legislators per election cycle that leave office and are registered as lobbyists in the same or following year.

State Politics.[11] Each year, there are between 41,134 (2009) and 45,151 (2011) registered lobbyists in 49 states, adding up to a total of 112,190 unique individuals.[12]

The main challenge is to link the legislator data with the lobbyist information. I use a two-step procedure designed to minimize both Type I and Type II errors. First, I employ an automated algorithm that matches names across the two lists. It uses the generalized Levenshtein edit distance and takes name permutations into account. I set a high threshold for the distance to minimize the number of false negatives. Of course, this leads to a large number of false positives. In a second step, I therefore check all matches manually, using supplementary information from internet searches when necessary.

[11] See `http://classic.followthemoney.org/database/state_overview.phtml` (accessed May 24, 2016).

[12] Definitions of what constitutes a lobbyist differ somewhat between the states, as do the registration requirements (de Figueiredo and Richter, 2014). I will account for any state-level differences in the analysis below, so they are not a threat to inference.

The unit of observation is the legislator-election cycle, of which there are four: 2006-07, 2008-09, 2010-11, and 2012-13. For each cycle, the revolving door variable takes the value of one if the politician leaves office and is a registered lobbyist in the state the same or following year. Having data from the states makes it possible for the first time to look at the revolving door in a comparative manner. Figure 1 plots the state-wise share of legislators per election cycle that leave office and are subsequently registered as lobbyists. It reveals that there are large differences between states. The revolving door is most common in Texas, where on average 5.4 percent of sitting representatives per election cycle go through the revolving door. This is followed by Nevada (5.1 percent), Illinois (4.6 percent), and Arkansas (4.5 percent). In four states (Alaska, Connecticut, Kentucky, and South Dakota), not a single legislator became a lobbyist within a year of leaving office during the period of observation.

Research Design: Difference-in-Differences Effect of *Citizens United* on the States

To cleanly identify the effect of the permissiveness of campaign finance laws on the revolving door, I exploit the Supreme Court's *Citizens United* decision from 2010. In the following section, I briefly review the ruling based on the summary provided by Spencer and Wood (2014). Afterwards, I detail the empirical strategy to identify its effect on post-office lobbying employment.

Background: *Citizens United vs. FEC*

The Supreme Court's ruling in *Citizens United vs. FEC* significantly changed campaign finance legislation in the United States. The original lawsuit narrowly challenged some provisions of the 2002 *Bipartisan Campaign Reform Act* (BCRA). Also known as the McCain-Feingold Act, it imposed a number of regulations on so-called "electioneering communication." Such communication is defined as an advertisement on TV or radio which refers to a candidate for federal office, airs within a specific time window before an election, and can reach a certain number of people. The BCRA mandated that ads which qualify under this definition cannot be funded by corporate or union contributions. The goal was to impose similar restrictions as were already in place for campaign advertisements that directly advocate for or against the election of a specific candidate ("express advocacy").

Citizens United, a conservative non-profit organization, had produced a movie critical of Hillary Clinton and wanted to distribute it through TV on demand. Because the movie qualified as equivalent to express advocacy and was funded by corporate donations, this was prohibited by the BCRA. The group therefore challenged the ban on corporate and union spending for electioneering communication in the Supreme Court. After the oral argument, the court in a surprise move announced that it would rehear the case to review not just the narrow provisions of the BCRA challenged by Citizens United, but "more than twenty years of established campaign finance precedent" (Spencer and Wood, 2014, 327).

There was a second oral argument, and in 2010 the Court ruled with a 5-4 majority that not only were the restrictions on electioneering communication in BCRA unconstitutional, but *also* those affecting express advocacy, which had been in place since 1973. This meant that corporations as well as unions were now allowed to spend unlimited amounts of money on campaign advertisements, as long as this was done *independently* of candidates. In practice, however, the rules requiring no coordination between the campaigns and the Super PACs that do this independent spending are rather porous. For example, campaigns usually endorse "their" Super PAC, which tend to be run by former staffers (Spencer and Wood, 2014; Dawood, 2015).

[13] `http://www.ncsl.org/research/elections-and-campaigns/citizens-united-and-the-states.aspx` (accessed May 24, 2016). There is some disagreement about which states were affected by *Citizens United*. The list here is also used by La Raja and Schaffner (2014), Werner and Coleman (2015), and Klumpp, Mialon and Williams (2016). In contrast, Spencer and Wood (2014) include Montana as a treatment state but exclude North Dakota and Rhode Island. Furthermore, even though New York did not have a ban on independent expenditures, it set a very low limit on them, and could arguably also be included in the list of treated states (La Raja and Schaffner, 2014). To ensure that the results are not driven by the contentious classification of these states, I present robustness checks using different codings in the Online Appendix. A few states that did not have any bans also reacted to *Citizens United* by introducing new laws, mostly

Table 1: States affected by *Citizens United*. Source: National Conference of State Legislatures.[13]

Alaska	Ohio
Arizona	Oklahoma
Colorado	Pennsylvania
Connecticut	Rhode Island
Iowa	South Dakota
Kentucky	Tennessee
Massachusetts	Texas
Michigan	West Virginia
Minnesota	Wisconsin
North Carolina	Wyoming
North Dakota	

While the Supreme Court ruling dealt with federal law, it by extension also applied to any state laws that limited or prohibited independent expenditures by corporations or unions. In total, laws in 21 states (see Table 1) were affected. They were either directly repealed by the the legislatures or invalidated and not enforced by the state's campaign finance body (see Spencer and Wood, 2014). The other 29 states did not have a law affected by *Citizens United* in the first place. This allows for an analysis of the consequences of the exogenously imposed ruling with a difference-in-differences design.

Spencer and Wood (2014) show that independent expenditures increased twice as much in treatment states as in control states. Because corporations tend to be more financially potent than unions and Republicans are closer to the former, the ruling had marked partisan effects. Klumpp, Mialon and Williams (2016) show that the increase in independent spending disproportionately benefited Republican candidates, whose election probabilities in the lower chambers of treatment states increased by roughly 4 percent.

Citizens United thus had a direct and visible effect on the channel whose floodgates it removed. But what about other channels? Was the increase in independent campaign expenditures accompanied by falling levels of other forms of special interest involvement, in

related to reporting requirements. The only state in which such a law has been enacted is Washington (HB 2016). Again as a robustness check, I present results excluding this state in the Online Appendix.

particular the revolving door? In the next section, I describe the difference-in-differences approach that allows me to answer this question.

Approach: Difference-in-Differences

To estimate the effect of *Citizens United* on the revolving door, I use a difference-in-differences model of the form

$$y_{ist} = \beta(\text{Ban}_s \times \text{Post-CU}_t) + \mu Z_{st} + \lambda X_{ist} + \gamma_s + \delta_t + \xi_s t + \varepsilon_{ist} \quad (1)$$

where i indicates a legislator, s a state, and t an election cycle. The dependent variable y_{ist} takes the value of one if a legislator leaves office and registers as a lobbyist in the same or following year.[14] Because the question whether to leave politics and become a lobbyist is most relevant at the end of a term, I restrict the main analysis to incumbents that are up for reelection.[15] This results in a sample of 18,358 legislator-elections. Republicans are more likely to make the switch than Democrats (2.0 vs. 1.2 percent), which is consistent with evidence from the federal level (Lazarus, McKay and Herbel, 2016). Ban_s is a dummy variable indicating whether state s had a ban on independent corporate spending (see Table 1) and Post-CU_t a dummy that takes the value of one for the post-*Citizens United* election cycles of 2010-11 and 2012-13.[16] The quantity of interest is the coefficient β, which is expected to be negative.

State-level controls are denoted by Z_{st}. The first is whether the state had a "cooling off" law imposing waiting times on elected officials before they can become lobbyists. To determine the beginning and end dates of these policies, I use information on the laws provided by the *National Conference of State Legislatures* and research their history (see

[14] Evidence at the federal level shows that the overwhelming majority of revolving door lobbyists register within one year (Lazarus, McKay and Herbel, 2016).

[15] In the Online Appendix, I show that the results are robust when including legislators who have not reached the end of their terms.

[16] In the Online Appendix, I demonstrate that the treatment and control states are balanced on a wide variety of indicators for both pre-treatment cycles.

Table 4).[17] Following the convention in the literature, I record as their start the year they first affected legislators. The second state-level control is whether there were term limits that prevent legislators from staying in office after a certain number of years.[18] I also include a set of individual-level covariates X_{ist}. They are the years a legislator has spent in office, whether his or her party controlled the legislature, and whether he or she was either in a speaker or party leadership position.[19]

State and election cycle fixed effects are indicated by γ_s and δ_t. The former absorb any time-invariant differences between the states, such as the size and professionalism of the legislature or lobbyist registration laws. They also mean that the coefficients in μ capture the effects of *changes* in the state-level controls. The election cycle fixed effects absorb any common time shocks, for example national trends.[20] I also include a set of state-specific linear time trends $\xi_s t$, which relax the parallel trends assumption (Angrist and Pischke, 2009). Finally, ε_{ist} is the error term. Following convention for difference-in-differences estimations with binary dependent variables, I use a linear probability model (see Angrist and Pischke, 2009). Parameter estimates are reported with robust standard errors clustered by state.

Effect of *Citizens United* on the Revolving Door

If there are hydraulic effects in interest group spending, removing restrictions on campaign money leads to a decrease in other types, such as the revolving door. As a consequence,

[17] `http://www.ncsl.org/research/ethics/50-state-table-revolving-door-prohibitions.aspx` (accessed May 24, 2016).

[18] Source: `http://www.ncsl.org/research/about-state-legislatures/chart-of-term-limits-states.aspx` (accessed May 24, 2016). In addition to legislation relating to independent campaign expenditures, states also differ in their restrictions of direct campaign contributions by unions and corporations (see La Raja and Schaffner, 2014; Hall, 2016). However, none of these laws change during the period of observation, so they are absorbed by the state fixed effects. In addition, there is almost perfect overlap between states have a ban on corporate donations in place and states that were affected by *Citizens United*. This does not allow me to estimate a heterogeneous treatment effect depending on whether there was a ban on direct expenditures or not.

[19] In the Online Appendix, I present robustness checks that also include ideology estimates for the subset of legislators for which I was able to match them.

[20] Together, the state and year fixed effects also absorb the constituent terms of the interaction effect, Ban_s and Post-CU_t.

we should see that politicians affected by *Citizens United* are less likely to leave office and become lobbyists. Table 2 displays the treatment effect for the state Houses. The first column pools members of both parties. As expected, the treatment effect is negative and statistically significant. As a consequence of the *Citizens United* ruling, legislators in the affected states were about 2 percent less likely to go through the revolving door than they would have been otherwise. Increasing the permissiveness of campaign finance laws by allowing corporations and unions to spend unlimited amounts of campaign money on behalf of candidates thus lead to a decrease in the probability that incumbents leave office to work as lobbyists.

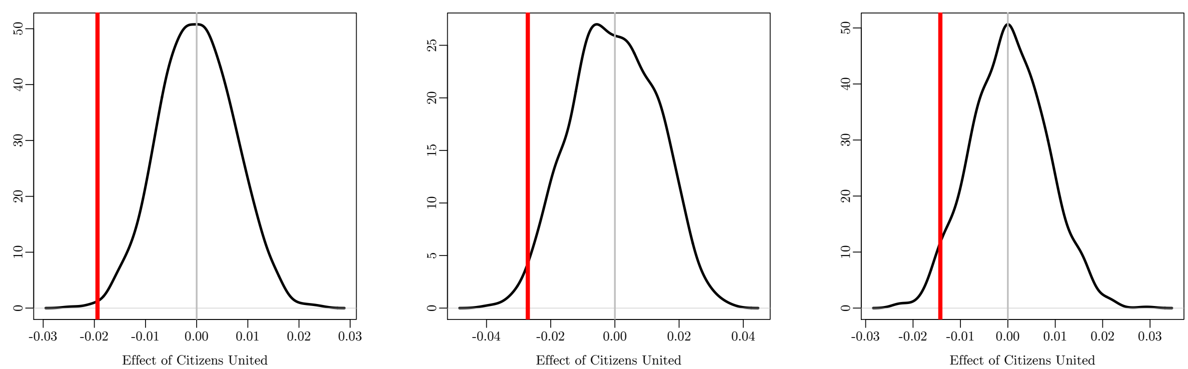
It is worth noting that while *Citizens United* allows for a clean estimation of the treatment effect at the state level, it is arguably a somewhat weak intervention. For one, it only affects independent campaign expenditure, which may not be as valuable to interest groups and politicians as direct campaign contributions. In addition, bans on independent corporate campaign expenditure could already be circumvented before the ruling if employees such as the CEO did the spending as private citizens. However, these considerations work *against* finding any effect of *Citizens United* on the revolving door. The fact that there still is a sizable impact speaks to the importance of substitution effects in special interest money.

Table 2: *Citizens United* and the Revolving Door. Effect of *Citizens United* on the probability that a legislator leaves office and registers as a state lobbyist in the same or following year.

	All	**Republican**	**Democrat**
$\text{Ban}_s \times \text{Post-CU}_t$	-0.019***	-0.027**	-0.014**
	(0.007)	(0.013)	(0.007)
N	18,358	8,851	9,507

*$p < 0.1$, **$p < 0.05$, ***$p < 0.01$. All regressions include state and year fixed effects and state-specific time trends. State-level controls: Cooling Off Law, Term Limit Laws. Individual-level controls: Years in Office, Chamber Control Own Party, Speaker or Leader. Robust standard errors clustered by state in parentheses.

The second and third column of Table 2 split up the effect by party. Republicans are closer to corporations and more likely to go through the revolving door in the first place, so one would expect that *Citizens United* had a bigger effect on them. Columns 2 shows the results from estimating the models with Republican legislators only. The treatment effect is indeed larger than in the sample as a whole. The probability that Republican representatives go through the revolving door in the states affected by *Citizens United* was 2.7 percent lower post-treatment than it would have been otherwise. The third column estimates the model only with Democrats. The point estimate of the treatment effect is negative and significant, but with 1.4 percent it is smaller than for Republican legislators. *Citizens United* thus clearly had an effect on the revolving door: It lowered the probability of both Republican and Democratic legislators leaving office to become lobbyists, with the treatment effect being almost twice as large for the former.



(a) All (b) Republican (c) Democrat

Figure 2: Permutation Test, Revolving Door. Density of effect sizes from 1000 simulations with 21 states randomly assigned treatment status. The red bar shows the real effect of *Citizens United*.

To further probe these effects, Figure 2 provides the results of a set of permutation tests. They compare the measured impact to a simulated distribution of the treatment effect under the null hypothesis that there is no relation between *Citizens United* and the revolving door. I randomly draw 21 states that are assigned treatment status and estimate the difference-in-differences model from Equation (1), repeated 1000 times. The red bar shows the real effect of *Citizens United* on the probability that a legislator leaves office and registers as a state lobbyist in the same of following year. In all three cases, the observed effects are far in the left tail of the permutation distributions, indicating a relatively small probability that they occurred by chance.

In the Online Appendix, I provide further analyses that estimate the effect for different subgroups of politicians and states. I show that the treatment effect of *Citizens United* is entirely driven by fewer incumbents voluntarily leaving office, while the ruling had no effect on the frequency with which lawmakers take up a lobbying position after a failed bid for reelection. I also demonstrate that, as expected, the treatment effect of *Citizens United* was larger in states that banned both union and corporate independent expenditures than in states which only banned corporate spending.

Placebo Test: Non-Revolving Door Retirement

The evidence presented so far is consistent with a "hydraulic" effect where an increase in one type of special interest spending lead to a fall in another. However, there also is another possible explanation. It could be that campaign spending and the revolving door are unconnected, and that for whatever reason some legislators become lobbyists after leaving office, while others opt for a different career. Removing restrictions on campaign expenditures may have lead interest groups to spend more on *all* incumbents, who in turn postponed their exit from politics. That is, those who wanted to retire to become lobbyists may have chosen not to do so, and those who wanted to retire but *did not* plan to be lobbyists did as well. This would suggest that *Citizens United* not only opened the floodgates for a particular type of special interest money, but that it opened the floodgates for special interest spending, period.

To examine this possibility, I conduct a placebo test by using a dependent variable that takes the value of one if a legislator does not run for reelection and does *not* register as a lobbyists subsequently. Table 3 shows the results. The point estimate for the pooled sample is positive and far away from reaching statistical significance. The treatment effect

Table 3: *Citizens United* and the Non-Revolving Door. Effect of *Citizens United* on the probability that a legislator leaves office but does not register as a state lobbyist in the same or following year.

	All	**Republican**	**Democrat**
$\text{Ban}_s \times \text{Post-CU}_t$	0.041	-0.026	0.084*
	(0.032)	(0.043)	(0.045)
N	18,358	8,851	9,507

$^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$. All regressions include state and year fixed effects and state-specific time trends. State-level controls: Cooling Off Law, Term Limit Laws. Individual-level controls: Years in Office, Chamber Control Own Party, Speaker or Leader. Robust standard errors clustered by state in parentheses.

for Republican candidates is negative, but again nowhere near reaching significance. Finally, the effect for Democrats is positive and significant at the 10 percent level. None of these effects are consistent with a story in which *Citizens United* had a similar effect on the career decisions of both legislators who wanted to go through the revolving door and of those who were planning to retire and not become lobbyists. Instead, for Republicans the increased independent campaign spending post *Citizens United* lead to fewer legislators going through the revolving door while having little to no effect on retirement otherwise. For Democrats, it lead to fewer politicians becoming lobbyists and to more non-revolving door retirements.

One potential way to explain this is to think of legislators of the two parties on two continua of "closeness" to special interests, with Republicans being closer on average than Democrats. Among Republicans, legislators who are closest to interest groups benefit the most from increased campaign spending on their behalf post *Citizens United*, and these are exactly the politicians who tend to walk through the revolving door. Republicans who are less close to special interests, and would thus not go through the revolving door, benefit less from the more lenient campaign finance laws. As a consequence, their decision whether to run again or retire is relatively unaffected. Democrats are on average less close to moneyed special interests than Republicans, but those who are at the top of the distribution still benefit from more campaign spending and are thus less likely to go through the revolving door. Democrats who are not close to moneyed special interests, however, are now at a greater electoral disadvantage because *Citizens United* was expected to – and did – benefit Republicans electorally (Klumpp, Mialon and Williams, 2016). This makes them more likely to retire.[21]

Further Evidence: Effect of Cooling Off Laws

So far, I have shown that a loosening of campaign finance regulation was accompanied by a drop in incidents of politicians going through the revolving door. In this section, I provide further evidence that changing a law related to one form of money in politics has countervailing effects on other forms: I now demonstrate that a change in the regulation of the revolving door affects the way interest groups spend money on elections.

Cooling Off Laws

In a democratic society that values the freedom of occupation, politicians can hardly be prevented from taking up positions in the private sector upon leaving office. But if this position involves the lobbying of elected officials, it is possible to impose regulations on the revolving door. Many states mandate a "cooling off" period that prohibits former office holders from registering as lobbyists for a certain period of time, usually between six months and two years. From 1990 to 2012, 21 states introduced such rules (see Table 4). In Ohio, the state Supreme Court invalidated an existing revolving door law as a violation of the First Amendment.

In this section, I exploit the changes to these laws in another difference-in-differences research design. Of course, the claim for the exogeneity of the introduction of cooling

[21] Unfortunately, it is difficult to track the independent campaign spending facilitated by *Citizens United* and match the donor (who is often anonymous) with the recipient (Spencer and Wood, 2014; Klumpp, Mialon and Williams, 2016). This prevents me from conducting an analysis of the substitution effect at the individual level.

Table 4: States with new Revolving Door Legislation. Years in which states introduced new cooling off legislation (1990-2012). See the "Approach" section for a description of the data sources

Arkansas	2011	Montana	2008
California	1991	North Carolina	2005
Colorado	2007	New Jersey	2004
Connecticut	1994	New York	2000
Georgia	2007	Ohio	1996-2010
Iowa	1992	Oregon	1998
Indiana	2012	South Carolina	1992
Kentucky	1993	Tennessee	2006
Massachusetts	1999	Utah	2009
Maine	1999	West Virginia	1999
Michigan	1995		

off laws at the state level is weaker than in the case of *Citizens United*. However, I am interested in the effect of rules relating to post-office lobbying on interest group campaign spending, so a second-order consequence. It seems unlikely that cooling off laws are passed in anticipation of changes in campaign money. This allows me to use the differential timing of their introduction to examine their consequences.[22]

Effect of Cooling Off Laws on the Revolving Door

Having a waiting period in place makes it more difficult for special interests to hire a former politician to represent them, and it makes a switch into the lobbying sector less attractive for a legislator. A cooling off law thus puts restrictions on a channel through which special interest money flows into the political system. In the analysis of the consequences of *Citizens United*, one of the controls in Equation (1) was whether the state had such a regulation. Table 5 displays the coefficients of this variable for lower chambers for the 2006-2013 time frame.

It is not surprising that a cooling off law has a negative effect on revolving door employment. The share of legislators who become lobbyists within one year drops by almost 5

[22] Furthermore, I again use state-specific time trends in the estimation, which capture potential differences in trends that might lead to the strategic passing of laws.

Table 5: Cooling Off Laws and the Revolving Door (2006-2013). Effect of a law requiring a cooling off period on the probability that a legislator leaves office but does not register as a state lobbyist in the same or following year.

	All	Republican	Democrat
Cooling Off Law	-0.047*	-0.063**	-0.024
	(0.025)	(0.030)	(0.031)
N	18,358	8,851	9,507

$^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$. All regressions include state and year fixed effects and state-specific time trends. State-level controls: Citizens United, Term Limit Laws. Individual-level controls: Years in Office, Chamber Control Own Party, Speaker or Leader. Robust standard errors clustered by state in parentheses.

percent. However, there is a marked partisan difference. The impact is larger in magnitude for Republican representatives, with a treatment effect of around -6.3 percent. The point estimate for Democrats is also negative, but smaller in size and not statistically significant. So there is a first-order effect of cooling off laws on revolving door employment, and it has asymmetric partisan consequences.

Effect of Cooling Off Laws on Campaign Contributions

If there are no hydraulic substitution effects, cooling off laws should have no second-order effect on interest group campaign spending. But if they do, and Republicans are more affected by the law, we should see that stricter regulation of the revolving door is followed by a shift of interest group campaign donations towards them. To test this hypothesis, I rely on data assembled by Hall (2014). It compiles information collected by the *National Institute on Money in State Politics* on campaign contributions to state-level candidates between 1990 and 2010. All donations by individuals, party organizations, and single-issue ideological groups are removed, as is public funding and candidate self-finance. The data therefore focuses on "access-oriented" interest groups, exactly the donor population for which the substitution argument applies. Note that I use direct campaign donations instead of independent expenditures here, as it is difficult to trace the latter to specific candidates, and any data that is available does not go back very far.

I estimate a difference-in-differences specification of the following form:

$$\%\text{ Rep Donation}_{st} = \beta \text{ Cooling Off Law}_{st} + \mu Z_{st} + \gamma_s + \delta_t + \xi_s t + \varepsilon_{ist} \tag{2}$$

where the dependent variable is the percentage of all interest group donations in state s in election t given to Republican candidates. I focus on the percentage instead of the amount since in a large number of states, campaign finance laws place a cap on the total amount that groups are allowed to donate. Especially those groups who have already "maxed out" their limit when a cooling off law is introduced cannot contribute more to Republican legislators without contributing less to Democrats. As state-level controls in Z_{st}, I include whether there was a system of public campaign finance, whether the state had a term limit, and whether there were bans on corporate and union campaign spending (both direct contributions and indirect independent expenditure).[23] I also control for the number of Republican and Democratic candidates as well as the number of Republican and Democratic incumbents running for reelection, since these influence the percentage of total contributions given to each party.

Table 6 shows the results. Introducing a law that mandates a cooling off period is associated with a substantial shift in campaign donations by interest groups. The percentage of all contributions shifts by 8 to 9 percent towards Republicans, which is a sizable effect given that the sample average is about 47 percent. Figure 3 shows the permutation test, which simulates the null hypothesis of no effect by randomly reshuffling the state policies.[24] The observed impact is far in the right tail of the distribution. This finding provides further support for the argument that campaign spending and revolving door employment are

[23] Data for spending and contribution bans are taken from La Raja and Schaffner (2014).

[24] So e.g. Nevada might get assigned the policies from Michigan (over the entire period), Michigan the policies of Virginia, and so on.

Table 6: Cooling Off Laws and Campaign Spending (1990-2010). Effect of a law requiring a cooling off period on the percentage of campaign contributions given by interest groups to Republican candidates.

Cooling Off Law	0.089***	0.084**
	(0.032)	(0.032)
N	345	345
Controls		✓

*$p < 0.1$, **$p < 0.05$, ***$p < 0.01$. All regressions include state and year fixed effects and state-specific time trends. State-level controls: Public Campaign Finance System, Term Limit Laws, Ban on Corporate Campaign Contributions, Ban on Union Campaign Contributions, Ban on Corporate Independent Campaign Spending, Ban on Union Independent Campaign Spending, Number of Democratic Candidates, Number of Republican Candidates, Number of Democratic Incumbents, Number of Republican Incumbents. Robust standard errors clustered by state in parentheses.

two different ways in which interest group money enters politics, and that changes in the regulation of one has countervailing effects on the other.

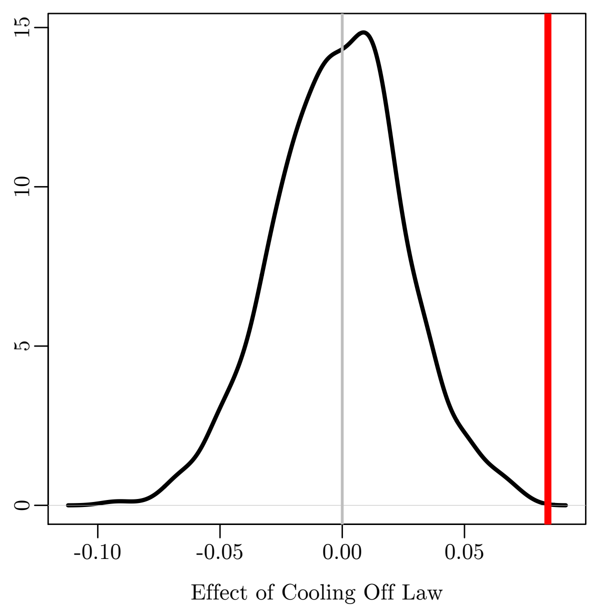


Figure 3: Permutation Test, Cooling Off Laws. Density of effect sizes from 1000 simulations with state policies randomly reshuffled. The red bar shows the real effect of the Cooling Off laws.

Conclusions

The influence of special interest money on politics has featured prominently in recent public discourse. Bernie Sanders and other candidates have made special interest money a central topic of their campaigns. And the discussion is not confined to the U.S. either. Movements protesting the influence of money on politics have sprung up around the world, and various governments have fallen over corruption scandals. It is therefore not surprising that there are loud calls for reforms to tame the influence of moneyed special interests. Typically, they focus on restricting a specific channel. Demands for the repeal of *Citizens United* in the U.S. are the most obvious example, followed by lower contribution limits, or the complete ban of campaign contributions. Critics argue that such regulation is likely to have a limited effect, as politicians and interest groups would find a different way for money to enter politics. However, so far this has been a theoretical stipulation that has rarely been studied empirically in a rigorous manner.

In this paper, I have provided such a study, and the findings show that regulation not only affects the type of special interest money it is designed to address, but has effects on other forms as well. More permissive campaign finance regulation leads to a decrease in incidents of politicians going through the revolving door. Restrictions on the revolving door in turn lead to a reallocation of campaign contributions. These findings have significant implications for future research. Most existing work focuses on a single type of special interest money. Recent theoretical contributions on the endogenous choice among different venues of special interest influence have already hinted at the fact that this silo mentality likely leads us to an understanding that is incomplete at best and misleading at worst. The empirical findings in this paper corroborate this. In the future, it will be necessary to draw together the disparate literatures on lobbying, campaign spending, and the revolving door, and to further study the way they interact with each other.

The paper also points the way towards future research on the revolving door. Because existing work has almost exclusively focused on the U.S. Congress, it has only been able to exploit variation between subjects. Unsurprisingly, the prevailing explanation for why interest groups hire former politicians as lobbyists is the human capital of the latter. By assembling data on the states, this paper is the first to examine the revolving door in a comparative setting, and it has demonstrated that institutions and regulations also affect its prevalence. As Figure 1 has shown, there are large differences between the states. Much of this variance remains unexplained, and doing so must be a priority in future research. The fact that whether politicians become lobbyists or not reacts to changes in other laws relating to special interest money also may help explain why the revolving door has increased over time, especially in developed countries with more stringent regulations of campaign finance and bribery.

Finally, this paper has policy implications. Critics argue that *Citizens United* makes politicians beholden to special interests at the expense of ordinary voters. But whatever its real or perceived negative consequences, the ruling did slow down the revolving door in the affected states. Given the choice between campaign spending and post-office employment, one could argue that the former is the lesser evil, especially if voters are able to identify the donors. Of course, this is not the case for the anonymous independent spending facilitated by *Citizens United*, but in theory there is a fix for this. In contrast, once politicians move through the revolving door, they cannot be held accountable by voters anymore. This is not to say that *Citizens United* was a positive development for democratic representation in the United States. We do not know enough about how interest group campaign spending and the prospect of lucrative post-office employment affect the behavior of officeholders to answer this. However, the substitution effect demonstrated in this paper should make us think more broadly about the consequences of different types of special interest money, how regulation of one affects the prevalence of the others, and what the general equilibrium consequences are.

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