Lobbying and Rotating Leadership

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Abstract

Political decisions that affect interest groups are increasingly made in the context of international organizations (IOs). A distinctive feature of many IOs is that they operate under a system of rotating leadership (e.g. a committee chair that rotates annually among its members). Despite the widespread use of rotating leadership systems and their potential value to interest groups, evidence of any interaction between them remains scarce. Using both micro- and macro-level data on the economic performance of commercial lobbyists in the European Union, I find that interest groups are responsive to short-term shifts in leadership. Specifically, to gain access to governments holding the EU rotating Council Presidency, interest groups increasingly rely on the services of commercial lobbyists.

Keywords: Lobbying, Rotating Leadership, European Union, Economic Activity, Interest Groups

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1 Introduction

The interplay between markets and politics is well-documented (Callander et al., 2022). Political decisions define the rules that govern market competition, while market competitors participate in and influence political decisions. In today's globalized world, political decisions are increasingly made in the context of international organizations, such as the European Union (EU), the United Nations (UN), and the World Trade Organization (WTO). Hence, for businesses and other interest groups these organizations, and the pivotal actors within them, constitute important opportunities to shape markets globally.

A distinctive feature of many international organizations, which sets them apart from domestic political systems, is that they operate under rotating leadership. Think about a committee chair that rotates annually among its members, as seen in the UN General Assembly, the WTO, the G7, or the G20. Likewise, consider voting rights periodically allocated to some members, but not to others, as in the UN Security Council, or the Governing Council of the European Central Bank (ECB). These leadership roles are not mere procedural formalities. Rather, they grant governments substantial power and influence over policy outcomes. Committee chairs can shape outcomes by setting the agenda. Temporary voting rights may enhance a government's bargaining position. As a result, governments that assume such positions may become prime targets for firms and other interest groups seeking to influence public policy.

Despite the widespread use of rotating leadership systems in international organizations and their potential value to interest groups, evidence of any interaction between them remains scarce. This is surprising, given the existing evidence that other nations' governments do fervently lobby their peers that temporarily assume pivotal positions (Kuziemko and Werker, 2006; Mazumder et al., 2013). I address this gap and study whether businesses and other interest groups strategically adjust their behavior in response to short-term shifts in leadership. Specifically, do interest groups allocate more money and resources to influence a government that temporarily chairs an international organization?

Studying this question empirically is not straightforward. Lobbying, by definition, happens away from public scrutiny, and transparency regulations are typically weak, voluntary, or nonexistent. Moreover, governments that assume rotating leadership positions are rarely chosen at random, causing endogeneity issues. While governments at the chair may indeed become more attractive targets for interest groups, countries with numerous and powerful interest groups may also be more likely to obtain such positions in the first place. In this paper, I provide a modest attempt to address some of these challenges.

To detect interest group activity, I focus on interest groups' demand for intermediaries, commonly referred to as commercial lobbyists. Especially in an international context, many interest groups lack direct access to key policymakers from other members of the international organization. Interest groups may then turn to local, for-profit commercial lobby firms to gain access (Huwyler, 2020). By analyzing patterns in interest groups' demand for commercial lobbying services, I can draw inferences about the underlying behavior of interest groups.

Moreover, I study the demand for commercial lobby services in the context of the Council of the European Union (EU). The Council is an international organization that represents the 27 EU member states. Each member state gets the opportunity to lead the business of the Council for six-month periods, giving it significant influence over a broad range of policies that affect numerous interest groups. However, unlike leadership positions in many other international organizations, the Council's rotating Presidency is not determined by election or lobbying efforts.¹ Instead, member states take turns according to a fixed, pre-determined order.² This creates an exogenous shift in power that temporarily grants the presiding member state greater influence over policy outcomes. I leverage this exogenous variation and study whether the commercial lobbying sector in an EU member state experiences a surge in revenue during its government's tenure as Presidency of the Council.

For the empirical analyses I operate on two levels. At the macroeconomic level, I use panel data covering 29 years and 56 Presidency terms starting from the Treaty of Maastricht (1992). During this period, I collect data on indicators of economic activity in different sectors across all 27 EU member states at the NUTS-3 regional level. I find that Gross Value Added (GVA) in the Financial and Business Services sector – the sector that also includes the commercial lobby industry – increases by an average of 2 percent during a Presidency term.

At the microeconomic level, I use administrative data from the Netherlands. In particular, I obtained quarterly revenue data for the universe of firms, classified by their 3-digit NACE codes. The Netherlands, a medium-sized EU member state and the fifth-largest economy in the EU, held the rotating Presidency during the first half of 2016. Using a difference-in-difference approach, I compare firms in the lobbying and public affairs sector, with firms in a closely related services industry. The results indicate that holding the Presidency has a positive and significant effect on the revenue of commercial lobby firms, indicating an increased demand for their services during this period.

With this paper I contribute to three distinct strands of literature. First, I contribute to the literature on rotating leadership positions in international organizations, which has mainly focused on the lobbying behavior of other nations' governments. For example, Kuziemko and Werker (2006) demonstrate that countries on the UN Security Council that temporarily receive voting rights, also receive more foreign aid from other nations. The authors attribute this to vote buying, where countries try to secure votes from temporary key players in international organizations. In a related paper on the UN Security Council, Mazumder et al. (2013) reach a similar conclusion. In the context of the EU, Van Gruisen and Crombez (2021) find that the European Commission disproportionally considers the preferences of the member state that temporarily presides over the Council of the EU. My findings expand this body of literature by showing that private-sector interest groups also recognize the strategic importance of rotating leadership positions in international organizations and adapt their lobbying strategies accordingly.

Second, I contribute to the literature on commercial lobbyists. Groll and Ellis (2014) were the first to develop a formal economic model of commercial lobbying. In a later study, Groll and Ellis (2017) show that commercial lobbying activity currently constitutes more than 60 percent of all lobbying activities. Vesa and Karimo (2019) and Huwyler (2020) argue that business

¹Unlike the UN General Assembly, the WTO, or the G20, for example.

 $^{^{2}}$ The rotating Presidency system experienced minor adjustments in the 1990s. While it still follows a fixed order, it was modified to ensure that at least one of every three presidencies is held by a large state. The Lisbon Treaty (2009) introduced further modifications by introducing so-called "Trio Presidencies", where member states in the Trio differ in terms of length of EU membership, size, and geographical location. Despite these changes, member states continue to serve individually for six-month terms as Council chair, with the order remaining predetermined.

associations and firms are more likely to hire commercial lobbyists compared to non-business groups. These studies emphasize that commercial lobby firms are perceived as more credible and enjoy better access to policymakers. My findings align with this literature, showing that interest groups make more use of local commercial lobbyists when policymakers in that country take on powerful positions in international committees.

Finally, this paper contributes to a growing literature on lobbying in the EU. While a substantial body of work examens interest group activity and lobbying in the EU (Crombez, 2002; Van Schendelen, 2013; Bernhagen et al., 2015; Hollman and Murdoch, 2018; Luechinger and Moser, 2020), the empirical political economy literature in the EU is less developed compared to the US. This disparity is largely due to the EU's lack of comprehensive lobbying regulations, unlike the US, where lobbying activity is more transparent and extensively studied. For instance, commercial lobbyists have received little attention in the EU. This paper addresses this gap by using data on the commercial lobby industry's economic performance as an alternative way to observe interest group activity. I show that the rotating Council Presidency in the EU serves as a critical access point for interest groups in shaping their lobbying strategies.

The paper proceeds as follows. In the next section, I briefly discuss the institutional context of lobbying and decision-making in the Council of the EU as an international organization. Section 3 presents a simple model of the mechanism that connects interest groups, the rotating Presidency and the demand for commercial lobbyists. Section 4 and 5 present respectively the macro and micro-level empirical analysis. I conclude in section 6.

2 Institutional Context

The Council of the EU, together with the European Commission and the European Parliament (EP), is one of the three principal legislative institutions in the EU. While the European Commission initiates policy proposals, the EP and the Council play critical roles in shaping and finalizing these proposals. Unlike the Commission and the EP, the Council is an intergovernmental body. It represents the interests of the 27 EU member states. Ministers from each member state convene to negotiate and decide on a wide range of policies. For example, when the Council discusses proposals for phasing out single-use plastics or setting stricter emission standards for automotive vehicles, environmental ministers from the member states meet in Brussels to negotiate and vote on these measures. Importantly, no proposal can become EU law without the Council's approval.

Like in most international organizations, the negotiating positions of member states' representatives are typically formulated in national capitals. Ministers, their staff, other bureaucrats, and members of parliament, engage in discussions to determine their country's stance on various issues. In some cases, national parliaments even issue binding negotiating mandates before their ministers head to Brussels (Van Gruisen and Crombez, 2019). National capitals are thus a natural access point for interest groups seeking to influence the development of negotiating positions (Van Schendelen, 2013).

The extent to which a member state obtains policy outcomes close to its preferences depends on its negotiating power in the Council. A pivotal role is that of the Council Presidency. This position rotates among member states every six months in a predetermined order and grants the presiding country significant privileges. The Presidency sets the Council's agenda, steers negotiations, and ultimately brokers compromises that are acceptable to other member states. The key role of the rotating Council Presidency has long been recognized. Studies reveal that countries holding the Council Presidency secure more favorable outcomes during EU budget negotiations, gain extra development aid for their former colonies, and are outvoted less frequently (Aksoy, 2010; Carnegie and Marinov, 2017; Van Gruisen et al., 2019).

Interest groups too, are aware of the influence of the Council Presidency. For example, BusinessEurope, one of the EU's most prominent trade organizations, regularly arranges events in the country holding the Presidency. In November 2023, just before Belgium assumed the Presidency, BusinessEurope's top executives gathered in Brussels to present their priorities directly to the Belgian government. The statements below, made by BusinessEurope's President, do not just illustrate that powerful interest groups have clear policy objectives in mind, but that they see the rotating Council Presidency as a means to achieve their objectives. Specifically, he called:

"We urge the incoming Belgian Presidency to finalise the adoption of the proposals that are essential for the competitiveness and development of European SMEs."

"We call on the Belgian Presidency to create regulatory breathing space for companies and flank the Green Deal with an Industrial Deal."

"The EU must continue to conclude trade agreements that offer access to new markets and investment opportunities for European companies."

Fredrik Persson, President of BusinessEurope

Another example involves corporate sponsorship of the Council Presidency. During Austria's 2018 Presidency, companies like Porsche, Audi, and Microsoft lent their sponsorship, while over 50 corporations supported Bulgaria's term that same year. A year earlier, in 2017, Coca-Cola sponsored the Romanian Presidency – a time when Romania led the negotiations on reforming the General Food Law Regulation, which included important issues like labelling, sugar levies on sweetened drinks and the marketing of sugary food to children. Executive Director of foodwatch International said:

"Coca-Cola's sponsorship of one of the major political bodies in Europe is unacceptable. This damages the independence and credibility of politics. In Europe, for example, there is a growing focus on a tax on sugary beverages, which Coca-Cola strongly opposes. It must never be the case - even the appearance must be avoided - that a main sponsor has an influence on the substantive agenda of politics"³

Thilo Bode, Executive Director of foodwatch International

While these examples seem compelling, they remain anecdotal and do not provide evidence of a systematic, causal link between interest group activity and a rotating leadership position like the Council Presidency. EU transparency rules on lobbying do exist, but they only apply to the European Commission and the EP. There are no EU-wide regulations governing lobbying

of the Council of the EU and its Presidency, as it is an intergovernmental institution subject to national lobbying rules, which are generally minimal or non-existent. Whether, and if so, how much, interest groups spend on lobbying the Council Presidency is thus not directly observable and arguably contributes to the lack of existing empirical research on this topic.

However, to determine whether interest groups do systematically target the member state holding the rotating Presidency, I adopt a different approach. Specifically, I exploit the fact that many private-sector interest groups do not lobby directly, but outsource their lobbying efforts to intermediaries, such as professional lobbying consultancies. Vesa and Karimo (2019) and Huwyler (2020), for example, show that business associations and firms in particular, are more likely to hire commercial lobbyists compared to non-business groups. They emphasize that commercial lobby firms are perceived as more credible and enjoy better access to policymakers. Given the vast literature on signaling, asymmetric information and cheap talk, this is especially important (Crawford and Sobel, 1982; Austen-Smith, 1993; Goltsman and Pavlov, 2011).

Focussing on intermediaries also comes with an important empirical advantage. While the resources that interest groups allocate to lobbying the Council Presidency are unobservable, they can be inferred indirectly through the financial revenue of the intermediaries they hire. Specifically, if the revenue of a commercial lobbying firm doubles, it is reasonable to infer that the demand for its services has doubled too.

In the following section, I present a simple model to demonstrate how data on the performance of commercial lobbying consultancies can provide insights into the behavior of interest groups during rotating leadership positions, such as the Presidency of the Council of the EU.

3 The Model

3.1 Preferences

The model involves two players: a politician (P), he, and an interest group (I), she. The politician can be thought of as a government minister who receives domestic instructions and then represents its member state in Brussels to vote in the Council of the EU. Every six months, another member state takes over the Council Presidency. When serving as Council President, the politician has the power to propose a policy p. Policy-making is assumed to occur along a single dimension. The politician has Euclidean preferences of the following form:

$$U_P = -(x_P - p)^2$$

where x_P represents the ideal policy of the politician, and p is the proposal.

The interest group also has Euclidean preferences over policy. Moreover, she can choose to either lobby or remain inactive. If the interest group chooses to lobby, she hires a commercial lobby firm to lobby on her behalf and incurs a fee k for the firm's services. Especially in an international setting, professional lobbying consultancies often play a crucial intermediary role in providing access to local policymakers. These consultants can advise their clients on which policymakers to target in specific policy areas and which arguments or frames resonate most with different political parties (Vesa and Karimo, 2019). The interest group's utility function is given by:

$$U_I = -(x_I - p)^2 - f \times k$$

where x_I is the interest group's ideal policy, p is the proposal and f is an indicator function that equals 1 if the interest group decides to lobby, and 0 otherwise. The fee for lobby services is denoted by k, with k > 0.

3.2 Timing

The sequence of events is as follows:

- 1. Nature determines whether the politician holds the Presidency of the Council.
 - (a) If yes, the politician proposes policy p.
 - (b) If no, the politician cannot affect the proposal.
- 2. The interest group decides whether or not to lobby the politician. If she chooses to lobby, she pays a fee k to a commercial lobby firm its services.

3.3 Actions

If the politician assumes the Presidency, he puts a proposal $p \in \mathbb{R}$ on the Council's agenda. Following Blumenthal (2024), whether the proposal p will be successfully adopted is uncertain. However, the interest group can influence the odds of success by lobbying. For example, the interest group—via the commercial lobby firm—may provide the politician with more information and better arguments, thereby increasing the probability of success in the Council. Similarly, the interest group may highlight the risks and harms of the proposal to members of the national parliament, which could limit the politician's negotiating mandate. Limiting the mandate may reduce the variation in the outcome, but also lower the probability of adoption.

Without lobbying, the proposal is adopted with probability $\pi \in (0, 1)$; otherwise, the status quo q remains with probability $1 - \pi$. If the interest group decides to lobby the politician, she can either support or oppose the proposal. If the interest group supports the proposal, it passes with probability $\pi' \in (0, 1)$, and the status quo remains with probability $1 - \pi'$. On the other hand, if the interest group opposes the proposal, it passes with probability $\pi'' \in (0, 1)$, and the status quo remains with probability $1 - \pi''$. Assume that $\pi'' < \pi < \pi'$.

3.4 Equilibrium

I focus on the interest group's optimal strategy based on the proposal made by the Presidency. For simplicity, I treat the proposal as exogenous.⁴ I consider two cases: the politician holds the rotating Presidency and he does not. Moreover, in line with Blumenthal (2024), I define two important values. Let \bar{p} be the policy that makes the interest group indifferent between the new policy and the status quo q, with $\bar{p} = 2x_I - q$. Moreover, let \bar{k} be the size of the lobby fee that

⁴The Presidency's optimal proposal may depend on the interest group's optimal strategy. However, in the EU, multiple interest groups typically compete over a single proposal, reducing the likelihood that the proposal is tailored to the preferences of any one group. For a comprehensive analysis of proposals formulated endogenously based on interest group strategies, see Blumenthal (2024).

makes the interest group indifferent between supporting her preferred policy x_I , or remaining inactive.

Case 0: No Presidency

If the politician does not hold the Presidency, the interest group's strategy is straightforward. Without agenda-setting power for the politician, lobbying cannot alter the probability of the proposal's adoption.⁵ The outcome would remain unchanged, but the interest group would still incur the lobbying fee k. Thus, lobbying is not an optimal choice, and no lobbying occurs.

Case 1: Presidency

When the politician holds the rotating Presidency, the situation is more interesting. Now, the politician is the agenda-setter, and the interest group can influence the likelihood of the proposal's adoption through lobbying. In particular, the expected utility of lobbying to support the politician's proposal is:

$$E(U_{\text{support}}) = -\pi'(x_I - p)^2 - (1 - \pi')(x_I - q)^2 - k$$

The expected utility of lobbying to oppose the politician's proposal is:

$$E(U_{\text{oppose}}) = -\pi''(x_I - p)^2 - (1 - \pi'')(x_I - q)^2 - k$$

The expected utility of not lobbying is:

$$E(U_{\text{inactive}}) = -\pi (x_I - p)^2 - (1 - \pi)(x_I - q)^2$$

The interest group will lobby — whether it be to support or oppose — if the expected utility from doing so is larger than the expected utility from not lobbying. There are two situations to consider. First, whenever $k > \bar{k}$, there are no policies for which the interest group will lobby to support. When it is too costly to even support her ideal policy $k = \bar{k}$, the interest group will not support other policies. Hence, the only choice is whether to lobby to oppose the proposal or remain inactive. She opposes if:

$$-\pi''(x_I - p)^2 - (1 - \pi'')(x_I - q)^2 - k > -\pi(x_I - p)^2 - (1 - \pi)(x_I - q)^2$$

$$\iff$$
$$p < q - \sqrt{\frac{k}{\pi - \pi''}} \quad \text{or} \quad p > \bar{p} + \sqrt{\frac{k}{\pi - \pi''}}$$

In other words, if the proposal p is too far to the left, or too far to the right of the interest group's ideal policy, she is willing to incur a high lobby fee to try and oppose the proposal. This happens because the policy harm from the new proposal would be substantial. In contrast, if the policy is close enough to the interest group's preferences, she decides not to lobby. In that case, the harm in policy is smaller than it would cost the interest group to lobby.

For values of k < k, similar conditions apply for opposing the proposal, but now there are

 $^{^5\}mathrm{Unless}$ the politician is the pivotal player and his support is needed to turn a losing minority into a winning majority.

proposals for which lobbying to support is optimal. Specifically, the interest group will support the politician when:

$$-\pi'(x_I - p)^2 - (1 - \pi')(x_I - q)^2 - k > -\pi(x_I - p)^2 - (1 - \pi)(x_I - q)^2$$

$$\iff$$
$$q + \sqrt{\frac{k}{\pi' - \pi}}$$

The interest group will lobby to support the proposal if the policy is close enough to her ideal policy. Because the policy would be a significant improvement over the status quo, she is willing to pay the lobby fee to increase the probability of successful adoption. Finally, the interest group does not lobby for values of p that are in between:

$$q - \sqrt{\frac{k}{\pi - \pi^{\prime\prime}}}$$

For policies close to the status quo q and the indifference point \bar{p} , the interest group will not lobby. These policies represent but minor changes over the status quo – good or bad – and are not worth the cost to lobby for.

3.5 Implications

The model leads to a number of important implications. First, not always do interest groups have an incentive to lobby a government at the Presidency. As illustrated in Figure 1(a), lobbying does not occur if the policy falls within two specific intervals. However, the range of proposals for which lobbying does become worthwhile is significantly larger.

Second, in reality, multiple proposals are typically discussed during a Presidency term, and multiple interest groups often have a vested interest in different proposals. Figure 1(b) extends the analysis by introducing a second policy dimension and a second interest group that only cares about the second policy dimension. In this case, the probability of lobbying occurring – the likelihood that a random proposal falls inside a green shaded region – increases from 72 percent in a single dimension to 92.16 percent in two dimensions. Note that not only the probability of lobbying occurring increases, but also the lobbying intensity as indicated by the dark green shaded regions.

Third, when multiple proposals are being lobbied and numerous interest groups are involved, the aggregation of individual lobbying fees k reflects the additional revenue generated by the commercial lobbying industry. This revenue represents the industry's contribution to the economy, typically measured as Gross Value Added (GVA). GVA is a standard metric for assessing the economic performance of an industry. In particular, the additional GVA of the commercial lobby industry as a function of its government holding the Council Presidency is then, with ireferring to interest groups and j to proposals:

$$\Delta GVA = \begin{cases} \sum_{i} \sum_{j} k_{ij} & \text{if Presidency} = 1\\ 0 & \text{if Presidency} = 0 \end{cases}$$

This leads to the following testable hypothesis:

Hypothesis 1: Economic activity in the commercial lobby industry, as measured by GVA, increases in the country that assumes the Council Presidency, due to an increase in demand from interest groups.



Figure 1: Equilibrium values for lobbying the Presidency

Note: This figure illustrates the equilibrium proposals that determine whether the interest group will lobby the Council Presidency. The red-shaded areas indicate scenarios where no lobbying occurs. The light green-shaded area represents cases where one interest group lobbies. The dark green-shaded area indicates situations where both interest groups lobby. In the context of multiple policy dimensions and multiple interest groups, the total lobbying expenditure by interest groups contributes to the growth in the commercial lobbying industry's Gross Value Added (GVA).

4 Part I: Macroeconomic Evidence from the EU

4.1 Data

The general premise is that the rotating Council Presidency increases the demand for the services of commercial lobby firms in that country. Increased demand, in turn, leads to an increase in revenue and economic activity in that sector, as captured by GVA. I use data from the Cambridge Econometrics' European Regional Database (ERD). The ERD is useful for several reasons.

First, it offers GVA for all EU member states and distinguishes GVA by six broad industry clusters. The industry cluster of interest is the Financial and Business Services sector (sector codes K-N), which also includes the commercial lobbying and public affairs sector, next to a range of other sectors. Unfortunately, this categorization in broad industry clusters is also its main limitation. For example, the inclusion of unrelated sectors like banking, real estate or insurance, may potentially dilute the effect of lobbying activity.⁶ Table 2 provides an overview of the descriptive statistics of the variables at the country level.

Variable	Ν	Mean	SD	Min	Max
Council Presidency	619	0.09	0.28	0	1
GVA A [Agriculture and Forestry]	601	8,058	$10,\!152$	63	$35,\!298$
GVA B-E [Industry]	601	$91,\!838$	$140,\!609$	774	760,859
GVA F [Construction]	601	27,209	$38,\!629$	267	$172,\!981$
GVA G-J [Wholesale, Retail and Transport]	601	$107,\!682$	$144,\!261$	1,702	$608,\!359$
GVA K-N [Financial and Business Service]	601	$116,\!349$	$177,\!911$	$1,\!132$	752,061
GVA O-U [Nonmarket Services]	601	99,302	$145,\!986$	$1,\!292$	$654,\!331$

Table 1: Descriptive Statistics

Second, for each of the six industry clusters, ERD offers disaggregated data at the detailed NUTS-2 and NUTS-3 regional levels. The lobbying and public affairs industry is arguably more concentrated in political capital regions than other industries, due to their reliance on proximity to political institutions. This helps mitigate the limitation of broad industry clusters. The NUTS-2 and NUTS-3 level divide the EU in respectively 242 and 1,166 different regions, as shown in Figure 2.

Finally, the ERD offers GVA data for a long time period. This allows me to start the panel data in 1993, when the Treaty of Maastricht entered into force. The Maastricht Treaty is widely regarded as the treaty that transferred the most competences from the national to the EU level and thus increased the importance of EU-level lobbying for interest groups. I analyze all Presidencies from 1993 to 2021 – the most recent year there is data for – covering 29 years and 56 Presidencies. Table 1 in the Appendix presents an overview of all the Presidencies in the data.⁷

 $^{^{6}}$ In Section 5 I present the results of an analysis where I can distinguish between sectors at a much finer level. 7 The UK had the Presidency twice but is not in our sample, therefore we have 56 presidencies during 29 years.



Figure 2: Treated regions

Note: This figures illustrates the 242 NUTS-2 regions and 1,166 NUTS-3 regions in the EU. The regions highlighted in red represent the political capital regions, which are also the treated regions in the empirical analyses.

4.2 Empirical Strategy

My empirical strategy centers on examining changes in economic activity in the Financial and Business Services cluster within political capital regions over time, as a function of holding the Council Presidency. In line with Alesina and Dollar (2000) and Kuziemko and Werker (2006) I adopt a logarithmic transformation of the dependent variable. The main equation I estimate looks as follows:

$$\ln(GVA_{i,t}) = \alpha + \beta \times CP_{i,t} + \gamma \times X'_{i,t} + \theta_i + \tau_t + \epsilon_{i,t}, \tag{1}$$

Where $\ln(\text{GVA}_{i,t})$ denotes economic activity measured by Gross Value Added in region *i*, at year *t* in Financial & Business Services sector (Sector K-N). As a robustness check, I redo the exercise for the five other industry sectors.

 $CP_{i,t}$ is a dummy variable coded as (1) if a member state's government held the Council Presidency in year t. It is important to note that while my data is at the annual level, the Presidency rotates every six months. This does not pose a significant issue, given that the actual impact of the Presidency on lobbying likely extends beyond a six-month term and I would like to account for that. For example, governments typically begin preparations for their Presidency months or even years in advance, including setting priorities, preparing dossiers, and holding consultations. Similarly, after a term concludes, proposals often require finalization. By coding member states as holding the Presidency for the entire year, I account for the six months of the actual Presidency, as well as six months of the preparatory period (for 2nd semester presidencies) and six months after a Presidency term (for 1st semester presidencies).

Next, $\mathbf{X}'_{i,t}$ represents a vector of control variables. These include the log of population, as this is positively related to economic activity, a dummy for other important events in a member state within a particular year, which could coincide with both economic activity and a Presidency term, as well as GDP growth. I include country (θ_i) and year (τ_t) fixed effects, and $\epsilon_{i,t}$ is an

error term. My strategy is thus comparable to a difference-in-differences design, with robust standard errors clustered at the regional level.

4.3 Results

The results are presented in Table 2. In Model 1, I run a naïve OLS regression of ln(GVA) on the Council Presidency dummy, establishing a strong positive relation between economic activity in the Financial and Business Service sector and holding the Council Presidency. This positive and significant effect persists when I include the control variables (Model 2), country fixed effects (Model 3), as well as country and year fixed effects (Model 4). Although the magnitude of the effect decreases, it remains substantial: in Model (4) the coefficient 0.643 translates into a 89.5 percent increase in economic activity as a result of holding the Presidency. This is unrealistically large, as activities related to lobbying and public affairs constitute only one of various categories that make up the sector. However, note that this coefficient captures not only the effect of increased lobbying activity, but also the generally higher economic activity observed in political capitals compared to non-capital regions.

	NUTS-3 and GVA K-N					
	Model 1	Model 2	Model 3	Model 4	Model 5	
Presidency	2.669^{***} (0.176)	0.890^{***} (0.209)	$\begin{array}{c} 0.614^{***} \\ (0.075) \end{array}$	$\begin{array}{c} 0.642^{***} \\ (0.077) \end{array}$	$\begin{array}{c} 0.022^{**} \\ (0.010) \end{array}$	
Population (ln)		1.091^{***} (0.100)	1.234^{***} (0.032)	1.230^{***} (0.031)	$\begin{array}{c} 0.882^{***} \\ (0.310) \end{array}$	
GDP growth		-0.005 (0.007)	$0.001 \\ (0.001)$	0.007^{***} (0.001)	0.000 (0.000)	
Important events		$0.085 \\ (0.106)$	-0.001 (0.016)	0.002 (0.009)	0.074^{**} (0.027)	
FE country FE year	No No	No No	Yes No	Yes Yes	Yes Yes	
Observations	$25,\!648$	$25,\!635$	$25,\!635$	$25,\!635$	601	

Table 2: GVA in the Financial and Business Service sector

Note: Standard errors are in parentheses. * p<0.10, ** p<0.05, *** p<0.01. Dependent variable is annual GVA K-N at the NUTS-3 regional level.

Model 5 is my preferred specification. Because capital regions are in many dimensions different from non-capital regions, I limit the sample to capital regions only and run the same model with capital and year fixed effects. This reduces the number of observations significantly, as I only retain the political capital region for each member state. Identification is based on within-political capital variation over time. The coefficient drops substantially to a more realistic magnitude while retaining statistical significance. The marginal effect of holding the Presidency results in a 2 percent increase in economic activity in the Financial and Business Services sector during and around a Presidency term. I argue that this boost is primarily driven by the commercial lobby and public affairs industry, as there is no theoretical reason why any of the sector other than the commercial lobby industry would be affected by the Presidency. Below I

perform several robustness checks.

Other sectors. Table 5 presents the results for the five other industry clusters. Note that these sectors only include activities that are unrelated to lobbying. For example, agriculture and forestry, or construction. As expected, I do not observe an increase in economic activity in any of the other sectors.

		NUTS-3 and GVA			
	A	B-E	F	G-J	O-U
Presidency	0.064	0.011	0.047	0.004	0.013
	(0.083)	(0.012)	(0.034)	(0.111)	(0.009)
Population (ln)	1.438	0.901^{*}	1.671**	**0.942**	* 0.571**
	(2.266)	(0.376)	(0.566)	(0.359)	(0.257)
GDP growth	-0.010	0.004	0.004	0.007**	**0.001
	(0.007)	(0.003)	(0.003)	(0.002)	(0.001)
Important events	-0.354	0.046	0.121	0.024	0.039
	(0.261)	(0.044)	(0.163)	(0.030)	(0.032)
FE country	Yes	Yes	Yes	Yes	Yes
FE year	Yes	Yes	Yes	Yes	Yes
Observations	601	601	601	601	601

Table 3: Impact on five other sectors

Note: Standard errors are in parentheses. * p<0.10, ** p<0.05, *** p<0.01. Dependent variable is annual GVA at the NUTS-3 regional level.

Timing. I examine whether the increase in lobbying activity occurs not only six months before, during and six months after a country's Presidency, but also years before and after its tenure. Specifically I estimate the following equation:

$$\ln(GVA_{i,t}) = \alpha + \sum_{\phi=-2}^{2} (\beta_{t+\phi} \times CP_{i,t+\phi}) + \gamma \times X'_{i,t} + \theta_i + \tau_t + \epsilon_{i,t},$$
(2)

Where $\sum_{\phi=-2}^{2} (\beta_{t+\phi} \times CP_{i,t+\phi})$ captures the two years before and two years after the country assumes the Presidency of the Council. The specification is otherwise identical to the specification above. The results are presented in Table 4, focusing on the two years preceding and following a Presidency's term. The findings mirror our previous analyses: in the initial four models, both pre-and post-Presidency periods show positive an significant effects. However, once we control for all potential confounding factors, only the year of the Presidency remains significant. This does not necessarily imply that lobbying does not occur well in advance. Rather, it suggests that the intensity of lobbying is greater in the months leading up to or during the Presidency.

	NUTS-3 and GVA K-N				
	Model 1	Model 2	Model 3	Model 4	Model 5
Presidency $(T-2)$	$2.266^{***} \\ (0.168)$	$\begin{array}{c} 0.875^{***} \\ (0.213) \end{array}$	0.681^{***} (0.086)	0.716^{***} (0.084)	0.008 (0.012)
Presidency $(T-1)$	2.703^{***} (0.170)	0.896^{***} (0.214)	0.688^{***} (0.088)	0.718^{***} (0.085)	$0.013 \\ (0.014)$
Presidency $(T0)$	2.692^{***} (0.174)	0.926^{***} (0.218)	0.647^{***} (0.076)	0.705^{***} (0.078)	0.029^{*} (0.015)
Presidency $(T+1)$	2.706^{***} (0.156)	0.924^{***} (0.223)	0.694^{***} (0.071)	0.722^{***} (0.073)	$0.026 \\ (0.015)$
Presidency $(T+2)$	2.726^{***} (0.162)	0.968^{***} (0.230)	0.667^{***} (0.078)	0.700^{***} (0.078)	$0.022 \\ (0.014)$
Control variables FE country FE year	No No No	Yes No No	Yes Yes No	Yes Yes Yes	Yes Yes Yes
Observations	$25,\!648$	$25,\!635$	$25,\!635$	$25,\!635$	601

 Table 4: Time event specification

Note: Standard errors are in parentheses. * p<0.10, ** p<0.05, *** p<0.01. Dependent variable GVA K-N.

5 Part II: Microeconomic Evidence from the Netherlands

5.1 Data

The previous analysis provides a first indication of the increase in demand for commercial lobbyists over a long time period and many countries. While this contributes to the external validity of the research, the Financial and Business Services sector is broad and includes several sectors unrelated to commercial lobbying. To strengthen the internal validity of the model, I focus in this section on a specific case study.

In particular, I focus of the impact of the rotating Presidency in the Netherlands, which held the Presidency in the first semester of 2016. I use administrative data of the universe of firms in the Netherlands. I have data on firms' quarterly revenue and can identify them by sector at their 3 digit NACE code. This allows me to study the impact of the Presidency on demand for commercial lobbyist at a much finer level.

In theory, at the most detailed level, commercial lobbying firms fall under the four-digit subsector 70.21, "Public Relations and Communication Activities." This category includes economic activities such as "the provision of advice, guidance, and operational assistance, including lobbying activities, to businesses and other organizations on public relations and communication." My administrative data is able to identify firms at the three-digit level – the 70.2 category.

Fortunately, the 70.2 category includes – next to 70.21 – only one other subsector: 70.22, "Business and Other Management Consultancy Activities." As a result, I code firms within the 70.2 category as the treated group, acknowledging that it includes a mix of commercial lobby firms and strategic management consultancies. Since I expect the treatment effect to apply only to commercial lobbying firms, any observed effect represents a lower bound of the true effect.

The administrative data are obtained from Statistics Netherlands, with quarterly firm revenue information derived from tax filings. The data spans from January 2014 to December 2016, covering the period during which the Netherlands held the Presidency in the first semester of 2016. To prepare the data for analysis, I performed several data management steps. First, I restricted the sample to firms with 10 to 250 employees, excluding very small and very large firms. Second, I included only firms reporting positive revenue. Firms with no revenue may be inactive or dormant. Third, I limited the dataset to firms that are consistently present in all 12 quarters of the sample period. That way I exclude a significant number of one-person firms reporting zero revenue and sporadically appearing in the dataset.

5.2 Empirical Strategy

To investigate the impact of the Presidency on the demand for commercial lobbyists, all firms that belong to 70.2 are considered treated with the exogenous event of the Presidency. I compare quarterly revenue of firms in the treatment group with firms in a closely related service industry. To select an appropriate control group, I want an industry that shares similar characteristics (e.g. professional services, firm size, market structure), but is not directly affected by an increase in lobbying activity.

One of the most closely related sectors, both concerning its NACE code and in substance, is 69.1 "Legal Activities". This industry includes legal consultancy and representation services and thus shares similarities with NACE 70.2, but is less likely to be directly affected by an increase in lobbying demand. Examples of activities are advice and representation in civil cases, advice and representation in connection with labour disputes, and the preparation of legal documents such as company formation, patents and copyrights.

As a robustness check I also look at two other sectors in the service industry: 69.2 "Accountancy, Auditing Activities and Tax Consultancy" and 73.1 "Advertising". I present descriptives of four sectors below in Table 5:

Sector	Variable	Obs	Mean	Std. Dev.
Public Affairs	Revenue Employees	$10,061 \\ 10,061$	1,288,197 30.19	2,964,234 44.42
Legal Advise	Revenue Employees	$7,\!372$ $7,\!372$	$1,\!243,\!294$ 29.44	2,866,103 45.53
Accountancy	Revenue Employees	$7,228 \\ 7,228$	$918,\!295$ 29.84	$1,527,841 \\ 45.98$
Advertising	Revenue Employees	$5,160 \\ 5,160$	2,077,778 27.5	9,461,961 38.97

Table 5: Summary Statistics for treatment and control groups

Because I assume the public affairs group receives the treatment and firms in the control group should be unaffected by the rotating Presidency, I use a diff-in-diff design for identification. I estimate the following model:

$$\ln(\operatorname{Rev}_{i,t}) = \alpha + \beta D_i \times T_t + \vartheta_i + \tau_t + \epsilon_{i,t}$$
(3)

Where $\ln(\text{Rev}_{i,t})$ is the natural log of revenue of firm *i* at time *t*, D_i is the treatment dummy which is (1) for firms in sector 70.2 (lobby and public affairs), and (0) for the firms in the sector 60.1 (the legal control group). T_t is the dummy for the treatment period. In line with the approach earlier, I account for the fact that lobbying activity typically start before a Presidency term and can persist afterwards. Since my data is available from the first quarter of 2014, I define the treatment period as starting in 2015 – one year before the Presidency term, and continuing to the end of 2016. Finally, $\vartheta_i + \tau_t$ are firm and time period fixed effects.

As with any difference-in-differences design, it is essential to verify the parallel trends assumption before the treatment period begins. Figure 3(a) illustrates that trends between treatment and control group are parallel until they begin to diverge in Q1 2015. A similar pattern emerges when analyzing the number of firm employees in Figure 3(b), though with a slight delay.



Figure 3: Parallel trends

Note: This figure plots the trends in outcomes for the treatment group (lobbying and public affairs sector) and the control group (legal sector). Panel (a) illustrates parallel trends across all quarters in 2014. Starting in 2015, the trends begin to diverge, with the treatment group showing higher levels of revenue. Panel (b) presents a similar analysis, using the number of employees as the outcome variable. The trends follow a comparable pattern, diverging from Q2 2015 onward. The red vertical line marks the final quarter before the treatment takes effect.

5.3 Results

The results are presented in Table 6. They show that during the period when the Netherlands held the rotating Presidency of the Council, commercial lobbying firms experienced, on average, a nearly 7 percent increase in quarterly revenue compared to firms in the control group (Legal). Similarly, firm size, measured by the number of employees, also increased significantly relative to the control group (Legal). These findings are consistent with the macro-level analysis, suggesting that interest groups allocate more resources to influence governments holding the Presidency and rely on local commercial lobbying firms to do so. Below, I present a series of robustness checks.

Alternative control groups. Table 6 also presents the results using two alternative control groups: Accountancy and Advertising. The findings remain consistent for both revenue and the number of employees.

Timing of treatment. The results also hold when I adjust the treatment period. Specifically, similar effects are observed when the treatment period is shortened to begin in the second half of 2015 or the first half of 2016, corresponding to the actual Presidency term.

Selection criteria. I conducted additional regressions by varying the selection criteria for firm size, measured by the number of employees. Both widening and narrowing the size range produced similar results.

	Revenue			Employees		
	Legal	Account.	Advert.	Legal	Account.	Advert.
Treatment	0.068***	* 0.111***	0.055***	* 2.704***	2.091***	1.632***
	(0.014)	(0.015)	(0.018)	(0.439)	(0.606)	(0.574)
Observations	17.433	17.289	15.221	17.433	17.289	15.221
R-squared	0.092	0.065	0.094	0.029	0.022	0.029
Number unique firms	1.772	1.749	1.569	1.772	1.749	1.569

Table 6: Regression Results: Treatment Effects on Revenue and Employees

Note: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1. All models include firm and period fixed effects.

6 Conclusion

In this paper I have studied the interaction of rotating leadership in international organizations and interest group activity, with a specific focus on the Council of the European Union (EU). By leveraging the exogenous nature of the Council's rotation system, in combination with the demand for commercial lobby services, I was able to provide empirical evidence that interest groups adapt their strategies in response to shifts in political leadership.

Rotating leadership positions grant governments substantial power and influence over policy outcomes, making them prime targets for firms and other interest groups seeking to influence public policy. However, accessing key decision-makers in national capitals can be challenging, especially for interest groups lacking direct connections to key actors in the presiding country. Local commercial lobbying firms offer a practical solution to this challenge. These firms are deeply embedded in their national political contexts, with established networks that include ministers, parliamentarians, and influential bureaucrats. For companies and international interest groups seeking to influence policy decisions, hiring a local lobbyist can provide effective access to key decision-makers at critical stages of policy development.

My findings reveal that the commercial lobbying sector in the presiding member state experiences a significant economic boost during its government's tenure as Council President. This conclusion is supported by both macro-level evidence (industry GVA) and micro-level evidence (firm revenue). These results align with the findings of Blanes i Vidal et al. (2012) and Bertrand et al. (2014). Blanes i Vidal et al. (2012) using US data, show that lobbyists' revenues decline when the senator they are connected to loses office. Similarly, Bertrand et al. (2014) demonstrate that lobbyists see increasing returns when the political party they are affiliated with gains power. Consistent with these studies, my analysis shows that holding the Presidency enhances the value of commercial lobbying firms with close connections to the presiding government, leading to increased revenue.

Finally, the findings of this paper have important implications for both policymakers and researchers. For policymakers, the results highlight the need for greater transparency in lobbying practices across EU member states. While EU-level lobbying regulations govern interactions with institutions such as the European Commission and the European Parliament, national-level regulations for lobbying activities in member states are often inadequate or entirely absent. In order to see which interest groups are influencing EU-level policy, it is important to take in consideration that substantial lobbying activity occurs at the member-state level, particularly during a Presidency term.

For researchers, this paper offers alternatives for exploring the dynamics of lobbying, by leveraging the key role of mediators in the lobbying industry. Because lobbying and interest group activity is by its very nature difficult to observe directly – particularly in environments that lack transparency regulations – researchers must adopt alternative strategies. This study demonstrates that interest group behavior can be inferred indirectly by analyzing the financial performance of the intermediaries they employ.

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Country	Number	Years
Germany	4	1994, 1999, 2007, 2020
Austria	3	1998, 2006, 2018
Belgium	3	1993, 2001, 2010
Denmark	3	1993, 2002, 2012
Finland	3	1999, 2006, 2019
France	3	1995, 2000, 2008
Greece	3	1994, 2003, 2014
Ireland	3	1996, 2004, 2013
Italy	3	1996, 2003, 2014
Luxembourg	3	1997, 2005, 2015
Netherlands	3	1997, 2004, 2016
Portugal	3	2000, 2007, 2021
Spain	3	1995, 2002, 2010
Slovenia	2	2008, 2021
Sweden	2	2001, 2009
Bulgaria	1	2018
Croatia	1	2020
Cyprus	1	2012
Czech	1	2009
Estonia	1	2017
Hungary	1	2011
Latvia	1	2015
Lithuania	1	2013
Malta	1	2017
Poland	1	2011
Romania	1	2019
Slovakia	1	2016

Table 7: Overview of Council Presidencies