Power, Scrutiny, and Congressmen's Favoritism for Friends' Firms

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Favoritism from higher office

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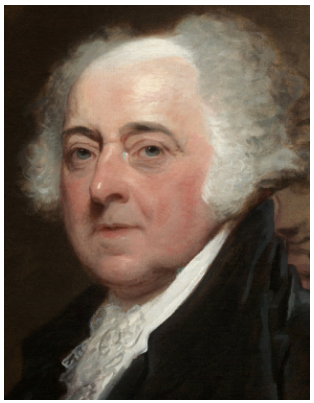
> *"Because power corrupts, society's demands for moral authority and character increase as the importance of the position increases."*
> —Commonly attributed to John Adams



Favoritism and the interplay of power and scrutiny

Research question

Does more power always lead to more favoritism towards firms?

- Higher office may entail stronger scrutiny
- Scrutiny makes election more sensitive to favoritism
- If increased scrutiny dominates elevated power, favoritism may diminish as politician attains higher office

Empirical context and design

Favoritism towards friends' firms by US politicians in and out of Congress

- Distributive politics towards congressmen's constituencies (pork-barrel politics) (Golden & Min 2013, Ferejohn 1974, Levitt & Poterba 1999)
  - Powerful positions of strong influence
  - Stress on power (seniority, committee membership), not scrutiny

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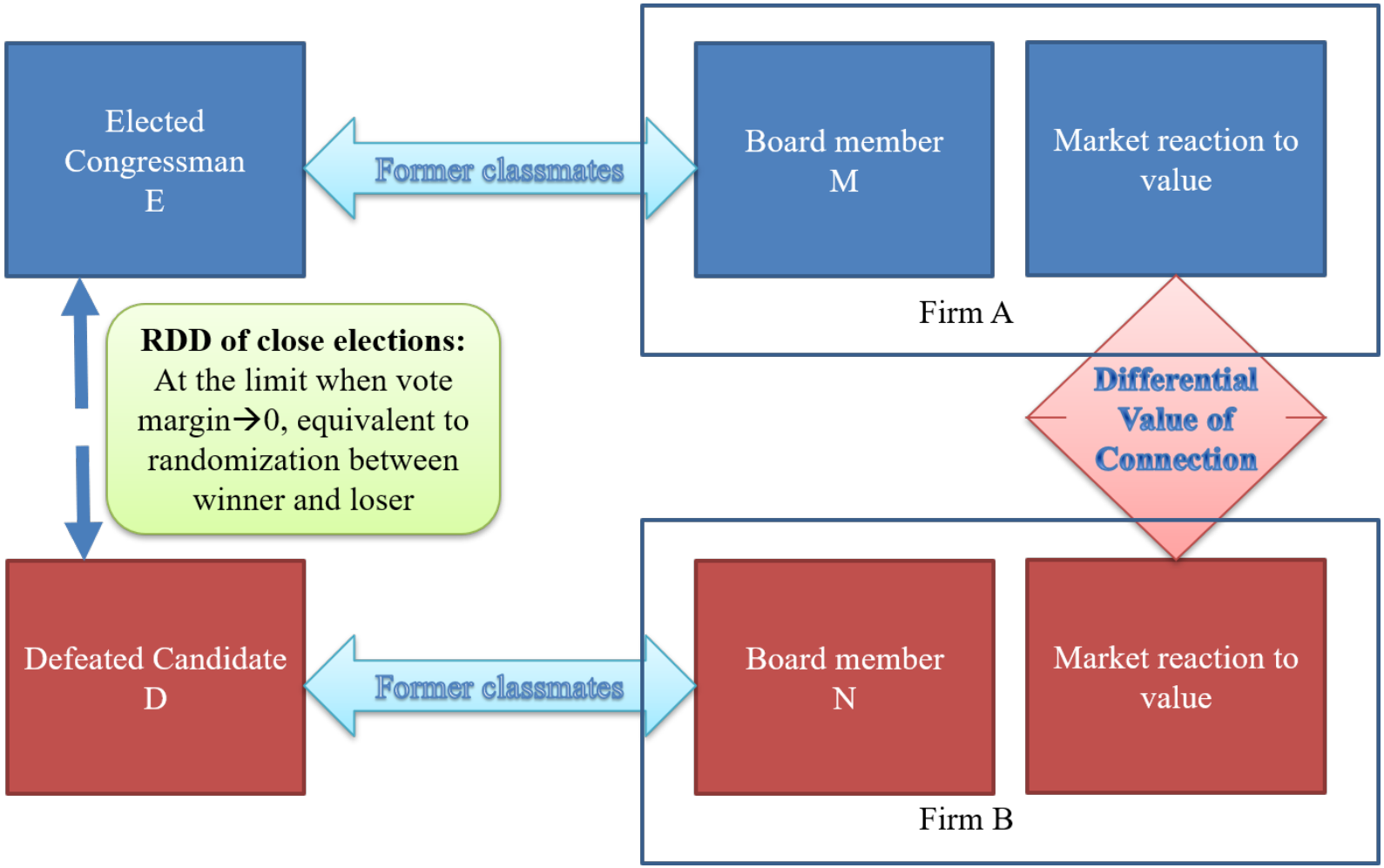
  - Powerful positions of strong influence
  - Stress on power (seniority, committee membership), not scrutiny
- Social connections defined among former classmates in alumni networks (Cohen et al. 2008, Shue 2013)
  - Corporate directors and politicians who were former classmates (predetermined relationships)

RDD of Congress close elections and friends' firms



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4. It is also affected by the **politician's power** to give favor and the **firm's capacity** to receive it
5. Effect **not driven by homophily**, or Shleifer & Vishny's (1994) mechanism of politicians' pressure on firms to increase employment

Contribution to related literature

Favoritism towards firms in the US

- Golden & Min 2013 (survey); Roberts 1990, Jayachandran 2006, Acemoglu et al. 2016 (event studies); Knight 2007, Goldman et al. 2009, 2013 (close presidential elections); Cooper et al. 2010, Akey 2015, Fowler et al. 2020 (campaign contributors)
- Also a large literature outside the US (Faccio 2006, Carozzi & Repetto 2016, Do et al. 2017, etc.)
- This paper: **A novel, nuanced pattern of favoritism' dependence on power and scrutiny, estimated in a RDD**

Studies that have defied the monotonic logic of power and favoritism

- Bertrand et al. 2018: French politicians pressure connected firms to employ more (Shleifer & Vishny's 1994 mechanism)
- Fisman et al. 2012: Stocks connected to Dick Cheney did not move at critical events

Outline

A simple model to organize thoughts

- Two positions: Congress and State politics
- Object of interest: Differential value to the firm $\Delta V_t = V_t^C - V_t^S$
- Politician chooses favor amount—shared between him and the firm, but decreases the chance of election success
- $\beta = \frac{\beta_C}{\beta_S}$: **relative power** to give favor
- $\gamma = \frac{\gamma_C}{\gamma_S}$: **relative scrutiny** (sensitivity of reelection to favoritism)

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Proposition 1

If scrutiny trumps power ($\gamma > \beta$), $\Delta V_t^* < 0$ at early t (*the adverse effect of higher office*), and follows a loosely upward trend by t.

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Proposition 2

If scrutiny trumps power ($\gamma > \beta$), when $\Delta V_t^* < 0$ the magnitude $|\Delta V_t^*|$ increases with $|\frac{\beta_S}{\gamma_S} - \frac{\beta_C}{\gamma_C}|$, in particular, when:

- γ_C increases or γ_S decreases, or both decrease keeping γ the same,
- β_C decreases or β_S increases, or both increase keeping β the same.

Outline

Data on politicians, directors, and connections

- **Politicians:** Hand-collected for all politicians involved in close elections ($\leq 5\%$ vote margin) for US Congress, 2000-2008
- **Directors:** BoardEx covering past education and employment history of all board directors of major US public firms
- **Classmate networks:** Politician and director are connected if they finished the same university program within one year of each other (Cohen et al. 2008)

Baseline sample covers 126 close elections over 2000-2008

Election year	2000	2002	2004	2006	2008	2000-2008
No. of close elections	25	23	14	36	28	**126**
% of all congressional elections	5.3%	4.9%	3.0%	7.7%	6.0%	5.4%
No. of Senate elections	8	4	5	3	3	23
No. of House elections	17	19	9	33	25	103
No. of states covered	17	17	13	25	20	**40**
Avg. win/loss margin	2.36%	2.79%	3.12%	2.23%	2.62%	2.54%
No. of politicians	39	32	22	57	42	**170**
No. of winning candidates	18	17	12	33	21	101
No. of defeated candidates	21	15	10	24	21	91
No. of connected directors	236	218	148	434	296	**1,171**
% of corresponding firms' directors	15.3%	12.8%	13.6%	14.7%	12.8%	13.9%
No. of connected firms	276	250	185	528	355	**1,268**
% of all listed firms	3.8%	3.9%	3.1%	8.9%	6.2%	12.8%
% of total market value	8.9%	10.2%	6.7%	18.4%	6.8%	10.2%
No. of academic institutions	39	31	23	58	43	**117**
No. of politician × director × firm × election year observations	358	267	193	595	379	**1,792**

▸ More details

Regression Discontinuity Design of Congress close elections

$$CAR_{idt} = \beta Winner_{pt} + f_{-}(VoteShare_{pt}) + f_{+}(VoteShare_{pt}) + \varepsilon_{idpt} \quad (1)$$

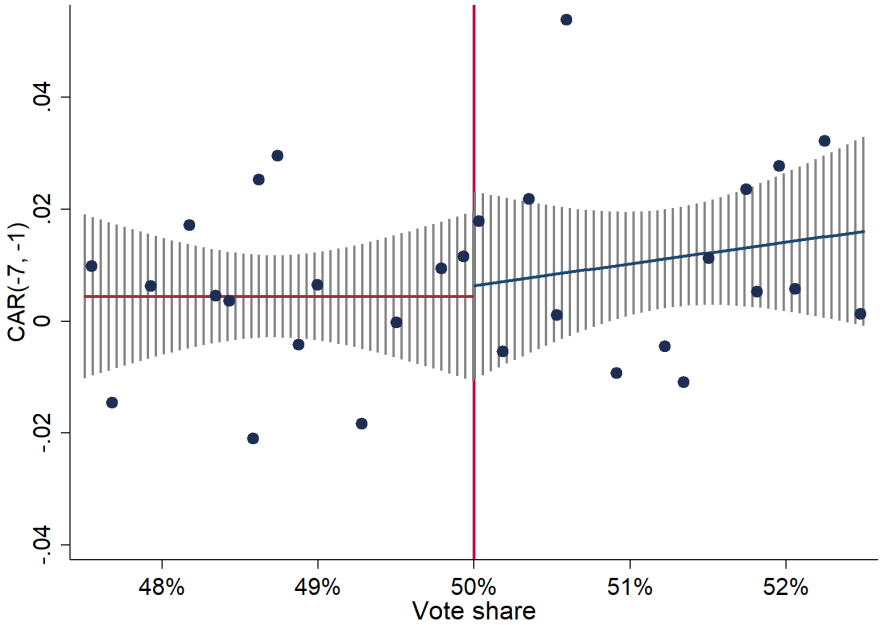
- Observation: politician p $\times$ director d $\times$ firm i $\times$ election year t
- CAR_{idt}: firm's Cumulative Abnormal Returns from day -1 to day 5
- $Winner_{pt}$: indicator whether politician p wins in election year t
- $f_{-}(\cdot)$, $f_{+}(\cdot)$: polynomials of vote share on each side of the 50% cutoff
- **RDD:** *Winner* is as good as random at the cutoff
  - Each characteristics, **observed** and **unobserved**, has identical distributions on either side of the cutoff
  - β captures the difference in firm value between winner-connected and loser-connected firms

Observed politician, director, firm, and state characteristics are balanced at the 50% threshold

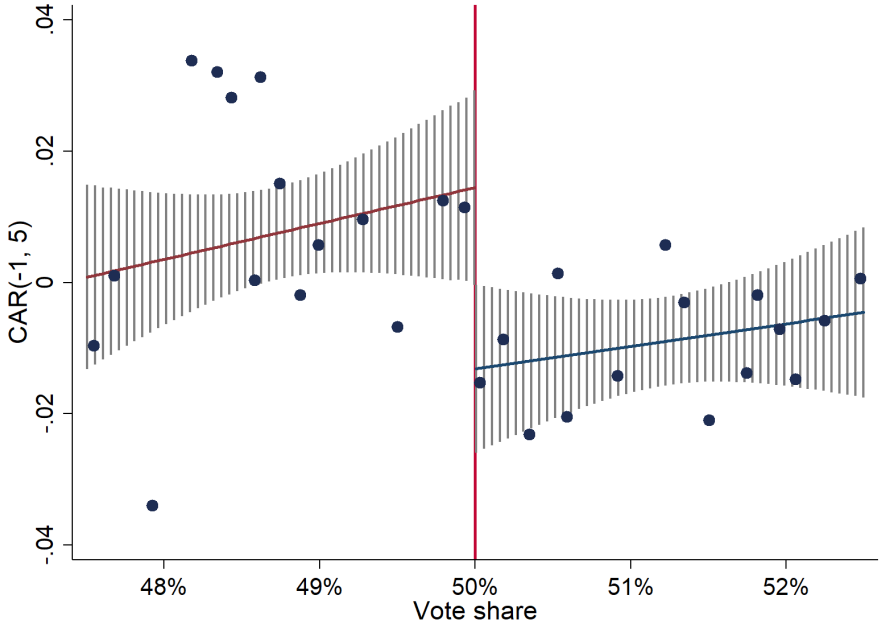
- **Politician characteristics:** ▸ Details
  - Gender, age, university type, Senate vs. House, incumbency, party affiliation, same as chamber majority or presidency, prior experience, local media presence, campaign contribution, number of connections
- **Director characteristics:** ▸ Details
  - Gender, age, university type, type of shared program, time since graduation, tenure in firm, executive, number of boards
- **Firm characteristics:** ▸ Details
  - Age, market value, common equity, market-to-book, total assets, sales, employment, capex, ROA, leverage, Tobin's Q, board size, institutional block shares, local media presence, local firm, distance to state capital or D.C., number of connections
- **State characteristics:** ▸ Details
  - Voters' political interest and media exposure, voter turnout difference, ALD to capital city, corruption level, regulation index, generalized trust

Outline

Market reactions at the 50% vote share threshold before and after the election



A. Before the election: CAR(-7, -1)



B. After the election: CAR (-1, 5)

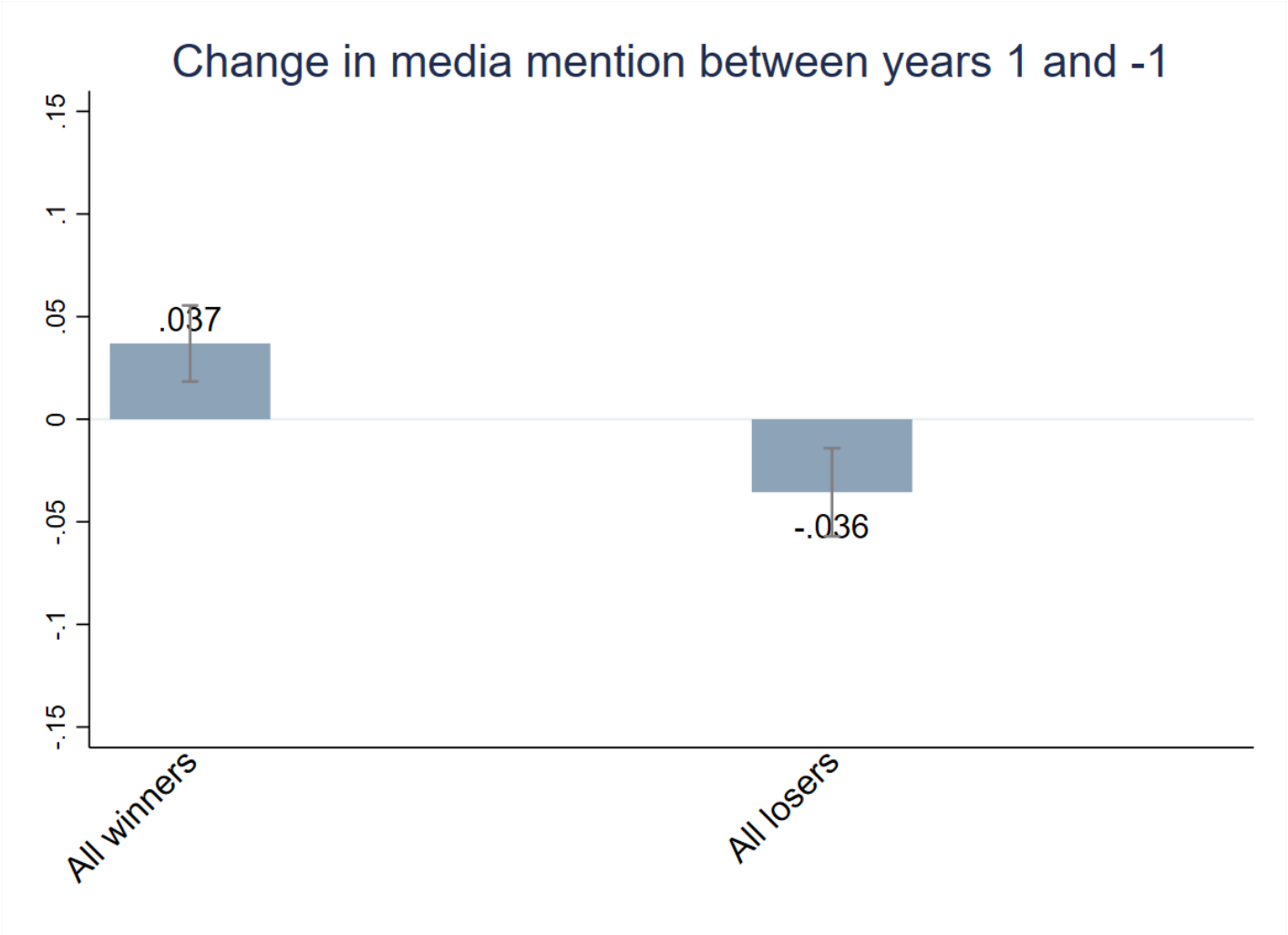
▸ Cubic fit

Congress connections have negative effect on firm value

	(1)	(2)	(3)	(4)	(5)	(6)
	Dependent variable: CAR					
	Pre-election		Around-election		Post-election	
Event window	(-7, -1)	(-2, -1)	(-1, 1)	**(-1, 5)**	(1, 5)	(6, 20)
Winner	0.002	-0.004	-0.016**	**-0.028*** **	-0.019**	0.016
	(0.011)	(0.006)	(0.006)	**(0.008)**	(0.008)	(0.021)
Observations	1,777	1,777	1,792	1,792	1,792	1,792
Politicians	169	169	170	170	170	170
Directors	1,161	1,161	1,171	1,171	1,171	1,171
Firms	1,254	1,254	1,268	1,268	1,268	1,268

- Effect appears only post election and lasts up to one week
- For the median firm, effect amounts to loss of $18 million
- Effect is robust to a wide range of alternative specifications ▸ Details
  - Higher-order controls, CCT's optimal bandwidth, additional controls and fixed effects, alternative CAR models, other clustering schemes

Elected Congressmen appear more on local newspapers



▸ Table: Difference in scrutiny

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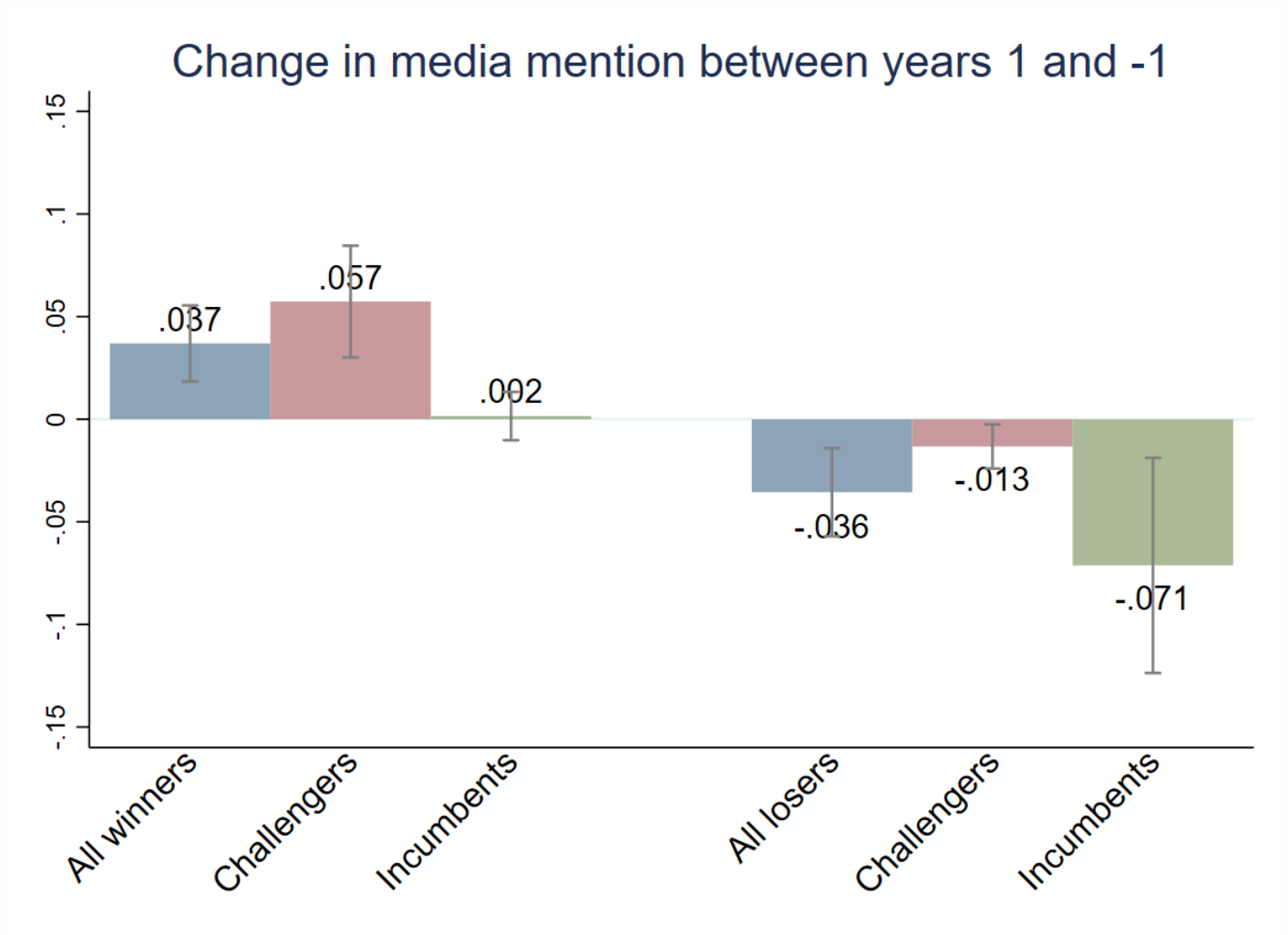
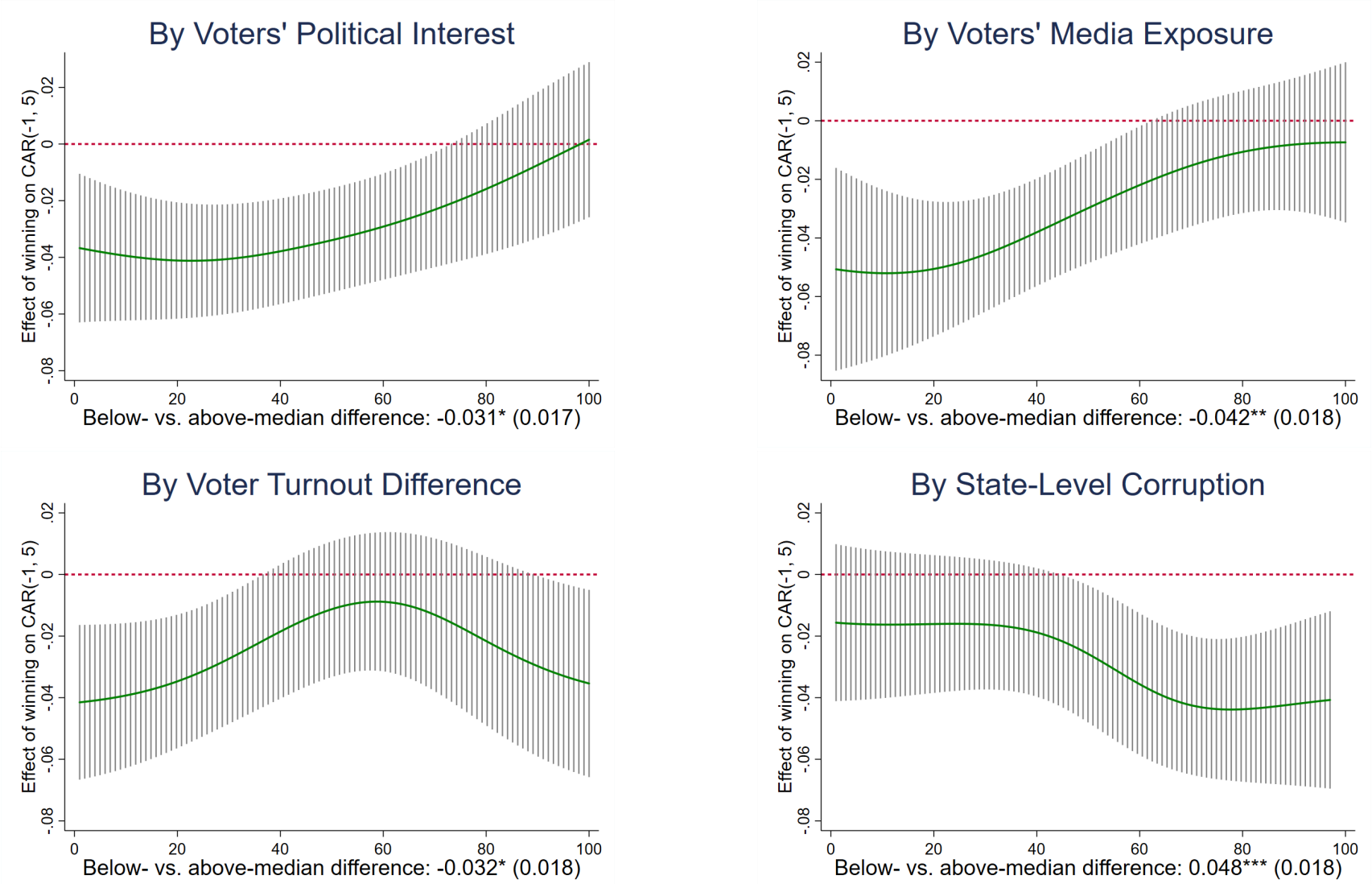


▸ Table: Difference in scrutiny

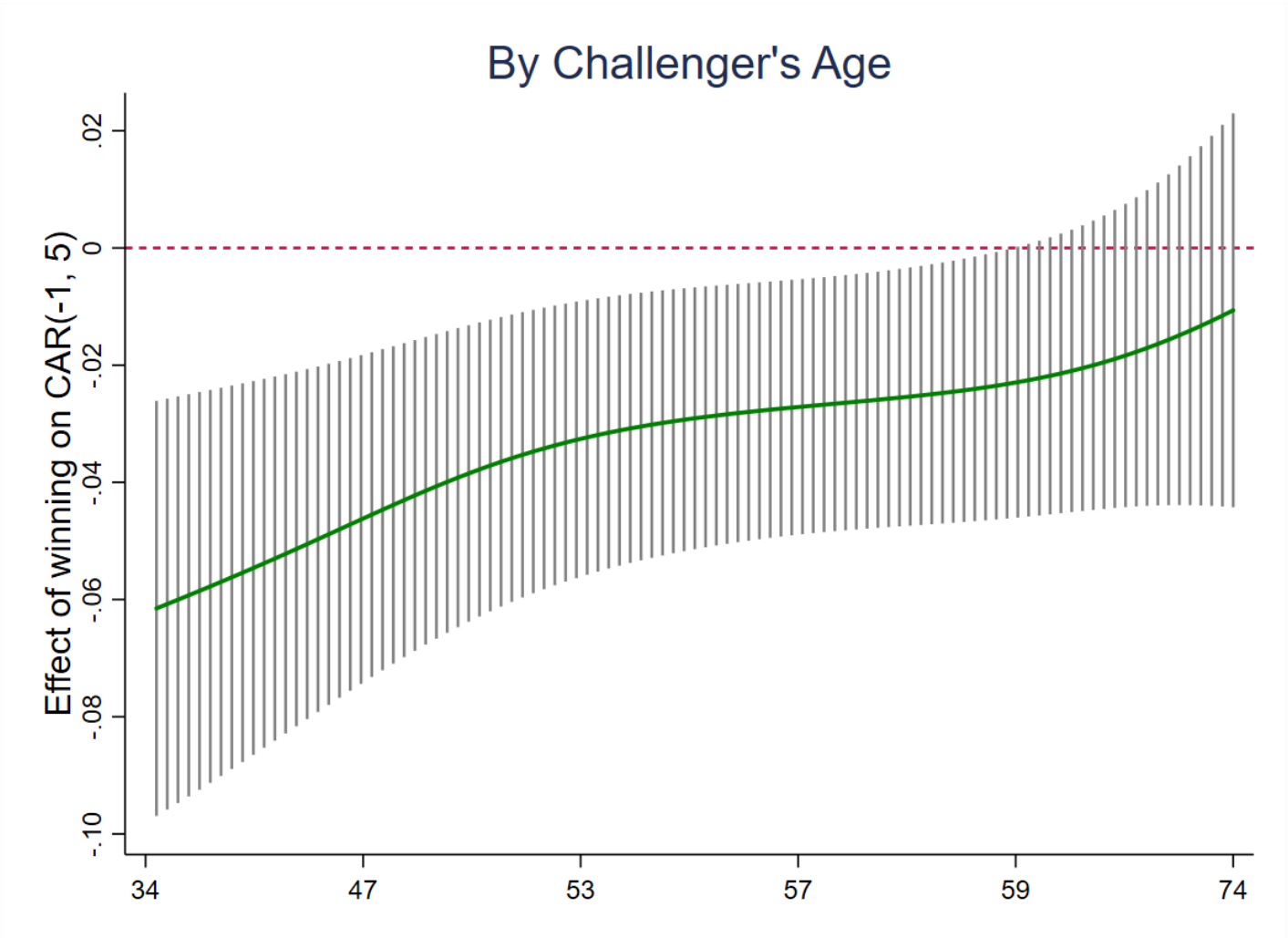
Effect is stronger when state-level scrutiny is weak...



Notes: Semi-parametric estimates of differential value of Congress-level connection to firms as a function of the X-axis variable.

▸ Table: Effect by scrutiny

... and when the politician has greater career concerns



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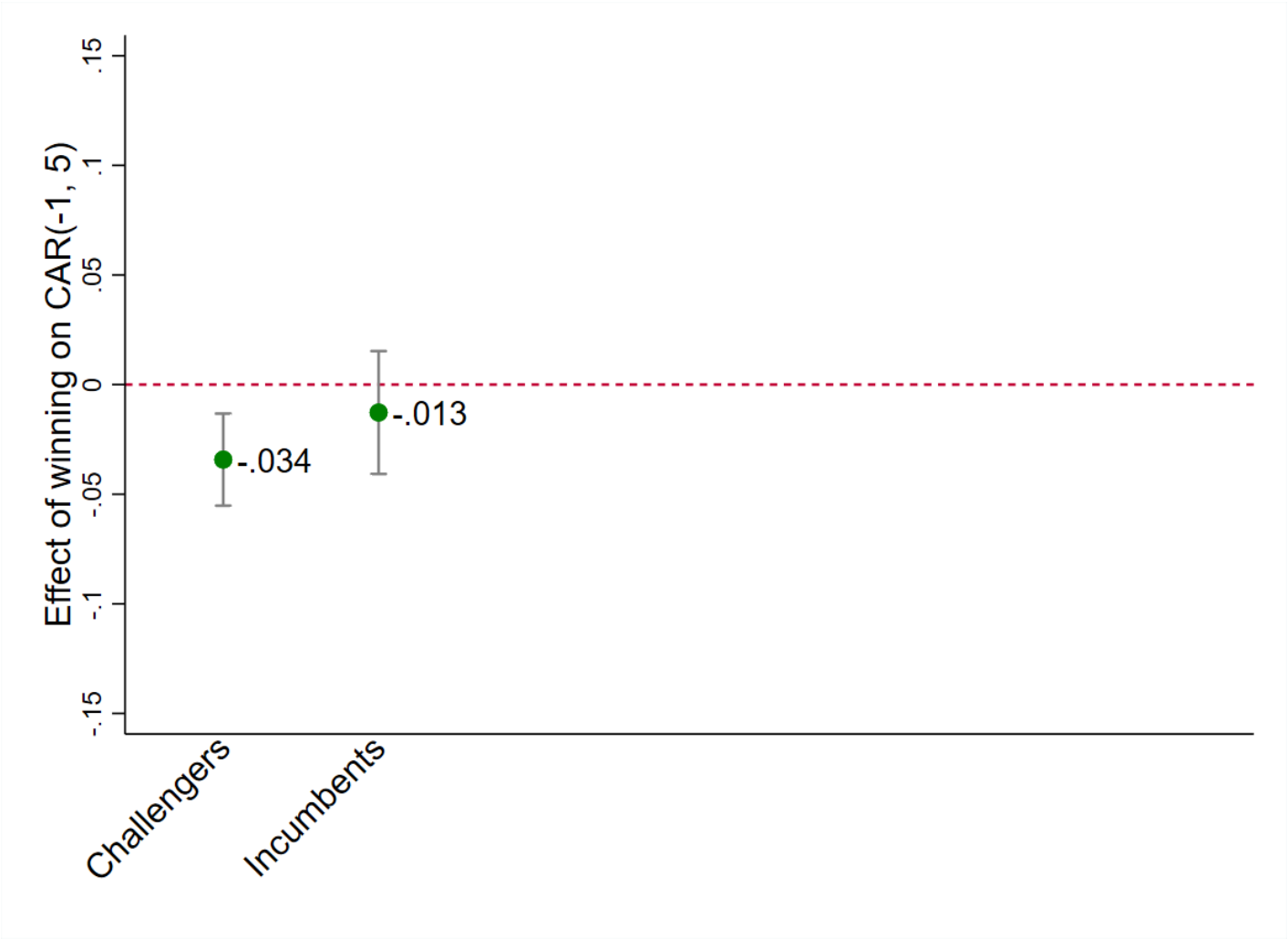
▸ Full sample ▸ Table: Effect by age

Negative effect is driven by challengers with immediate prior experience in state politics



▸ Table: Effect by experience

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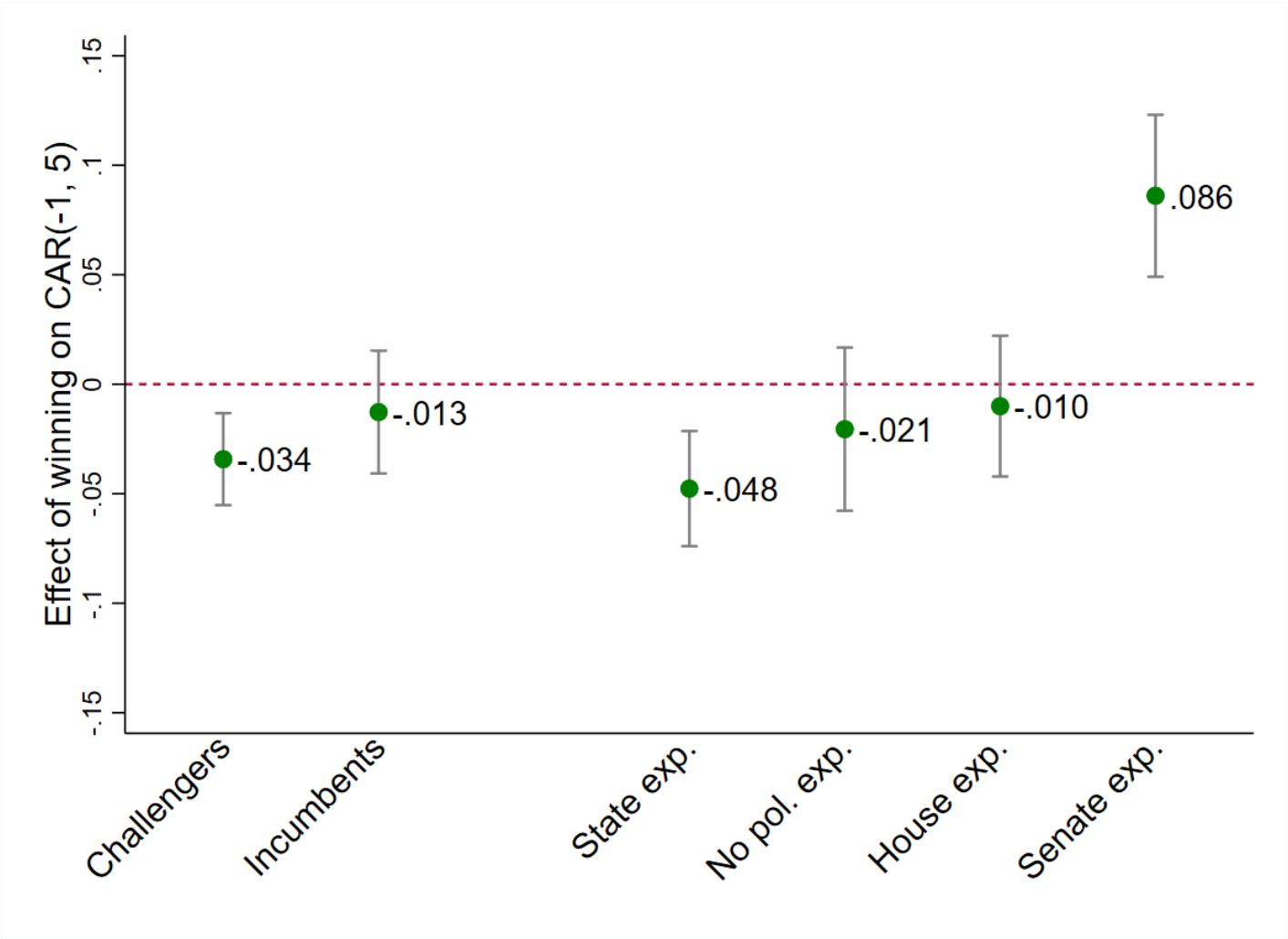


▸ Table: Effect by experience

Effect is strongest among local firms in regulated states

	(1)	(2)	(3)	(4)	(5)	(6)
	Dependent variable: CAR(-1, 5)					
Firm/state sample	All firms	Very large firms	Smaller firms	Local firms	All firms	Local firms
Winner	-0.027***	0.020*	-0.034***	-0.047**	-0.028***	-0.042*
	(0.008)	(0.011)	(0.009)	(0.021)	(0.008)	(0.022)
W × ln(Market value)	0.012**					
	(0.005)					
W × State regulation index					-0.047***	-0.083*
					(0.017)	(0.050)
Difference		*0.054****				
		(0.014)				
Observations	1,792	204	1,588	450	1,792	450
Politicians	170	74	170	117	170	117
Directors	1,171	147	1,092	359	1,171	359
Firms	1,268	132	1,148	374	1,268	374

- Local firms suffer greatest loss, especially in more regulated states
- Large, national firms, in contrast, gain from their connections' wins

▸ Figures

Further evidence and additional results

- Effect is stronger among **better governed** firms ▸ Details
- Magnitude of effect increases with **strength of relationship** ▸ Details
  - As measured by trust, recent unions, and overlapping years
- **Homophily** is unlikely to be the main driver of effect ▸ Details
  - Effect is **narrowly targeted** to classmate-connected firms, not firms connected to other alumni
- Congress-connected firms **reduce their activities** in the state ▸ Details
- Congress-connected directors are **more likely to leave** ▸ Details
- Enough investors "in the know" may trigger information cascade
  - Connected firms have **5.2% abnormal trading volume** during (-5, 1)

Outline

Concluding remarks

Our paper shows:

- When politicians are elected to Congress, their connected firms receive **less favor** than if they are not
- What determines the drop in value: scrutiny by voters and media per state, firm and politician characteristics

What implications:

- **Scrutiny's role** (media, voters' attention) in the design of institutions

Thank you!

Appendix

Baseline sample's descriptive statistics (1/2)

Election year	2000	2002	2004	2006	2008	2002-2008
No. of close elections	25	23	14	36	28	126
% of close elections	89.3%	88.5%	87.5%	92.3%	93.3%	90.6%
% of all congressional elections	5.3%	4.9%	3.0%	7.7%	6.0%	5.4%
No. of Senate elections	8	4	5	3	3	23
No. of House elections	17	19	9	33	25	103
No. of states covered	17	17	13	25	20	40
Avg. win/loss margin	2.36%	2.79%	3.12%	2.23%	2.62%	2.54%
No. of politicians	39	32	22	57	42	170
% of all election candidates	1.6%	1.5%	1.0%	2.6%	1.9%	2.2%
No. of winning candidates	18	17	12	33	21	101
No. of defeated candidates	21	15	10	24	21	91
Avg. no. of connected directors	7.41	6.81	6.73	7.79	7.14	7.29
Avg. no. of connected firms	9.05	8.13	8.64	10.32	8.90	9.19

◂ Back

Baseline sample's descriptive statistics (2/2)

Election year	2000	2002	2004	2006	2008	2002-2008
No. of connected directors	236	218	148	434	296	1,171
% of corresponding firms' directors	15.3%	12.8%	13.6%	14.7%	12.8%	13.9%
Avg. no of connected politicians	1.22	1.00	1.00	1.02	1.01	1.05
Avg. firms per director	1.22	1.22	1.30	1.32	1.26	1.27
No. of connected firms	276	250	185	528	355	1,268
% of all listed firms	3.8%	3.9%	3.1%	8.9%	6.2%	12.8%
% of total market value	8.9%	10.2%	6.7%	18.4%	6.8%	10.2%
Avg. no. of connected politicians	1.28	1.04	1.03	1.11	1.05	1.11
Avg. no. of connected directors	1.05	1.07	1.04	1.09	1.05	1.07
No. of academic institutions	39	31	23	58	43	117
No. of observations	358	267	193	595	379	1,792

◂ Back

RDD randomness checks: Politician characteristics

Sample		Politician × Election year				Baseline			
Dependent variable		Winner	S.E.	*Mean*	Obs.	Winner	S.E.	*Mean*	Obs.
1	Indicator (I): Gender = Male	0.072	(0.116)	*0.781*	192	0.094	(0.119)	*0.842*	1,792
2	Age at election year (year)	-1.638	(2.290)	*52.83*	192	2.837	(2.090)	*54.70*	1,792
3	I: Attended brand-name university	-0.032	(0.121)	*0.245*	192	-0.210	(0.231)	*0.496*	1,792
4	I: Senate election candidate	0.049	(0.114)	*0.203*	192	0.094	(0.229)	*0.304*	1,792
5	I: Incumbent candidate	-0.100	(0.136)	*0.375*	192	-0.173	(0.194)	*0.331*	1,792
6	I: Party affiliation = Democrat	0.009	(0.138)	*0.526*	192	0.351*	(0.184)	*0.581*	1,792
7	I: Same party as chamber majority	0.182	(0.142)	*0.484*	192	-0.156	(0.221)	*0.489*	1,792
8	I: Same party as presidency	0.045	(0.141)	*0.469*	192	-0.183	(0.203)	*0.400*	1,792
9	I: Experience in state politics	-0.156	(0.136)	*0.333*	192	-0.171	(0.196)	*0.329*	1,792
10	Level of prior experience	-0.080	(0.294)	*1.146*	192	-0.280	(0.422)	*1.098*	1,792
11	Local media presence in election year	-0.005	(0.076)	*0.146*	192	-0.033	(0.056)	*0.146*	1,792
12	Total campaign contribution	-0.507	(0.810)	*2.246*	192	0.122	(1.565)	*2.596*	1,792
13	Number of contributors	-128.5	(128.6)	*576.8*	192	-318.2	(203.2)	*564.7*	1,792
14	Number of connected directors	1.628	(2.362)	*7.286*	192	1.147	(5.530)	*16.76*	1,792
15	Number of connected firms	2.786	(3.100)	*9.193*	192	3.618	(7.689)	*22.38*	1,792

◂ Back

RDD randomness checks: Director characteristics

Sample		Director × Politician × Year				Baseline			
Dependent variable		Winner	S.E.	*Mean*	Obs.	Winner	S.E.	*Mean*	Obs.
16	I: Gender = Male	-0.018	(0.037)	*0.916*	1,399	-0.032	(0.041)	*0.903*	1,792
17	Age at election year (year)	2.583	(2.127)	*54.32*	1,399	2.278	(2.046)	*54.54*	1,792
18	Number of years since graduation	2.966	(2.152)	*31.62*	1,399	2.989	(2.140)	*31.82*	1,792
19	I: Link via big-name university	-0.142	(0.213)	*0.420*	1,399	-0.159	(0.219)	*0.438*	1,792
20	I: Link via big-size university	0.101	(0.095)	*0.158*	1,399	0.072	(0.096)	*0.152*	1,792
21	I: Link via undergraduate program	0.033	(0.062)	*0.869*	1,399	0.064	(0.070)	*0.867*	1,792
22	Number of related firms	0.112	(0.078)	*1.281*	1,399	0.553*	(0.313)	*1.672*	1,792
23	I: Executive director (avg.)	-0.058	(0.050)	*0.206*	1,399	-0.070	(0.046)	*0.179*	1,792
24	Tenure in firm at election year (avg.)	-0.973	(0.721)	*4.627*	1,399	-0.856	(0.683)	*4.511*	1,792

◂ Back

RDD randomness checks: State characteristics

Sample		State × Politician × Year				Baseline sample			
Dependent variable		Winner	S.E.	*Mean*	Obs.	Winner	S.E.	*Mean*	Obs.
25	Average log distance to capital city	-0.026	(0.026)	*0.300*	189	0.020	(0.039)	*0.304*	1,753
26	Difference in voter turnouts	-0.006	(0.010)	*0.180*	167	-0.014	(0.014)	*0.183*	1,613
27	Voters' political interest	0.011	(0.023)	*1.675*	189	0.033	(0.034)	*1.679*	1,753
28	Voters' election media exposure	0.002	(0.004)	*0.974*	189	0.001	(0.004)	*0.974*	1,753
29	State's corruption level	0.181*	(0.104)	*0.259*	192	0.169	(0.169)	*0.225*	1,792
30	State's regulation index in 1999	0.073	(0.133)	*6.148*	192	-0.058	(0.185)	*6.151*	1,792
31	State's generalized trust level	0.010	(0.036)	*0.482*	189	-0.000	(0.057)	*0.474*	1,753

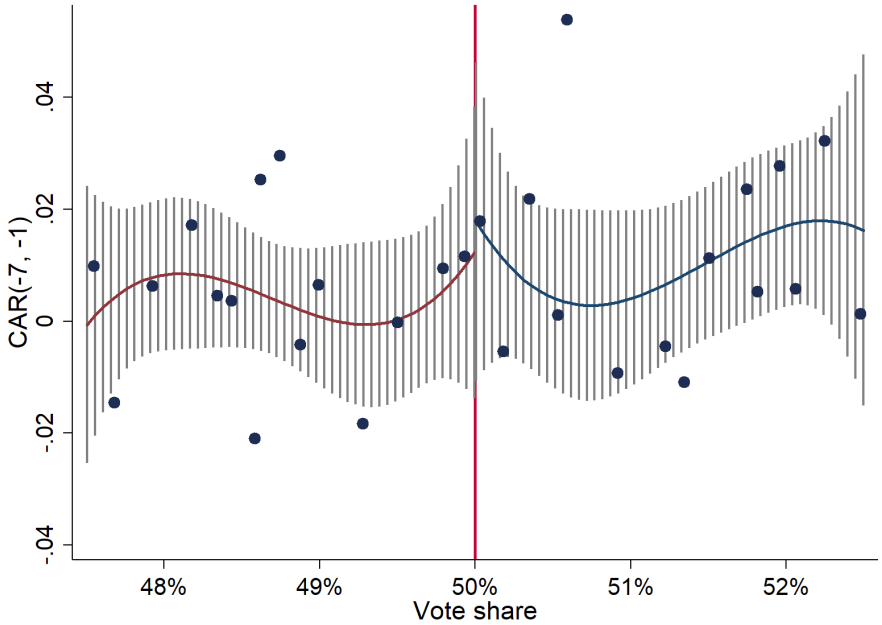
◂ Back

RDD randomness checks: Firm characteristics

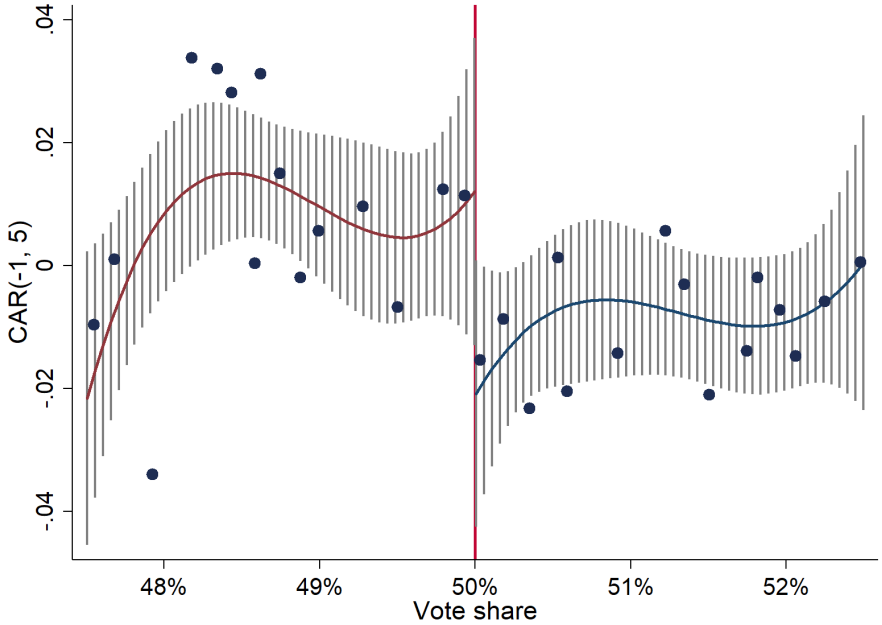
Sample		Firm × Politician × Year				Baseline			
Dependent variable		Winner	S.E.	*Mean*	Obs.	Winner	S.E.	*Mean*	Obs.
32	Age at election year (year)	1.849	(1.696)	*18.92*	1,759	1.989	(1.693)	*18.91*	1,786
33	Lagged market value ($ billion)	2.203	(3.993)	*6.457*	1,689	2.175	(3.922)	*6.367*	1,716
34	Lagged common equity ($billion)	0.925	(0.976)	*2.040*	1,715	0.915	(0.954)	*2.013*	1,742
35	Lagged market-to-book ratio	1.972	(2.182)	*2.914*	1,652	2.103	(2.120)	*2.935*	1,679
36	Lagged total assets ($ billion)	-0.855	(8.733)	*11.77*	1,716	-0.748	(8.555)	*11.61*	1,743
37	Lagged total sales ($ billion)	2.521	(2.088)	*3.812*	1,714	2.542	(2.038)	*3.773*	1,741
38	Lagged total employment (thousand)	4.537	(3.693)	*13.04*	1,686	4.667	(3.599)	*12.91*	1,713
39	Lagged capital expenditure/assets	0.003	(0.006)	*0.044*	1,638	0.002	(0.006)	*0.044*	1,663
40	Lagged return on assets	-0.032	(0.036)	*-0.039*	1,714	-0.039	(0.037)	*-0.041*	1,741
41	Lagged book leverage ratio	-0.020	(0.104)	*0.372*	1,708	-0.018	(0.102)	*0.372*	1,735
42	Lagged Tobin's Q	0.288	(0.351)	*2.355*	1,652	0.338	(0.351)	*2.363*	1,679
43	Lagged board size	-0.109	(0.543)	*9.469*	1,210	-0.145	(0.545)	*9.453*	1,227
44	Lagged institutional block shares	0.007	(0.020)	*0.226*	1,061	0.008	(0.020)	*0.227*	1,074
45	Local media presence in election year	0.017	(0.042)	*0.054*	1,759	0.015	(0.041)	*0.054*	1,786
46	I: Local firm	-0.087	(0.094)	*0.248*	1,765	-0.093	(0.096)	*0.251*	1,792
47	Distance to state capital (km)	146.2	(168.7)	*1,509*	1,765	168.1	(169.6)	*1,500*	1,792
48	Distance to Washington D.C. (km)	524.6	(387.4)	*1,241*	1,726	492.7	(389.8)	*1,241*	1,753
49	Number of connected directors	-0.270	(0.176)	*1.126*	1,765	-0.265	(0.173)	*1.124*	1,792

◂ Back

Market reactions at the 50% vote share threshold before and after the election



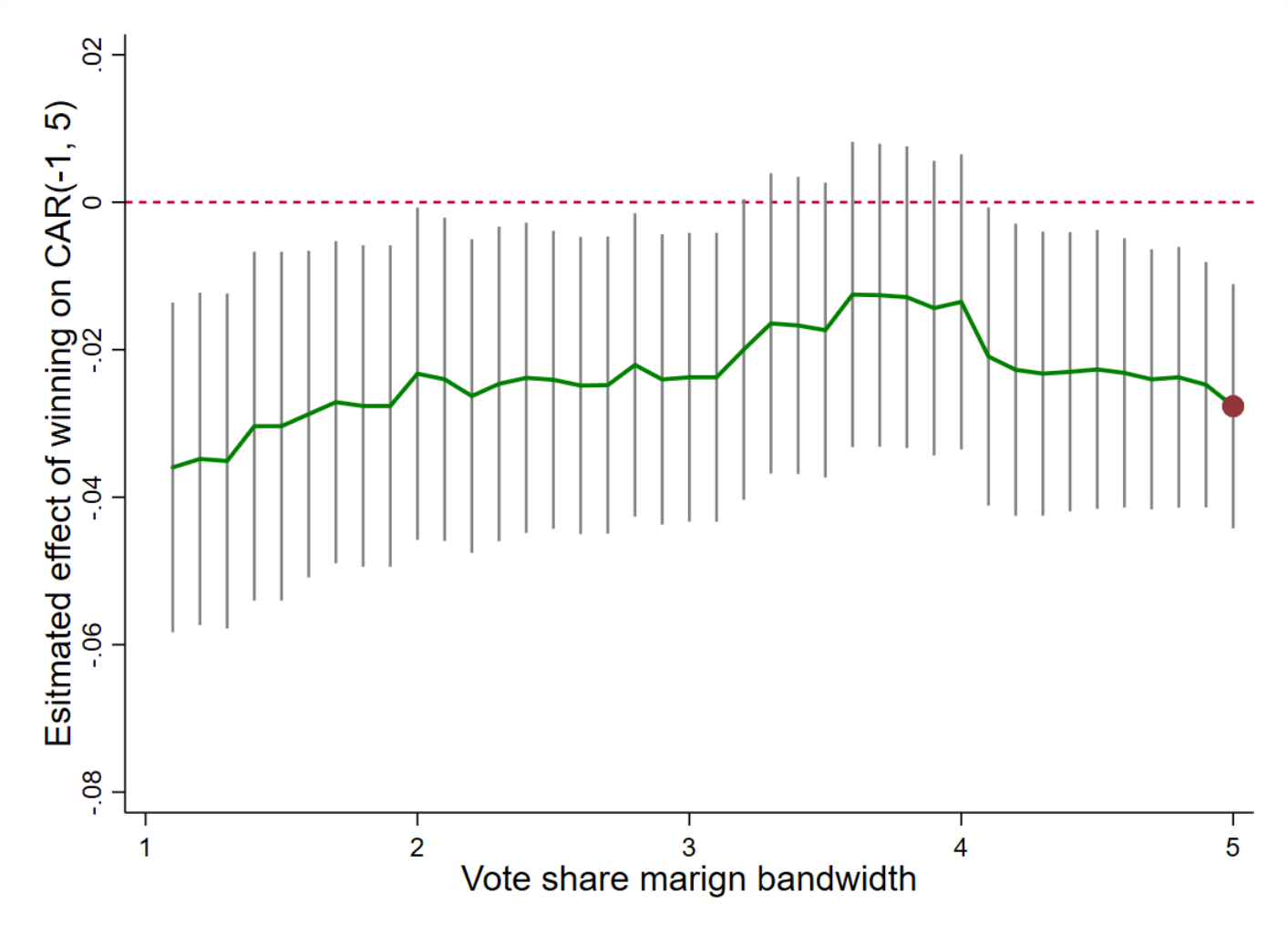
A. Before the election: CAR(-7, -1)



B. After the election: CAR(-1, 5)

Back

Sensitivity tests using alternative sample restrictions



Back

Congress connections have negative effect on firm value

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Dependent variable: CAR(-1, 5)							
Specification	Benchmark	High-order	CCT	Additional controls			Winner/loser subsamples	
Winner	-0.028***	-0.033***	-0.030***	-0.025***	-0.028**	-0.026**		
	(0.008)	(0.012)	(0.011)	(0.009)	(0.012)	(0.011)		
Mean							-0.013**	0.014**
							(0.006)	(0.006)
Politician sample							Winners	Losers
Politician controls				X				
Director controls					X			
Firm controls						X		
Election year FEs				X				
University FEs					X			
Industry FEs						X		
Observations	1,792	1,792	597	1,792	1,792	1,537	966	826
Politicians	170	170	66	170	170	163	94	88
Directors	1,171	1,171	435	1,171	1,171	1,036	695	587
Firms	1,268	1,268	507	1,268	1,268	1,097	800	691

Notes: RDD of close Congress elections.

◂ Back

Effect is robust to alternative specifications

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Dependent variable: CAR(-1, 5)							
Specification	Alt. clusterings			Alt. obs. unit	Alt. kernels & samples			
Winner	-0.028***	-0.028***	-0.028***	-0.026***	-0.021**	-0.021**	-0.030***	-0.030***
	(0.010)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.011)	(0.011)
Clustering scheme	State × Yr.	Firm	Two-way					
Observation unit				Pol. × Firm				
Kernel function					Tri	Epa	Tri	Epa
Sample selection							CCT	CCT
Observations	1,792	1,792	1,792	1,765	1,792	1,792	597	1,792
Politicians	170	170	170	170	170	170	66	170
Directors	1,171	1,171	1,171	-	1,171	1,171	435	1,171
Firms	1,268	1,268	1,268	1,268	1,268	1,268	507	1,268

Notes: RDD of close Congress elections.

◂ Back

Effect is robust to alternative CAR models

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dependent variable	**SCAR(-1, 5)**		**CAR(-1, 5)**					
Model	Baseline MM		Raw		FF		FFM	
Winner	-0.338***	-0.416***	-0.020	-0.043*	-0.024***	-0.026**	-0.027***	-0.028***
	(0.125)	(0.151)	(0.019)	(0.023)	(0.008)	(0.011)	(0.007)	(0.010)
University FEs		X		X		X		X
Observations	1,792	1,792	1,792	1,792	1,792	1,792	1,791	1,791
Politicians	170	170	170	170	170	170	170	170
Directors	1,171	1,171	1,171	1,171	1,171	1,171	1,171	1,171
Firms	1,268	1,268	1,268	1,268	1,268	1,268	1,267	1,267

Notes: RDD of close Congress elections.

Back

Effect is robust in different politician subsamples

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Dependent variable: CAR(-1, 5)							
	Election type		Politician type		Party affiliation		President's party	
Politician sample	House	Senate	Challengers	Incumbents	Democrat	Republican	Different	Same
Winner	-0.022*	-0.046***	-0.034***	-0.013	-0.026**	-0.029**	-0.029***	-0.024
	(0.011)	(0.011)	(0.011)	(0.014)	(0.012)	(0.013)	(0.010)	(0.015)
Observations	1,247	545	1,199	593	1,042	750	1,076	716
Politicians	134	36	115	64	92	78	94	80
Directors	844	376	838	440	732	521	750	529
Firms	949	456	961	517	834	635	864	633

Notes: RDD of close Congress elections.

Back

Elected Congressmen appear more on local newspapers

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Dependent variable: Change in media mention (-1, 1)						
Politician sample	All winners	Challenger winners	Incumbent winners	All losers	Challenger losers	Incumbent losers	All candidates
Mean	0.037***	0.057***	0.002	-0.036***	-0.013**	-0.071***	
	(0.009)	(0.014)	(0.006)	(0.011)	(0.005)	(0.026)	
Winner							0.113***
							(0.029)
Difference			*0.056***			*0.058**	
			(0.015)			*(0.026)*	
Observations	101	64	37	91	56	35	192
Politicians	94	64	32	88	54	35	170

Notes: Sample means in columns (1) to (6). RDD of close Congress elections in column (7).

Back

Elected Congressmen appear more on local newspapers

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Dependent variable: Media mention in local newspapers							
Time period	Year -1	Year 0	Year 1	Year 2	$\Delta(-1, 1)$		Δ(pre, post)	
Politician sample	All politicians				Challengers	Incumbents	Challengers	Incumbents
Winner	-0.013	-0.005	0.099*	0.081*	0.096***	0.122***	0.079***	0.112**
	(0.050)	(0.076)	(0.053)	(0.044)	(0.032)	(0.044)	(0.027)	(0.050)
Observations	192	192	192	192	120	72	120	72
Politicians	170	170	170	170	115	64	115	64

Notes: RDD of close Congress elections.

Back

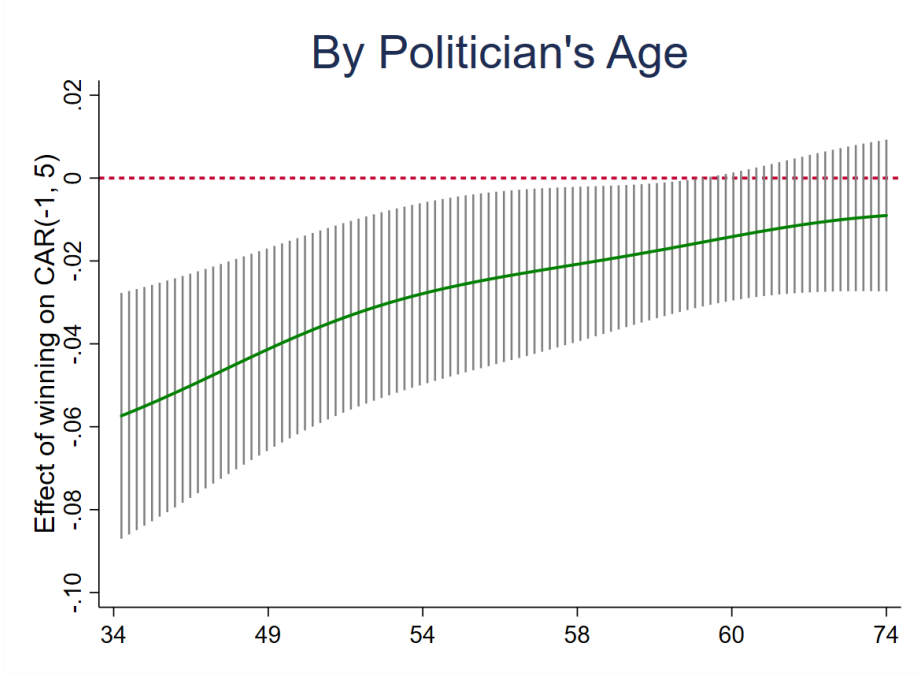
Effect is stronger when state-level scrutiny is weak...

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Dependent variable: CAR(-1, 5)							
Measure of scrutiny	Voter turnout		Political interest		Media exposure		Corruption	
State sample	Low	High	Low	High	Limited	Strong	High	Low
Winner	-0.044***	-0.012	-0.045***	-0.013	-0.057***	-0.015	-0.056***	-0.008
	(0.011)	(0.015)	(0.012)	(0.012)	(0.015)	(0.010)	(0.014)	(0.011)
Difference	*-0.032**		*-0.031**		*-0.042***		*-0.048****	
	(0.018)		*(0.017)*		*(0.018)*		*(0.018)*	
Observations	767	846	879	874	840	913	860	932
Politicians	62	86	88	79	87	80	97	73
Directors	532	571	622	589	582	633	607	633
Firms	623	676	724	700	674	737	684	763

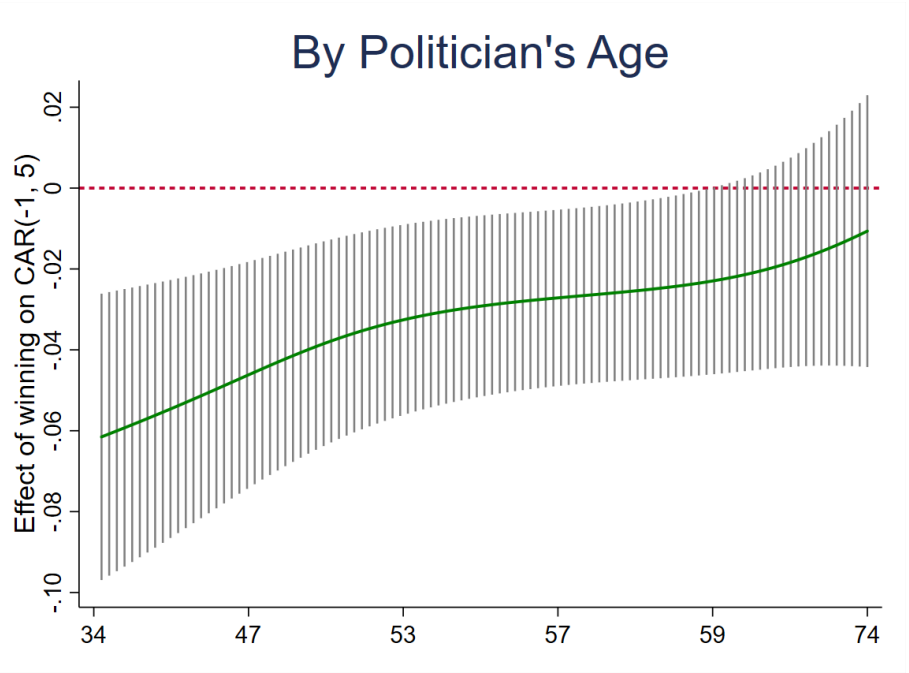
Notes: RDD of close Congress elections.

Back

... and when the politician has greater career concerns



A. Full sample



B. Challengers

Notes: Semi-parametric estimates of differential value of Congress-level connection to firms as a function of the X-axis variable.

Back

Magnitude of effect decreases with politician's age

Panel A. Full sample

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Dependent variable: CAR(-1, 5)						
Politician sample	All	≤ 55	> 55	Age Q1	Age Q2	Age Q3	Age Q4
Winner	-0.029***	-0.049***	-0.016	-0.066***	-0.023	-0.017	-0.009
	(0.008)	(0.014)	(0.010)	(0.021)	(0.017)	(0.013)	(0.012)
W $\times$ Politician's age	0.003**						
	(0.001)						
Difference		*-0.033**					
		(0.016)					
Observations	1,792	861	931	472	543	343	434
Politicians	170	106	68	72	50	20	39
Directors	1,171	606	597	354	388	215	310
Firms	1,268	695	706	407	472	280	376

Notes: RDD of close Congress elections.

◂ Back

Magnitude of effect decreases with politician's age

Panel B. Subsample of challengers

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Dependent variable: CAR(-1, 5)						
Politician sample	All	≤ 55	> 55	Age Q1	Age Q2	Age Q3	Age Q4
Winner	-0.029***	-0.048***	-0.024*	-0.056**	-0.033	-0.025	0.006
	(0.010)	(0.017)	(0.013)	(0.026)	(0.047)	(0.015)	(0.033)
W $\times$ Politician's age	0.004***						
	(0.001)						
Difference		*-0.025*					
		(0.021)					
Observations	1,199	625	574	328	297	363	211
Politicians	115	79	36	50	29	21	16
Directors	838	469	369	261	213	237	157
Firms	961	565	460	298	283	265	193

Notes: RDD of close Congress elections.

Back

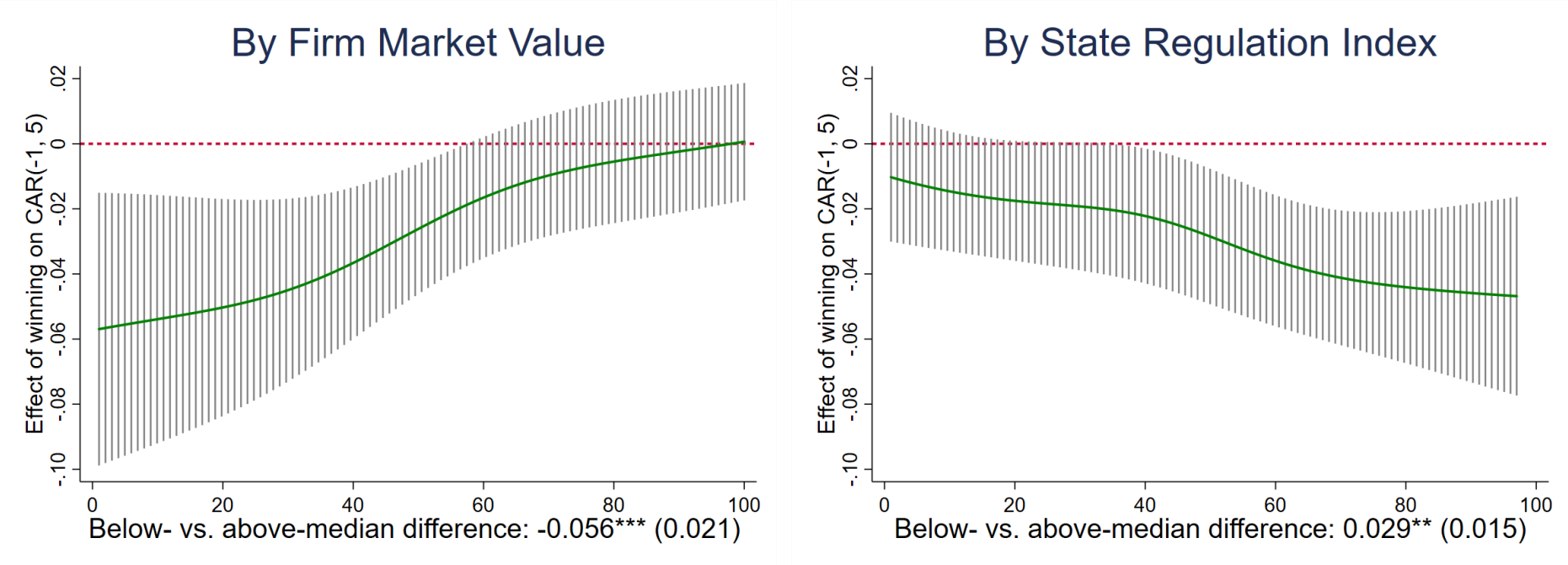
Negative effect is driven by challengers with immediate prior experience in state politics

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Dependent variable: CAR(-1, 5)						
Politician sample	Challengers	Incumbents	State	No pol. exp.	House	Senate	All
Winner	-0.034***	-0.013	-0.048***	-0.021	-0.010	0.086***	-0.044***
	(0.011)	(0.014)	(0.013)	(0.019)	(0.016)	(0.017)	(0.012)
W × Pol.'s experience							0.017**
							(0.008)
Difference	*-0.021*			*-0.027*	*-0.038**	*-0.134****	
	(0.017)			*(0.023)*	*(0.020)*	*(0.021)*	
Observations	1,199	593	590	565	508	129	1,792
Politicians	115	64	61	47	58	12	170
Directors	838	440	448	376	372	103	1,171
Firms	961	517	518	488	438	127	1,268

Notes: RDD of close Congress elections.

◂ Back

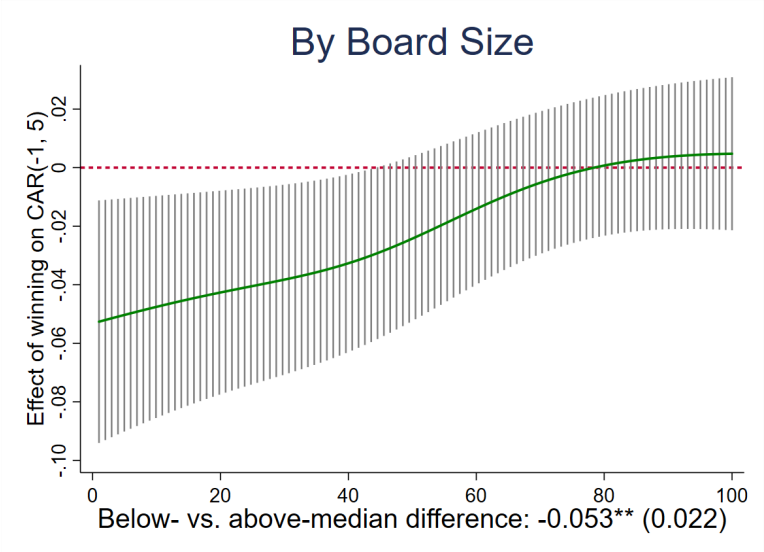
Effect is strongest among local firms in regulated states

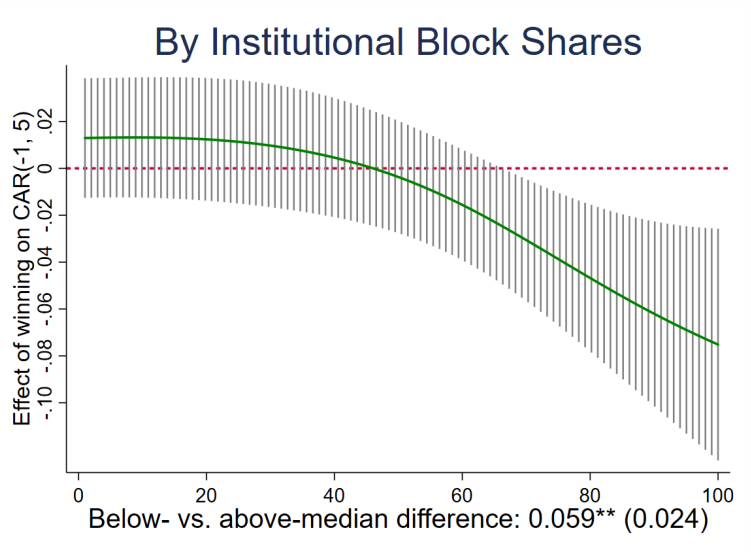


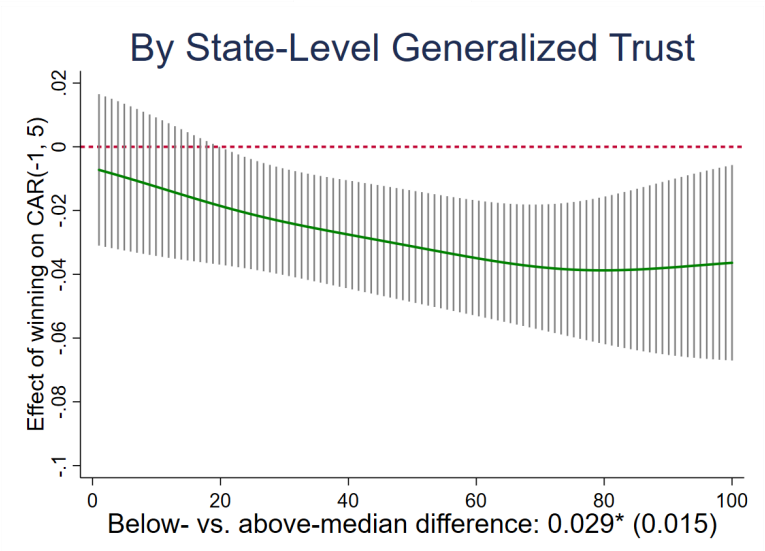
Notes: Semi-parametric estimates of differential value of Congress-level connection to firms as a function of the X-axis variable.

Back

Corporate governance and relationship strength also matter







Notes: Semi-parametric estimates of differential value of Congress-level connection to firms as a function of the X-axis variable.

◂ Back

Corporate governance and relationship strength also matter

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Dependent variable: CAR(-1, 5)							
	Board size		Inst. block shares		State's trust level		Reunion year	
Sample	< 10	≥ 10	Large	Small	High	Low	On	Off
Winner	-0.049***	0.004	-0.047***	0.012	-0.042***	-0.012	-0.053***	-0.020*
	(0.017)	(0.013)	(0.017)	(0.015)	(0.011)	(0.011)	(0.017)	(0.011)
Difference	*-0.053***		*-0.059***		*-0.029**		*-0.033*	
	(0.022)		*(0.024)*		*(0.015)*		*(0.020)*	
Observations	713	514	528	546	865	888	516	936
Politicians	121	114	23	129	84	83	58	95
Directors	570	382	415	438	635	563	373	621
Firms	594	377	419	426	728	658	459	723

Notes: RDD of close Congress elections.

◂ Back

Quality of politician-director connection measure matters

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Dependent variable: CAR(-1, 5)						
	Graduation year difference					Total enrollment	
Network sample	Baseline	2 year	3 year	4 year	Alumni	Top 15	Others
Winner	-0.028***	-0.024***	-0.015**	-0.014**	-0.005	-0.012	-0.031***
	(0.008)	(0.008)	(0.007)	(0.007)	(0.006)	(0.022)	(0.009)
Observations	1,792	1,920	4,143	5,284	27,394	273	1,519
Politicians	170	176	193	197	219	30	148
Directors	1,171	1,267	2,398	2,922	9,027	186	988
Firms	1,268	1,338	2,215	2,527	4,257	219	1,097

Notes: RDD of close Congress elections.

◂ Back

Effect is narrowly targeted to classmate-connected firms, suggesting that homophily is unlikely the main driver

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Dependent variable: CAR(-1, 5)						
	Same institution definition			Year difference		Network sample	
Network sample	Baseline	Loose	Strict	10 years	5 years	Harvard	Big network
Winner × Classmate	-0.033***	-0.030***	-0.039***	-0.032***	-0.031***	-0.030**	-0.036**
	(0.010)	(0.009)	(0.009)	(0.010)	(0.011)	(0.011)	(0.014)
Winner	0.002*	0.001	0.001	0.009*	0.007	0.001	0.001
	(0.001)	(0.001)	(0.001)	(0.005)	(0.007)	(0.001)	(0.001)
University × Election year FEs	X	X	X	X	X	X	X
Observations	27,394	29,049	30,910	11,238	6,204	5,995	7,540
Politicians	219	221	219	215	196	24	28
Directors	9,027	9,408	8,769	5,192	3,330	803	1,521
Firms	4,257	4,323	4,254	3,441	2,731	1,025	1,656

Notes: RDD of close Congress elections.

◂ Back

Congress-connected firms have reduced presence on local newspapers and directors—shorter tenure in the firms

	(1)	(2)	(3)	(4)	(5)	(6)
Dependent variable	**Local media mention**		**ln(employment)**		**Director leaving firm**	
	Year 0	Year 1	Year 0	Year 1	Hazard	Within 3yrs
Model	RDD with lagged dependent variable				Cox	RDD
Winner	-0.003	-0.014*	0.001	0.000	0.245*	0.109*
	(0.006)	(0.008)	(0.039)	(0.032)	(0.136)	(0.061)
Observations	1,782	1,786	1,684	1,664	1,763	1,413
Politicians	170	170	170	170	169	136
Directors	1,168	1,169	1,120	1,105	1,156	906
Firms	1,266	1,266	1,193	1,176	1,251	1,015

Notes: RDD of close Congress elections.

Back