



All the President's Friends: Political Access and Firm Value

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Stigler Center Conference on the Political Economy of Finance

Motivation

- Access to political decision-makers is a scarce resource because politicians have limited time and can only interact with a limited set of people
- Governments play an increasingly prominent role in influencing firms
 - Governments affect economic activities not only through regulations, but also by playing the role of customers, financiers, and partners of firms
- Gaining and maintaining access to influential policymakers can be an important source of competitive advantage for companies
- Yet, the allocation of political access across firms and its effects on firm value remains underexplored



14 thru 26

Terrace Level D

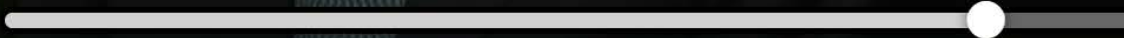


BREAKING NEWS

**ALIBABA'S JACK MA
ON MEETING WITH TRUMP**



3:02



3:30

HD



“Mr. Ma’s outreach to Mr. Trump coincides with concerns among U.S. regulators and policy makers about Alibaba’s operations. [...] Forging close ties with the Trump administration could help Alibaba control its image in the U.S.”

– Wall Street Journal, 2017, “Trump’s Meeting With Jack Ma Comes as U.S. Keeps Eye on Alibaba”

Anecdotes

“As the federal government was wrapping up its antitrust investigation of Google Inc., company executives had a flurry of meetings with top officials at the White House [...] Soon afterward, the FTC closed its investigation after Google agreed to make voluntary changes to its business practices.”

– *Wall Street Journal*, 2015, “Google Makes Most of Close Ties to White House”

“Except for maybe Google, no company has been closer and more in synch with the Obama administration than General Electric. [...] Obama wants cap-and-trade, GE wants cap-and-trade. Obama subsidizes embryonic stem-cell research, GE launches an embryonic stem-cell business. Obama calls for rail subsidies, GE hires Linda Daschle as a rail lobbyist.”

– *Washington Examiner*, 2010, “The GE-Obama affair, and Jeff Immelt’s harsh words”

This paper

- Uses a novel dataset of White House visitor logs released by the Obama administration to identify meetings between corporate executives and federal officials

Research questions:

1. How prevalent is political access, in the literal form of meetings with influential policymakers, and what are the characteristics of firms with political access?
2. Does political access increase firm value, and if so, through what channels?

Preview of findings

- About 11.4% of firm-years have top executives visit the White House, representing 40% of total market cap
- Characteristics of firms with political access: larger contributions to Obama's election campaigns, higher lobbying expenses, higher government contract volume, larger firm size, larger market share
- White House visits by corporate executives are followed by significant positive CARs
 - Firms with access to the Obama administration exhibit significantly lower returns following the 2016 presidential election
- Real outcomes following White House visits
 - More government contracts
 - More regulatory relief
 - Lower sensitivity of corporate investment to political uncertainty

Related literature

- The literature on the value of political connections
 - U.S. context: e.g., Ansolabehere et al. (2004), Jayachandran (2006), Fisman et al. (2012), Duchin and Sosyura (2012), Blanes i Vidal et al. (2012), Goldman, Rocholl, and So (2013), Akey (2015), and Acemoglu, Johnson, Kermani, Kwak, and Mitton (2016)
 - Non U.S. or international context: e.g., Fisman (2001), Khwaja and Mian (2005), Faccio (2006), Faccio, Masulis, and McConnell (2006), Claessens, Feijen, and Laeven (2008), and Faccio and Parsley (2009)
- Our paper makes two contributions
 - First to use the visitor logs data to identify face-to-face meetings between corporate executives and federal officials, which enable us to provide a *direct* measure of political access and provide evidence on the allocation and valuation effects of political access
 - Adds to the understanding of the value of political connections to executive branch officials in the U.S.

Worker and Visitor Entry System

visitor:
Last Name: PAYNE
First Name: STEPHEN
Middle Initial:
Date of Birth: [REDACTED]
SSN: [REDACTED]
Event Number: U81023
Badge Number: 45879
Access Type: VA
Date of Arrival: 12/18/2003 2:10:04 PM
Date of Arrival Formatted: 2003-12-18T14:10:04
Point of Arrival: A0401
Date of Departure: 12/18/2003 3:41:00 PM
Date of Departure Formatted: 2003-12-18T15:41:00
Point of Departure: A4
Date Appointment Made: 12/18/2003 12:56:05 PM
Date Appointment Made Formatted: 2003-12-18T12:56:05
Appointment Start Date: 12/18/2003 2:30:00 PM
Appointment Start Date Formatted: 2003-12-18T14:30:00
Appointment End Date: 12/18/2003 11:59:00 PM
Date Appointment Canceled:
Number of People: 1
Escort Type:
Escort Last Name:
Escort First Initial:
lastUpdatedBy: SH
post: WIN
lastEntryDate: 12/18/2003 12:50:26 PM
terminalSuffix: SH
Visitee Last Name: ROVE
Visitee First Name: KARL
Visitee Phone: [REDACTED]
Meeting Location: WH
Meeting Room: WW
Caller Last Name: GOERGEN
Caller First Name: BARBARA
callerPhone: [REDACTED]
callerRoom:
dbeRowId: 1093285
waLastTerminal:
waLastUpdated:
wxxLastTerminal:
wxxLastUpdated:
note: [REDACTED]
description:
batchId: 2
source: DECEMBER_2003.mdb:DECEMBER_2003_ALL

The Obama Administration voluntarily releases records of White House visitors

Each visitor record includes

- the first name, last name, and middle initial of the visitor
- the date and time of the appointment
- the name of the official being visited (i.e., the visitee)
- the number of visitors and the location of the meeting

Sample construction

- Number of participants at a meeting ≤ 50
- Match the names of visitors in the White House visitor logs to the names of corporate executives in the ExecuComp database
 - Exact match of the first name, last name, and middle initial
 - Use web searches to check whether the full name is associated with multiple potential visitors
 - Cross-validate with information on other visitors in the same meeting as well as the visatee's area of responsibility
- We identify 2,286 meetings between corporate executives and federal government officials at the White House between 2009-2015

Frequent visitors

Company Name	FF48 Industry	Executive Name	Title	# Of visits
Honeywell International Inc.	Auto & Trucks	David M. Cote	Chairman and CEO	30
General Electric Co	Consumer Goods	Jeffrey R. Immelt	Executive Chairman and CEO	22
EverCore Partners Inc.	Banking	Roger C. Altman	Founder and Executive Chairman	21
Xerox Corp	Consumer Goods	Ursula M. Burns	Chairman and CEO	21
JPMorgan Chase & Co	Banking	James Dimon	Chairman and CEO	18
HCA Holdings Inc.	Healthcare	Charles J. Hall	President of National Group	18
AT&T Inc.	Communication	Randall L. Stephenson	Chairman and CEO	18
BlackRock Inc.	Trading	Laurence D. Fink	Co-Founder, Chairman, and CEO	16
Chevron Corp	Oil	John S. Watson	Chairman and CEO	15
Dow Chemical	Chemicals	Andrew N. Liveris	Executive Chairman and CEO	15
Motorola Solutions Inc.	Electronics	Gregory Q. Brown	Chairman and CEO	15
Duke Energy Corp	Utilities	James E. Rogers, Jr.	Executive Chairman and CEO	15
Southwestern Energy Co	Oil	Mark K. Boling	Executive VP	15
Exxon Mobil Corp	Oil	Rex W. Tillerson	Chairman and CEO	14
Graham Holdings Co	Publishing	Donald E. Graham	Chairman and CEO	14
Goldman Sachs Group Inc.	Trading	Lloyd C. Blankfein	Chairman and CEO	14
Dominion Resources Inc.	Utilities	Thomas F. Farrell, II	Executive Chairman and CEO	13
Knight Transportation Inc.	Transportation	Kevin P. Knight	Chairman and CEO	12
Aetna Inc.	Insurance	Mark T. Bertolini	Chairman and CEO	12
Unisys Corp	Computers	Edward C. Davies	President of Federal Systems Business	11
Exelon Corp	Utilities	Christopher M. Crane	President and CEO	11
Nextera Energy Inc.	Utilities	Lewis Hay, III	Executive Chairman	11
American Express Co	Banking	Kenneth I. Chenault	Chairman and CEO	11
Cisco Systems Inc.	Computers	John T. Chambers	Executive Chairman	11
Comcast Corp	Communication	David L. Cohen	Executive VP	11
Alphabet Inc.	Business Services	Eric E. Schmidt	Executive Chairman	11

Frequent visitees

Visitee name	Position Title	# of visits
Valerie Jarrett	Senior Advisor and Assistant to the President for Intergovernmental Affairs and Public Engagement	107
Jeff Zients	Assistant to the President for Economic Policy and Director of The National Economic Council	103
Barack Obama	President of the United States	100
Heather Zichal	Deputy Assistant to the President for Energy and Climate Change	64
Greg Nelson	Special Assistant to the President and Senior Advisor for The National Economic Council	62
Gene Sperling	Assistant to the President for Economic Policy and Director of The National Economic Council	54
William Daley	Assistant to the President and Chief of Staff	44
Austan Goolsbee	Chief Economist and Chairman of The Council of Economic Advisers	40
Ari Matusiak	Special Assistant to the President and Director of Private Sector Engagement	33
Dan Utech	Deputy Assistant to the President for Energy and Climate Change	32
Jason Furman	Assistant to the President and Principal Deputy Director of The National Economic Council	32
Adam Hitchcock	Special Assistant	29
Vivek Kundra	Chief Information Officer of the United States	27
Nancy-Ann Deparle	Assistant to the President and Deputy Chief of Staff for Policy	26
Stephen Moilanen	Staff Assistant	26
Lawrence Summers	Assistant to the President for Economic Policy and Director of The National Economic Council	25
John Podesta	Counselor to the President	23
Rahm Emanuel	Assistant to the President and Chief of Staff	23
Jack Lew	Secretary of the Treasury	21

Other data sources

- Center for Responsive Politics: Data on political campaign contributions and lobbying
 - Political contributions to Barack Obama's election campaigns (i.e., the recipient is either Barack Obama or Obama Victory Fund)
 - For firm-years between 2009 and 2012 (2013 and 2015), we use the campaign contributions in the 2007-2008 (2011-2012) election cycle
- USAspending.gov: detailed contract-level data on government procurement contracts
- CapitalIQ Key Developments dataset: regulatory news
- CRSP/Compustat: stock returns and financial data

Summary statistics

	Mean	Median	Std. Dev	P25	P75
Political access	0.114	0.000	0.318	0.000	0.000
# of White House visits	0.318	0.000	1.793	0.000	0.000
Campaign contributions (\$ mil)	0.012	0.000	0.069	0.000	0.003
Lobbying expenses (\$ mil)	0.529	0.000	1.940	0.000	0.160
Procurement contracts (\$ mil)	132.900	0.000	1,434.920	0.000	1.396
Sin stocks	0.009	0.000	0.093	0.000	0.000
Total assets (\$ mil)	19,519.220	2,388.910	128,845.050	734.166	8,036.500
Book-to-market	0.256	0.481	6.050	0.285	0.754
Tangible	0.234	0.150	0.234	0.053	0.346
ROA	0.034	0.039	0.123	0.009	0.078
Book leverage	0.548	0.525	0.291	0.360	0.696
# of employees	18.978	4.383	68.137	1.283	13.900
Market share	0.016	0.003	0.052	0.001	0.009
(Market share) ²	0.003	0.000	0.032	0.000	0.000
Herfindahl index	0.064	0.051	0.069	0.031	0.069

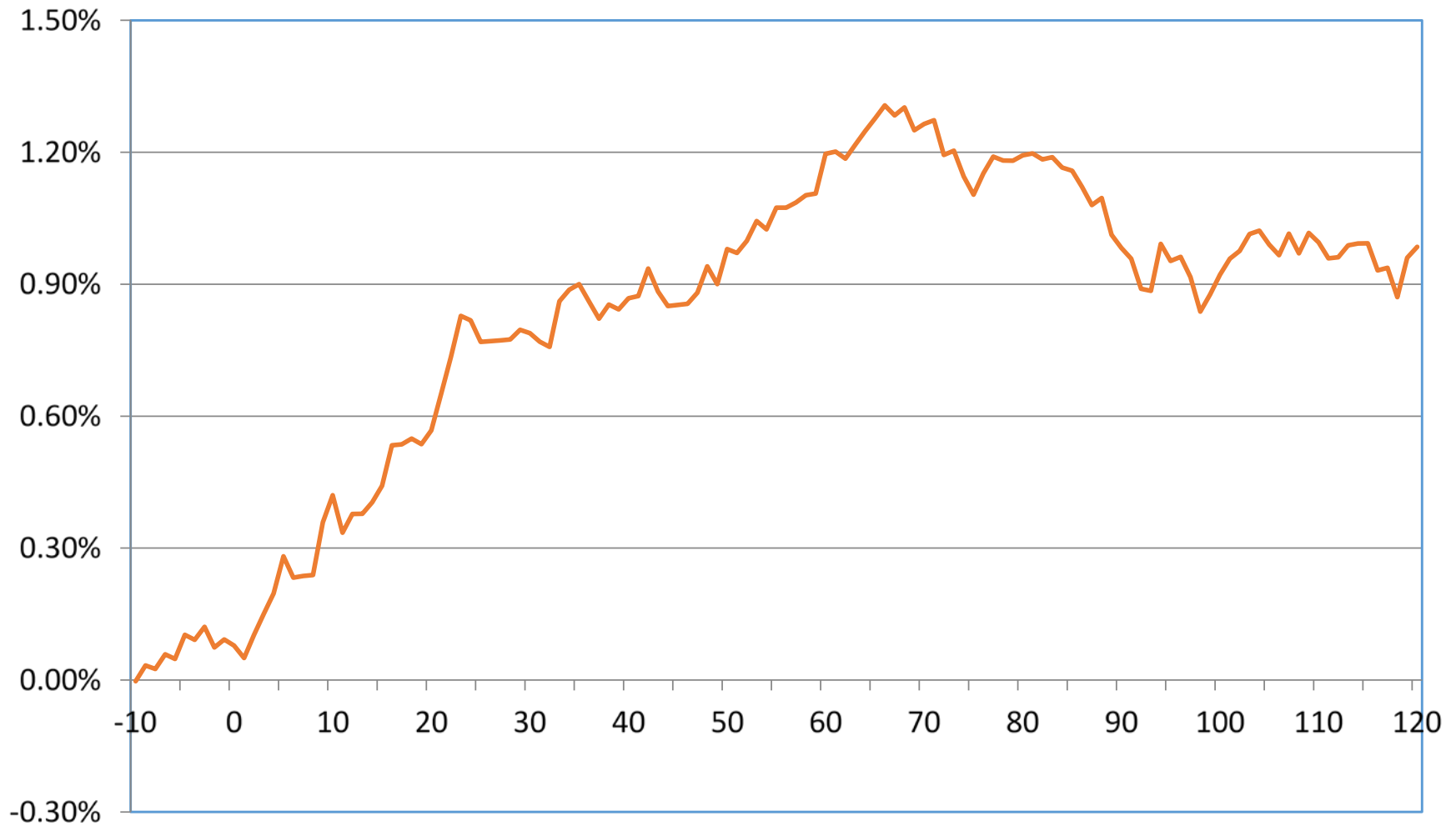
Characteristics of firms with political access

Dependent variable =	OLS		Probit	
	Log(1+# of White House visits)		Political access indicator	
	(1)	(2)	(3)	(4)
Log campaign contributions	0.006 (2.78)***	0.004 (2.20)**	0.003 (4.12)***	0.003 (3.68)***
Log lobbying expenses	0.006 (5.48)***	0.005 (4.49)***	0.004 (6.78)***	0.004 (6.18)***
Log procurement contracts	0.019 (3.09)***	0.015 (2.51)**	0.003 (1.82)*	0.002 (1.34)
Sin stocks	0.022 (0.20)	0.012 (0.11)	0.022 (0.26)	0.023 (0.26)
Firm size	0.061 (9.57)***	0.053 (6.74)***	0.033 (11.84)***	0.031 (7.73)***
Book-to-market	-0.015 (4.03)***	-0.015 (4.21)***	-0.010 (3.13)***	-0.010 (2.89)***
Tangible		-0.051 (1.32)		-0.020 (0.92)
ROA		-0.051 (1.64)		0.042 (1.14)
Book leverage		-0.050 (1.83)*		-0.004 (0.26)
# of employees		-0.001 (0.18)		0.000 (0.00)
Market share		2.046 (3.20)***		0.379 (2.08)**
(Market share) ²		-2.064 (2.16)**		-0.415 (1.81)*
Herfindahl index		-0.023 (0.09)		0.360 (1.28)
Number of observations	11,345	11,252	11,192	11,078
Adj./Pseudo R-squared	0.17	0.18	0.20	0.20

CARs around White House visits

- We examine stock returns surrounding corporate executives' visits to the White House
- We use a relatively long event window
 - While some visits receive media coverage around the time of the event, the visitor logs are released with a three-month lag
 - It may take some time for the real outcomes to be observable
- We compute cumulative market-adjusted abnormal returns around the White House visits

CARs around White House visits



CARs around White House visits

	# of obs.	[-10, +10]	[-10, +20]	[-10, +40]	[-10, +60]
All visits	2,286	0.421% (2.54)**	0.568% (2.77)***	0.865% (3.34)***	1.185% (4.03)***

The 2016 presidential election

- We exploit the election of Donald J. Trump as the 45th President of the U.S. as a shock to political access
- Prior to the election, it was widely held that Hillary Clinton would win the election
 - The market price in prediction markets implied a 80% probability of a Clinton presidency on the day before the election
- The result of the election thus constituted a negative shock to firms with access to the Obama administration

Dependent variable =	Three-day CAR (Nov. 9–11, 2016)			
	(1)	(2)	(3)	(4)
Political access	-0.013 (2.72)***	-0.008 (2.11)**		
Log number of visits			-0.011 (3.62)***	-0.009 (3.32)***
Stock price run-up		-0.050 (4.40)***		-0.050 (4.40)***
Log campaign contributions		-0.001 (2.03)**		-0.001 (1.92)*
Log lobbying expenses		-0.001 (3.95)***		-0.001 (3.73)***
Log procurement contracts		0.003 (2.60)**		0.003 (2.76)***
Sin stocks		0.014 (0.85)		0.013 (0.81)
Firm size		0.003 (1.15)		0.003 (1.24)
Book-to-market		0.001 (0.42)		0.001 (0.42)
Industry FEs	Yes	Yes	Yes	Yes
Other firm controls	No	Yes	No	Yes
Number of observations	3,011	2,893	3,011	2,893
Adj. <i>R</i> -squared	0.12	0.15	0.13	0.15

Real outcomes

- Access to powerful politicians may enable firms to secure government contracts, seek regulatory relief, and resolve policy uncertainty
- We use a diff-in-diff approach to examine whether political access influences real outcomes
- We first use a propensity-score matching procedure to construct a sample of control firms
 - First-stage regression uses the political access indicator as the dependent variable (Table 3)
 - one-to-one nearest neighbor matching with replacement
- We then compare the change in real outcomes around the White House visits (12 months before vs. 12 months after) for treatment firms with that for control firms

Government procurement contracts (in pp)

	Treatment (1)	Control (2)	Difference (3)
$\Delta(\text{Procurement contracts/Sales})$	0.404 (1.51)	-0.342 (1.84)*	0.746 (2.37)**

Back-of-envelop calculation: Assuming a profit margin of 12.0% for winning bids in procurement contracts in the U.S. as estimated by Bajari, Houghton, and Tadelis (2014), the average firm generates **\$33.90 million** ($=0.00746 * \$37,870 * 12.0\%$) in profits from incremental contract volume due to political access, which represents a gain of about 9.45 basis points for the firm's stock (**about 11% of the average 50-day CAR**).

Regulatory relief

- Political access may enable firms to obtain special treatment by regulatory agencies
- We first categorize regulatory news articles as positive or negative based on the relative fraction of positive and negative words in the articles
 - A regulatory news article is classified as positive (negative) if the difference between the proportion of positive words in the news and that of negative words is in the top (bottom) tercile
- We then count the number of positive and negative regulatory news before and after the White House visits for both treatment and control firms

An example of *positive* regulatory news

“Regions Financial Corp. *resolved* an inquiry by the Securities and Exchange Commission regarding a previous arrangement between AmSouth Bank, AmSouth Asset Management and BISYS Fund Services Inc. [...]. Regions *cooperated* fully and extensively with the SEC in this investigation and is *pleased* to *resolve* the matter. The arrangements in question date back to 1999 and involved a portion of the administration fee paid by the funds to BISYS being rebated to AmSouth to pay for marketing and other expenses related to the AmSouth Funds. The arrangements ended in 2004 and AmSouth disclosed the SEC inquiry in 2005.”

An example of *negative* regulatory news

“The Consumer Financial Protection Bureau took action *against* EZCORP, Inc. for *illegal* debt collection practices. These tactics included *illegal* visits to consumers at their homes and workplaces, *empty threats* of *legal* action, *lying* about consumers’ rights, and exposing consumers to bank fees through *unlawful* electronic withdrawals. The Bureau *ordered* EZCORP to refund \$7.5 million to 93,000 consumers ... It also *bars* EZCORP from future in-person debt collection. ... The CFPB found that EZCORP collected debts from consumers through *unlawful* in-person collection visits at their homes or workplaces, risked exposing consumers’ debts to third parties, *falsely threatened* consumers with litigation for non-payment of debts, and *unfairly* made multiple electronic withdrawal attempts from consumer accounts, causing mounting bank fees. The CFPB *alleges* that EZCORP *violated* the Electronic Fund Transfer Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act’s *prohibition against unfair* and *deceptive* acts or practices.”

Regulatory relief results (in pp)

	Treatment (1)	Control (2)	Difference (3)
$\Delta(\text{Positive News Counts})$	1.380 (1.86)*	-2.236 (1.44)	3.616 (2.06)**
$\Delta(\text{Negative News Counts})$	1.665 (1.51)	2.093 (2.19)**	-0.428 (0.32)
$\Delta(\text{Positive News Counts}) - \Delta(\text{Negative News Counts})$	-0.285 (0.25)	-4.424 (2.56)**	4.140 (2.04)**

The difference of 0.041 represents about 10% of the standard deviation of the variable

Political uncertainty

- Political uncertainty can negatively impact corporate investment (e.g., Julio and Yook, 2012; Kelly, Pastor, and Veronesi, 2015; Gulen and Ion, 2016)
- Political access may enable companies to better understand the policy deliberation process of government officials and help firms mitigate policy uncertainty
- Firms with political access should be less negatively affected by policy uncertainty after the White House visits

$$\begin{aligned} CapEx_{i,t+1} = & \alpha_i + \alpha_t + \beta_1 \times Treat_{i,t} \times Post_t \times PU_t + \beta_2 \times Treat_{i,t} \times PU_t + \beta_3 \times Post_t \\ & \times PU_t + \beta_4 \times Treat_{i,t} \times Post_t + \beta_5 \times Treat_{i,t} + \beta_6 \times Post_t + \sum \gamma_j X_j + \varepsilon_{i,t} \end{aligned}$$

- PU is the policy uncertainty index of Baker, Bloom, and Davis (2013)

Sensitivity of corporate investment to policy uncertainty

Dependent variable = Policy uncertainty measure =	Capital expenditure in $t + 1$			
	Overall policy uncertainty (1)	(2)	News-based uncertainty (3)	(4)
Treatment*Post*Policy uncertainty	0.003 (4.04)***	0.005 (2.64)***	0.003 (3.51)***	0.007 (3.55)***
Treatment*Policy uncertainty	0.000 (0.19)	-0.003 (0.98)	0.000 (0.20)	-0.003 (1.16)
Post*Policy uncertainty	0.000 (0.43)	-0.001 (0.29)	0.000 (0.37)	-0.003 (1.52)
Treatment*Post	-0.015 (3.90)***	-0.024 (2.35)**	-0.016 (3.39)***	-0.033 (3.30)***
Treatment	-0.000 (0.04)	0.002 (0.20)	0.009 (1.16)	0.013 (1.38)
Post	0.014 (1.03)	0.012 (0.87)	0.014 (1.12)	0.013 (1.04)
Controls	No	Yes	No	Yes
Firm fixed effects	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes
Number of observations	30,010	28,534	30,010	28,534
Adj. R -squared	0.74	0.74	0.74	0.74

Conclusion

- Our results provide evidence suggesting that political access is of significant value to corporations
 - Corporate executives' meetings with key policymakers are associated with positive abnormal stock returns
 - Following meetings with federal government officials, firms receive more government contracts and are more likely to receive regulatory relief, and their investment becomes less affected by policy uncertainty
- There are at least two possible explanations for the source of the value associated with political access
 - Gaining access to politicians may enable firms to gain undue influence over elected officials and extract political favors
 - Political access may enable firms to provide policy-relevant info, which in turn helps officials to make more informed decisions