

An illustration of a city skyline with several tall buildings. In the foreground, four hands are shown holding up protest signs. From left to right: a hand holds a sign with a peace symbol, a hand holds a sign with a globe, a hand holds a sign with a fist, and a hand holds a sign with a ballot box. The background features a light blue sky with clouds and a dark grey ground with silhouettes of people and buildings.

Market Power and Political Connections

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**How do political connections affect
firm market power?**

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- **Endogeneity:** Zingales (2017); Eeckhout (2021)
 - Political connections → firm market power
 - Channel: [government resources/regulation](#)
 - Firm market power → political connections
 - [Increasing returns to scale](#)

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- This paper: exploit **exogenous variations** in firm political connections

- Identification: Loss of important political connections - **Committee exile** (Grimmer and Powell, 2013)
 - When a politician is **unexpectedly** removed from a powerful committee
→ **loss of political influence**

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 - When a politician is **unexpectedly** removed from a powerful committee
→ **loss of political influence**
 - **Seniority rule**: junior politicians will be exiled
→ Keep **marginal (junior)** politicians who are equally likely to be exiled
 - Cannot be predicted by firm characteristics

Main Results

- Conditional on firms' participation
 - One standard deviation more political connections with Congressional committee members → **58 basis points** ↑ in firm markups, or **45 basis points** ↑ in profit rates

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- **Potential Channels:** procurement contracts



- **Market power, competition and politics**

- Market power and political power: Khan (2017); Eeckhout (2021); Callander et al. (2022); Cowgill et al. (2022)
- Politics and competition: Mehta et al. (2020), Faccio and Zingales (2021)

Contribution: Quantification of the mechanism - how political power affects market power

- **Market power, competition and politics**

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Contribution: Quantification of the mechanism - how political power affects market power

- **Political connections**

- Stock returns: Goldman et al. (2008), Cooper et al. (2010)
- Government contracts: Goldman et al. (2013), Brogaard et al. (2020), Aobdia et al. (2022)

Contribution: Propose an identification strategy to study the effects on market power

Hypothesis

Short-term Access to Committee Members

- **Important** congressional committees such as Appropriations, Armed Services, or Ways and Means.
- Short-term access to committee members allows firms to be better informed about policies or disclose their types

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- **Important** congressional committees such as Appropriations, Armed Services, or Ways and Means.
- Short-term access to committee members allows firms to be better informed about policies or disclose their types
 - ⇒ Obtaining subsidies, cheaper loans or tax benefits ⇒ ↓ **costs**
 - ⇒ Government procurement contracts ⇒ ↑ **sales**

- Data sources
 - Records of campaign contributions and lobbying expenditures from Political Action Committees (PAC) - [OpenSecrets](#)
 - Government procurement contracts - [USAspending.gov](#)
 - List of committee exile - ([Grimmer and Powell, 2013](#))
 - US congressional committee assignments - ([Stewart III and Woon, 2017](#))
 - Financial statements - [Compustat](#)
- Sample: a **firm-Congress** panel (1993-2014)

Summary Statistics (Conditional)

Summary Statistics (Unconditional)

Measures

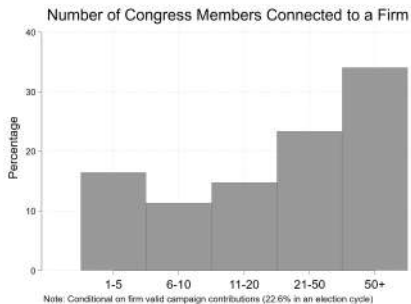
Political Connections

- Political connections: firms donating campaign contributions to **U.S. congressional committee members** [Examples](#) [Other Expenditures](#) [PACs](#)
 - Measure: **number of politicians** firms donate to during an election cycle (2 years) [Issues](#)

Measures

Political Connections

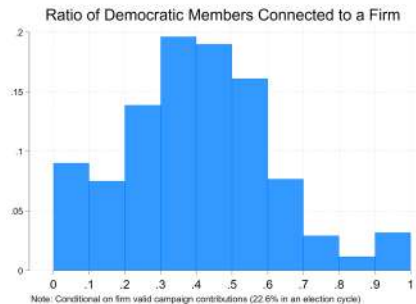
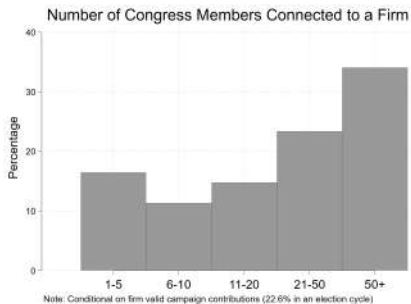
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Measures

Political Connections

- Political connections: firms donating campaign contributions to **U.S. congressional committee members** Examples Other Expenditures PACs
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Summary Statistics (Conditional)

Summary Statistics (Unconditional)

Measures

Market Power: Profit-Cost Margins and Profit Rates

- Firm-level markups: cost-based method (De Loecker et al., 2020)

Issues

- FOC of firms' cost minimization problem:

$$\mu_{it} = \theta_{it}^V \frac{P_{it} Q_{it}}{P_{it} V_{it}}$$

- Estimate industry-level output elasticity following De Loecker et al. (2020)
 - Common time-invariant elasticity 0.85 across industries
 - Industry-time output elasticity: mostly captured by industry-time FEs
- Profit rates: $\frac{\text{Total Sales} - \text{Total Costs}}{\text{Total Sales}}$

Institutional Design

Committee Exile Grimmer and Powell (2013, 2016)

- After a defeat in congressional election
 - Re-negotiate the committee **sizes and party ratios** for each committee
 - Electoral losses are **unevenly distributed** across committees for the outgoing majority party
 - Some returning members who won the re-election will be **exiled**

Institutional Design

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 - Electoral losses are **unevenly distributed** across committees for the outgoing majority party
 - Some returning members who won the re-election will be **exiled**
- **No heterogeneity in observable characteristics between remaining and exiled members apart from seniority** (Grimmer and Powell, 2013) Assumptions: Grimmer and Powell (2013)

Committee Exile: Example

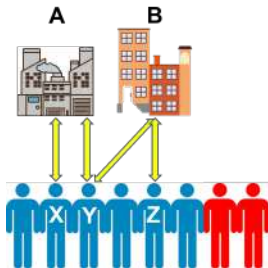
"Republican Revolution" in 1994

House Appropriations Committee				
103rd Congress			104th Congress	
	...	Status	...	
62%	Foglietta, Thomas M.	Return	Foglietta, Thomas M.	Return
	Torres, Esteban Edward	Return	Torres, Esteban Edward	Return
	Lowey, Nita M.	Return	Lowey, Nita M.	Return
	Thornton, Raymond H., Jr.	Return	Thornton, Raymond H., Jr.	Return
	Serrano, Jose E.	Return	Serrano, Jose E.	Return
	DeLauro, Rosa	Exiled	Nethercutt, George	New
	Meek, Carrie	Exiled	Frelinghuysen, Rodney P.	New
	Moran, James P., Jr.	Exiled	Kingston, Jack	New
	Olver, John W.	Exiled	Bunn, Jim	New
	Pastor, Ed	Exiled	Knollenberg, Joe	New
	Peterson, Pete	Exiled	Miller, Dan	New
	Carr, M. Robert	Gave up	Porter, John Edward	New
	Darden, George W. (Buddy)	Defeated	Wicker, Roger F.	New
	Price, David E.	Defeated	Neumann, Mark W.	New
Smith, Neal	Defeated	Riggs, Frank	New	
Whitten, Jamie L.	Retired	Forbes, Michael P.	New	
Natcher, William H.	Died	Skeen, Joe	New	
Bentley, Helen Delich	Not a Candidate	Dickey, Jay	New	
Gallo, Dean A.	Withdrew due to cancer	Forbes, Michael P.	New	
38%	

Empirical Strategy

Treatment and Control Groups

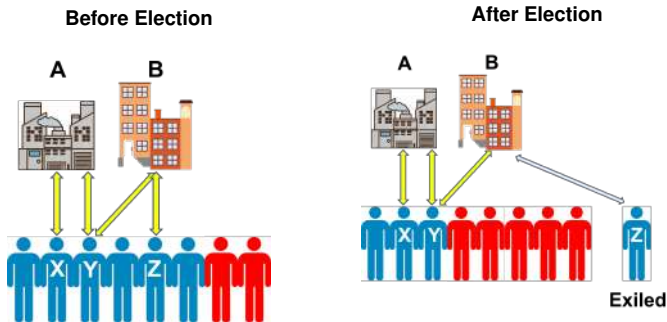
Before Election



**Both firms have two
connections with
committee members**

Empirical Strategy

Treatment and Control Groups



Both firms have two connections with committee members

Grey firm keeps the connections, but yellow firm **loses one connection unexpectedly**

Assumptions: politicians

Assumptions: politicians Grimmer and Powell (2013)

Assumptions: firms

Empirical Strategy

Loss of Political Connections

- Firm's loss of important political connections in a Congress due to committee exile
 - Exile $_{i,p,t}$: a dummy variable equal to 1 if pol p connected to firm i is exiled at the end of period t , and zero if pol p is not exiled.

$$\text{Loss}_{i,t} = \sum_p \text{Exile}_{i,p,t}$$

$$\text{LossShare}_{i,t} = \frac{\text{Loss}_{i,t}}{\text{Total Number of Important Political Connections}_{i,t}}$$

Empirical Strategy

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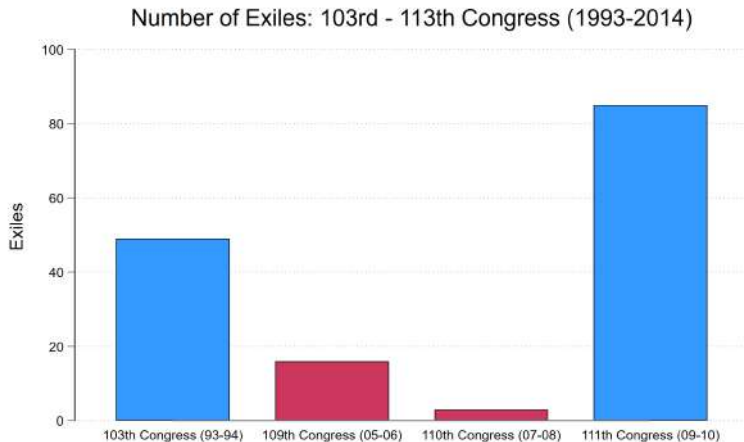
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- Quintiles of Loss share Distribution
- Other measures: Log (number of exiled politicians)

Empirical Strategy

Committee Exile : Number of Cases



Empirical Strategy

An Event Study Design: 112th Congress

- Groups firms by loss share in 112th Congress: no loss, (0,0.2], (0.2,1]

$$Y_{i,t} = \alpha + \sum_{\substack{\tau \neq 0 \\ -3 \leq \tau \leq 2}} \sum_{i \in \{1,2\}} \beta_{i\tau} \times \text{Group}_i \times \mathbf{1}_{t=\tau} + \sum_{i \in \{1,2\}} \beta_{0\tau} \times \text{Group}_i + \theta X_{i,t-1} + \gamma_t + \epsilon_{i,t}$$

Empirical Strategy

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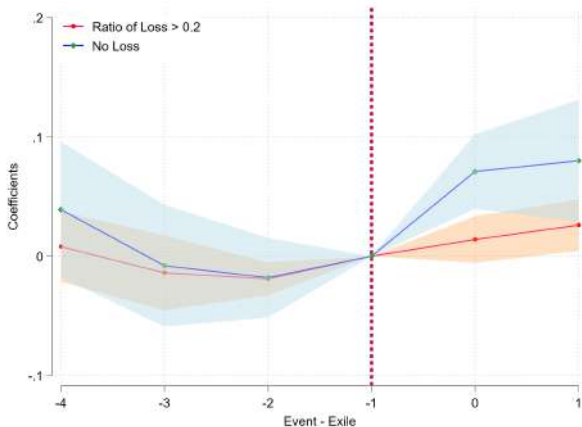
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- $Y_{i,t}$: measures related to firm i **market power** at time t - sales, costs, markups or profit rates
- **Group _{i}** : Firm group by loss share of important political connections
- $X_{i,t-1}$: lagged controls of firm i - total number of political connections, sales and total costs
- **Conditional on valid campaign contributions**
- Time FEs (or industry-time FEs), clustered at firm level

Variable Definitions

Empirical Results

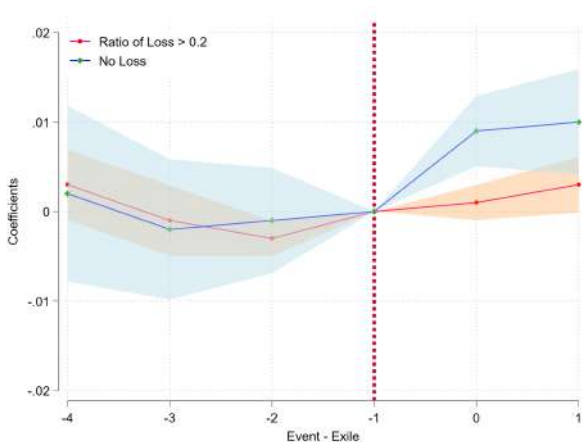
Dynamics of Markups: Event Study



Note: Dependent variable is firm-level markup, which is measured by sales/total costs*industry level scale elasticity, and we plot estimated coefficients and depict 95% CI of firms not losing politicians and losing more than 20% of politicians in the 112th Congress. Firm level controls include log of size, log of cost of goods sold and log of number of political connections. Industry FE is included.

Empirical Results

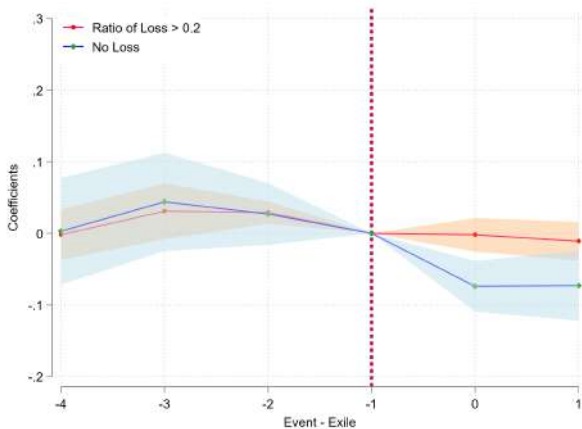
Dynamics of Sales: Event Study



Note: Dependent variable is log of firm sales, and we plot estimated coefficients and depict 95% CI of firms not losing politicians and losing more than 20% of politicians in the 112th Congress. Firm level controls include log of lagged sales, log of cost of goods sold and log of number of political connections. Industry FE is also included.

Empirical Results

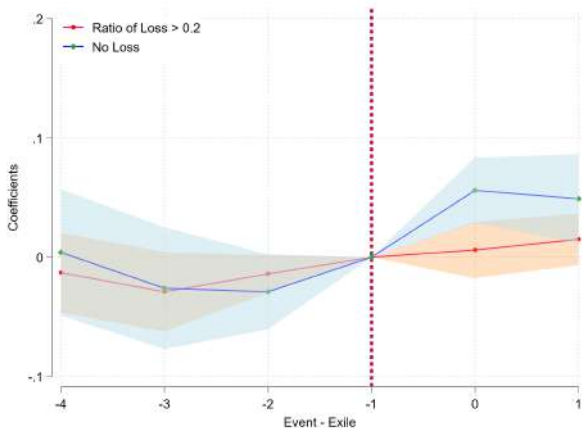
Dynamics of Costs: Event Study



Note: Dependent variable is log of firm costs(COGS and SG&A), and we plot estimated coefficients and depict 95% CI of firms not losing politicians and losing more than 20% of politicians in the 112th Congress. Firm level controls include log of lagged sales, log of lagged cost of goods sold and log of number of political connections. Industry FE is also included.

Empirical Results

Dynamics of Profit Pates: Event Study



Note: Dependent variable is profit rates, and we plot estimated coefficients and depict 95% CI of firms not losing politicians and losing more than 20% of politicians in the 112th Congress. Firm level controls include log of lagged sales, log of lagged cost of goods sold and log of number of political connections. Industry FE is also included.

Empirical Strategy

Baseline: Across All Election Cycles

- Empirical specification:

$$Y_{i,t} = \alpha + \beta \text{LossShare}_{i,t-1} + \theta X_{i,t-1} + \delta_i + \gamma_t + \epsilon_{i,t}.$$

Empirical Strategy

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- $\text{LossShare}_{i,t-1}$: Share of important political connections lost - continuous
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- **Conditional on valid campaign contributions**
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Empirical Results

Baseline

	Markup	Profit rate
LossShare	-0.058*** (0.022)	-0.045* (0.023)
Other Controls	Yes	Yes
R-squared	0.832	0.634
No. obs	5,142	5,142
Firm FE	Yes	Yes
Congress FE	Yes	Yes

Empirical Results

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- 10% more (~3 junior politicians) important political connection ⇒
 - **58 basis points** ↑ in markups
 - **45 basis points** ↑ in profit rates

Empirical Results

Robustness: Within Politicians ever Exiled

	Markup	Profit rate
LossShare	-0.028** (0.014)	-0.015 (0.013)
Other Controls and FEs	Yes	Yes
R-squared	0.847	0.666
No. obs	3,719	3,719

$$\text{LossShare}_{i,t} = \frac{\text{Loss}_{i,t}}{\text{Total Number of Important Political Connections}_{i,t}}$$

↑
↓

Empirical Results

Robustness: Firms with "Democratic Partisanship"

- Within firms donating to more Democrats than Republicans
 - Most of exiles happened to Democrats → control for party loss

Empirical Results

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	Markup	Profit rate
LossShare	-0.112*** (0.050)	-0.104** (0.053)
Other Controls and FEs	Yes	Yes
R-squared	0.897	0.722
No. obs	1,099	1,099

- Stronger effect → **larger loss for firms more likely to donate to Democrats**

Empirical Results

Heterogeneity: Across Number of Political Connections

- **Big Donor = 1** if a firm donates to above-median number of politicians, **0 otherwise**

Empirical Results

Heterogeneity: Across Number of Political Connections

- **Big Donor = 1** if a firm donates to above-median number of politicians, **0 otherwise**

	Markup	Profit rate
LossShare	-0.046** (0.022)	-0.040 (0.024)
Big Donor	-0.007 (0.007)	-0.015 (0.009)
Big Donor \times Loss Ratio	-0.085** (0.040)	-0.034 (0.043)
Other Controls and FEs	Yes	Yes
R-squared	0.847	0.666
No. obs	3,719	3,719

- Firms with more important political connections experience a larger effect

Empirical Results

Heterogeneity: Very Important Committees

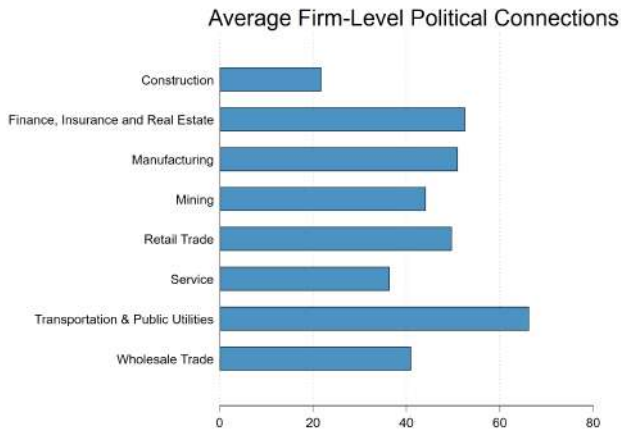
- Politicians assigned to **VERY important House committees**: Oversight, Appropriations, Energy & Commerce and Ways & Means

Why Important

	Markup	Profit Rate
LossShare	-0.066*** (0.022)	-0.048** (0.019)
Other Controls and FEs	Yes	Yes
R-squared	0.839	0.648
No. obs	4,540	4,540

- Most of committee members in our sample have assignments in important committees
- Slightly stronger effects

Heterogeneity across Industries



This figure plots average number of political connections at firm level by industries (one-digit sic code and calculate average number conditional). The industries and corresponding participation rates are: construction (26.3%), finance, insurance & real estate (24.7%), manufacturing (20.4%), mining (20.3%), retail trade (17.5%), service (18.2%), transportation & public utilities (50.4%) and wholesale trade (12.6%).

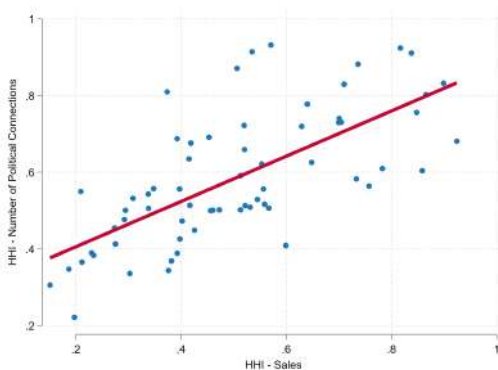
Heterogeneity across Industries

	Finance	Manufacturing	Manu. from 2007	Service	Transportation
	Markups				
LossShare	-0.189** (0.086)	-0.084 (0.084)	-0.278* (0.156)	-0.157** (0.062)	-0.051 (0.053)
Other Controls and FEs	Yes	Yes	Yes	Yes	Yes
R-squared	0.889	0.894	0.897	0.889	0.678
No. obs	835	1,154	427	431	1,074

An Alternative Measure: HHI

Externality

$$HHI_{j,g,t}^{\text{sales}} = \sum_{i \in \Omega_{j,g}} s_{i,j,g,t}^2 \quad HHI_{j,g,t}^{\text{connections}} = \sum_{i \in \Omega_{j,g}} c_{i,j,g,t}^2 \quad (1)$$



Average Firm-level Political Connections across Industries
- Congress 112 (2011-2013)

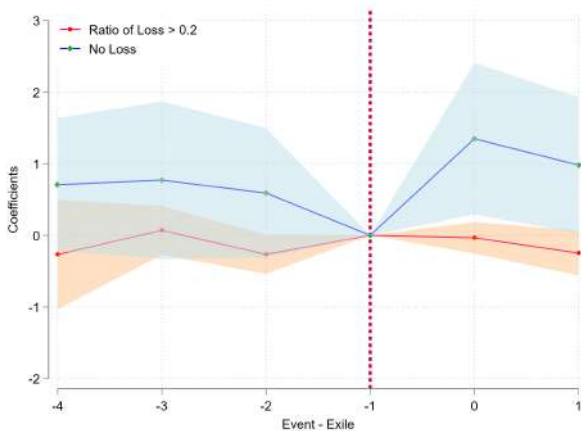
Empirical Results

Other Robustness

- **Comparable firms/politicians**
 - Within firms ever losing politicians [Results](#)
 - "Super" marginal politicians with one-Congress seniority [Results](#)
- **Unexpected Shock** [Results](#)
- **Measures of political connections**
 - Log number of exiled politicians
- **Controls and FEs**
 - Controlling connection to party leaders [Results](#)
 - Industry-time FEs/state-time FEs/cluster at state or industry level

Channel

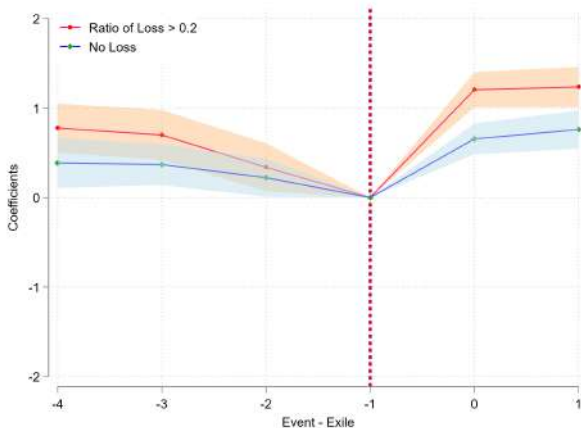
Government Procurement Contracts



Note: Dependent variable is log of value of procurement contracts newly exercised, and we plot estimated coefficients and depict 95% CI of firms not losing politicians and losing more than 20% of politicians in the 112th Congress. Firm level controls include log of size, log of cost of goods sold, log and log of number of political connections. Industry FE is also included.

Reaction of Firms

Connections with Republicans after 112th Congress



Note: Dependent variable is log of number of Republicans firms donate to, and we plot estimated coefficients and depict 95% CI of firms not losing politicians and losing more than 20% of politicians in the 112th Congress. Firm level controls include log of size, log of cost of goods sold, log and log of number of political connections. Industry FE is also included.

Conclusion

- Exploit **committee exile** as variations in political connections
- Corporate political connections with Congressional committee members **increase firm market power**
- Channels: government procurement contracts
- Implications:
 - **Political connections** \leftrightarrow **market power**

Appendix: A Simple GE Model



THANK YOU!

An Example of Political Connections: SpaceX

2021-2022 Election Cycle

Politician Name	State	Committee Assignments
Pete Aguilar (D)	California	Appropriations
Salud Carbajal (D)	California	Armed Services; Transportation and Infrastructure
Mike Garcia (R)	California	Appropriations; Science, Space and Technology
Zoe Lofgren (D)	California	Science, Space and Technology
John Carter (R)	Texas	Appropriations – subcommittee on Military construction; subcommittee on defense
Henry Cuellar (D)	Texas	Appropriations; Homeland security
Pete Sessions (R)	Texas	Science, Space and Technology
Mike Gallagher (R)	Wisconsin	Armed services; Transportation and Infrastructure
Neal Dunn (R)	Florida	Energy and Commerce
Darren Soto (D)	Florida	Energy and commerce; Natural resources
Bill Posey (R)	Florida	Science, Space and Technology
John Moolenaar (R)	Michigan	Appropriations
Haley Stevens (D)	Michigan	Science, Space, and Technology (Vice-Chair)
Frank D Lucas (R)	Oklahoma	Science, Space, and Technology
Betty McCollum (D)	Minnesota	Natural Resources
Joseph D Morelle (D)	New York	Armed Services
Don Norcross (D)	New Jersey	Armed Services

This Paper

Market Power and Politics

Contributions to the Literature

- **Methodological:** Provide a **reliable identification strategy** on the literature studying political connections
 - Mitigate the endogeneity to firm characteristics/decisions
 - Avoid predictability of incumbent politicians (Brogaard et al., 2020)
- **Empirical:** Compile a large scale datasets and study comprehensive strategies and outcomes associated with political connections
 - Market power: propose political connections as a channel, via government procurement contracts & subsidies (De Loecker et al., 2020, 2021; Cowgill et al., 2022)
 - Political connection → allocation of government resources: (Brogaard et al., 2020; Aobdia et al., 2022)
 - Firm strategies: political connection → lobbying expenditures, investments and R&D (Akcigit et al., 2022)
- **Quantification:**
 - Quantify the contribution of political power on market power
 - GE effects of campaign contribution policy (BCRA 2002)

Literature

Variable Definitions

Variable	Definition	Main Data Source
Firm PAC Contributions	Campaign contributions from Political Action Committee (PAC) sponsored by the firm to a committee member in a Congress	OpenSecrets
Firm PAC Historical Contributions	Total campaign contributions from PAC sponsored by the firm to a committee member to a member up to current Congress	OpenSecrets
Firm PAC Contributions to Incumbent Members	Total campaign contributions from PAC sponsored by the firm to all current incumbent members in Congress	OpenSecrets
Firm PAC Contributions to Historically Incumbent Members	Total campaign contributions from PAC sponsored by the firm to all historically incumbent members up to current Congress	OpenSecrets
Number of Contracts	Firm's total active number of procurement contracts in the Congress	usaspending.gov
Value of Contracts	Firm's total value of active procurement contracts in the Congress	usaspending.gov
Financial Subsidies	Total financial subsidies awarded to the firm by federal, state or local government	Good Jobs First
Effective Tax Rates	$(\text{income taxes total} - \text{deferred taxes}) / (\text{pretax income} - \text{equity in earning} + \text{special items} + \text{interest expense})$	Compustat
Number of Politicians	Total number of committee members connected to the firm via campaign contributions in a Congress	OpenSecrets
Lobbying Expenditures	Total lobbying expenditures associated with firm PAC	OpenSecrets
Independent Expenditures	Total independent expenditures associated with firm PAC	OpenSecrets
Charitable Donations	Total charitable donations from the corporate foundations	Bertrand et al. (2020)
Investment	Capital Expenditures/Gross Property, Plant and Equipment	Compustat
Equity Issuance	Sales of Equity/Total Assets	Compustat
Distributions to Shareholders	$(\text{Common Dividends} + \text{Preferred Dividends}) / \text{Total Assets}$	Compustat
Profits	$\text{Sales} - (\text{Cost of Goods Sold} + \text{Capital Cost} + \text{Selling, General, and Administrative Expense})$	Compustat
Markup	$\text{Sales} / (\text{Cost of Goods Sold} + \text{Capital Cost} + \text{Selling, General, and Administrative Expense})$	Compustat

Summary Statistics

Conditional on participation

	N	Mean	SD	P25	Median	P75
Sales (million)	5,927	27,507.92	61,963.74	3,529.36	9,733.52	26,322.93
Cost of Goods Sold (million)	5,927	18,644.85	46,507.61	2,028.99	6,118.66	17,183.52
Variable Cost (million)	5,927	21,081.59	50,836.99	2,510.60	7,320.37	20,368.96
Variable + Fixed Cost (million)	5,927	24,895.59	57,304.92	3,244.66	8,954.72	24,091.99
Markup	5,927	1.13	0.31	1.00	1.06	1.18
Profitability	5,927	0.07	0.19	-0.00	0.06	0.15
No. of Pol Connected	5,927	53.37	66.40	9.00	28.00	73.00
No. of Democrats Connected	5,927	22.04	30.94	3.00	10.00	28.00
No. of Republicans Connected	5,927	31.33	38.15	5.00	16.00	43.00
No. of Exiled Pol Connected	5,927	1.52	4.97	0.00	0.00	0.00
No. of Returning Pol Connected	5,927	51.84	64.49	9.00	27.00	71.00
Total Donations	5,927	190347.47	355492.19	18,797.90	62,321.73	197313.44
Total Donations to Democrats	5,927	75,723.14	156459.92	5,189.00	21,488.67	73,886.49
Total Donations to Republicans	5,927	114624.33	211844.20	10,562.92	38,309.00	118901.98
Total Donations to Exiled Pol	5,927	5,052.55	22,747.83	0.00	0.00	0.00
Total Donations to Returning Pol	5,927	185294.92	345631.79	18,321.18	60,335.52	195054.55
Value of Gov. Contracts Exercised (million)	5,927	5,733.11	138638.08	0.00	0.00	0.00
Number of Gov. Procurement Contracts	5,927	51.02	570.81	0.00	0.00	0.00
Financial Subsidies Awarded (million)	5,927	12.04	164.40	0.00	0.00	0.02

Data

Political Connections

Summary Statistics

Unconditional on participation

	N	Mean	SD	P25	Median	P75
Sales (million)	22,928	11,861.79	37,230.72	947.11	2,706.07	8,486.79
Cost of Goods Sold (million)	22,928	7,988.73	27,471.97	504.25	1,629.25	5,494.90
Variable Cost (million)	22,928	8,936.65	30,015.71	574.56	1,865.34	6,283.64
Variable + Fixed Cost (million)	22,928	10,724.06	34,210.12	840.03	2,465.07	7,816.12
Markup	22,928	1.14	0.43	1.01	1.08	1.19
Profitability	22,928	0.05	0.65	0.01	0.07	0.16
No. of Pol Connected	22,928	13.80	41.06	0.00	0.00	1.00
No. of Democrats Connected	22,928	5.70	18.45	0.00	0.00	0.00
No. of Republicans Connected	22,928	8.10	23.75	0.00	0.00	1.00
No. of Exiled Pol Connected	22,928	0.39	2.61	0.00	0.00	0.00
No. of Returning Pol Connected	22,928	13.40	39.88	0.00	0.00	1.00
Total Donations	22,928	49,205.75	199021.80	0.00	0.00	1,652.10
Total Donations to Democrats	22,928	19,574.80	86,176.99	0.00	0.00	0.00
Total Donations to Republicans	22,928	29,630.95	118820.31	0.00	0.00	263.49
Total Donations to Exiled Pol	22,928	1,306.11	11,774.71	0.00	0.00	0.00
Total Donations to Returning Pol	22,928	47,899.64	193543.14	0.00	0.00	1,630.28
Value of Gov. Contracts Exercised (million)	22,928	2,234.51	79,691.04	0.00	0.00	0.00
Number of Gov. Procurement Contracts	22,928	29.29	730.05	0.00	0.00	0.00
Financial Subsidies Awarded (million)	22,928	4.37	96.18	0.00	0.00	0.00

Data

Political Connections

Measures

Issues

- Political connections (Bertrand et al., 2014)
 - Fixed costs
 - Historical connections
 - Other potential costs and risks (Ansolabehere et al., 2003; Grotteria, 2023)
 - Magnitude (Bombardini and Trebbi, 2020)
- Markups with accounting data (Syverson, 2019; De Loecker et al., 2020)
 - Accounting data: classification of variable/fixed costs
 - Include both costs (Traina, 2018)
 - Profit rates that take into account not only the marginal cost but total costs, including the expenditure on capital De Loecker et al. (2020)
 - Output elasticity: industry-level
 - Underestimation of the effects

Measure: political connections

Measure: market power

Institutional Background

Committee Assignment and Exile

- **Committee assignments**

- Committees in the US congress are powerful in terms of legislations and bills
- **Specialty** of committee duties → **preferential** committee assignments → politicians in more powerful committees are more influential
- When a politician is **unexpectedly** removed from a powerful committee → **loss of political influence**

- **Committee exile**

- After a defeat in congressional election, the outgoing majority is forced to re-negotiate with the new majority party **the committee sizes and party ratios** for each committee
- The outgoing majority party loses **at least a proportional number of seats** on every committee → **electoral losses are unevenly distributed across committees**
- Due to the lack of enough seats, for some returning members who **won the re-election**, they lose their committee seats - or **to be exiled**
- **No heterogeneity** in observable characteristics between remaining and exiled members apart from seniority (Grimmer and Powell, 2013)

Example: House Appropriations Committee

Institutional Background

Institutional Background

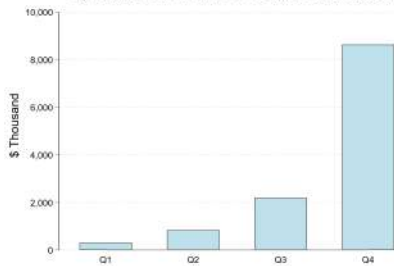
Preferred/Valuable committee assignments

- Appropriations: responsible for passing appropriation bills along with its Senate counterpart
- Ways and Means: has jurisdiction over all taxation, tariffs, and other revenue-raising measures, as well as a number of other programs including Social Security, unemployment benefits, Medicare, the enforcement of child support laws, Temporary Assistance for Needy Families, foster care, and adoption programs
- Rules: responsible for the rules under which bills will be presented to the House of Representatives, unlike other committees, which often deal with a specific area of policy
- Veterans' Affairs: oversees agencies, reviews current legislation, and recommends new bills or amendments concerning U.S. military veterans.
- Energy: maintains principal responsibility for legislative oversight relating to telecommunications, consumer protection, food and drug safety, public health, air quality and environmental health, the supply and delivery of energy, and interstate and foreign commerce.
- House Administration: has jurisdiction over all legislation and other matters relating to the House of Representatives.
- Intelligence: oversee and make continuing studies of the intelligence activities and programs of the United States Government.
- Oversight: ensure the efficiency, effectiveness, and accountability of the federal government and all its agencies.

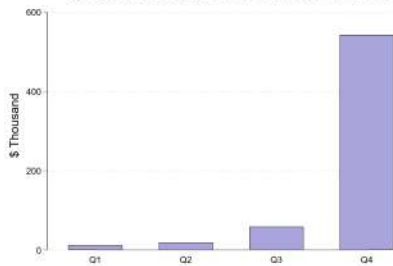
Institutional Background

Other Expenditures

Average Lobbying Expenditures:
By Quartiles in Number of Connected Members



Average Independent Expenditures:
By Quartiles in Number of Connected Members



This Paper

Committee Exile

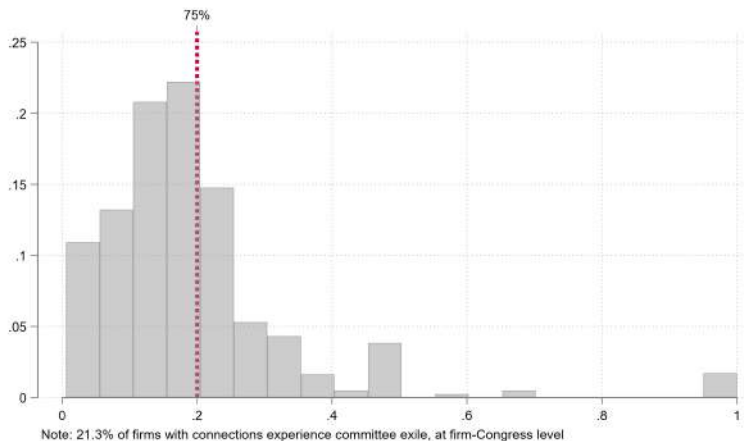
Firms' behavior (Grimmer and Powell, 2013)

- Ideological and partisan PACs
 - the Democratic Congressional Campaign Committee(DOCC) and the National Republican Congressional Committee(NRCC)
 - seek electoral influence
 - Increase their contributions to politicians after their committee exiles
- Business PACs
 - contribute to seek short-term access to legislators with policy-relevant influence
 - immediately reduce their contributions to politicians when after their committee exiles
- Preferential Treatment
 - Access to policy makers to make one's case: Information/attention

Measures

Appendix

Distribution of Loss Share

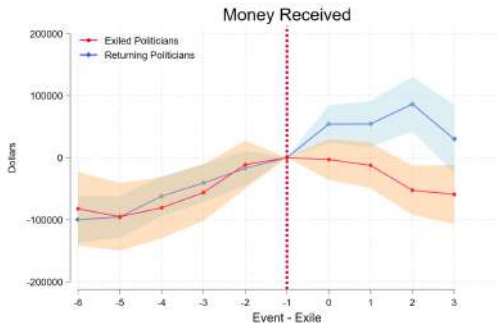


Loss Share

Empirical Strategy

Assumptions

- **Assumption 1: Committee exile of the politician is not determined by money received by the politician**

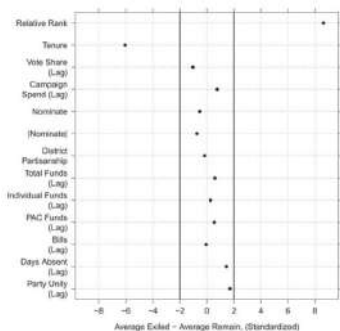


Note: Dependent variable is total campaign contributions received by the politician. We plot estimated coefficients and depict 95% CI of leaving (exiled) and returning (not exiled) politicians. Politicians are restricted within marginal politicians (seniority less than or equal to 4 terms (8 years). Politician FE is also included.

Empirical Strategy

Assumptions

- **Returning and exiled politicians are indifferent in their characteristics** (Grimmer and Powell, 2013)

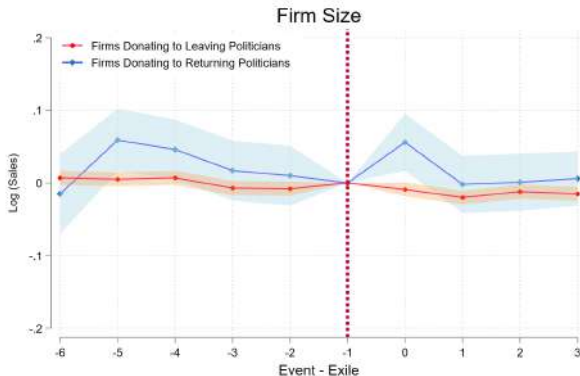


Note: This figure shows the standardized difference in means across the pre-exile covariates used in this study. For most covariates, the exiled legislators are strikingly similar to the legislators who remain on the committees. But this is not true for the variables used to select the exiles: tenure and relative rank.

Empirical Strategy

Assumptions

- **Assumption 2: Larger firms cannot predict leaving politicians**



Note: Dependent variable is log of firm total sales in a Congress. We plot estimated coefficients and depict 95% CI of firms donating to leaving (exiled) and returning (not exiled) politicians. Politicians are restricted within marginal politicians (seniority less than or equal to 4 terms (8 years)). Controls include previous period log sales.

Can Exile be Predicted?

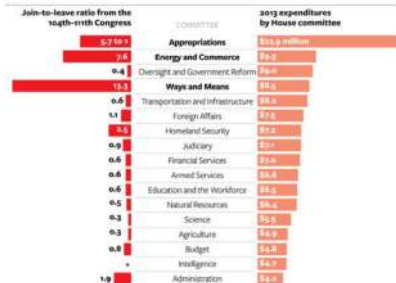
	LossShare- Lag
Log (Total Number of Political Connections) - Lag	-0.003 (0.007)
Log (Firm Total Contributions)	-0.020 (0.013)
Log (Firm Total Contributions to Democrats)	0.017 (0.012)
Log (Sales) - Lag	0.032 (0.058)
Log (Cost of Goods Sold) - Lag	-0.003 (0.006)
R-squared	0.432
No. obs	1,495
Firm FE	Yes
Congress FE	Yes

Borusyak and Hull (2020)'s Method

Important Committees

The Most Desirable House Committees

In 2013, the Appropriations Committee allocated more than twice as much money as Ways and Means, but historically House members have been twice as keen to join the Ways and Means Committee.



Committee	Number of revolving door people profiled
Ways & Means	230
Appropriations	175
Energy & Commerce	170
Armed Services	152
Government Reform	150
Education & the Workforce	120
Judiciary	118
Financial Services	115
Transportation & Infrastructure	114
Energy & Commerce	111
Budget	104
Science	101

Back

Robustness

Party Leaders

	Log (Sales)	Log (Fixed + Variable Cost)	Markup	Profit rates
LossShare - Lag	-0.008 (0.011)	0.074 (0.080)	-0.110** (0.051)	-0.103** (0.053)
Other Controls	Yes	Yes	Yes	Yes
R-squared	0.972	0.980	0.897	0.722
No. obs	1,123	1,099	1,099	1,099
Firm FE	Yes	Yes	Yes	Yes
Congress FE	Yes	Yes	Yes	Yes

[Back](#)

Robustness

Firms ever Losing Politicians

	Log (Sales)	Log (Fixed + Variable Cost)	Markup	Profit rates
LossShare - Lag	-0.003 (0.008)	0.071 (0.055)	-0.60** (0.024)	-0.44** (0.025)
Other Controls	Yes	Yes	Yes	Yes
R-squared	0.952	0.968	0.839	0.640
No. obs	4,351	4,254	4,254	4,254
Firm FE	Yes	Yes	Yes	Yes
Congress FE	Yes	Yes	Yes	Yes

[Back](#)

Robustness

"Super" Marginal Politicians (One-Congress Seniority)

	Log (Sales)	Log (Fixed + Variable Cost)	Markup	Profit rates
Loss Share - Lag	-0.009	-0.008	-0.063***	-0.053*
Other Controls	Yes	Yes	Yes	Yes
R-squared	0.962	0.969	0.839	0.646
No. obs	4,576	4,576	4,576	4,576
Firm FE	Yes	Yes	Yes	Yes
Congress FE	Yes	Yes	Yes	Yes

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Empirical Results

Robustness: Can Firms Predict the Loss? Borusyak and Hull (2020)'s method

$$\text{LossShare}_{i,t} = \alpha + \boldsymbol{\theta} \mathbf{X}_{i,t-1} + \delta_i + \gamma_t + \eta_{i,t}.$$

- $X_{i,t-1}$: A list of firm characteristics Results
- Replace $\text{LossShare}_{i,t}$ with $\hat{\eta}_{i,t}$ and $\hat{\text{LossShare}}_{i,t}$

Empirical Results

Robustness: Can Firms Predict the Loss? Borusyak and Hull (2020)'s method

$$\text{LossShare}_{i,t} = \alpha + \boldsymbol{\theta} \mathbf{X}_{i,t-1} + \delta_i + \gamma_t + \eta_{i,t}.$$

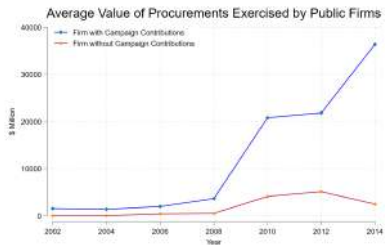
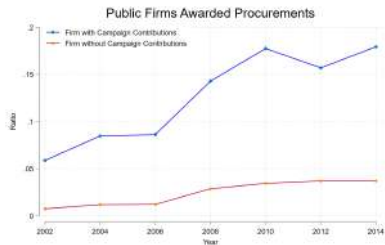
- $X_{i,t-1}$: A list of firm characteristics Results
- Replace $\text{LossShare}_{i,t}$ with $\hat{\eta}_{i,t}$ and $\text{LossShare}_{i,t}$

	Markup	Profit rates
LossShare - Unexpected	-0.104** (0.052)	-0.113* (0.060)
Other Controls and FEs	Yes	Yes
R-squared	0.897	0.731
No. obs	910	910

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Channel

Government Procurement Contracts



Model

Model

A parsimonious model with imperfect competition: Atkeson and Burstein (2008); De Loecker et al. (2021)

- **Motivating evidence**
 - Empirics: effect of political connections on firm-level markups
 - Facts: **few firms with political connections have more probability to have contracts, with higher values** Evidence
- Many markets: a finite number of firms; strategic competition within each market
 - Within each market: a private and a public submarket, two final goods (García-Santana et al., 2022)
 - Entry decisions are independent
- **Entry decision with costs** $\phi_p < \phi_g$
 - The entry cost of the public market can be seen as **cost of building up political connections**
 - For simplicity, assume firms with political connections always get the contract Evidence
- **Firm-level markup: weighted average of two markups (by output)**

Model

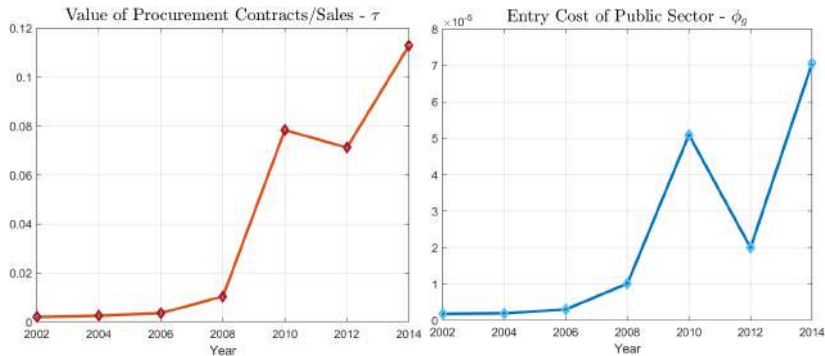
Mechanisms

- Holding ϕ_p , number of potential firms in each market, and distribution of firm productivity unchanged
- **Entry costs** $\phi_g \uparrow$: Higher threshold for firms to enter
 - Most productive firms enter \rightarrow efficiency gain from higher productivity
 - Fewer firms enter \rightarrow less competition \rightarrow higher market share & markups
- **Government spending on procurement contracts** $\tau \uparrow$: More contract value
 - More firms enter the public submarket \rightarrow lower public market shares
 - Larger public market size \rightarrow higher weight on (higher) markups in the public market
- Parameters
 - From data: government procurement value over total outputs - τ
 - From calibration: entry cost of public sector - ϕ_g

External Parameters

Model

Estimation

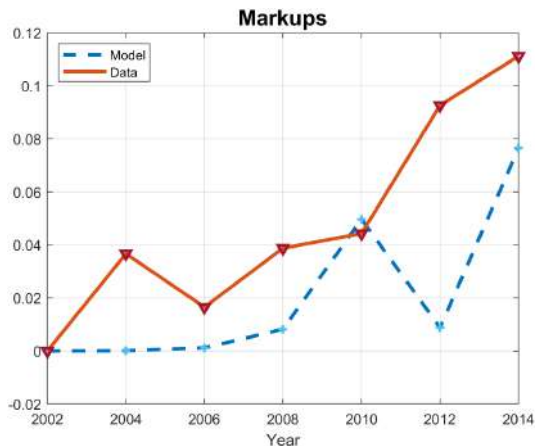


Main Findings

Interpretation

Model

Implications: Markups



- **Increase in entry cost (political contributions) accounts for 69% increase in average markups**

External Parameters

Parameter	Symbol	Value	Source
<i>Goods Market</i>			
Elasticity of Substitutes within private submarkets	η_p	5.75	De Loecker et al. (2021)
Elasticity of Substitutes across private submarkets	θ_p	1.2	De Loecker et al. (2021)
Elasticity of Substitutes within public submarkets	η_g	5.75	De Loecker et al. (2021)
Elasticity of Substitutes within private submarkets	θ_g	1.2	De Loecker et al. (2021)
<i>Labor Market</i>			
Labor supply elasticity	ψ	0.25	Chetty et al. (2011)
<i>Government Procurement Contracts</i>			
Value of procurement contracts/Total Sales	$\tau_{t=107\text{th Congress}}$	0.0020	Sample Average
	$\tau_{t=108\text{th Congress}}$	0.0026	
	$\tau_{t=109\text{th Congress}}$	0.0036	
	$\tau_{t=110\text{th Congress}}$	0.0104	
	$\tau_{t=111\text{th Congress}}$	0.0784	
	$\tau_{t=112\text{th Congress}}$	0.0712	
	$\tau_{t=113\text{th Congress}}$	0.1128	

Mechanisms

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