

Investing in (hidden) influence

August 17, 2020

Papers referenced in this presentation

- Bertrand, M., Bombardini, M., Fisman, R., & Trebbi, F. (2020). "Tax-exempt lobbying: Corporate philanthropy as a tool for political influence." *American Economic Review*.
- Bertrand, M., Bombardini, M., Fisman, R., Hackinen, B. and Trebbi, F. (2020). "Hall of mirrors: Corporate philanthropy and strategic advocacy." Working paper.
- Bertrand, M., Bombardini, M., Fisman, R., and Trebbi, F. and Yegen, E. (2020). "Investing in influence: Investors, portfolio firms, and political giving." Working paper.

Why is there so little money in U.S. politics?

- The Tullock Puzzle: if you look at the correlation between donations and profits, apparently “absurdly large rate of returns on political donations”
- Ansolabehere, de Figueiredo, and Snyder: “Why is there so little money in U.S. politics?” (if the returns are so high?!)

Hidden influence in U.S. politics

- If we add up the readily observable channels of influence-seeking, they are merely billions
- But there are many other channels that might be important but unseen (i.e., did Tullock get the denominator wrong?)

Sources of hidden influence

- There are sources of influence that are not captured by disclosures (or at least harder to track), that are distinct from the “dark money” famously enabled by Citizens United
 - Giving by corporate elites (e.g., Bonica 2016)
 - Jobs (e.g., Faccio and Hsu 2017)
 - **Strategic Philanthropy**
 - **Corporate control**
- Such methods are of particular concern precisely because their lack of observability (or even positive veneer) limit electoral accountability

Corporate philanthropy as influence

- **Bertrand, M., Bombardini, M., Fisman, R., & Trebbi, F. (2020).** "Tax-exempt lobbying: Corporate philanthropy as a tool for political influence." *American Economic Review*.
- **Bertrand, M., Bombardini, M., Fisman, R., Hackinen, B. and Trebbi, F. (2020).** "Hall of mirrors: Corporate philanthropy and strategic advocacy." Working paper.
- **Bertrand, M., Bombardini, M., Fisman, R., and Trebbi, F. and Yegen, E. (2020).** "Investing in influence: Investors, portfolio firms, and political giving." Working paper.

Corporate political charity is hidden

- “It’s...a lobbying tactic that is not completely understood or even known by the public...[Current and former lawmakers] find the charitable donations troubling, calling them one of the last major unregulated fronts in the “pay to play” culture in Washington.” (NYT, 2010)
- “[Non-profits’ comments] mislead agencies reviewing public comments, as agency officials might have difficulty distinguishing between true...preferences and corporate funded preferences.” (Peng, 2016)

Philanthropy as influence – scale

| Foundation | Charity | PAC | Lobbying |
|---|---------|------|----------|
| PFIZER PATIENT ASSISTANCE FOUNDATION | 339.48 | 1.12 | 22.82 |
| BoA CHARITABLE FOUNDATION INC | 338.04 | 0.91 | 5.98 |
| WALMART FOUNDATION | 332.77 | 1.21 | 13.73 |
| WELLS FARGO FOUNDATION | 320.10 | 0.73 | 14.61 |
| THE JPMORGAN CHASE FOUNDATION | 243.97 | 0.80 | 15.68 |
| GOLDMAN SACHS PHILANTHROPY FUND | 228.74 | 1.08 | 7.89 |
| GE FOUNDATION | 225.64 | 1.70 | 45.31 |
| CITI FOUNDATION | 142.68 | 0.34 | 10.26 |
| THE COCA-COLA FOUNDATION INC | 136.40 | 0.59 | 11.07 |
| CATERPILLAR FOUNDATION | 107.94 | 0.63 | 7.67 |

Note: PAC = Political Action Committee Spending

Politically influential charity

- “Bribing” legislators to favor corporate interests
- “Bribing” non-profits to push for corporate interests

Charity as influence: Anecdote A

They do not seem the most likely classical music patrons: Northrop Grumman, General Dynamics, Boeing and Lockheed Martin. But together, these defense contractors are donating hundreds of thousands of dollars to the symphony orchestra in Johnstown, Pa... Company representatives say they are being generous corporate citizens. But the orchestra is also a beloved charity of Representative John P. Murtha, Democrat of Pennsylvania, whose Congressional committee hands out lucrative defense contracts, and whose wife, Joyce, is a major booster of the symphony. ["Gift to Charities Keep Lawmakers Happy", New York Times, Oct 18, 2008]

Charity as influence: Anecdote B

“For the AT&T/T-Mobile merger, Peng (2016) documents letters of support to the FCC from non-profits that, at first glance, would appear to have little interest or expertise in telecom policy, including a homeless shelter in Louisiana, a South Carolina Habitat for Humanity chapter, and a special needs employment agency in Michigan. The non-profits were all AT&T Foundation grantees (in the case of the homeless shelter, the donation had come in just five months before the merger was announced). In no case did the non-profit disclose its AT&T funding in its letter to the FCC.” (Bombardini et al, 2020b)

Charity as legislative influence: results

- Corporate charity and PAC contributions tend to flow into the same congressional districts
- Both are driven in part by the importance of the district's legislator to the company (based on committee assignments)
- Personal connections matter as well – non-profits with legislators on their boards get a much higher fraction of revenues from corporate donations

Charity as regulatory influence: results

- The probability that a non-profit comments on proposed regulation that a corporation also commented on is *much* higher if the non-profit received a donation in the previous 1-2 years.
- Charity-linked comments use more similar language
- Final language of rules is more similar to that of corporate comments if a grantee also commented on the rule

Sources of hidden influence

- There are sources of influence that are not captured by disclosures (or at least harder to track), that are distinct from the “dark money” famously enabled by Citizens United
 - Giving by corporate elites (e.g., Bonica 2016)
 - Jobs (e.g., Faccio and Hsu 2017)
 - Strategic Philanthropy
 - **Corporate control**
- Such methods are of particular concern precisely because their lack of observability (or even positive veneer) limit electoral accountability

Amplifying political voice

- Individuals aiming to use money to amplify their political voice employ some well-known techniques:
 - Lobbying
 - Bundling
- In this final paper I will discuss a form of (hidden) amplification of influence of particular interest to finance scholars and those interested in corporate governance

On ownership, politics, and (mis)governance

- The most common conception of investors and political influence is that of investors constraining managerial “political” perquisites

Rupert Murdoch, on the Newscorp donation to the Republican Governors' Association: *“[It was] a result of my friendship with John Kasich.”*

On ownership, politics, and (mis)governance

“[W]ithout effective oversight, excessive or poorly managed corporate political spending may pose risks to shareholders, including the risk that

corpora “[S]hareholders would be better served political if they could weigh in on political shareho contributions made in [Intel's] name, allowing them to assess and protect against threats to shareholder value.”
(North Star Asset Mgmt)

On ownership, politics, and (mis)governance

- The most common conception of investors and political influence is that of investors constraining managerial “political” perquisites
- This view has mostly been put forth by “social investors” arguing that funds should, e.g., restrain giving to anti-LGBT legislators
- Our results will suggest that, more plausibly, one set of political misgovernance issues is traded for another (i.e., managers vs owners)

Investing in influence: Main results

- The PAC giving of investors and portfolio firms are more correlated after large ($>1\%$) block purchases
 - Largely invariant to inclusion of various “two-way” fixed effects
 - This result holds for “passive” acquisitions, and coincides with acquisition event cycle suggesting the link is causal
- Firms shift giving more around acquisitions than investors, suggesting that investors’ preferences drive convergence.

Data: Overview

- I will present two main types of analyses:
 - pair-congressional district-cycle level analyses
 - pair-cycle analyses
- The starting point in each case is:
 - Time: Congressional election cycles 1980-2018
 - Investors: All 13-F (>100M) investors disclosing quarterly holdings
 - Firms: all portfolio firms for our sample of investors

Measuring political giving

- We measure political giving at the congressional district-level, using PAC contributions aggregated by organization (i.e., investor or firm)
- Some notes on PAC giving
 - Focused on incumbent donations
 - Limited to \$5,200 per politician per cycle

Ownership and correlation in giving

- We aim to run an “event study” style of specification around large acquisitions (>1% in a single quarter)

$$\begin{aligned}\log(1 + \text{firm PAC}_{ftc}) &= \beta_1 \log(1 + \text{invPAC}_{itc}) \times \text{Post}_{ift} \\ &\quad + \beta_2 \log(1 + \text{invPAC}_{itc}) + \beta_3 \text{Post}_{ift} \\ &\quad + FE + \epsilon_{iftc}\end{aligned}$$

- Notes:
 - *Post* is an indicator variable denoting the period when the investor acquires > 1%, and later
 - The basic formulation includes investor, firm, congressional district, and election cycle fixed effects (we also include more saturated specifications)

Ownership and correlation in giving

| Depend. Var.: Log of firm's PAC | | | | | | | | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| Log of investor's PAC × 1(Post) | 0.020*** (0.00183) | 0.026*** (0.00249) | 0.027*** (0.00250) | 0.021*** (0.00183) | 0.023*** (0.00190) | 0.019*** (0.00085) | 0.014*** (0.00167) | 0.016*** (0.00176) |
| Log of investor's PAC | 0.021*** (0.00123) | 0.023*** (0.00152) | 0.022*** (0.00146) | 0.020*** (0.00121) | 0.021*** (0.00137) | 0.010*** (0.00109) | 0.012*** (0.00107) | 0.004*** (0.00103) |
| 1(Post) | 0.115*** (0.01062) | 0.170*** (0.01303) | 0.090*** (0.01038) | 0.016*** (0.00622) | 0.019*** (0.00660) | 0.020*** (0.00660) | 0.010*** (0.00397) | 0.021*** (0.00659) |
| Fixed Effects | | | | | | | | |
| Firm | X | | | X | X | X | | X |
| Investor | | X | X | | X | | | X |
| Congressional Cycle | | | X | X | X | | | |
| Congressional District | | | | | | | | |
| Firm × Congressional District | | | | | | | X | |
| Investor × Congressional District | | | | | | | X | |
| Congressional Cycle × District | | | | | | | | X |
| Clustering | | | | | | | | |
| Firm | X | X | X | X | X | X | X | X |
| <i>N</i> | 402,689,395 | 402,689,395 | 402,689,395 | 402,689,395 | 402,689,395 | 402,689,395 | 402,689,395 | 402,689,395 |
| <i>R</i> ² | 0.122 | 0.014 | 0.015 | 0.123 | 0.124 | 0.139 | 0.551 | 0.555 |

Notes: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. *Standard Errors* are in parentheses.

Ownership and correlation in giving

| | (6) | (7) | (8) |
|--|-----------------------|-----------------------|-----------------------|
| Log of investor's PAC $\times \mathbb{1}(\text{Post})$ | 0.019*** (0.00085) | 0.014*** (0.00167) | 0.016*** (0.00176) |
| Log of investor's PAC | 0.010*** (0.00109) | 0.012*** (0.00107) | 0.004*** (0.00103) |
| $\mathbb{1}(\text{Post})$ | 0.020*** (0.00660) | 0.010*** (0.00397) | 0.021*** (0.00659) |

Divestments: a different pattern

| Depend. Var.: Log of firm's PAC | | | | | | | | |
|--|-----------------------|-----------------------|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| Log of investor's PAC × 1(Post) | -0.002 (0.00286) | -0.005 (0.00375) | -0.005 (0.00380) | -0.002 (0.00289) | -0.002 (0.00292) | -0.002 (0.00289) | 0.005*** (0.00182) | -0.003 (0.00288) |
| Log of investor's PAC | 0.039*** (0.00260) | 0.050*** (0.00337) | 0.049*** (0.00336) | 0.039*** (0.00258) | 0.045*** (0.00277) | 0.022*** (0.00252) | 0.018*** (0.00112) | 0.015*** (0.00252) |
| 1(Post) | 0.000 (0.00938) | -0.017 (0.0110) | -0.025*** (0.00964) | -0.012* (0.00705) | -0.011 (0.00758) | -0.012 (0.00758) | -0.008* (0.00513) | -0.011 (0.00757) |
| Fixed Effects | | | | | | | | |
| Firm | X | | | X | X | X | | X |
| Investor | | X | X | | X | X | | X |
| Congressional Cycle | | | X | X | X | X | X | |
| Congressional District | | | | | | X | | |
| Firm × Congressional District | | | | | | | X | |
| Investor × Congressional District | | | | | | | X | |
| Congressional Cycle × District | | | | | | | | X |
| Clustering | | | | | | | | |
| Firm | X | X | X | X | X | X | X | X |
| <i>N</i> | 145,122,926 | 145,122,926 | 145,122,926 | 145,122,926 | 145,122,926 | 145,122,926 | 145,122,926 | 145,122,926 |
| <i>R</i> ² | 0.127 | 0.014 | 0.015 | 0.128 | 0.128 | 0.146 | 0.571 | 0.581 |

Notes: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. *Standard Errors* are in parentheses.

Ownership correlation: summary

- $\beta_3 > 0$ – indicates that block purchases are associated with an increase in political giving (counter to standard social/governance narrative)
- $\beta_2 > 0$ – there is some matching of investor-firm based on political interests (though this is likely because of general shifts in desirability of particular congressional district)

Ownership correlation: summary

- $\beta_1 > 0$ – The main result in this section. When an investor acquires a sizeable stake in a firm, their PAC giving is more highly correlated. The effect is large: e.g., the probability that a firm gives to a politician given that an investor donates to the legislator doubles post-acquisition
- We do *not* see a symmetric result for divestments, perhaps because of inertia and/or fixed costs of establishing ties? (Consistent with this, the direct effect of investor PAC giving is predictive in the preceding table)

Ownership-giving correlation: interpretation

- Is there simply time-varying unobserved changes in firm and investor preferences?
- Do investors influence firms, or firms influence investors?

Ownership-giving correlation: interpretation

- Is there simply time-varying unobserved changes in firm and investor preferences?
 - Index inclusions
 - Event plot
- Do investors influence firms, or firms influence investors?

Ownership-giving correlation: interpretation

- Is there simply time-varying unobserved changes in firm and investor preferences?
 - Index inclusions
 - Event plot
- Do investors influence firms, or firms influence investors?
 - Use cosine similarity to examine whether firms shift around acquisitions, or investors

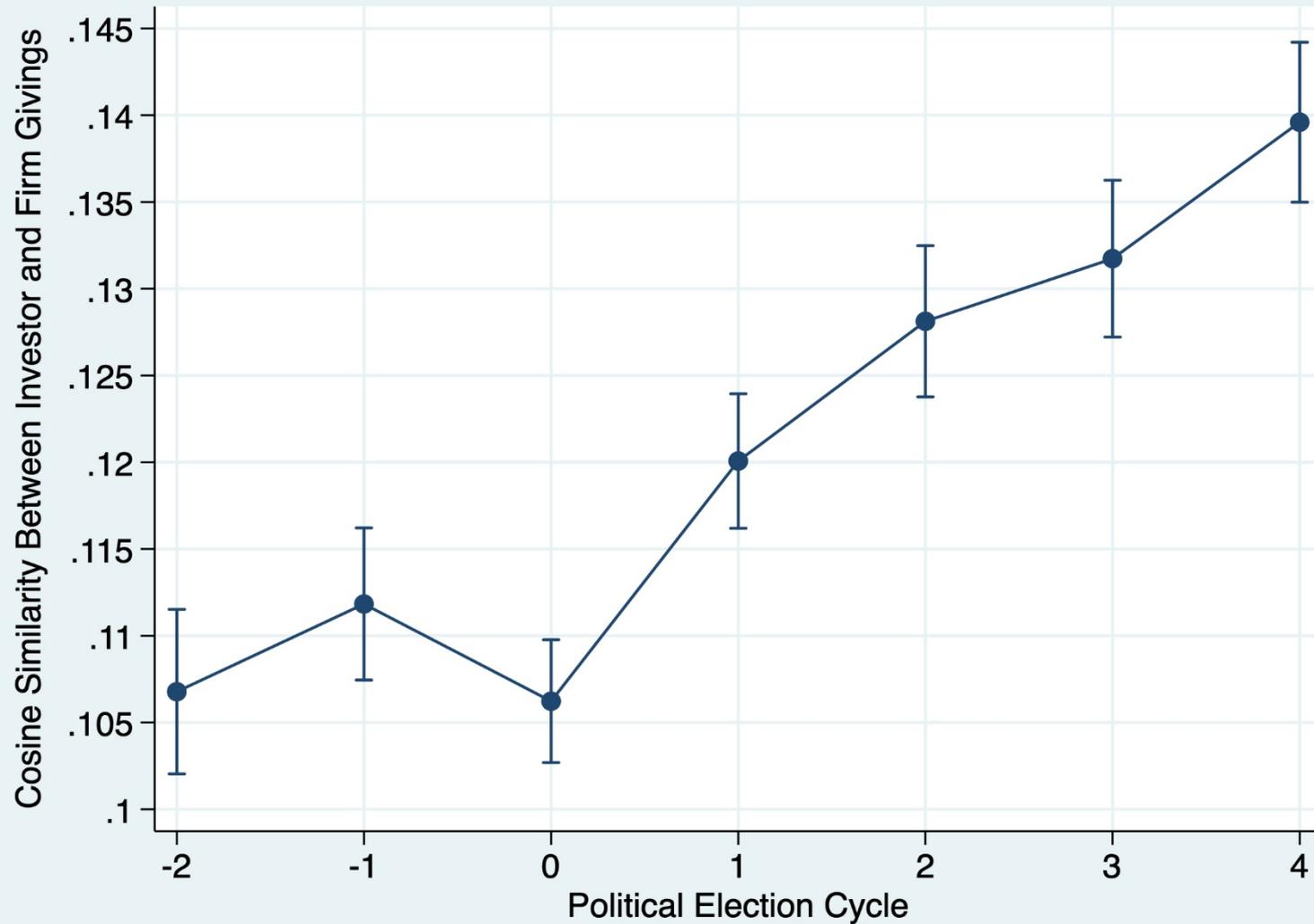
Focusing only on index-based acquisitions

| Depend. Var.: Log of firm's PAC | | | | | | | | |
|--|-----------------------|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| Log of investor's PAC × $\mathbb{1}(\text{Post})$ | 0.027*** (0.00749) | 0.028*** (0.00858) | 0.030*** (0.00863) | 0.029*** (0.00753) | 0.028*** (0.00758) | 0.023*** (0.00718) | 0.016*** (0.00477) | 0.013** (0.00684) |
| Log of investor's PAC | 0.021*** (0.00266) | 0.024*** (0.00307) | 0.021*** (0.00293) | 0.018*** (0.00256) | 0.021*** (0.00289) | 0.010*** (0.00230) | 0.011*** (0.00188) | 0.001 (0.00220) |
| $\mathbb{1}(\text{Post})$ | 0.241*** (0.03275) | 0.279*** (0.036916) | 0.120*** (0.03895) | 0.062*** (0.02683) | 0.068*** (0.02756) | 0.070*** (0.02758) | 0.036** (0.01541) | 0.071*** (0.02759) |
| Fixed Effects | | | | | | | | |
| Firm | X | | | X | X | X | | X |
| Investor | | X | X | | X | X | | X |
| Congressional Cycle | | | X | X | X | X | X | |
| Congressional District | | | | | | X | | |
| Firm × Congressional District | | | | | | | X | |
| Investor × Congressional District | | | | | | | X | |
| Congressional Cycle × District | | | | | | | | X |
| Clustering | | | | | | | | |
| Firm | X | X | X | X | X | X | X | X |
| <i>N</i> | 41,072,881 | 41,072,881 | 41,072,881 | 41,072,881 | 41,072,881 | 41,072,881 | 41,072,881 | 41,072,881 |
| <i>R</i> ² | 0.121 | 0.018 | 0.019 | 0.123 | 0.124 | 0.142 | 0.544 | 0.550 |

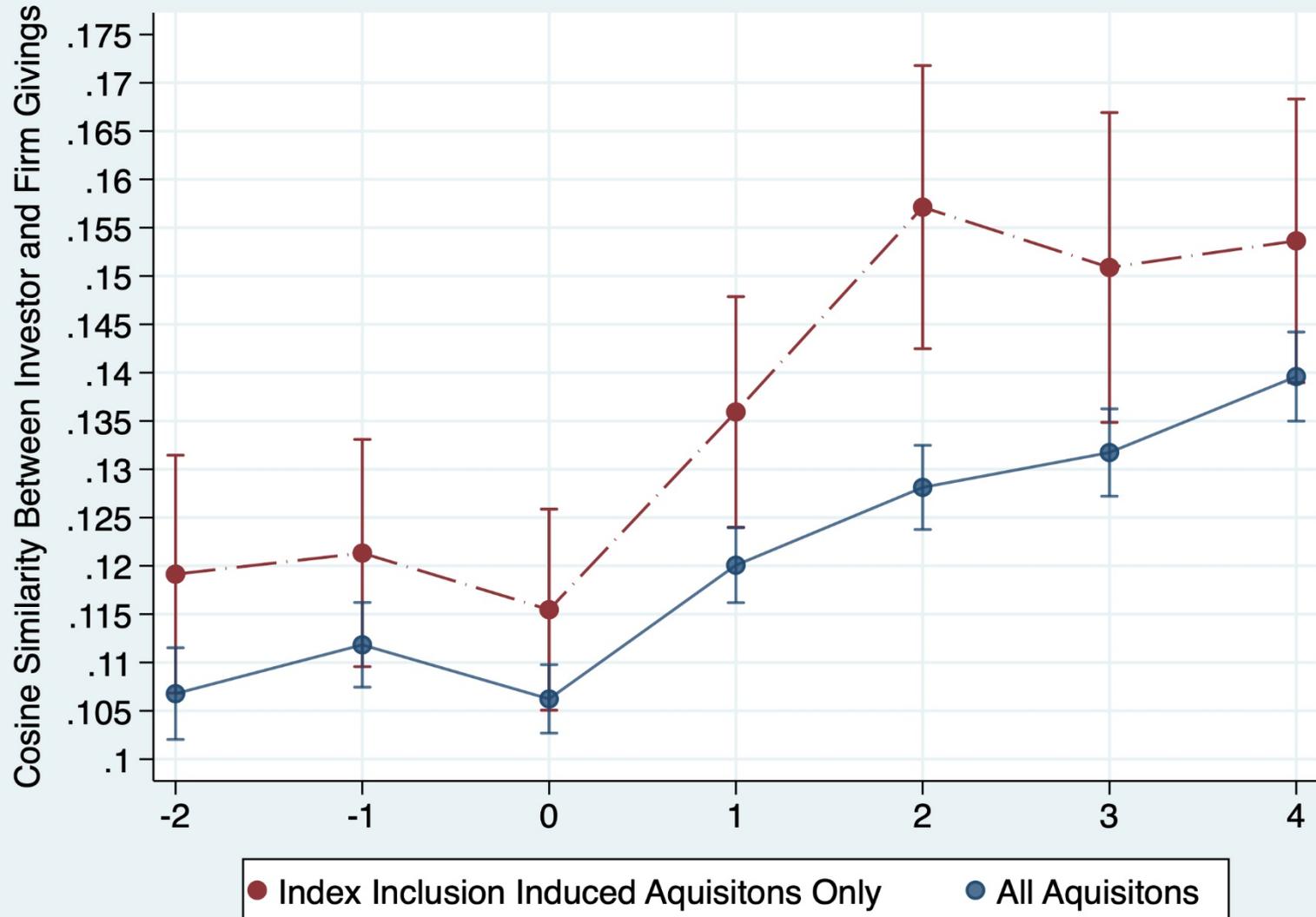
Cosine similarity analyses

- We define $Cos(x_{i,t}, x_{f,t})$ as the Euclidean distance between investor-firm giving vectors in election cycle t across 435 districts. This $[0, 1]$ measure captures the extent of overlap between investor and firm giving.
- We may similarly define $Cos(x_{f,t}, x_{f,t+1})$ and $Cos(x_{i,t}, x_{i,t+1})$ for the extent to which a firm (investor) gives similarly across election cycles.

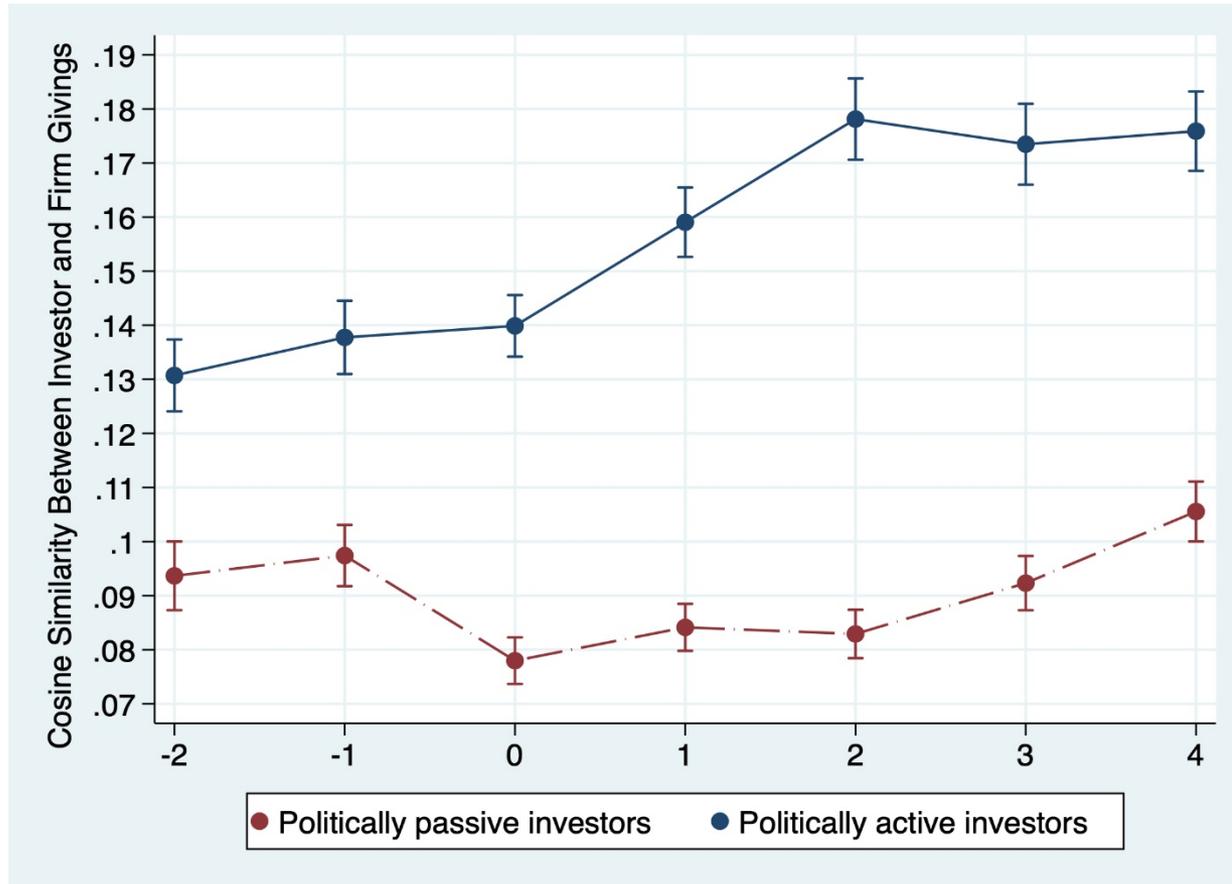
Firm-investor cosine similarity event plot



Index-based acquisitions



Politically active vs passive investors



The result is driven by politically active investors

Ownership-giving correlation: interpretation

- Is there simply time-varying unobserved changes in firm and investor preferences?
 - Index inclusions
 - Event plot
- Do investors influence firms, or firms influence investors?
 - Use cosine similarity to examine whether firms shift around acquisitions, or investors

Cosine similarities over time

- The simple intuition for the following test is that if investor preferences are driving convergence, we should see more disruption to firm giving around acquisition dates, so $Cos(x_{ft}, x_{ft+1}) < Cos(x_{it}, x_{it+1})$; if firm preferences shift investor giving, we get the converse.
- We also look at a further layer in differences to net out general consistency in giving for firms versus investors, i.e.,
$$Cos(x_{ft}, x_{ft+1}) - Cos(x_{ft-1}, x_{ft})$$

| | Investors | Firms | Difference in means | <i>P</i> -value of Difference | <i>N</i> |
|---|----------------------|----------------------|------------------------|-------------------------------|----------|
| $Cos[x_{j,t}, x_{j,t+1}]$ | 0.7455 (0.00239) | 0.5446 (0.00276) | 0.2008*** (0.00360) | 0.000 | 6,084 |
| $Cos[x_{j,t}, x_{j,t+1}] - Cos[x_{j,t-1}, x_{j,t}]$ | 0.07804 (0.00139) | -0.0022 (0.00281) | 0.0802*** (0.00314) | 0.000 | 5,346 |
| $Cos[x_{j,t}, x_{j,t+2}]$ | 0.5487 (0.00189) | 0.4093 (0.00267) | 0.1394*** (0.00321) | 0.000 | 5,346 |
| $Cos[x_{j,t}, x_{j,t+2}] - Cos[x_{j,t-2}, x_{j,t}]$ | 0.0568 (0.00814) | -0.0535 (0.00786) | 0.1104*** (0.01115) | 0.000 | 864 |

Conclusion

- *Licit* hidden influence is common in politics in the U.S. (and elsewhere!)
- Our goal is to draw attention to these sources of influence and – potentially – policy distortion
- What is the optimal response?
 - By regulators?
 - By governance activists?

END

Amplification through (opaque) bundling

- Biden released a bundler list late last year, disclosing the names and hometowns of more than 230 individuals and couples who had collected at least \$25,000 for his campaign. It includes heavy hitters from the worlds of politics and Democratic fundraising, such as Hollywood producer Jeffrey Katzenberg, Bill Clinton White House chief of staff Erskine Bowles, Connecticut Gov. Ned Lamont and private equity investor Alan Patricof.
- In May 2019, the [Trump] campaign formally rolled out its bundling program and quickly attracted 200 enrollees.