

Executives in Politics

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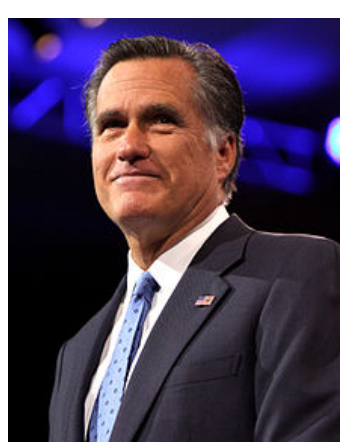
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Recent Example



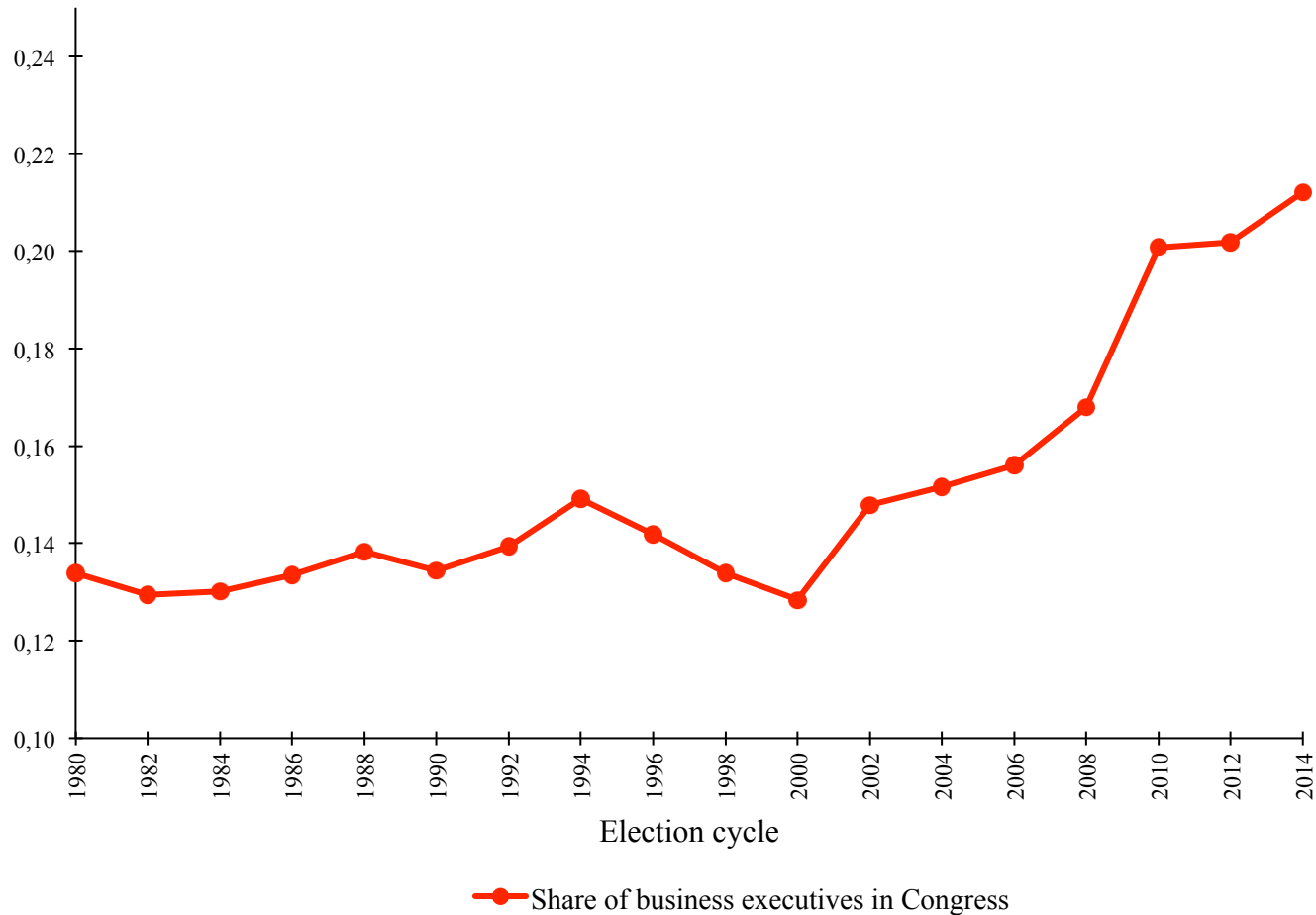
More examples in the U.S. and internationally

- Mitt Romney, longtime CEO of Bain Capital running for US presidency in 2012
- In 2000, Jon Corzine, a former CEO of Goldman Sachs, was elected Senator, and in 2005 became the governor of New Jersey.
- Michael Bloomberg, CEO of Bloomberg becoming New York mayor 2002-2013
- Steve Forbes presidential campaigns in 1996 and 2000
- William Harrison Binnie, a former CEO of Carlisle Plastics, Inc., unsuccessfully ran for the U.S. Senate in 2010.
- Internationally (Berlusconi, Italy's former prime minister, Chung Mong Joon, son of Hyundai founder running for presidency in Korea in 2012, Yulia Timoshenko)



Is “Executives in Politics” a New Phenomenon?

Executives in U.S. Congress



Why Executives Go into Politics?

- Reasons why executives *should avoid* politics:
 - High opportunity costs of time (obtaining higher salary is unlikely reason to seek political office, Besley (2004))
 - Diermeier, Keane, and Merlo (2005) find that congressional experience improves post-congressional opportunities in the private market (but executives had great opportunities before!)
 - Lack of necessary experience and knowledge
 - Business track record will be under public scrutiny.
- Reasons why executives *may go* into politics:
 - Personal satisfaction (“ego rents”).
 - Desire to implement preferred policies (business people have a different set of views on what is needed for economic growth and prosperity than do career politicians).
 - Satisfy special interest groups (e.g., some kickbacks to their firms or industry)
 - Executives are generally “under the spotlight” and may need to spend less time and money to get voters’ attention.
 - Can use their personal finances to fund their campaigns.
 - Executives have no prior voting record that can be exploited by their opponents.

Public Debate

- Public disdain for “career politicians” who lack “real world” experience creates a fertile ground for businessman politicians.
- Are executive skills transferable to political arena? What kind of skills are needed to become a successful politician?
- Some believe executive skills **ARE** transferable to politics :
 - Leadership, charisma, negotiating skills, eye for good talent, experience at selling a plan
 - Experience with numbers, ability to see wasteful spending
- Some believe executive skills **ARE NOT** transferable:
 - Executives are arrogant: they lack knowledge of laws, inner workings of government
 - Executives have a single goal: making a profit. Politicians have multiple goals, with many social implications.
 - Executives have the power to get things done. Politicians need to persuade, compromise, and build coalitions.
 - Budgeting skills from business may not translate to government. Governments by definition do things that are not profitable, such as caring for the poor and elderly, fighting enemies abroad or fixing roads and bridges

Our focus

- We hypothesize that by seeking political office executives want to obtain benefits for their firms.
 - What is mechanism?
- Examine their firms stock returns, returns to firms in industry, legislative agenda, and government contracts.
- Which executive characteristics determine whether they go into politics and which characteristics predict success?

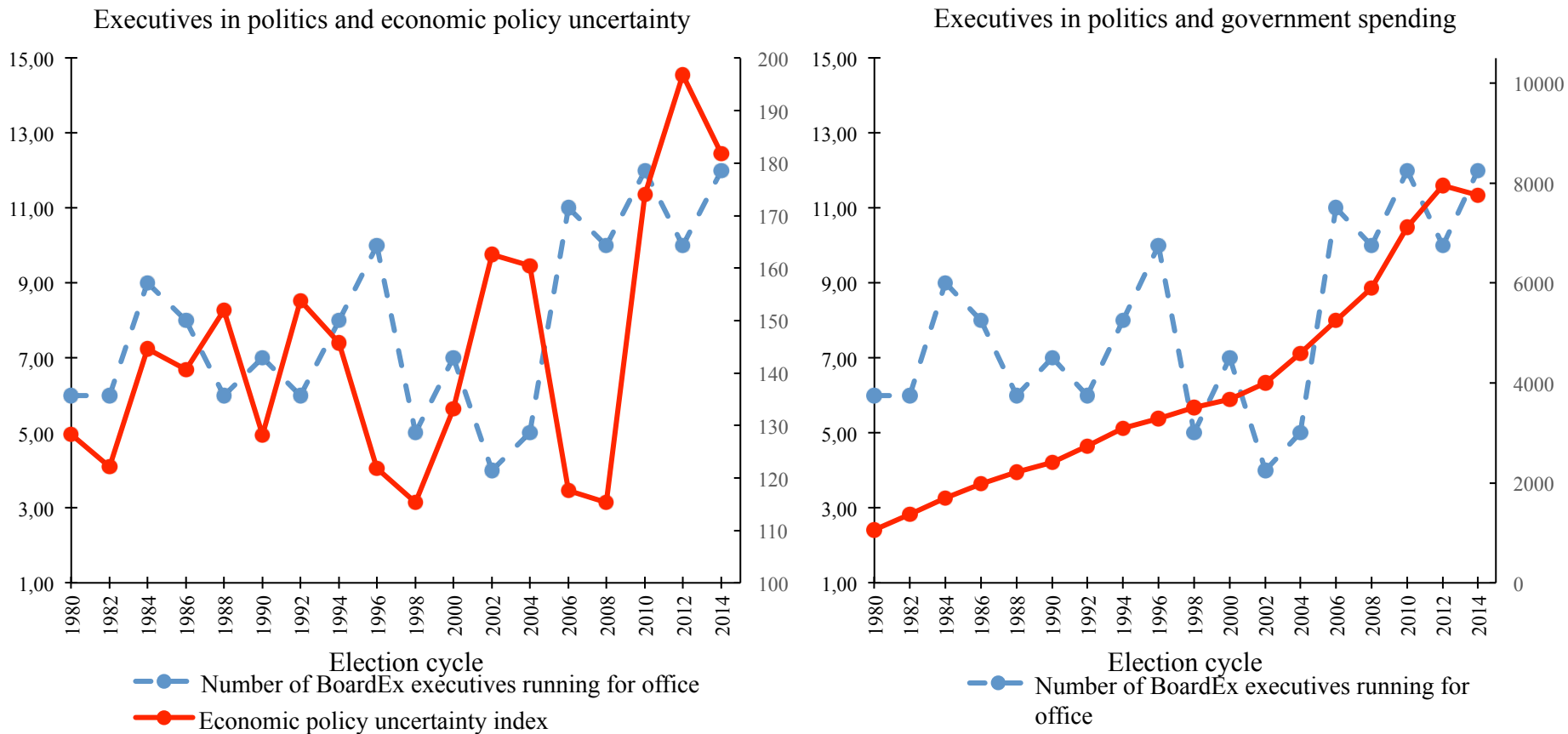
Literature

- Firms participate in the political process in a variety of ways
 - Lobbying (Bertrand, Bomabrdini, and Trebbi (2014), Borisov, Goldman, and Gupta (2015))
 - Political donations to candidates from the firms' PACs (Cooper, Gulen, and Ovtchinnikov (2010), Akey (2015))
 - Direct connections with politicians (Faccio (2006), Goldman, Rocholl, and So (2009), and Duchin and Sosyura (2012))
 - Influencing campaign contributions and voting of employees (Babenko, Fedaseyeu, and Zhang (2016))
- Existing evidence suggests that firms' political activities are valuable to shareholders
- Most relevant studies are Faccio (2006), Gehlbach, Sonin, and Zhuravskaya (2010), and Bunkanwanicha and Wiwattanakantang (2008)

A Well Defined Sample of Executives

- Build the pool of executives from Boardex, keep “CEO”, “Chairman/Chairwoman”, “President”, and “Founder”
 - 61,502 unique people, and 152,762 unique combinations of people and companies.
- We build search queries (“Director Names” + “Company Names” + “Office” + “Political Position”),
 - 1,994,920 search queries
- Search them through Bing, and return top 20 links (Scraper process).
- After the scraping process, we build within page search keywords, and perform a within page keyword match (Parsing process).
 - After parsing, we have 36,641 unique parser outputs (director-link combination) for 13,364 unique directors.
- Next, we manually look at the parsed excel files and verify links one by one.
 - In total, we have 218 directors, who are classified as politicians

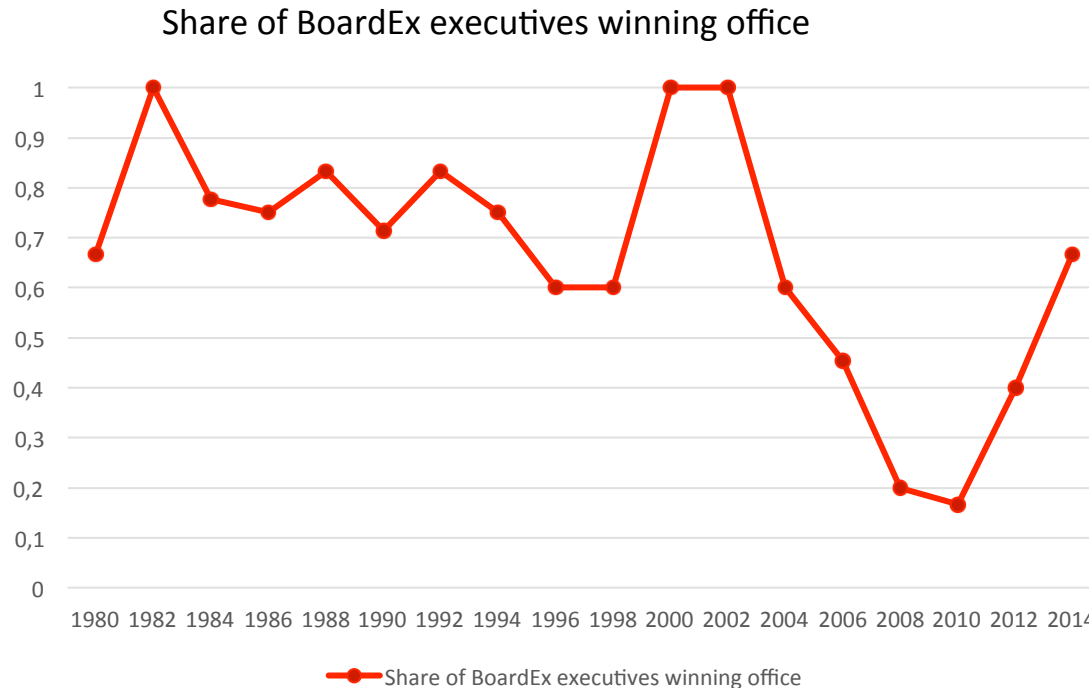
Trends in Benefits to Political Participation



Baker, Bloom, and Davis (QJE, 2016) argue that over time the economic policy uncertainty increased because of greater federal spending, regulation, tax code complexity, etc.

Is it Supply- or Demand-Driven?

- The increase is **supply-driven** if more and more businessmen choose to go into politics (ballot in elections)
- The increase is **demand-driven** if public view of businessman politicians becomes more favorable over time (they win more)



Are businessman politicians different from career politicians?

Panel C: Differences between businessman politicians and their opponents

	Businessman politicians	N	Opponents of businessman politicians	N	Difference (businessman politicians minus opponents)	t-stat
	(1)	(2)	(3)	(4)	(5)	(6)
Age	52.68	254	52.85	392	-0.17	-0.20
Female indicator	0.15	275	0.13	471	0.02	0.84
Government experience indicator	0.59	273	0.53	468	0.06	1.64
Army service indicator	0.33	270	0.30	454	0.04	1.01
Finance experience indicator	0.19	270	0.03	460	0.16	7.56***
MBA indicator	0.21	266	0.13	451	0.08	2.82***
Law experience indicator	0.18	267	0.40	449	-0.22	-6.18***
Academic experience indicator	0.10	267	0.13	450	-0.02	-0.87
Undergraduate degree indicator	0.88	263	0.83	454	0.05	1.80*
Number of children	2.62	219	2.66	341	-0.05	-0.34
Number of daughters	0.74	275	0.65	471	0.09	1.26
Foreign-born indicator	0.04	247	0.06	385	-0.02	-1.31

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Main differences: MBA degree, College degree, Law degree, and Finance experience

Findings

- Executives' firms increase in value by 1-2% when executives win in federal elections.
- Firms in the same industry do not increase as much in value (not all benefits are industry-specific)
- When legislation passes that was initially introduced by executives to Congress, their firms appreciate in value again.
- Government contracts increase to executives' firms, but revert back once they leave Congress.
- Voting records of executives indicate that they overall pass laws that are pro-business, but anti-labor, anti-environment, and anti-consumer.

Stock Returns Around Elections

Panel A: CARs of firms whose executives win political office

	CAR	N	t-stat
	(1)	(2)	(3)
Event window (-1; +1)	0.012	76	1.97*
Event window (-1; +3)	0.016	76	2.04**
Event window (-1; +5)	0.019	76	2.18**
Event window (-1; +7)	0.026	76	2.34**

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Panel B: CARs of firms whose executives win political office relative to the closest industry and size matched firm

	CAR of the firm whose executive wins political office	N	CAR of the closest industry and size matched firm	N	Difference (firms whose executives win office minus matched firms)	t-stat
	(1)	(2)	(3)	(4)	(5)	(6)
Event window (-1; +1)	0.012	76	0.001	76	0.011	1.42
Event window (-1; +3)	0.016	76	-0.002	76	0.019	1.88*
Event window (-1; +5)	0.019	76	-0.001	76	0.020	1.88*
Event window (-1; +7)	0.026	76	-0.002	76	0.028	2.09**

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Legislative Activity of Business Politicians

Panel A: The amount of legislative activity by business executives and other politicians, over all terms

	Business executives	N	Other politicians	N	Difference (business executives minus other politicians)	t-stat
	(1)	(2)	(3)	(4)	(5)	(6)
Number of terms served	4.60	323	5.71	1454	-1.11	-4.48***
Number of bills introduced	46.30	323	62.48	1454	-16.18	-3.35***
Number of introduced bills that pass						
Passed bills/introduced bills						
Number of bills co-sponsored	819.14	323	1107.82	1454	-288.69	-4.66***
Number of co-sponsored bills that pass						
Passed bills/co-sponsored bills						
Number of legislative collaborators	367	323	407	1454	-39.48	-2.68***
Percentage of business executives among legislative collaborators	0.18	323	0.16	1454	0.02	7.04***

** $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$*

CARs at Legislation Passage

Table 3. Firm-value implications of legislation introduced by business executives

This table reports

Panel A: CARs of firms whose executives introduce legislation

	CAR	N	t-stat
	(1)	(2)	(3)
Event window (-1; +1)	0.012	47	1.793*
Event window (-1; +3)	0.016	47	1.809*
Event window (-1; +5)	0.021	47	2.178**
Event window (-1; +7)	0.025	47	2.042**

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Panel B: CARs of firms whose executives introduce legislation relative to the closest industry and size matched firm

	CAR of the firm whose executive introduces legislation	N	CAR of the closest industry and size matched firm	N	Difference (firms whose executives introduce legislation minus matched firms)	t-stat
	(1)	(2)	(3)	(4)	(5)	(6)
Event window (-1; +1)	0.012	47	0.007	47	0.005	0.506
Event window (-1; +3)	0.016	47	0.000	47	0.016	1.087
Event window (-1; +5)	0.021	47	0.005	47	0.016	0.961
Event window (-1; +7)	0.025	47	0.005	47	0.020	1.046

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Voting Records

Table 5. Business executives' voting record

This table reports the results of regressions of
 CCUS (Chamber of Commerce of the United States) – pro-business
 COPE (Committee on Political Education of the AFL-CIO) – pro-labor unions
 CFA (Consumer Federation of America) – pro-consumer
 DW-NOMINATE – DW-nominate scores developed by Poole and Rosenstein, overall liberal/conservative classification (a higher score indicates a more conservative voting record)
 Standard errors, clustered by politician and election cycle, are reported in parentheses

Panel A: Pro-business (CCUS), pro-labor (COPE) interest group ratings

	CCUS		COPE	
	(1)	(2)	(3)	(4)
Business executive indicator	3.461*** (0.653)	1.462 (1.569)	-3.182*** (0.941)	-2.543* (1.363)
Republican indicator	38.737*** (2.088)	37.733*** (2.589)	-63.054*** (2.563)	-61.185*** (2.483)
Observations	7,415	1,763	7,409	1,763
R-squared	0.896	0.808	0.952	0.910
Chamber	House	Senate	House	Senate
Geographical fixed effects	Yes	Yes	Yes	Yes
Election cycle fixed effects	Yes	Yes	Yes	Yes

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Panel B: Pro-consume interest group ratings (CFA), the overall conservative/liberal score (DW-NOMINATE)

	CFA		DW-NOMINATE	
	(1)	(2)	(3)	(4)
Business executive indicator	-2.743** (1.124)	-4.287* (2.314)	0.041*** (0.014)	0.059** (0.025)
Republican indicator	-40.676*** (2.217)	-41.839*** (2.803)	0.734*** (0.048)	0.634*** (0.023)
Observations	3,996	969	6,581	1,644
R-squared	0.897	0.845	0.972	0.924
Chamber	House	Senate	House	Senate
Geographical fixed effects	Yes	Yes	Yes	Yes
Election cycle fixed effects	Yes	Yes	Yes	Yes

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

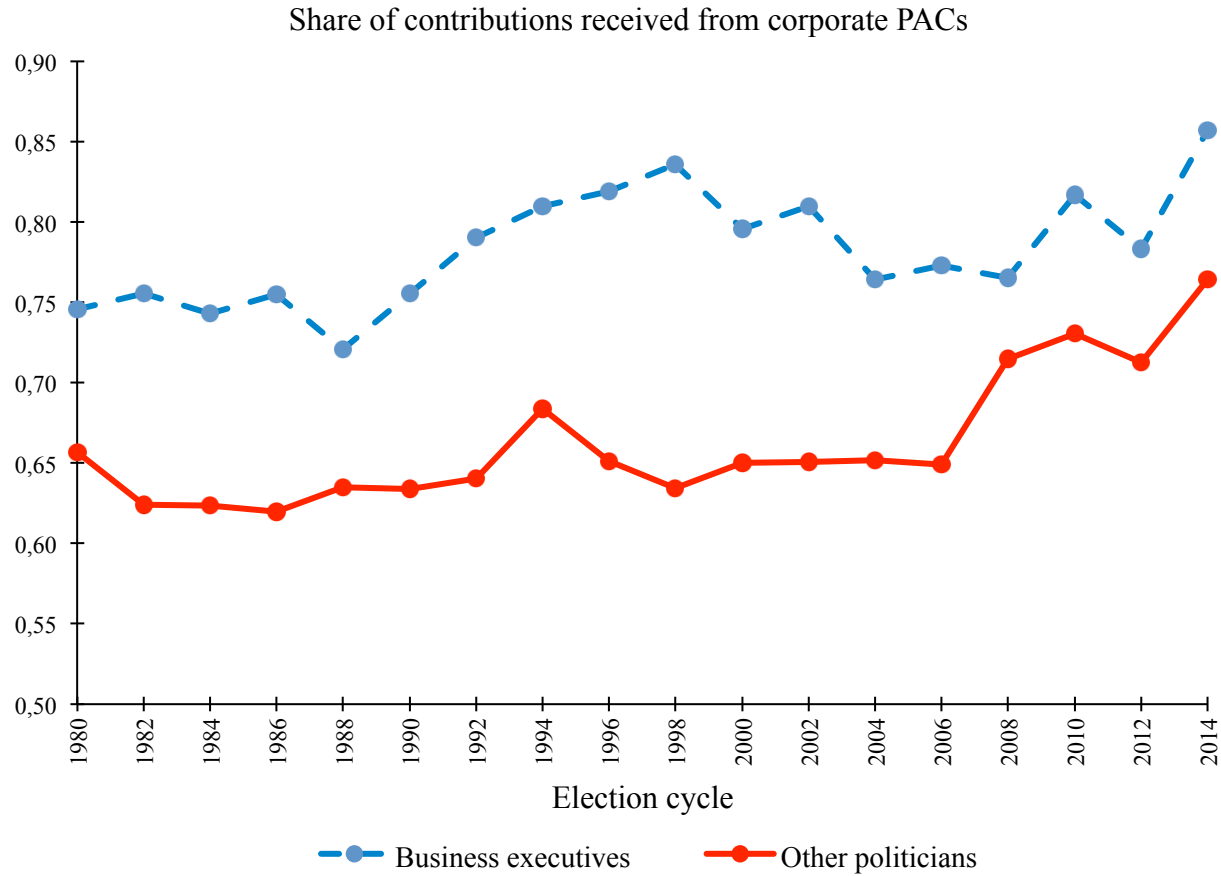
Who Supports Business Politicians?

Table 2. Campaign contributions to business executives and other politicians

This table reports	Business executives	N	Other politicians	N	Difference (business executives minus other politicians)	t-stat
	(1)	(2)	(3)	(4)	(5)	(6)
Contributions made by the candidate	50594.38	1620	6155.27	8392	44439.11	7.17***
Contributions made by other individuals	490259.40	1620	486624.70	8392	3634.63	0.13
Contributions made by corporations	162816.50	1620	150970.60	8392	11845.88	2.11**
Contributions made by labor unions	39775.41	1620	64876.67	8392	-25101.26	-11.73***

p<0.1, **p<0.05, *p<0.01*

Trends in Campaign Contributions



Are Businessman Politicians Electorally Successful?

Dependent variable:

The likelihood of winning political office

Sample:

*Businessman politicians and their
opponents*

Businessman politicians only

	(1)	(2)	(3)	(4)
Businessman politician indicator	0.262*** [0.035]	0.156*** [0.018]		
Age	-0.005*** [0.002]	-0.002* [0.001]	-0.006** [0.002]	-0.006** [0.002]
Female indicator	0.024 [0.052]	0.010 [0.031]	-0.157** [0.073]	-0.156** [0.074]
Government experience indicator	0.206*** [0.044]	0.153*** [0.023]	0.356*** [0.043]	0.355*** [0.043]
Army service indicator	-0.001 [0.042]	0.025 [0.021]	0.118** [0.058]	0.118** [0.058]
Finance experience indicator	0.060 [0.056]	0.022 [0.027]	0.027 [0.061]	0.027 [0.061]
MBA indicator	-0.056 [0.049]	0.005 [0.029]	-0.053 [0.067]	-0.051 [0.069]
Law experience indicator	-0.016 [0.045]	0.018 [0.022]	0.005 [0.065]	0.004 [0.065]
Academic experience indicator	0.104* [0.060]	0.071** [0.032]	0.124 [0.092]	0.124 [0.092]
Undergraduate degree indicator	0.185** [0.076]	0.145*** [0.030]	0.337*** [0.093]	0.338*** [0.092]
Number of children	-0.043*** [0.014]	-0.013** [0.007]	-0.035** [0.018]	-0.035** [0.018]
Number of daughters	0.016 [0.021]	0.016 [0.011]	0.072*** [0.027]	0.073** [0.029]
Foreign-born indicator	-0.104 [0.102]	-0.101* [0.058]	-0.234 [0.162]	-0.234 [0.163]
Log of total assets				-0.001 [0.011]
Number of employees				-0.000 [0.001]
Two-year stock return prior to election				0.007 [0.116]
Observations	475	1,055	275	275
Pseudo R-squared	0.219	0.333	0.274	0.274
Missing values	Excluded	Replaced with zeroes	Replaced with zeroes	Replaced with zeroes

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Conclusion

- We document a new upward trend in businessmen in U.S. running for political office.
- Results suggests that higher benefits to firms from political participation motivate executives to seek electoral office.
 - Their firms appreciate by 1.2% to 2.6% around the dates of electoral victories and around the dates of legislation passage.
 - Their firms receive higher volume of government contracts, especially during the first two years once executives are in Congress.
- Executives are electorally successful and noticeably change the legislative agenda of U.S. Congress.