**All Politics is Local:**

**Corporate Political Power and the Award of Federal Contracts**

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**Abstract**

We find that a firm’s political power contributes to its success during the federal contracting process. We construct a new set of corporate political power measures using the political power of individual legislators and the firm’s political contributions. Our results suggest that local politicians provide the greatest advantage to a firm in securing contracts Further analysis implies that local politicians are motivated to support firms to improve voter employment and their re-election likelihood. We also find that firms seek to restore any decline in political power by reallocating their contributions to more electable politicians.

Keywords: federal procurement; political contributions; political power; local politicians

JEL Codes: G3; G18; G38; K29

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# Introduction

In this study we explore the extent to which a firm's political power can affect its success in obtaining federal contracts. Although the federal contracting process is highly proscriptive and generally subject to competitive bidding, there are opportunities for political lobbying and negotiation that can affect a firm’s likelihood of obtaining a federal contract (Hogan et al., 2010; Dusso et al., 2019; Kim, 2019). Consequently, this study examines the extent to which the investments in political relationships made by firms influence their ultimate success in the federal contracting process.

To undertake our analysis, we develop a politician-specific index of political power. This index captures the political power of each individual representative or senator. Further, we aggregate this index across the politicians with whom the firm has relationships to create a measure of the firm’s total political power. We then investigate whether this measure of the firm’s political power is associated with greater success in obtaining federal contracts.

We construct our personal political power index (PPPI) for each legislator using publicly available data drawn from various sources, including Political Action Committee (PAC) data provided by the Center for Responsive Politics and Charles Stewart.[[1]](#footnote-1) The PPPI measures the political power of each representative or senator during an election cycle. The index assumes a value between zero and five, with five indicating which politicians are the most powerful. More specifically, our index is constructed based on five determinants associated with political power conceptually implied by the political science, economics and sociology literatures (e.g., Mizruchi, 1989; Dorrenbacher and Gammelgaard, 2011; Zingales, 2017): (1) the individual politician’s tenure in office, (2) appointment to party or leadership positions, (3) membership in the legislative chamber’s majority party, (4) whether the politician holds a safe seat, and (5) the extent of the politician’s social capital.

To benefit from the influence that a politician might possess, the firm must first gain access to that politician. We define a firm as having access to a politician if it contributes to the politician’s campaign. If a firm makes at least one dollar of PAC contributions from its sponsored PAC to a candidate during an election cycle, we classify the firm as having access to that politician (Hillman et al., 2004; Cooper et al., 2010). We then aggregate the personal political power of those politicians to whom the firm has access to produce an estimate of the firm’s political power. Specifically, we calculate the firm’s political power index (FPPI) over an election cycle. By construction, the FPPI incorporates both the number politicians to whom the firm has access and the relative power of each of those politicians. The firm’s political power index is a summation of the number of politicians to whom a firm has made connections through political contributions weighted by the relative importance of each of the politicians.

Politicians serving in districts or states where the firm has operations might take a special interest in the firm's success. This interest might be motivated by a desire to ensure high employment levels among the voters that the politician will face during a re-election campaign. Consequently, we use publicly available data from the Federal Procurement Data System (FPDS) to determine if a firm conducts work under federal contracts within a politician's district or state. If the firm performs any work within a politician's district/state, we refer to that politician as a local politician. We categorize all other politicians as national.

We then test whether our measure of a firm’s political power can explain corporate contracting activity for the set of S&P 1500 firms over our sample period, 2008-2018. We use FPDS data to determine the average size, number, and total value of federal contracts received by a firm during each of our sample years. Consistent with Ferris et al. (2019), we also construct a sweetheart index that captures the favorableness of terms for each contract that is awarded to a firm.

To gain further insight into the nature of corporate political power, we decompose our measure of total political power into local and national components. This approach allows us to better determine the channels through which firms use political power to achieve contracting success. If all politics are indeed local, this decomposition allows us to test whether local political power has a distinguishable effect on corporate contracting success.

Our empirical findings show a positive relation between a firm’s political power and the number of contracts received, term favorableness, total value, and average size. Upon decomposition of the firm's political power, we find that the number of local politicians to which a firm has access is positively related to these contract characteristics. The firm’s political power accounted for by national (non-local) politicians, however, is only weakly and inconsistently associated with contracting activity. These findings indicate that it is influence and activity of local politicians that matters most in the competition for federal contracts. Further empirical analysis provides evidence consistent with the presence of a re-election effect. Our results imply that local politicians are motivated to support employers seeking to gain federal contracts because they strengthen employment opportunities for voters in their district/state. This, in turn, enhances the re-election likelihood for these politicians.

If political power is important for the award of federal contracts, then firms should respond when their political influence declines. Indeed, we discover that firms seek to restore their political power in the face of any reductions due to election defeat. They redirect political contributions following a deterioration in their political power. This results in a greater investment by firms in the campaigns of politicians who are more often re-elected. Firms which have suffered a reduction in political power also reduce their contributions to candidates who ultimately lose. These findings suggest that firms which suffer a decline in their political power reassess their strategies for campaign contributions, intensify their scrutiny of candidates, and successfully redirect funding to more electable politicians.

This study makes important contributions to the economics, finance and political science literatures. It develops a new set of measures to quantify the political power of a firm. These measures can be used to examine a number of issues that are of interest to researchers in various disciplines. Studies of economic policy issues such as trade policy, tax incentives, and market competitiveness can benefit from the availability of these measures. Political scientists investigating the efficiency and effectiveness of regulatory protocols or the design and enforcement of industry regulation can use these measures to better model these processes. These measures also allow us to gain a deeper understanding of how firms compete for federal contracts. Because of them, we are able to establish the value of local politicians compared to those serving in jurisdictions where the firm does not operate. Our findings also relate to earlier studies on federal spending and earmarks (Hird, 1991; Bickers and Stein, 1996; Lazarus, 2010). We find that even though hard earmarks have been eliminated from the contract award process, political connections continue to influence a firm’s ability to secure federal contracts.

We organize the remainder of this study as follows. In Section 2 we develop a set of three hypotheses that describe the relation between political power and the firm's contracting experience. In Section 3 we discuss our data. Section 4 explains how we construct our personal and firm political power measures. Section 5 provides our sample descriptive statistics. Section 6 presents our major empirical findings regarding political power and the firm’s contracting success. Section 7 tests our argument regarding district/state employment and a politician’s likelihood of re-election. Section 8 examines how firms reallocate their political contributions following a decline in political power. Finally, section 9 concludes with a summary of our findings and a discussion of their importance for explaining how political power affects policy decisions, economic behaviors, and business practices.

# 2. Hypothesis Development

*2.1 Contracting Hypothesis*

When firms gain access to political power, they have the potential to achieve greater success in the competition for federal contracts. Brogaard et al. (2021) find that firms with political influence win more contracts, receive larger dollar-valued contracts, and enjoy less contracting scrutiny. Goldman et al (2013) determine that the political connections of a firm’s board of directors is significant in the allocation of federal procurement contracts. Canayz et al. (2016) discover that firms build political connections through the hire of former government officials to secure more government contracts. Tahoun (2014) reports that ownership of a firm’s stock by a politician helps it obtain more government contracts.

Firms can use their political power in several ways to achieve more positive outcomes in the bidding process for government contracts. Firms with greater political power might gain earlier awareness of a contract opportunity, giving them more time to design a competitive proposal. This can occur due to their access to politicians who sit on important committees and consequently obtain knowledge of proposed or pending legislation that can impact an industry’s profitability (Endersby and McCurdy, 1996; Stewart and Groseclose, 1999). Agency directors and other procurement officials prefer to maintain cordial relations with elected politicians who have budgetary or legislative authority over their operations. Consequently, firms that maintain strong political connections might receive additional information or insight from agency directors or contracting officers regarding the specifications and capabilities desired in a product or service. This knowledge allows the firm to design their product to be more compatible with the government’s needs. This provides them with a competitive advantage in the construction of their contract proposals. Politically powerful firms enjoy access to politicians who can influence agency budgets, the regulatory review process, or legislation affecting the operations of government agencies. Because of their connection to influential politicians, firms might also benefit from a more favorable review of their proposals by contracting officers, committee members, or staff analysts. This obviously advantages the firm in its competition for a federal contract.

Because of these advantages that political connections can provide, firms possessing political power are likely to enjoy more positive outcomes in the federal contracting process (Schuler et al., 2017; Adams, 2019). These outcomes can include the receipt of larger contracts, a greater number of contracts, or more valuable contracts. Consequently, we offer the following hypothesis regarding a firm’s political power and its experience in the federal contracting process:

*H1: Firms with more political power are more successful in the federal contracting process than*

*firms with less political power.*

There are several terms or conditions of service in a federal contract that can be favorable to the contracting firm. Bajari et al. (2001) find cost-plus contracts are preferable to fixed-price contracts because of the built-in profit margins. No bid (sole source) contracts are attractive to firms since the winning firm does not suffer eroded profit margins due to competition from other bidders. Long-term contracts ensure cash flow stability to the firm, while no requirement to provide cost or pricing data can allow the firm to be aggressive in expense itemization.

Ferris et al. (2019) use these four contract terms to develop a "sweetheart index” of federal contract design. They find that politically connected firms are awarded contracts with more of these favorable terms, concluding that corporate political power is advantageous to the firm in its pursuit of profitable federal contracts. Ferris et al. (2019), however, only use the level of PAC contributions made by a firm to assess its political connectivity and power.

In this study, we develop a more comprehensive measure of a firm's political power that specifically incorporates the individual political influence of the legislators to whom the firm has made political contributions. Using this more comprehensive construct of political power, we test whether firms make use of their political power to secure more favorable terms in their contract awards. Specifically, we hypothesize:

*H2: Firms with greater political power receive more favorable federal contract terms.*

## 2.2 Restoration Hypothesis

If a firm experiences a decline in political power, it will be motivated to restore that power (Bakan, 2004; Lawton et al., 2013). Reduced political power implies less ability to influence legislation, less information about upcoming legislative/regulatory changes, and less support by politicians who can influence the contracting process. Political power through political connections is important to firm value and profitability (e.g., Fisman, 2001; Faccio, 2006; Faccio and Parsley, 2009; Cooper et al., 2010). Consequently, firms will seek to regain that power by making additional investments in political capital. For the purposes of this study, we test whether a firm seeks to restore its political power to regain the volume, terms, and profitability it historically enjoyed with its federal contracts. Consequently, we propose a Restoration Hypothesis that addresses the firm’s efforts to respond to a decline in political power:

*H3: Firms will seek to restore their political power after suffering a decline in that power.*

# Data

We build our sample from the set of S&P 1500 firms over the period, 2008 to 2018 using several different databases. We restrict our sample to firms that receive at least one dollar from federal procurement contracts. We obtain our accounting data from Compustat, while our return data is drawn from CRSP. We restrict our firms to those that have both Compustat and CRSP data. We match the unique identifier (parent DUNS) from the FPDS database to GVKEYs listed on Compustat.

Our procurement data comes from the Federal Procurement Data System (FPDS). The FPDS contains data on the contracts awarded to private sector firms. This database reports over 56 million contracts and their modifications over our sample period. In addition, the database lists the address and Congressional district of both the contract recipient and the location where the work is performed. In addition, we hand-match the parent Dun and Bradstreet Number (DUNS) of the contract recipient to the Global Company Key (GVKEY) of the S&P 1500 firms.

We construct several different variables using FPDS information. First, we estimate the total value of a firm’s contracts as the natural log of the total contracting dollars received by the firm during a year. We also calculate the number of contracts and contract modifications that a firm is awarded annually. Consistent with Ferris et al. (2019), we measure the favorableness of contract terms with a sweetheart index for each contract. The index value ranges from 0 and 4, with larger values indicating the presence of more favorable contract terms. When firms receive multiple contracts, we calculate a weighted average sweetheart index based on the value awarded across all contracts received by a firm in a year.

We obtain our PAC data from the Federal Election Commission (FEC). The FEC requires PACs to disclose contributions to other PACs. These contributions are only made to candidates for a federal office. We identify firm-affiliated PACs using a fuzzy matching technique based on firm and PAC names. The Center for Responsive Politics assembles this FEC data into usable text files, which can be downloaded from their website.[[2]](#footnote-2) We aggregate this data and then calculate the natural log of total firm-affiliated PAC contributions for all Presidential, Senate, House, winning, and losing candidates.

Our data regarding candidates and elections is collected from Charles Stewart’s website.[[3]](#footnote-3) This data includes information on committee assignments, committee structure, and election totals. We use this information to calculate the close election margin, political leadership experience, and time in office. We calculate our PPI for each election cycle, since the variables comprising the PPI most commonly change every two years.

We also calculate several variables related to the politician’s relation to the firm. We begin by defining a politician's jurisdiction to be a district for representatives and a state for senators. Next, politicians are defined as local if the firm has a unit or subdivision in that district performing work under at least one government contract. National politicians are those representing districts in which the firm performs no government contract work. Finally, we define a firm as having access to a politician if the firm has contributed at least one dollar in PAC contributions to the politician during the election cycle.

**4. Political Power and the Firm**

## 4.1Corporate Political Power

Firms develop connections with politicians through a variety of methods. For example, they can make PAC contributions (Welch, 1982; Tripathi, 2000; Brunell, 2005; Ferris et al., 2019), lobby legislators (Chen, Parsley, and Yang, 2015; Ferris et al., 2019), hire former politicians or regulators (Ferris et al., 2016), or be appointed to state-owned firms (Schoenherr, 2019). Over the past several years these methods, particularly lobbying and corporate PAC contributions have increased.[[4]](#footnote-4) These various methods are central to the firm’s efforts to gain access to elected officials (Walker and Rea, 2014).

Firms can decide to increase their investment in political connections for multiple reasons. Boubakri et al. (2012) note that politically connected firms outperform their competitors. Brogaard et al. (2020) find that politically connected firms can more readily renegotiate contracts to their favor. Witko (2011), Goldman et al. (2013), and Child et al. (2020) find that politically connected firms receive more contracts, while Ferris et al. (2019) find a positive relation between PAC contributions and the favorableness of contract terms. Dhaliwal et al. (2016) discover that connected firms have a lower cost of equity while Correia (2009) observes that such firms are less likely to face regulatory scrutiny.

Not all politicians, however, are equally valuable to the firm. Two factors determine the usefulness of a politician to a firm. The first is that the politician possesses actual political power. Our measurement of that political power is developed in the following section. The second factor is the firm’s access to the politician and by implication, the politician's willingness to use that power to benefit the firm. Our separation of politicians into local and national categories allows us to include this aspect of political power into the analysis.

*4.2 Calculating Personal Political Power*

We begin our measurement of a firm’s political power by estimating the personal political power of each member of the House and Senate. Our Personal Political Power Index (PPPI) is calculated separately for each politician. We estimate our index of personal political power using five elements of influence and power suggested in the political science, management, and leadership literatures. We estimate personal political power as an additive index of five dummy variables that ranges in value from 0 to 5. Specifically, we calculate the personal political power index (PPPI) as follows:

|  |  |
| --- | --- |
|  | (1) |

Thevariable, *Tenure,* captures the length of time an individual has held a political office. For several reasons, tenure is associated with increased power or influence (Allen, 1981; Coviello and Gagliarducci, 2017). Greater tenure gives the individual an opportunity to gain knowledge about organizational processes, policies, and procedures (Tsur, 2022). Longer tenure increases trust and understanding between individuals as they experience repeated transactions with each other (Chan and Mak, 2014). Further, tenure provides an individual with experience in what techniques, strategies, or tactics are most effective in achieving political goals. In equation (1), Tenure equals one if the legislator’s tenure in the current position is greater than the median tenure of peers during the election cycle and zero otherwise.

The leadership of a House or Senate committee provides a legislator with considerable authority that can result in political power (Wellhofer and Hennessey, 1974; Harmel and Svasand, 1993; Morrell and Hartley, 2006; O'Brien, 2015). Committee chairs control financial resources through the budget approval and allocation process. They also manage the committee agenda, which controls legislative action. A committee chair also has a disproportionate influence over other committee members and typically enjoys a broad network with other legislators of both houses (Endersby and McCurdy, 1996; Stewart, 1999).

Leadership can also be exercised by appointment to a party position within either chamber. These individuals are highly influential with other party members and are extensively connected throughout the political environment. Their position provides these legislators access to information, networks, and resources that significantly enhance their personal power. The variable, *Leader*, equals one if the legislator holds the chair of a House/Senate committee or a party leadership position and zero otherwise.

Membership in the majority party within a particular legislative chamber can be expected to increase a politician’s political power (Volden and Wiseman, 2014; Thomsen, 2017; Clarke, 2020). As members of the majority party, they have direct access to the chamber’s leadership and are more capable of negotiating concessions from that leadership. Further, they can more readily gain sponsorship from other party members to advance desired legislative outcomes. The variable, *Majority*, equals one if the legislator is a member of the majority party in the corresponding legislative chamber and zero otherwise.

Politicians who hold a safeseat are less vulnerable to political challenges and can spend more time away from their district (Cohen, 1984; Wolfinger and Heifetz, 2013). Consequently, they are more capable of undertaking the leadership and networking activities that provide them with political influence. Politicians who are popular in their districts also gain the admiration of their peers, allowing them to be more convincing sponsors for a particular bill or legislative action. The variable, *Safe,* equals one if the legislator wins the general election by at least 5% and zero otherwise.

The social capital of politicians provides them with a greater ability to influence legislation or otherwise exercise political power (Jackman and Miller, 1998; Lake and Huckfeldt, 1998). Social capital captures the network of contacts, allies, and supporters that provides a politician with the resources, information, and access necessary to operate in the political environment. The variable, *Social Capital*, allows a politician to build alliances, influence other legislators, and to advance legislative initiatives.

We estimate a politician’s social capital based on five variables. Comparable to personal political power, we measure a politician’s social capital as an additive index, ranging in value from 0 to 5. Equation (2) specifies our social capital index:

(2)

The total number of years the politician serves in office is a measure of the legislator's professional contacts and acquaintances. More years in public office give politicians greater contact with other officials, the opportunity to meet influential individuals outside of government, and the ability to expand their social networks (Glaeser et al., 2002). *Total Years* equals one if the number of years a politician has held an elective office is above the median for our sample and zero otherwise.

The number of committees on which politicians serve indicates their importance both within the party and the legislative chamber itself. Committee membership allows a politician to meet different members of the legislative chamber and to collaborate with members of the other chamber examining similar issues (Hedlund, 1989; Jackman and Miller, 1998; Martin and Mickler, 2019). *Committees* equals one if the number of legislative committees a politician serves on is above the median and zero otherwise.

The population of the district/state that a legislator serves is another measure of the network to which they have access. Larger legislative districts allow politicians to meet more people and to introduce more individuals into their network. Larger districts also mean that the legislator is engaged with more and diverse voters (Glaeser et al., 2002; Robison et al., 2002). *Population* equals one if the legislator’s home district/state population is above the median and zero otherwise.

The average legislative district per capita income reflects the wealth and resources that the legislator's social network can potentially provide. Politicians in wealthier districts can be expected to have more influential individuals as members of their own network, thus increasing their social capital (Woolcock, 1998; Guiso et al., 2004; Sabatini, 2008). *Income* equals one if the per capita income for the district or state is above the median and zero otherwise.

Finally, the dollar amount of PAC contributions measures the extent to which a legislator’s network provides financial resources in support of the legislator’s agenda. PAC contributions are another measure of both the breadth and strength of the social network that the politician has created (Lake and Huckfeldt, 1998; Chamon and Kaplan, 2013; Gokcekus and Sonan, 2017). *PAC* equals one if the dollar value of the legislator’s PAC contributions are above the median and zero otherwise.

The variable, Social Capital, equals one if the social capital score calculated from these five variables is above the median for the corresponding legislative unit and zero otherwise. The social capital index nests inside the Personal Political Power Index. It is one of five components of that index, as shown in equation (1).

*4.3 The Firm’s Political Power*

Political power is irrelevant unless a firm has access to it. Consequently, we introduce a dummy variable, Access, which equals one if the firm contributes to the politician’s campaign and zero otherwise. To calculate the firm’s total political power index (FPPI), we first estimate the PPPI for each politician in the sample. Then we condition the individual politician’s personal political power index on whether the firm has access to that politician. Finally, we sum across all politicians in our sample to arrive at the firm’s total political power:

FPPI *total* = ∑ (Access x PPPI) (3)

A firm’s total political power is measured as the aggregated political power of the politicians to whom it has made contributions and thus has access.

*4.4 Local and National Political Power*

Local politicians are especially interested in a firm’s activity within their district or state because their employees are voters who directly influence re-election success. Consequently, we decompose the firm's total political power into its local and national aspects. To accomplish this we first classify politicians as local if they serve a district or state where the firm has a production/service unit that has received at least one government contract. We then estimate the PPPI for each of these local politicians which we refer to as PPPI*local*. We then estimate equation (1) for these local politicians:

FPPI *local* = ∑ (Access x PPPI*local* ) (4)

Equation (4) now measures the firm’s political power provided by local politicians. But firms also support politicians who are not local, who represent districts or states where the firm has no operations. It does so because of the perceived usefulness of these individuals due to national stature, committee assignments, or some other attribute. We refer to these as national politicians to distinguish them from local politicians. The political power provided to the firm by these individuals can be estimated as below:

FPPI*national* = FPPI *total* - FPPI *local* (5)

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## **5. Sample Descriptive Statistics**

We describe our sample in the panels of Table 1. In Panel A, we report the number of observations per election cycle. Since we calculate PPPI for a two-year election cycle, each election cycle represents between 14.79% and 17.99% of our sample observations. In Panel B, we present an industry distribution of our sample firms. We find that healthcare, business equipment, and other are the most represented industries in our sample. The fewest observations occur in manufacturing, energy, and consumer durables. In Panel C, we provide descriptive statistics regarding our contracting and accounting/finance variables.

In Table 2 we report comparisons of political power across its various components and sub-samples. In Panel A, we compare the personal political power of local and national politicians. The median personal power of national politicians is somewhat higher than that of their local peers, although the magnitude of the difference is not large. Panel B continues our analysis of personal political power with a comparison of senators to representatives. We observe that senators have more personal political power than their House colleagues.

In Panel C, we find that a firm's political power is largely determined by its national political power. The average national political power index is 3.5 times larger than the power index for local politicians. This is partly explained by the results in Panel D, where a sample firm has, on average, access to approximately 52 national politicians compared to only 15 local politicians. This difference is statistically significant.

We conclude from Table 2 that firms obtain political power by recruiting national politicians. These individuals are more personally powerful and firms have access to a greater number of them. This combination of greater personal power and a higher number of national politicians largely explains the nature of a firm’s political power.

Before we begin our empirical analysis, we provide an overview of those politicians with the most personal political power and those firms having the greatest political power. In Panel A of Table 3, we present those representatives with the greatest personal political power. These individuals are widely covered in the press and given extensive media coverage. Among individuals in this category are current and former Speakers of the House, including Kevin McCarthy, Nancy Pelosi, Dennis Hastert, and Paul Ryan.

In Panel B, we list the most powerful Senators during our sample period. The current and former majority leaders Chuck Schumer and Harry Reid are among these senators.[[5]](#footnote-5) These senators enjoy national prominence and strongly influence the senate's legislative agenda.

Panel C contains our list of the most politically powerful firms within our sample as measured by their total political power. Many of these firms are large defense contractors, transporters, or manufacturers. We further observe that the ten most powerful firms also enjoy strong local political power. That is less true for the other firms.

**6. Major Empirical Findings**

## 6.1 Political Power and Contract Size

We begin our analysis of the relation between political power and government contracting in Table 4. In this analysis, we examine the relationship between the average size of federal contracts awarded to a firm and its political power while controlling for firm, industry, and political factors. We regress the natural log of the average value of a firm’s contracts against measures of the firm’s political power. In Model (1), we observe a positive relation between the firm's total political power and the size of the average contract. That is, the firm's political power positively affects the value of the contract it is awarded.

In model (2) and (3) we continue our analysis by separately examining the effect of the firm’s local and national political power. We observe in model (2) that local political power positively influences award size. In model (3) we find that national political power has no significant effect. Given our earlier finding of only a slight difference in the personal political power of local and national politicians, our results imply a greater willingness of local politicians to use their influence to benefit the firm. Further, these results are consistent with the arguments of researchers such as Field and Kirchgassner (2000), Lewis-Beck et al. (2008), and Lewis-Beck and Nadeau (2011) that politicians respond to the needs of their constituents, especially as it relates to employment.

In Model (4) we examine how the number of politicians to which the firm has access and the average power index of those individuals affects the size of the contract awarded. We obtain a positive coefficient on the total number of politicians the firm can access. The political power index of those politicians, however, is statistically insignificant. We conclude from model (4) that it is the number of politicians to which the firm has access matters more than their personal power in securing large contracts for the firm.

In Model (5) we disaggregate local and national political power into its number and personal power elements. Although all four of these elements are positive, none are statistically significant for explaining contract size. We do note that the coefficient for the number of local politicians to which the firm has access is approximately 60% larger than that for national politicians. Although not reported, this coefficient, unlike that for the number of national politicians, is statistically significant at the ten percent level.

The findings in this section show that the firm's political power positively influences contract size. But not all power matters. Instead, it is local political power that is important and can help a firm receive a larger contract. Our findings further suggest that this local political power is determined by the number of local politicians to whom the firm has contributed. The political power index of those politicians, however, has no effect. It appears that the number of local politicians to which the firm has access matters most in the size of the contract awarded.

*6.2 Political Power and Number of Contracts*

Table 5 examines the relation between a firm’s political power and the number of contracts it receives. Our dependent variable in all models is the number of contracts and modifications received by a firm in year t+1. In Model (1) we test the effect of the firm's total political power on the number of federal contracts that it receives. We obtain a positive coefficient for the firm’s total political power, indicating that such power increases the number of federal contracts that the firm is awarded.

To better understand which aspects of political power are most influential in affecting the number of contract awarded, we estimate additional model specifications. Models (2) and (3) allow a decomposition of firm political power by separately estimating the effect of local and national political power. We find in Model (2) that local power is positively significant while national political power is insignificant in Model (3). This is consistent with the results we obtained earlier with our analysis of contract size. In Model (4) we decompose firm political power into its access (i.e., number of politicians) and the personal political power elements. We discover that it is the total number of politicians to which the firm has access that is significant rather than their personal political power. We further examine this issue by dividing total access and total personal political power into their corresponding local and national aspects in Model (5). Consistent with the findings regarding contract size, we determine that it is the number of local politicians and not their personal importance or the effect of national politicians that is significant in explaining the number of contracts awarded to a firm.

*6.3 Political Power and Contract Terms*

We continue our analysis of how political power affects contracting by examining its effect on the terms of awarded contracts. We measure contract terms using the Sweetheart Index developed by Ferris et al. (2019). Because most of our sample firms receive multiple contracts during a year, with each having different Sweetheart Index scores, we calculate a contract value-weighted score for a given firm-year.

In Model (1) of Table 6, we find that firms with higher political power enjoy contracts with more favorable terms. The results from Model (2) and Model (3) confirm that local rather than national political power is associated with more favorable contract firms. It is the influence of local rather than national politicians that allows firms to receive contracts with more favorable terms. In Model (4) we decompose the firm’s political power into its access and personal power elements. Both appear to be important in explaining the contract terms awarded firms. We further examine the local and national aspects of political power in Model (5) and again discover that it is access to local politicians that most importantly affects a firm’s contract terms.

*6.4 Political Power and Total Contract Value*

We conclude our analysis of political power and firm contracting activity by examining the total contract value that is awarded to a firm. In Model (1), we observe that the firm's total political power is significantly and positively associated with total contract value. Model (2) and (3) show that this result is due to local rather than national political power. In Model (4) we test whether it is the number of politicians to which the firm has access or their personal political power that most affects the total contract value that is awarded. We find that it is the number of politicians that matters rather than their personal political power. Finally, in Model (5) we discover that it is the number of local politicians that affects the total contract value awarded to a firm. This finding is consistent with those obtained for the other contract characteristics and confirms the importance of access to local politicians for a firm to be successful in the federal contracting process.

**7. The Re-Election Effect and Local Political Power**

*7.1 The Motivation of Local Legislators*

Our empirical findings indicate that local political power influences a firm's success in securing federal contracts. This result initially appears counterintuitive since, as Table 2 shows, local politicians are less personally powerful than national politicians. Further, there are fewer local politicians with whom the firm can engage. We contend, however, that local politicians are more motivated to work on behalf of firms in their state or district because of re-election considerations. Local politicians are more likely to help firms gain contracts when those firms employ the politician’s voting base. Unemployed voters are likely to vote against the incumbent and seek change (Lewis-Beck and Stegmaier, 2000). We refer to this as the *Re-Election Effect*. This re-election effect is derivative of the economic voter hypothesis originally developed by Key (1964) and examined by others Monroe (1984), Kiewet and Rivers (1985), Lewis-Beck (1988), Schneider and Frey (1988), Nannestad and Paldam (1994), and Norpoth (1996).[[6]](#footnote-6)

Politicians might be more willing to use their political power for a firm when it is local. Local firms hire local voters to be their employees. To increase their likelihood of re-election, politicians will need to be seen as supporting the voters' employers in their district or state (Faccio and Hsu, 2017; Gugler, 2020). Otherwise, they will appear as indifferent to the economic circumstances of their electorate. Consequently, local politicians are more willing to use their influence in support of the firm than national politicians. Consistent with this relationship between local politicians and corporate performance, Kim, et al. (2012) report that firms with headquarters in the states of powerful politicians exhibit higher risk-adjusted returns than other firms. Amore and Bennedsen (2013) find that increases in the power of local politicians increases the profitability of local firms.

The threat of electoral replacement incentivizes politicians to put the needs of local firms and their voting employees at the top of their political priorities. Politicians are less concerned about those firms operating outside their district or state boundaries since their employees are ineligible to vote for them. Consequently, politicians are highly motivated to support federal contracts to firms that will keep the local voters employed.

*7.2 Empirical Findings*

In Table 8 we test the relation between a politician's re-election to office and unemployment in the corresponding Congressional district or state. In all specifications, the dependent variable is a binary indicator that is equal to one if the incumbent wins the general election and is zero otherwise. The independent variable of interest is the unemployment rate. It is measured as the annual unemployment rate in the state or Congressional district for the year immediately preceding the election.

In our modeling, we also include a number of other variables that are shown to affect political elections. Park and Peterson (2019) report that Democrats are more likely to turn over in office because the party's platforms are highly varied and their base is more demanding. Hence, we include a dummy variable, Democrat, that assumes a value of one if the incumbent is a democrat and zero otherwise. Gasper and Reeves (2011) find that the educational achievement of an area is associated with greater turnover among elected officials. Consequently, we include the percentage of individuals enrolled in primary school within a district or state and the percentage of the population with at least a four-year college degree as regressors. Weaver (2021) reports that electoral districts or areas with higher levels of development are more likely to return the incumbent to office. Hence, we include the Human Development Index, a summary measure of the average achievement for health, education, and standard of living.[[7]](#footnote-7) Besley and Case (1995) and Pande (2011) observe that citizens tend to be more satisfied with incumbents in wealthy areas. Hence we introduce the median per capita earnings and the percentage of people below the national poverty level as additional regressors. Besley and Case (1995) also find that older populations tend to be more conservative, making it more likely that the incumbent will be re-elected. Therefore, we include the percentage of the population that is at least 65 years old.

We estimate the relation between unemployment and re-election success using several different empirical techniques. In Model (1), we provide OLS estimates and observe a significantly negative coefficient for the unemployment regressor, indicating that the likelihood of the incumbent being re-elected declines as unemployment increases. In Model (2), we introduce the other regressors that are described above. Again, we find the coefficient for unemployment to be significantly negative. We estimate comparable specifications in Models (3) and (4), but use a logistic regression specification. Again, we observe that the unemployment rate is inversely related to the likelihood that the incumbent is re-elected. Finally, Models (5) and (6) provide probit regression estimates and further confirm the adverse effect of district/state unemployment rates on the re-election of incumbents.

These findings are consistent with the Re-Election Effect as an explanation of why local politicians might matter more for contracting success than national politicians. Politicians are interested in being re-elected and an unemployed electorate is less likely to return an incumbent to office. Therefore, helping local firms gain government contracts can be a useful strategy by politicians to boost local employment and increase their likelihood of re-election success.[[8]](#footnote-8)

**8. Corporate Responses to Changes in Political Power**

In this section, we test the Restoration Hypothesis of political power. That is, when firms suffer a decline in their political power, do they undertake efforts to regain it in the subsequent election cycle? When firms experience a reduction in their political power, their network of political connections shrinks, they are less able to influence legislation and regulation, and become less informed about political or legislative developments (Mintzberg, 1985; Pfeffer, 1992; Bouquet and Birkinshaw, 2008). We contend that since a firm's political power is associated with increased contracting success, it has important financial motivations to restore any erosion in its political power

In Table 9, we examine the changes in PAC contributions by firms that experience declines in their political power. We observe that these firms adjust how they allocate political contributions. They significantly increase their contributions in local and national elections to candidates who ultimately win. These same firms, however, also reduce their contributions to candidates who ultimately lose their elections. This reduction in contributions to losing candidates occurs in both local and national elections. After losing political influence, we conjecture that firms more critically assess candidates and their platforms, allowing them to identify candidates more likely to win. They then either increase or decrease funding to these candidates relative to historical levels.

We conclude from Table 9 that firms do attempt to restore their political power after experiencing a decline. They significantly adjust the allocation of their political contributions, resulting in a greater investment in the campaigns of those politicians who are ultimately more successful. This behavior is consistent with the conclusion that firms recognize the value of political power to contracting success and actively seek to restore it after suffering any decline in it.

# 9. Summary and Discussion

This study explores how a firm’s political power can affect its ability to win federal contracts. The central question we ask in this study is to what extent do the political investments made by firms influence their success in the competition for federal contracts. We develop a politician-specific personal political power index (PPPI) to examine this issue based on publicly available data. We construct this index based on five factors established in the literature: tenure, leadership positions, majority membership, safe seat, and social capital. We then aggregate this index at the firm level to examine whether firms with greater access to powerful politicians are more likely to receive federal contracts.

We find a positive relation between the firm political power and the quantity terms, quality, and size of the awarded federal contracts. This relation is strongest between for the firm’s political power through local politicians. Our findings show that engagement with local politicians is more useful for firms to secure federal contracts than national politicians. Because contract awards can affect local employment rates, local politicians are more motivated to assist firms in their district/state to obtain these contracts. We find that firms which develop these connections receive more contracts, larger contracts, and contracts with more favorable terms. As former Speaker of the House Tip O’Neill once stated, “All politics is local.” Our results confirm that wisdom.

We further discover firms respond to a decline in their political power. Indeed, we find that these firms increase their PAC contributions to politicians who ultimately win their elections while decreasing funding to losing politicians. This is consistent with more scrutiny of politicians and their electability by firms in an intentional effort to restore their political power.

Our measures of a firm's political power can be used to examine a number of issues in political science, economics, and corporate finance beyond those associated with contracting. They can be used to explore future research questions that associate corporate political power to individual firm behaviors, industry practices, or national policies. For instance, how might corporate political power affect the design and approval of legislation and the enforcement of regulatory statues? How might politically connected firms influence national trade, environmental, or tax policies? Might firms with a high level of political power receive more waivers from federal agencies such as Occupational Safety and Health Administration or Environmental Protection Agency. Might politically connected firms experience less federal litigation or suffer reduced damages when they lose in court?

# Appendix: Definition of Variables Used in the Empirical Analysis

|  |  |  |
| --- | --- | --- |
| *Political Power Variables* | | |
|  | Local PPI | Average political power index of politicians representing areas where the firm operates at least one government contract and to whom the firm has made at least $1 in PAC contributions. PPI=leader+majority+social\_capital+safe+tenure. |
|  | Num. of Local Pols | Number of politicians representing areas where the firm has operations. The firm must make at least $1 in PAC contributions to these individuals. |
|  | Local FPPI | Local PPI \* # of Local Pols |
|  | National PPI | Average political power index of politicians representing areas where the firm does not operate at least one government contract but to whom the firm has made at least $1 in PAC contributions. PPI=leader+majority+social\_capital+safe +tenure. |
|  | Num. of National Pols. | Number of politicians representing areas where the firm does not have operations but to whom the firm has donated at least $1 in PAC contributions. |
|  |  |  |
|  | Total PPI | Average PPI of all politicians (representatives and senators) to whom the firm's affiliated PAC has made at least $1 in contributions. PPI=leader+majority+social\_capital+safe +tenure. |
|  | Num. of Total Pols. | Number of politicians to whom the firm's affiliated PAC has made at least $1 in contributions during the cycle. |
|  | Total FPPI | Total PPI \* # of Total Pols. |
|  |  |  |
| *PPI Components* | | |
|  | Leader | Average of firm leader score \* number of local politicians |
|  | Majority | Average of firm majority score \* number of local politicians |
|  | Membership | Average of firm membership score \* number of local politicians |
|  | Rep\_ppi | Average PPI of local representatives to whom the firm has access \* number of local representatives to whom the firm has access |
|  | Sen\_ppi | Average PPI of local senators to whom the firm has access \* number of local senators to whom the firm has access |
|  | fsocial\_capital | Average of firm social\_capital score \* number of local politicians |
|  | ftenure | Average of firm tenure score \* number of local politicians |
|  | leader | 1 if the chair of a major contract awarding committee or party leadership and 0 otherwise |
|  | majority | 1 if a member of the majority party in the corresponding legislative unit and 0 otherwise. |
|  | membership | 1 if the chair of a big four committee or party leadership and 0 otherwise |
|  | social\_capital | 1 if the social capital score is above the median score in the corresponding legislative unit and 0 otherwise. |
|  | tenure | 1 if tenure in their current position is greater than the median tenure during the cycle and 0 otherwise |
|  |  |  |
| *Accounting Variables* | | |
|  | CAPEX/total sales | Capital expenditures / total sales |
|  | Cash / total assets | Cash / total assets |
|  | Cong. and Pres. Unified | Indicator for whether the presidency and both chambers of Congress are controlled by the same party. Equals 0 otherwise. |
|  | Democratic President | Indicator for a Democratic president. Equals 0 for Republican presidencies. |
|  | ln(PAC contributions) | Natural log (PAC contributions from the firm-affiliated PAC to the politician's leadership PAC + 1) |
|  | ln(total assets) | Natural log of (total assets + 1) |
|  | Market/book | Market value / book value of the firm's equity. Set to 0 if negative. |
|  | ROA | Return on assets: Net income / total assets |
|  | Total liabilities / total assets | Total liabilities / total assets |
|  | Wgt. Avg. percent of politicians' PAC Cont | Weighted average percent of total PAC contributions the firm contributes to individual candidates' PACs during the year. |
|  |  |  |
| *Contracting Variables* | | |
|  | ADP | Total contracting dollars the firm earns in congressional districts with access divided by all contracting dollars in those districts. |
|  | ln(avg. cont. value.) | Natural log of the average value of the firm's government contracts during the year |
|  | ln(total Contract Value) | Natural log of the total value of all government contracts and modifications received by the firm during the year. |
|  | Number of Contracts | Number of contracts and contract modifications the firm received during the year. |
|  | Sweetheart Index | Index proxying for the lucrative nature of government contracts from Ferris et al., (2019). It ranges from 0-4. Sweetheart index=nobid+costplus+multiyear+nocostorpricingdata. |

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# Table 1: Sample Descriptive Statistics

|  |  |  |  |
| --- | --- | --- | --- |
| This table contains the descriptive statistics of the sample. In Panel A, we report the number of observations per year. In Panel B, we report the number of observations by industry. In Panel C, we report the descriptive statistics of the variables of interest. | | | |
| *Panel A: Observations by Year* | | | |
| **Election Cycle** | **Num. of Obs.** | **Percent** | **Cum.** | |
| 2008 | 194 | 17.72 | 17.72 | |
| 2010 | 197 | 17.99 | 35.71 | |
| 2012 | 181 | 16.53 | 52.24 | |
| 2014 | 177 | 16.16 | 68.4 | |
| 2016 | 184 | 16.8 | 85.21 | |
| 2018 | 162 | 14.79 | 100 | |
| Total | 1,095 | 100 |  | |

*Panel B: Industry Classification*

|  |  |  |  |
| --- | --- | --- | --- |
| **Industry** | **Freq.** | **Percent** | **Cumulative** |
| Consumer Non-Durables | 53 | 4.84 | 4.84 |
| Consumer Durables | 37 | 3.38 | 8.22 |
| Manufacturing | 133 | 12.15 | 20.37 |
| Energy | 26 | 2.37 | 22.74 |
| Chemicals and Allied Products | 46 | 4.2 | 26.94 |
| Business Equipment | 156 | 14.25 | 41.19 |
| Telephone and Television Transmission | 36 | 3.29 | 44.47 |
| Utilities | 145 | 13.24 | 57.72 |
| Wholesale, Retail, and Some Services | 57 | 5.21 | 62.92 |
| Healthcare, Medical Equipment, and Drugs | 154 | 14.06 | 76.99 |
| Finance | 100 | 9.13 | 86.12 |
| Other | 152 | 13.88 | 100 |
| **Total** | **1095** | **100** |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| *Panel C: Sample Statistics* | | | | | | |
| **Variable** | **N** | **Mean** | **Median** | **SD** | **Min** | **Max** |
| Average contract value | 1095 | 850019 | 62651 | 3575098 | 0.000 | 55900000 |
| Number of Contracts and Mods | 1095 | 3464 | 164 | 22712 | 0.000 | 384908 |
| Sweetheart Index | 1095 | 0.584 | 0.542 | 0.496 | 0.000 | 3.000 |
| Market/book | 1095 | 3.673 | 2.348 | 5.137 | 0.000 | 39.297 |
| ROA | 1095 | 0.069 | 0.075 | 0.390 | -12.316 | 0.884 |
| CAPEX / total sales | 1095 | 0.080 | 0.042 | 0.094 | 0.000 | 0.637 |
| Total Assets ($m) | 1095 | 63698 | 14693 | 214390 | 57 | 2354507 |
| Cash / total assets | 1095 | 0.111 | 0.071 | 0.119 | 0.000 | 0.744 |
| PAC contributions | 1095 | 171309 | 83000 | 230935 | 0.000 | 1272000 |

# Table 2: Comparative Political Power

In this table, we report the differences between politicians connected to sample firms. In Panel A, we report the difference in summary characteristics between the local and national politicians in our sample. In Panel B, we compare the difference between sample senators and representatives. In Panel C, we report the statistics of local, national, and total politicians. Finally, in Panel D, we report the sample differences between local and national politicians.

### Panel A: Personal Political Power: Local vs National

|  |  |  |  |
| --- | --- | --- | --- |
| **Characteristic** | **Local Politicians** | **National Politicians** | **Test statistic** |
| Mean | 2.747 | 2.746 | 0.9761 |
| Median | 2.750 | 2.793 | 0.0958 |
| Min | 0 | 0 |  |
| Max | 5 | 5 |  |
| Std. Dev. | 0.699 | 0.585 |  |

### Panel B: Personal Political Power: Senators vs Representatives

|  |  |  |  |
| --- | --- | --- | --- |
| **Characteristic** | **Senators** | **Representatives** | **Test statistic** |
| Mean | 2.366 | 2.451 | 0.105 |
| Median | 2.667 | 2.636 | 0.001\*\*\* |
| Min | 0 | 0 |  |
| Max | 5 | 5 |  |
| Std. Dev. | 1.408 | 1.011 |  |

### Panel C: Firm Political Power Index: Local and National Components

|  |  |  |  |
| --- | --- | --- | --- |
| **Characteristic** | **Total Political Power Index** | **National Political Power Index** | **Local Political Power Index** |
| Mean | 182.46 | 141.19 | 41.39 |
| Median | 108 | 88 | 14 |
| Min | 0 | 0 | 0 |
| Max | 1099 | 788 | 580 |
| Std. Dev. | 195.60 | 145.99 | 79.52 |

### Panel D: Firm Political Power: Access and Personal Power Components

|  |  |  |  |
| --- | --- | --- | --- |
| **Characteristic** | **Local Politicians** | **National Politicians** | **Test statistic** |
| Number of accessible politicians | 15.254 | 51.728 | 0.000\*\*\* |
| Personal political power index | 2.747 | 2.746 | 0.976 |

# Table 3: Distribution of Political Power Across Politicians and Firms

In this table, we list all representatives and senators who receive a Personal Political Power Index (PPPI) score of 5. Panel A lists the representatives and the districts they represent. In Panel B, we report the most powerful senators based on their PPPI score and the states they represent. In Panel C we present the twenty-five most politically powerful firms based on their total political power as averaged over the sample period.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *Panel A: Most Powerful Representatives* | | | | | | | | |
| **Name** | **District** | **State** | **Party** |  | **Name** | **District** | **State** | **Party** | |
| Bachus, Spencer | 6 | AL | R |  | McCaul, Michael T. | 10 | TX | R | |
| Boehner, John A. | 8 | OH | R |  | McGovern, Jim | 2 | MA | D | |
| Brady, Kevin | 8 | TX | R |  | McKeon, Howard P. (Buck) | 25 | CA | R | |
| Camp, Dave | 4 | MI | R |  | Miller, Candice S. | 10 | MI | R | |
| Cantor, Eric | 7 | VA | R |  | Miller, George | 7 | CA | D | |
| Chabot, Steven J. | 1 | OH | R |  | Miller, Jeff | 1 | FL | R | |
| Clyburn, James E. | 6 | SC | D |  | Nadler, Jerrold | 10 | NY | D | |
| Conaway, K. Michael | 11 | TX | R |  | Neal, Richard E. | 1 | MA | D | |
| Cummings, Elijah E. | 7 | MD | D |  | Nunes, Devin | 22 | CA | R | |
| Dent, Charles W. | 15 | PA | R |  | Pallone, Frank, Jr. | 6 | NJ | D | |
| Deutch, Theodore E. | 22 | FL | D |  | Pelosi, Nancy | 8 | CA | D | |
| Dreier, David | 26 | CA | R |  | Price, Tom | 6 | GA | R | |
| Engel, Eliot L. | 16 | NY | D |  | Rogers, Mike | 8 | MI | R | |
| Frank, Barney | 4 | MA | D |  | Royce, Ed | 39 | CA | R | |
| Frelinghuysen, Rodney P. | 11 | NJ | R |  | Ryan, Paul | 1 | WI | R | |
| Graves, Samuel | 6 | MO | R |  | Scalise, Steve | 1 | LA | R | |
| Hoyer, Steny H. | 5 | MD | D |  | Schiff, Adam | 28 | CA | D | |
| Issa, Darrell | 49 | CA | R |  | Sessions, Pete | 32 | TX | R | |
| King, Peter T. | 3 | NY | R |  | Smith, Adam | 9 | WA | D | |
| Kline, John | 2 | MN | R |  | Smith, Lamar S. | 21 | TX | R | |
| Levin, Sander M. | 12 | MI | D |  | Tiberi, Patrick | 12 | OH | R | |
| Lofgren, Zoe | 16 | CA | D |  | Towns, Edolphus | 10 | NY | D | |
| Lowey, Nita M. | 17 | NY | D |  | Upton, Frederick S. | 6 | MI | R | |
| Maloney, Carolyn B. | 14 | NY | D |  | Velazquez, Nydia M. | 12 | NY | D | |
| Markey, Edward J. | 7 | MA | D |  | Waxman, Henry A. | 30 | CA | D | |
| McCarthy, Kevin | 23 | CA | R |  | Yarmuth, John A. | 3 | KY | D | |

|  |  |  |
| --- | --- | --- |
| *Panel B: Most Powerful Senators* | | |
| **Name** | **Party Code** | **State Name** |
| Akaka, Daniel K. | D | HI |
| Boxer, Barbara | D | CA |
| Cantwell, Maria | D | WA |
| Conrad, Kent | D | ND |
| Cornyn, John | R | TX |
| Dodd, Christopher, J | D | CT |
| Durbin, Richard J. | D | IL |
| Enzi, Michael B. | R | WY |
| Feinstein, Dianne | D | CA |
| Inouye, Daniel K. | D | HI |
| Isakson, Johnny | R | GA |
| Kennedy, Edward M. | D | MA |
| Kerry, John F. | D | MA |
| Leahy, Patrick J. | D | VT |
| McCain, John | R | AZ |
| McConnell, Mitch | R | KY |
| Menendez, Robert | D | NJ |
| Mikulski, Barbara A. | D | MD |
| Nelson, Clarence William (Bill) | D | FL |
| Reid, Harry | D | NV |
| Schumer, Charles Ellis (Chuck) | D | NY |
| Shelby, Richard C. | R | AL |
| Stabenow, Deborah Ann | D | MI |

*Panel C: Most Politically Influential Firms*

|  |  |  |
| --- | --- | --- |
| **Firm Name** | **Firm Political Power Index***total* | **Firm Political Power Index***local* |
| UNITED PARCEL SERVICE INC | 1021.17 | 513.17 |
| COMCAST CORP | 930.33 | 229.83 |
| GENERAL ELECTRIC CO | 868.17 | 524.17 |
| BOEING CO | 854.33 | 307.83 |
| RAYTHEON CO | 679.17 | 267.50 |
| NORTHROP GRUMMAN CORP | 672.50 | 234.17 |
| GENERAL DYNAMICS CORP | 660.50 | 386.50 |
| MICROSOFT CORP | 614.50 | 106.33 |
| RAYTHEON TECHNOLOGIES CORP | 608.17 | 315.33 |
| HOME DEPOT INC | 604.17 | 97.67 |
| UNION PACIFIC CORP | 555.20 | 11.40 |
| CSX CORP | 544.40 | 11.20 |
| EXXON MOBIL CORP | 537.33 | 12.00 |
| FEDEX CORP | 524.00 | 255.00 |
| PFIZER INC | 519.33 | 75.83 |
| AMGEN INC | 483.00 | 4.00 |
| FORD MOTOR CO | 452.50 | 29.50 |
| GENERAL MOTORS CO | 431.60 | 12.40 |
| WELLS FARGO & CO | 413.50 | 30.50 |
| ABBVIE INC | 398.50 | 12.50 |
| CATERPILLAR INC | 398.00 | 91.67 |
| JOHNSON & JOHNSON | 397.17 | 213.83 |
| AMERICAN AIRLINES GROUP INC | 392.67 | 17.33 |
| CUMMINS INC | 383.83 | 96.50 |
| NORFOLK SOUTHERN CORP | 381.67 | 8.00 |

# Table 4: Average Contract Size and Political Power

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| This table examines the relation between average contract size and various measures of political power. We regress the natural log of average contract size in the following g year (t+1) against our PPI measures, firm-level controls, and industry and year fixed effects. We cluster standard errors at the firm level. \*\* and \*\*\* indicate significance at the 5%, and 1% levels. We report p-values in parentheses. | | | | | |
|  | (1) | (2) | (3) | (4) | (5) |
|  | Total, Local, and National Political Power | | | Number and Personal Political Power | |
| Total FPPI | 0.00245\*\* |  |  |  |  |
|  | (0.017) |  |  |  |  |
| Local FPPI |  | 0.00372\*\* |  |  |  |
|  |  | (0.040) |  |  |  |
| National FPPI |  |  | 0.00256 |  |  |
|  |  |  | (0.063) |  |  |
| Num. of Total Pols. |  |  |  | 0.00640\*\* |  |
|  |  |  |  | (0.022) |  |
| Total PPPI |  |  |  | 0.0724 |  |
|  |  |  |  | (0.509) |  |
| Num. of Local Pols |  |  |  |  | 0.00842 |
|  |  |  |  |  | (0.092) |
| Local PPI |  |  |  |  | 0.0284 |
|  |  |  |  |  | (0.820) |
| Num. of National Pols. |  |  |  |  | 0.00545 |
|  |  |  |  |  | (0.159) |
| National PPPI |  |  |  |  | 0.0549 |
|  |  |  |  |  | (0.574) |
| ln(total assets) | -0.0390 | 0.0417 | -0.0217 | -0.0349 | -0.0282 |
|  | (0.758) | (0.726) | (0.863) | (0.782) | (0.824) |
| Market/book | -0.0236 | -0.0231 | -0.0209 | -0.0239 | -0.0246 |
|  | (0.094) | (0.100) | (0.151) | (0.091) | (0.077) |
| ROA | -0.102 | -0.0755 | -0.105 | -0.101 | -0.0978 |
|  | (0.424) | (0.563) | (0.420) | (0.431) | (0.452) |
| CAPEX/total sales | -2.412 | -2.344 | -2.611 | -2.424 | -2.369 |
|  | (0.125) | (0.147) | (0.100) | (0.123) | (0.135) |
| Total liabilities / total assets | -0.0562 | 0.00532 | -0.0601 | -0.0545 | -0.0441 |
|  | (0.920) | (0.992) | (0.917) | (0.923) | (0.937) |
| Cash / total assets | 1.662\* | 2.080\*\* | 1.537 | 1.677\* | 1.757 |
|  | (0.092) | (0.035) | (0.119) | (0.089) | (0.072) |
| ln(PAC contributions) | 0.0348 | 0.117 | 0.0716 | 0.0314 | 0.0361 |
|  | (0.675) | (0.158) | (0.396) | (0.717) | (0.675) |
| Democratic President | -0.397\*\*\* | -0.338\*\* | -0.369\*\* | -0.372\*\* | -0.377\*\* |
|  | (0.007) | (0.016) | (0.011) | (0.011) | (0.010) |
| Cong. and Pres. Unified | 0.257 | 0.256 | 0.260 | 0.249 | 0.252 |
|  | (0.125) | (0.126) | (0.120) | (0.138) | (0.134) |
| Constant | 15.98\*\*\* | 14.55\*\*\* | 15.32\*\*\* | 15.71\*\*\* | 15.64\*\*\* |
|  | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) |
| R2 | 0.317 | 0.312 | 0.313 | 0.317 | 0.317 |
| Num. of Obs. | 1095 | 1095 | 1095 | 1095 | 1095 |
| Industry (2-digit SIC Code) F.E. | Yes | Yes | Yes | Yes | Yes |
| Year F.E. | Yes | Yes | Yes | Yes | Yes |
| Firm-level clustering | Yes | Yes | Yes | Yes | Yes |

# Table 5: Number of Contracts and Political Power

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| This table examines the relationship between political power and the number of contracts received. We regress the number of contracts in the following year (t+1) against our PPI measures, firm-level controls, and industry and year fixed effects. We cluster standard errors at the firm level. \*\* and \*\*\* indicate significance at the 5%, and 1% levels. We report p-values in parentheses. | | | | | |
|  | (1) | (2) | (3) | (4) | (5) | |
|  | Total, Local, and National Political Power | | | Number and Personal Political Power | | |
| Total FPPI | 17.35\*\*\* |  |  |  |  | |
|  | (0.003) |  |  |  |  | |
| Local FPPI |  | 33.63\*\*\* |  |  |  | |
|  |  | (0.002) |  |  |  | |
| National FPPI |  |  | 15.02\* |  |  | |
|  |  |  | (0.086) |  |  | |
| Num of Total Pols. |  |  |  | 44.47\*\*\* |  | |
|  |  |  |  | (0.005) |  | |
| Total PPPI |  |  |  | -116.1 |  | |
|  |  |  |  | (0.786) |  | |
| Num of Local Pols |  |  |  |  | 78.54\*\* | |
|  |  |  |  |  | (0.016) | |
| Local PPI |  |  |  |  | 208.9 | |
|  |  |  |  |  | (0.541) | |
| Num of National Pols. |  |  |  |  | 28.02 | |
|  |  |  |  |  | (0.286) | |
| National PPPI |  |  |  |  | -305.5 | |
|  |  |  |  |  | (0.385) | |
| ln(total assets) | -1110.3 | -602.8 | -873.2 | -1085.9 | -980.3 | |
|  | (0.295) | (0.533) | (0.393) | (0.297) | (0.335) | |
| Market/book | -106.1 | -110.6 | -84.84 | -109.6 | -120.2 | |
|  | (0.294) | (0.296) | (0.414) | (0.275) | (0.244) | |
| ROA | -738.1 | -546.2 | -724.6 | -744.3 | -675.3 | |
|  | (0.078) | (0.132) | (0.092) | (0.076) | (0.110) | |
| CAPEX/total sales | -8989.7 | -7910.2\* | -10442.6\*\* | -8960.5 | -8032.3 | |
|  | (0.064) | (0.089) | (0.044) | (0.066) | (0.091) | |
| Total liabilities / total assets | 8906.5 | 9347.2 | 8953.2 | 9046.2 | 9290.5 | |
|  | (0.125) | (0.113) | (0.124) | (0.122) | (0.115) | |
| Cash / total assets | -7967.1 | -4684.7 | -8393.6\*\* | -7665.2 | -6251.1 | |
|  | (0.058) | (0.183) | (0.048) | (0.066) | (0.103) | |
| ln(PAC contributions) | 58.64 | 518.0 | 447.7 | 109.7 | 179.1 | |
|  | (0.882) | (0.233) | (0.417) | (0.794) | (0.691) | |
| Democratic President | -2181.2 | -1852.6 | -1888.5 | -1861.1 | -1858.8 | |
|  | (0.278) | (0.324) | (0.349) | (0.330) | (0.330) | |
| Cong. and Pres. Unified | -3287.0 | -3306.0 | -3266.1 | -3319.4 | -3314.4 | |
|  | (0.069) | (0.067) | (0.071) | (0.066) | (0.069) | |
| Constant | 9466.0 | 1486.1 | 2504.7 | 7981.7 | 7311.3 | |
|  | (0.271) | (0.816) | (0.778) | (0.344) | (0.396) | |
| R2 | 0.530 | 0.529 | 0.527 | 0.529 | 0.530 | |
| Num. of Obs. | 1095 | 1095 | 1095 | 1095 | 1095 | |
| Industry (2-digit SIC Code) F.E. | Yes | Yes | Yes | Yes | Yes | |
| Year F.E. | Yes | Yes | Yes | Yes | Yes | |
| Firm-level clustering | Yes | Yes | Yes | Yes | Yes | |

# Table 6: Contract Terms and Political Power

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| This table examines the relation between the firm’s political power and the contract terms it receives. Contract terms are measured with the Sweetheart Index (Ferris et al., 2019) and is value-weighted in the case of multiple awards. The independent variables are lagged one year. Variable definitions are provided in the Appendix. We cluster standard errors at the firm level. \*\* and \*\*\* indicate statistical significance at the 5%, and 1% levels. We report p-values in parentheses. | | | | | |
|  | (1) | (2) | (3) | (4) | (5) | |
|  | Total, Local, and National Political Power | | | Number and Personal Political Power | | |
| Total FPPI | 0.000706\*\*\* |  |  |  |  | |
|  | (0.006) |  |  |  |  | |
| Local FPPI |  | 0.00173\*\*\* |  |  |  | |
|  |  | (0.003) |  |  |  | |
| National FPPI |  |  | 0.000458 |  |  | |
|  |  |  | (0.126) |  |  | |
| Num of Total Pols. |  |  |  | 0.00187\*\*\* |  | |
|  |  |  |  | (0.006) |  | |
| Total PPPI |  |  |  | 0.0509\*\* |  | |
|  |  |  |  | (0.045) |  | |
| Num of Local Pols |  |  |  |  | 0.00453\*\*\* | |
|  |  |  |  |  | (0.005) | |
| Local PPPI |  |  |  |  | 0.0395 | |
|  |  |  |  |  | (0.121) | |
| Num of National Pols. |  |  |  |  | 0.000633 | |
|  |  |  |  |  | (0.421) | |
| National PPI |  |  |  |  | 0.0346 | |
|  |  |  |  |  | (0.128) | |
| ln(total assets) | -0.0566\*\* | -0.0391 | -0.0412 | -0.0550 | -0.0469 | |
|  | (0.047) | (0.133) | (0.144) | (0.053) | (0.087) | |
| Market/book | 0.00121 | 0.000624 | 0.00220 | 0.00120 | 0.000304 | |
|  | (0.761) | (0.871) | (0.587) | (0.766) | (0.939) | |
| ROA | 0.0493\*\* | 0.0573\*\* | 0.0515\*\* | 0.0501\*\* | 0.0548\*\* | |
|  | (0.047) | (0.026) | (0.041) | (0.047) | (0.032) | |
| CAPEX/total sales | 0.0365 | 0.110 | -0.0249 | 0.0274 | 0.0996 | |
|  | (0.918) | (0.768) | (0.943) | (0.938) | (0.787) | |
| Total liabilities / total assets | 0.0363 | 0.0545 | 0.0420 | 0.0308 | 0.0454 | |
|  | (0.796) | (0.679) | (0.768) | (0.825) | (0.725) | |
| Cash / total assets | -0.207 | -0.0581 | -0.202 | -0.212 | -0.111 | |
|  | (0.408) | (0.818) | (0.425) | (0.398) | (0.651) | |
| ln(PAC contributions) | 0.00437 | 0.0171 | 0.0266 | 0.0000661 | 0.00487 | |
|  | (0.818) | (0.348) | (0.187) | (0.997) | (0.794) | |
| Democratic President | -0.0219 | -0.0131 | -0.00526 | -0.0213 | -0.0270 | |
|  | (0.605) | (0.750) | (0.901) | (0.611) | (0.521) | |
| Cong. and Pres. Unified | -0.0143 | -0.0155 | -0.0135 | -0.0183 | -0.0159 | |
|  | (0.723) | (0.701) | (0.739) | (0.648) | (0.692) | |
| Constant | 0.786 | 0.570 | 0.390 | 0.681 | 0.592 | |
|  | (0.139) | (0.225) | (0.446) | (0.196) | (0.216) | |
| R2 | 0.300 | 0.310 | 0.286 | 0.301 | 0.315 | |
| Num. of Obs. | 1095 | 1095 | 1095 | 1095 | 1095 | |
| Industry (2-digit SIC Code) F.E. | Yes | Yes | Yes | Yes | Yes | |
| Year F.E. | Yes | Yes | Yes | Yes | Yes | |
| Firm-level clustering | Yes | Yes | Yes | Yes | Yes | |

# Table 7: Total Federal Contracting Activity and Political Power

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| This table examines the relation between political power and the total dollar value of government contracts received by the firm. We regress the natural log of total contracts received in the following year (t+1) against our PPI measures, firm-level controls, and industry and year fixed effects. We cluster standard errors at the firm level. \*\* and \*\*\* indicate statistical significance at the 5% and 1% levels. We report p-values in parentheses. | | | | | | |
|  | (1) | (2) | (3) | (4) | (5) |
|  | Total, Local, and National Political Power | | | Number and Personal Political Power | |
| Total FPPI | 0.00610\*\*\* |  |  |  |  |
|  | (0.000) |  |  |  |  |
| Local FPPI |  | 0.0172\*\*\* |  |  |  |
|  |  | (0.000) |  |  |  |
| National FPPI |  |  | 0.00302\* |  |  |
|  |  |  | (0.062) |  |  |
| Num of Total Pols. |  |  |  | 0.0156\*\*\* |  |
|  |  |  |  | (0.000) |  |
| Total PPPI |  |  |  | 0.0688 |  |
|  |  |  |  | (0.672) |  |
| Num of Local Pols |  |  |  |  | 0.0450\*\*\* |
|  |  |  |  |  | (0.000) |
| Local PPPI |  |  |  |  | 0.139 |
|  |  |  |  |  | (0.335) |
| Num of National Pols. |  |  |  |  | 0.00159 |
|  |  |  |  |  | (0.712) |
| National PPPI |  |  |  |  | -0.0381 |
|  |  |  |  |  | (0.805) |
| ln(total assets) | -0.00713 | 0.125 | 0.161 | 0.00557 | 0.100 |
|  | (0.958) | (0.303) | (0.260) | (0.967) | (0.449) |
| Market/book | -0.0569\*\*\* | -0.0645\*\*\* | -0.0476\*\* | -0.0578\*\*\* | -0.0663\*\*\* |
|  | (0.003) | (0.000) | (0.029) | (0.002) | (0.000) |
| ROA | -0.351\*\* | -0.281 | -0.323 | -0.351\*\* | -0.290 |
|  | (0.034) | (0.088) | (0.064) | (0.035) | (0.083) |
| CAPEX/total sales | -6.497\*\*\* | -5.679\*\*\* | -7.041\*\*\* | -6.513\*\*\* | -5.735\*\*\* |
|  | (0.003) | (0.008) | (0.003) | (0.003) | (0.007) |
| Total liabilities / total assets | 0.403 | 0.562 | 0.475 | 0.431 | 0.609 |
|  | (0.628) | (0.419) | (0.592) | (0.606) | (0.396) |
| Cash / total assets | -0.725 | 0.667 | -0.540 | -0.646 | 0.582 |
|  | (0.600) | (0.612) | (0.706) | (0.639) | (0.665) |
| ln(PAC contributions) | 0.120 | 0.193\* | 0.352\*\*\* | 0.129 | 0.179 |
|  | (0.287) | (0.059) | (0.006) | (0.282) | (0.125) |
| Democratic President | -0.512\*\* | -0.464\*\* | -0.339\* | -0.422\*\* | -0.446\*\* |
|  | (0.011) | (0.011) | (0.087) | (0.031) | (0.020) |
| Cong. and Pres. Unified | 0.247 | 0.235 | 0.255 | 0.231 | 0.242 |
|  | (0.224) | (0.237) | (0.220) | (0.257) | (0.223) |
| Constant | 16.23\*\*\* | 15.03\*\*\* | 12.11\*\*\* | 15.56\*\*\* | 15.03\*\*\* |
|  | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) |
| R2 | 0.535 | 0.566 | 0.508 | 0.533 | 0.566 |
| Num. of Obs. | 1095 | 1095 | 1095 | 1095 | 1095 |
| Industry (2-digit SIC Code) F.E. | Yes | Yes | Yes | Yes | Yes |
| Year F.E. | Yes | Yes | Yes | Yes | Yes |
| Firm-level clustering | Yes | Yes | Yes | Yes | Yes |

# Table 8: Unemployment and Political Re-election

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| In this table, we examine the relation between the unemployment rate and the likelihood of an incumbent winning re-election. We regress an indicator variable for whether the incumbent ran and won the general election against the average unemployment rate in the candidate's area, controls, and robust standard errors. In Models (1) and (2), we perform OLS regression with district fixed effects. In Models (3) and (4), we perform logistic regression. Finally, in Models (5) and (6) we perform probit regressions. We report p-values in parentheses. \*\* and \*\*\* indicate statistical significance at the 5% and 1% levels. | | | | | | |
| **Variable** | **(1)** | **(2)** | **(3)** | **(4)** | **(5)** | **(6)** | |
|  | **Incumbent wins reelection** | | | | | | |
| Unemployment rate | -0.007\*\*\* | -0.005\*\* | -0.066\*\* | -0.102\*\*\* | -0.033\*\* | -0.049\*\*\* | |
|  | (0.005) | (0.022) | 0.018 | 0.001 | 0.020 | 0.001 | |
| Democrat |  | -0.164\*\*\* |  | -0.688 |  | -0.291\*\*\* | |
|  |  | (0.000) |  | 0.002 |  | 0.005 | |
| School Enrollment Percent |  | 0.010 |  | -0.064 |  | -0.031 | |
|  | (0.248) |  | 0.104 |  | 0.112 | |
| Human Development Index |  | -0.208 |  | 1.060\*\* |  | 0.453\*\* | |
|  | (0.423) |  | 0.028 |  | 0.046 | |
| ln(median earnings) |  | -0.025 |  | -0.284 |  | -0.113 | |
|  |  | (0.899) |  | 0.816 |  | 0.854 | |
| Percent of people below poverty line |  | 0.013 |  | 0.134\*\*\* |  | 0.060\*\*\* | |
|  | (0.074) |  | 0.000 |  | 0.000 | |
| Percent of the population 65 or older |  | 0.007 |  | 0.010 |  | 0.006 | |
|  | (0.486) |  | 0.697 |  | 0.664 | |
| Percent with at least a bachelor’s degree |  | 0.024 |  | -0.027 |  | -0.012 | |
|  | (0.253) |  | 0.230 |  | 0.289 | |
| Constant | 1.045\*\*\* | 0.489 | 2.841 | 4.662 | 1.600 | 2.498 | |
|  | (0.000) | (0.829) |  | 0.708 |  | 0.691 | |
| R2 | 0.269 | 0.266 | - | - | - | - | |
| Pseudo R2 | - | - | 0.004 | 0.033 | 0.004 | 0.031 | |
| Num. of Obs. | 2684 | 2254 | 2,684 | 2,254 | 2,684 | 2,254 | |
| Robust S.E. | Yes | Yes | No | No | No | No | |
| District F.E. | Yes | Yes | No | No | No | No | |
| Model | OLS | OLS | Logit | Logit | Probit | Probit | |

# Table 9: PAC Contributions and Declines in Corporate Political Power

|  |  |  |  |
| --- | --- | --- | --- |
| This table examines the change in PAC contributions of firms that experience a decline in their political power over the prior election cycle. The Local column reports the change in PAC contributions from the current to the next cycle for firms with decreases in local firm political power index (FPPI) from the prior election cycle to the current cycle. The National column reports the change in PAC contributions from the current to the next cycle for firms with decreases in national FPPI from the prior election cycle to the current cycle. The Total column reports the change in PAC contributions from the current to the next cycle for firms with decreases in total FPPI from the prior election cycle to the current cycle. \*\* and \*\*\* indicate statistical significance at the 5%, and 1% levels. | | | |
| **Variable of Interest** | **Change in PAC Contributions (t, t+2)** | | |
|  | Local | National | Total |
| PAC Contributions to winning candidates | 12,170.0 | 11,877.0 | 10,465.9 |
|  | 0.0114\*\*\* | 0.0402\*\* | 0.0479\*\* |
|  |  |  |  |
| PAC Contributions to losing candidates | -6,752.8 | -10,195.7 | -10,829.4 |
|  | 0.0076\*\*\* | 0.0001\*\*\* | 0.000\*\*\* |
| Num. of Obs. | 379 | 368 | 375 |

1. Professor Stewart provides data on committee assignments on his webpage: <http://web.mit.edu/17.251/www/data_page.html>. [↑](#footnote-ref-1)
2. <https://www.opensecrets.org/> [↑](#footnote-ref-2)
3. <https://electionlab.mit.edu/author/331> [↑](#footnote-ref-3)
4. Data on aggregate firm-affiliated PAC contribution and lobbying data exists on the website of the OpenSecrets database: <http://www.opensecrets.org/outsidespending/>. [↑](#footnote-ref-4)
5. Senator Mitch McConnell (K.Y.), leader of the Republican party in the U.S. Senate has a maximum PPI of 4 in our sample due to Kentucky's low per capita income and the low number of committees he serves on. [↑](#footnote-ref-5)
6. The economic voter hypothesis is described in a reward-punishment context by Lewis-Beck and Stegmaier (2000) as citizens voting for the existing government when the economy is doing well; otherwise they vote against it. [↑](#footnote-ref-6)
7. The health dimension of the Human Development Index (HDI) is assessed by life expectancy at birth. In contrast, the education dimension is measured by the mean years of schooling for adults aged 25 years and more and expected years of schooling for children of school-entering age. The standard of living dimension is measured by gross national income per capita. The scores for the three HDI dimension indices are then aggregated into a composite index using a geometric mean. [↑](#footnote-ref-7)
8. There are other possible reasons why local politicians might be more motivated to support a firm in its pursuit of federal contracts. These other explanations are not inconsistent with the Re-Election Effect and most probably operate simultaneous with it. Local politicians will most certainly have a greater awareness of the operations and capabilities of local firms because of public media and other corporate promotional activities. Further, the social network of local politicians is likely to include members or affiliates of the local firm, thus creating another set of connections between the firm and the legislator. [↑](#footnote-ref-8)