

# Stocks and Jobs: Do politicians invest in local employers?

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# Agenda

1. Theoretical intuition
2. Data description
3. Methods
4. Descriptive evidence
5. Next steps

# Public Perception

- Politicians are **corrupt!**

HOME > POLITICS

## '60 Minutes' Blows The Lid Off Congressional Insider Trading

Zeke Miller Nov 14, 2011, 6:52 AM CST

Members of Congress can legally make trades on non-public information they obtain during their official duties, CBS News' '60 Minutes' reported on Sunday night.

Branded 'honest graft,' lawmakers can use market-moving information that they learn in congressional committees to trade on the stock market — actions that likely would carry stiff jail and civil penalties if they did not hold public office.

In one example, Steve Kroft reports that Rep. Spencer Bachus (R-AL), now the chair of the House Financial Services Committee, bet against the market in the days before the 2008 financial crisis hit — after getting 'apocalyptic briefings' from Fed Chairman Ben Bernanke and then-Treasury Secretary Hank Paulson.

# Public Perception

- Politicians are **corrupt!**
- High salience examples of insider trading

## Stock Trades Reported by Nearly a Fifth of Congress Show Possible Conflicts

A New York Times analysis found that 97 lawmakers or their family members bought or sold financial assets over a three-year span in industries that could be affected by their legislative committee work.

By [Kate Kelly](#), [Adam Playford](#) and [Alicia Parlapiano](#)

Produced by Ege Uz

Sept. 13, 2022

# Public Perception

- Politicians are **corrupt!**
- High salience examples of insider trading
- Covid-19 panic

## Weeks Before Virus Panic, Intelligence Chairman Privately Raised Alarm, Sold Stocks

MARCH 19, 2020 · 5:08 AM ET

HEARD ON MORNING EDITION

By Tim Mak



4-Minute Listen

+ PLAYLIST



# Public Perception

- Politicians are **corrupt!**
- High salience examples of insider trading
- Covid-19 panic



# Public Perception

- Politicians are **corrupt!**
- High salience examples of insider trading
- Covid-19 panic
- Lots of **attention!**

The screenshot shows a news article from a political website. At the top, there's a navigation bar with links for State, Local, Power List, Year in Review, Voter's Guide, The O'Toole Chronicles, New Jersey, Home, and Campaigns. Below the navigation is a headline: "DeGroot TV Ad Hits Back On Sherrill's Attacks". The main image is a thumbnail for the TV ad, featuring a portrait of Paul DeGroot with the text "PAUL DEGROOT FOR NEW JERSEY NOT HIMSELF" overlaid. Below the image, it says "PAID FOR BY PAUL DEGROOT FOR CONGRESS APPROVED BY PAUL DEGROOT". The caption under the image reads: "A TV ad from Paul DeGroot hits Rep. Mikie Sherrill on ethics. (Photo: Paul DeGroot via YouTube)." The article title is "DeGroot TV ad hits back on Sherrill's attacks". A sub-headline states: "Spot focuses heavily on Sherrill's stock trades, calling congresswoman a 'swamp creature'". The author is listed as "By Joey Fox, October 28 2022 3:33 pm". The article text discusses DeGroot's response to Sherrill's ethics issues, mentioning her stock trading and the STOCK Act. It also notes that DeGroot isn't the only Republican candidate in New Jersey focusing on stocks.

# Public Perception

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- Lots of **attention!**

State ▾ Local ▾ Power List Year in Review Voter's Guide The O'Toole Chronicles New Jersey

Home > Campaigns > DeGroot TV Ad Hits Back On Sherrill's Attacks

## Axne marred in insider stock trading scandal, again

by Luke Martz | Sep 14, 2022 | Congress



A TV ad f  
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Rep. Cindy Axne is at the center of controversy after a recent *New York Times* investigation uncovered 13 financial transactions undertaken by Axne or her husband that could indicate conflicts of interest. The *Times* report uncovered trades in shares of Visa, Wells Fargo, and JPMorgan Chase, among other financial firms that she has oversight power over on the House Financial Services Committee.

Other questionable trades made by Axne were in the shares of various insurance and food

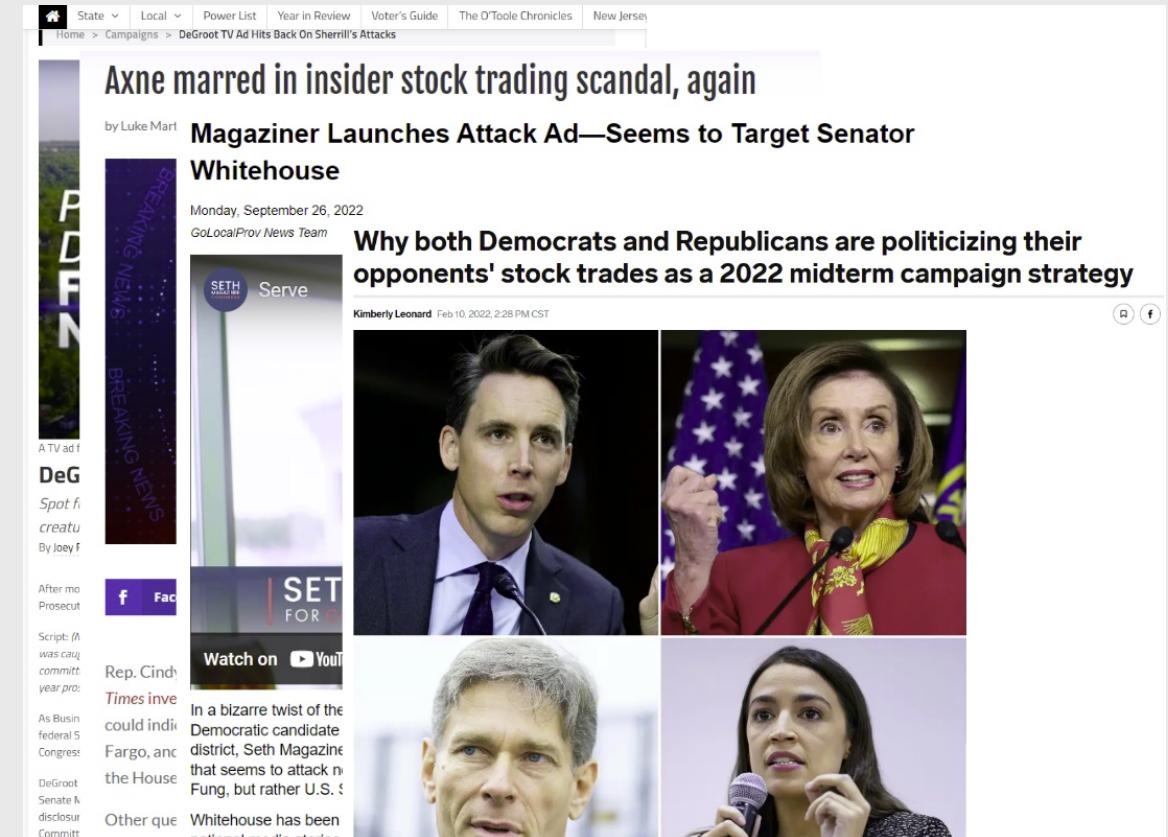
# Public Perception

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# Public Perception

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- Lots of **attention!**



# What we know

1. Politicians' trades exhibit suspicious timing and outperform market indices (Ziobrowski et al, 2004, 2011)
  - a. Conversely, they're not very good at it (Eggers & Hainmueller, 2013)
  - b. **Puzzle #1:** Which is it?
2. They invest more in firms headquartered in their district (Eggers & Hainmueller, 2014)
  - a. These stocks **do** outperform market and rest of their portfolio, but no evidence for insider trading specifically.
  - b. **Puzzle #2:** Why do they invest locally?

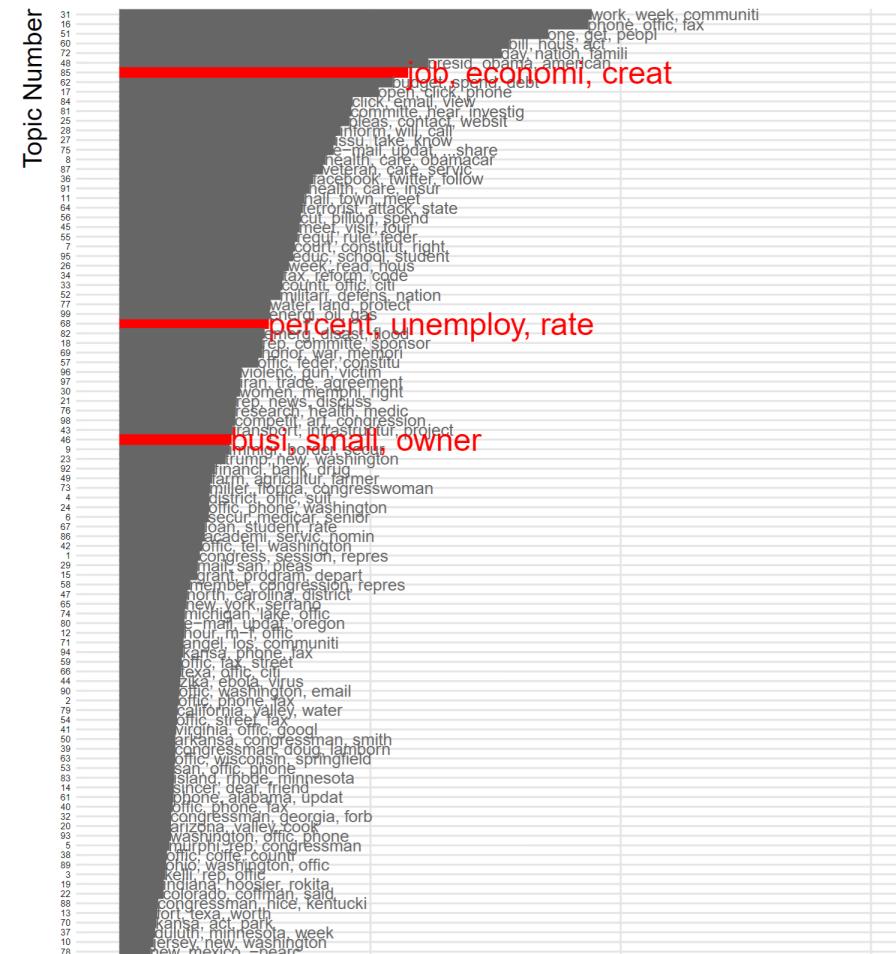
# Sketch of Theory

- Politicians are either **wealth-motivated** or **office-motivated**
- If **wealth-motivated**, they should exploit privileged information to make money off of insider trading
  - Politicians learn about industry and firm-level opportunities and challenges while serving on committees or being lobbied by firms
  - Politicians can influence markets via regulations and policies (might even improve perception of firm strength simply *by investing*)
  - Privileged information creates opportunities for **insider trading**
- If **office-motivated**, they should condition trading behavior to maximize re-election / protect against challengers
  - Trading behavior is public
  - Challengers can use it to attack incumbents

# Sketch of Theory

- Most likely both motivations are at play, but passage of STOCK Act (2012) makes wealth-motivation far riskier
  - **S**tay **T**rading **o**n **CK**nowledge
  - Explicitly prohibits trading based on non-public information
  - Increases cadence of reporting to within 45 days
- What types of investments improve re-election chances?
  1. Investments that do not appear corrupt
  2. Investments that maximize constituent welfare
- I.e., **local investments**

# Politicians ❤️ Jobs



Great news - @amazon is opening their first fulfillment center in Missouri, right here in our district where they will be creating 1,500 new full-time, full benefit jobs. Welcome to Missouri-03!

- Congressman Blaine Luetkemeyer's tweet, March 3rd, 2018



# Politicians ❤️ Jobs...in their district

MD-04: Anthony Brown

– #AmazonHQ2 will bring thousands of jobs & families to the D.C. region, but we must ensure this economic growth is inclusive, that we have the necessary schools, housing and infrastructure, and that we develop our regional workforce to fully seize this significant opportunity.

VA-10: Barbara Comstock

– Northern Virginia made the list! @amazon

VA-11: Rep. Gerry Connolly

– With @GovernorVA at Amazon announcement, Great news for NOVA and the region. This decision is the prize for years of investments in education, infrastructure and research.

VA-08: Rep. Don Beyer

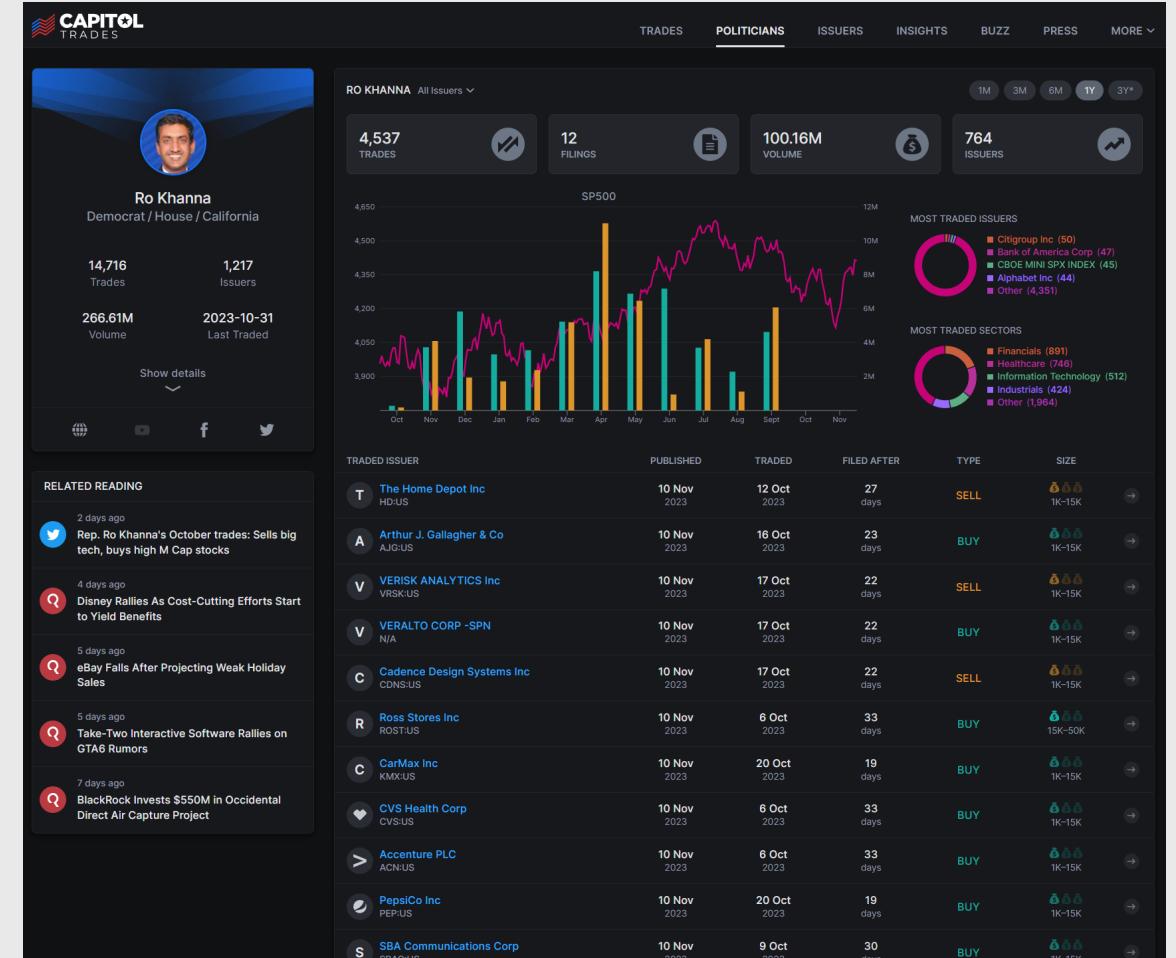
– RT @nytimes: Amazon won...I say a word about where it plans to put its much-hyped second headquarters, but there is a growing consensus that...  
– RT @ARLnowDOTcom: BREAKING: Northern Virginia, D.C. and Montgomery County, Maryland are included in the top 20 finalists for Amazon's HQ2 h...  
– In @ArlingtonVA for the formal announcement of the new Amazon headquarters in Northern Virginia, @GovernorVA outlines new plans to boost investments in infrastructure projects to help make sure the benefits of this project are shared broadly. Includes transportation and housing.  
– RT @MichaelLeePoppe: @RepDonBeyer #VA08 says #AmazonHQ2 will bring "infusion of jobs ... diversification of our tax base ... dramatic expand...  
– RT @Reuters: Amazon announces new headquarters in Virginia  
– @ArlingtonVA County Board Chair @kristol says everyone is focused on making sure Amazon's new investment in Northern Virginia reflects Arlington...s



# DATA DESCRIPTION

# Stocks (outcome)

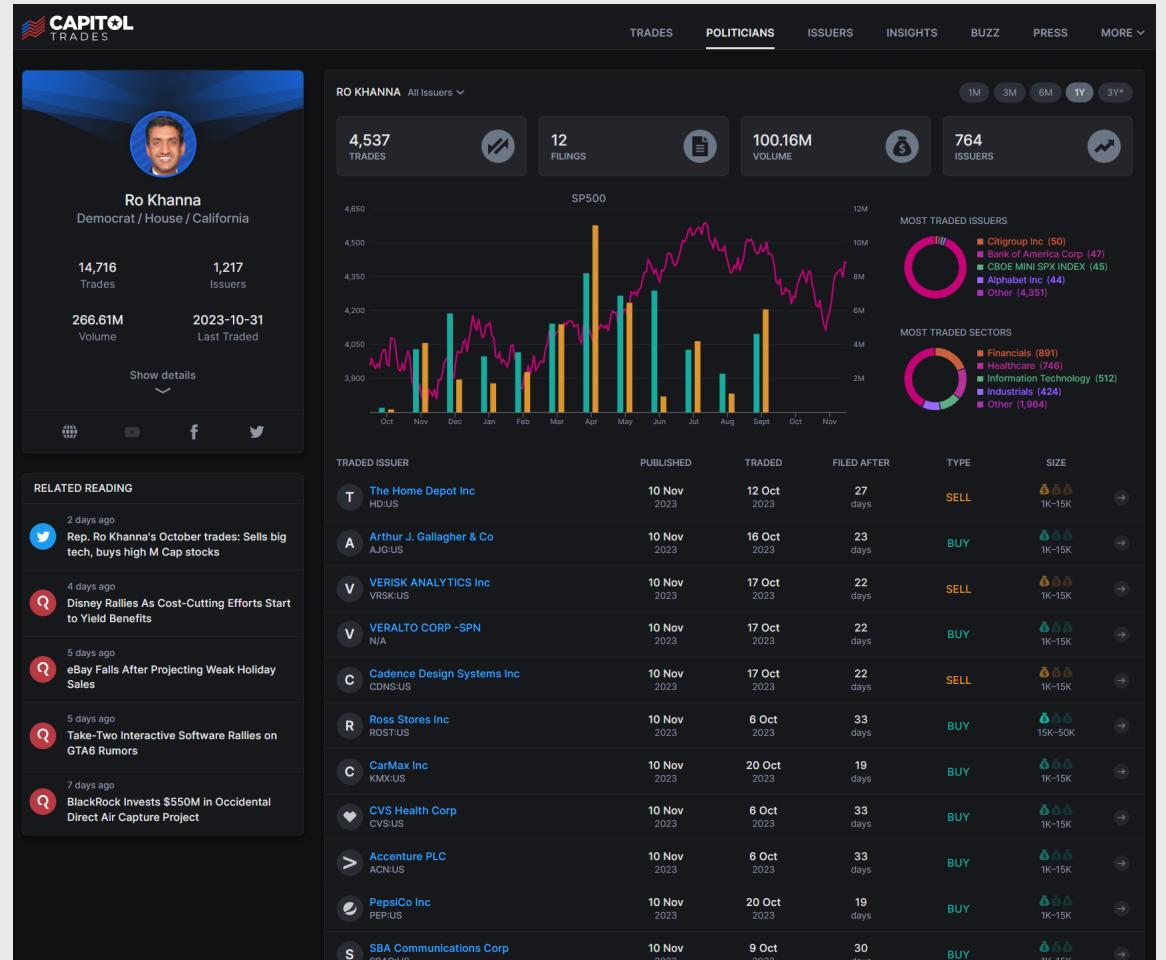
- **Capitol Trades**



# Stocks (outcome)

- **Capitol Trades**

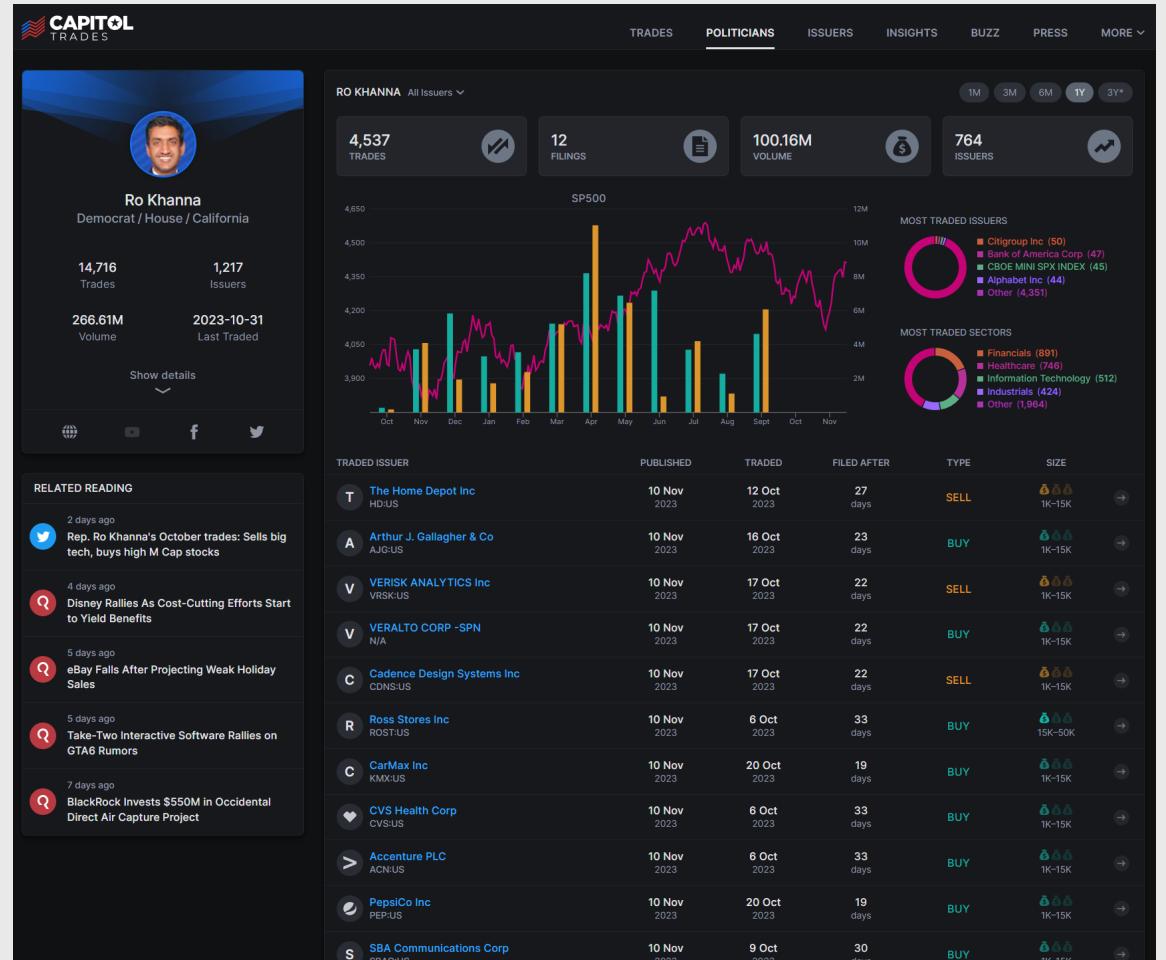
- Cleaned data from stocks trading disclosures



# Stocks (outcome)

- **Capitol Trades**

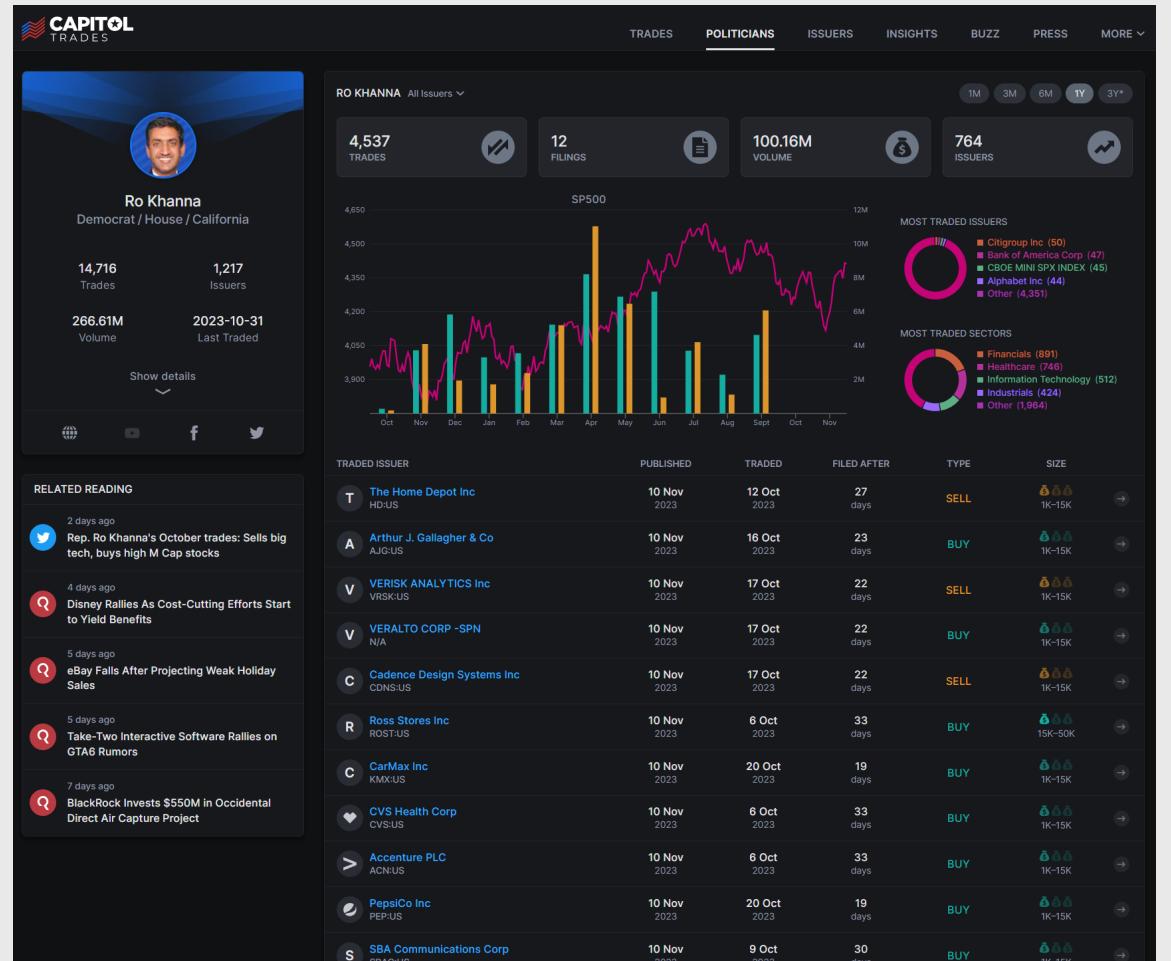
- Cleaned data from stocks trading disclosures
- Politicians indicated with `bioguide_id`



# Stocks (outcome)

- **Capitol Trades**

- Cleaned data from stocks trading disclosures
- Politicians indicated with `bioguide_id`
- Companies indicated with `GVKEY`



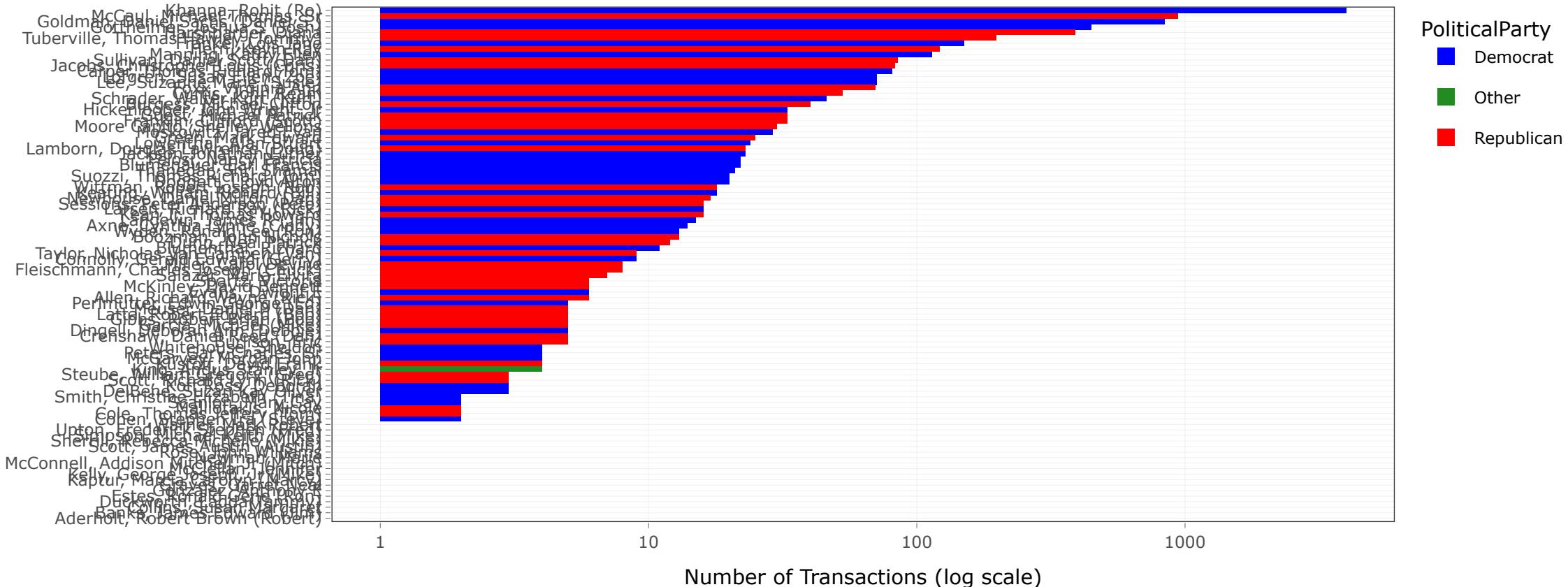
# Stocks (outcome)

- Currently only have one year of data from Nov 22 - Nov 23 (been waiting on 2012-2023 since November)

```
## # A tibble: 10 × 6
##   trans_id   trans_date trans_type bioguide_id gvkey Amount
##   <chr>       <date>     <chr>      <chr>      <chr>    <dbl>
## 1 200037576... 2022-11-17 BUY        W000804  2333...     149
## 2 200037576... 2022-11-17 SELL       W000804  4325...      29
## 3 200037576... 2022-11-17 SELL       W000804  2333...     241
## 4 200037576... 2022-11-17 BUY        W000804  4326...     161
## 5 200037576... 2022-11-17 SELL       W000804  4325...      80
## 6 200037576... 2022-11-17 BUY        W000804  4325...      82
## 7 200037576... 2022-11-17 BUY        W000804  4326...     179
## 8 200037576... 2022-11-11 SELL      W000804  4326...     100
## 9 200037576... 2022-11-18 SELL      W000804  2334...     249
## 10 200037577... 2022-12-09 BUY       S000250  4355...     NA
```

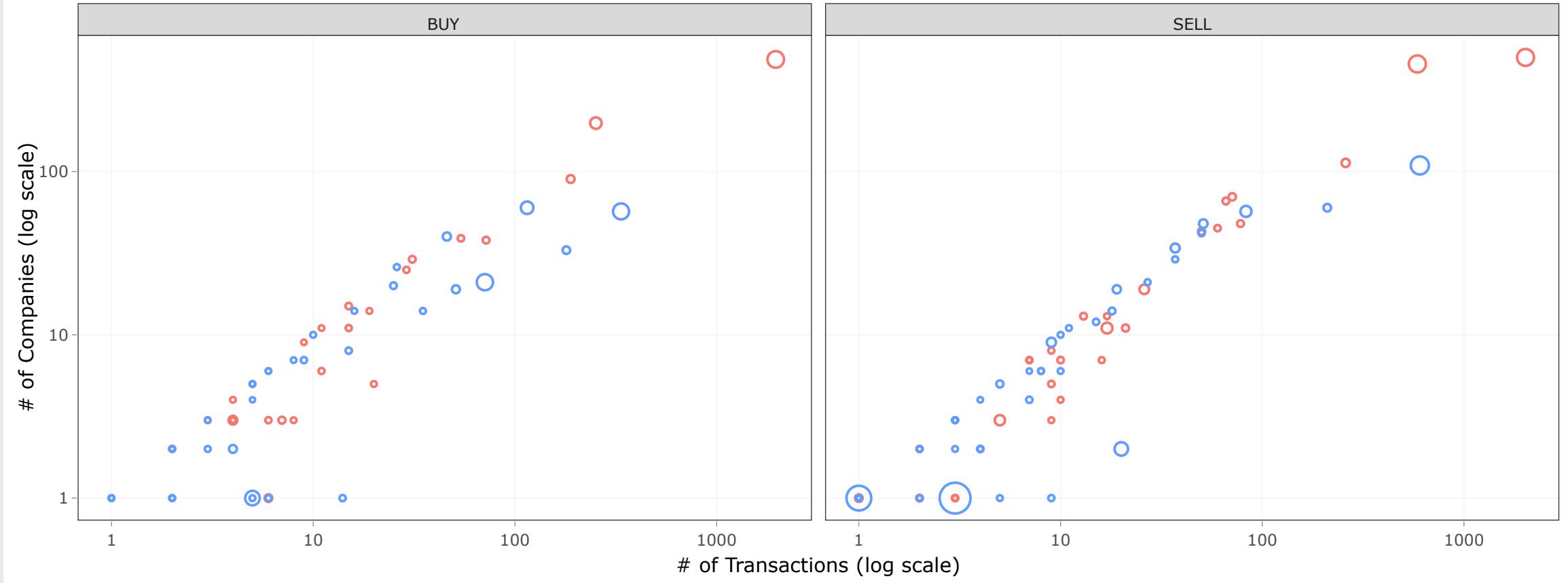
# Stocks (outcome)

Total Transactions by MC



# Stocks (outcome)

Investments by Politicians



# Jobs (predictor)

- **ReferenceUSA**

The screenshot shows the homepage of **Data Axe**. At the top, there's a navigation bar with links for **Our Data**, **Axle Agency**, **What We Do**, **How We Help**, **Resources**, and **About Us**. There are also search, user, and contact buttons. Below the navigation is a black header bar with the text **Business Data**, **Co-Op Data**, **Intent Data**, and **Canadian Data**. A large yellow diagonal banner on the left side of the page contains the text **The most trusted and accurate source of business data** and a **Contact us** button. To the right of the banner, there's a map of the United States with a red line pointing from the text "Montgomery & Assoc" in North Little Rock, AR, to the state of California. Below the map, it says "Last updated: 2 hrs 8 min ago" and "New business". At the bottom of the page, there's a dark blue footer section featuring a Gartner Magic Quadrant chart. The chart has four quadrants: **Challengers**, **Contenders**, **Strong Performers**, and **Leaders**. Data Axe is positioned in the **Leaders** quadrant. Other companies listed include ZoomInfo, Technologies, Dun & Bradstreet, InsideView, TechTarget, Leadspace, and Bisbee & Clinton.

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- Dataset of where firms employ people

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# Jobs (predictor)

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- Plants linked with **parent-company** via [ABI](#) ID

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# Jobs (predictor)

- **ReferenceUSA**

- Dataset of where firms employ people
- Plants linked with **parent-company** via **ABI** ID
- Manually scraped website to link **GVKEY** with **ABI**

The screenshot shows the homepage of data axe. At the top, there's a navigation bar with links for "Our Data", "Axle Agency", "What We Do", "How We Help", "Resources", and "About Us". There are also search, user profile, and "Contact Us" buttons. Below the navigation is a secondary header with "Business Data" as the active tab, followed by "Co-Op Data", "Intent Data", and "Canadian Data". The main visual features a large yellow diagonal shape containing the text "The most trusted and accurate source of business data". To the right is a map of the United States with a red arrow pointing from the text area to a specific location in North Little Rock, AR, marked with a pin and labeled "Montgomery & Assoc". Below the map, a status message says "Last updated: 2 hrs 8 min ago" and "New business". At the bottom, there's a chart titled "Data Axe named a leader in the" showing the company's position relative to others like Dun & Bradstreet, InsideView, and ZoomInfo.

# Jobs (predictor): Apple Example



# Jobs (predictor): Southern CA Edison Co.



# Jobs (predictor): U-Haul



# METHODS

# What is our estimand?

- **If**: politicians want to maximize jobs
- **Then**: they will invest in employers
- Big challenge: if the intuition is true, are politicians job **creators** or job **expanders** or job **maintainers**?
  - "Creator": new firms / plants that weren't **there** before
  - "Expander": new jobs at firms / plants that were **there** before
  - "Maintainer": preventing job loss at firms / plants that were **there** before
- Assuming that more jobs  $\Rightarrow$  more votes, they should be all three
- But for now, let's assume they are *not* **creators** (ruling out **prospective** behavior)
- Investment decisions are *local* and *retrospective*

# Estimand

- Investment by MoC  $p$  in firm  $f$ 
  - Binary indicator of any investment
  - Count of total shares
  - Sum of total amount
- Selection:
  1. not every politician invests
  2. not every firm is invested in
- Need to create dyadic dataset of every possible politician by every possible publicly-traded firm

# Estimation

$$invest_{p,f,t} = \alpha_p + \gamma_f + \beta_1 jobs_{p,f,t-1} + u_{p,f,t}$$

- where  $p$  is the politician investing in a stock,  $f$  is the firm they invest in, and  $t$  is when they invest
  - $\alpha_p$  are politician fixed effects
  - $\gamma_f$  are firm fixed effects
  - Two-way cluster robust standard errors on  $p$  and  $f$
- Given current bottleneck on data, we will predict investing decisions in 2022 as a function of jobs in 2018
  - Don't yet have dyadic data built either
  - **VERY PRELIMINARY**

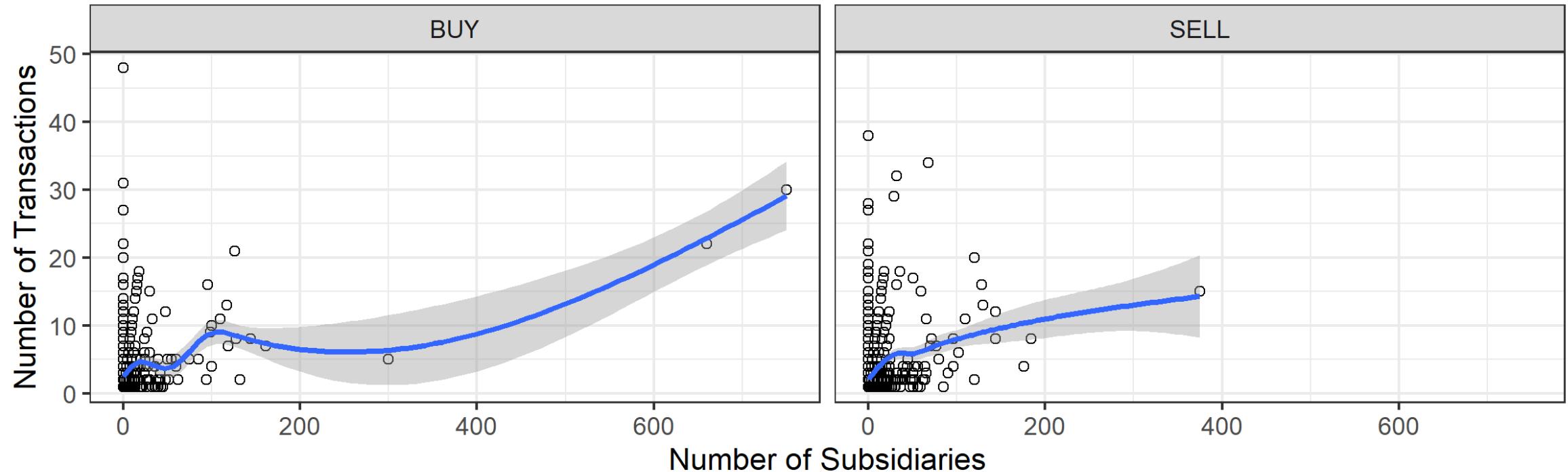
# RESULTS

# Descriptive Visualization

- How much more do politicians invest in firms that employ their constituents relative to other firms?

## Bivariate Non-Linear Descriptives

Raw measures

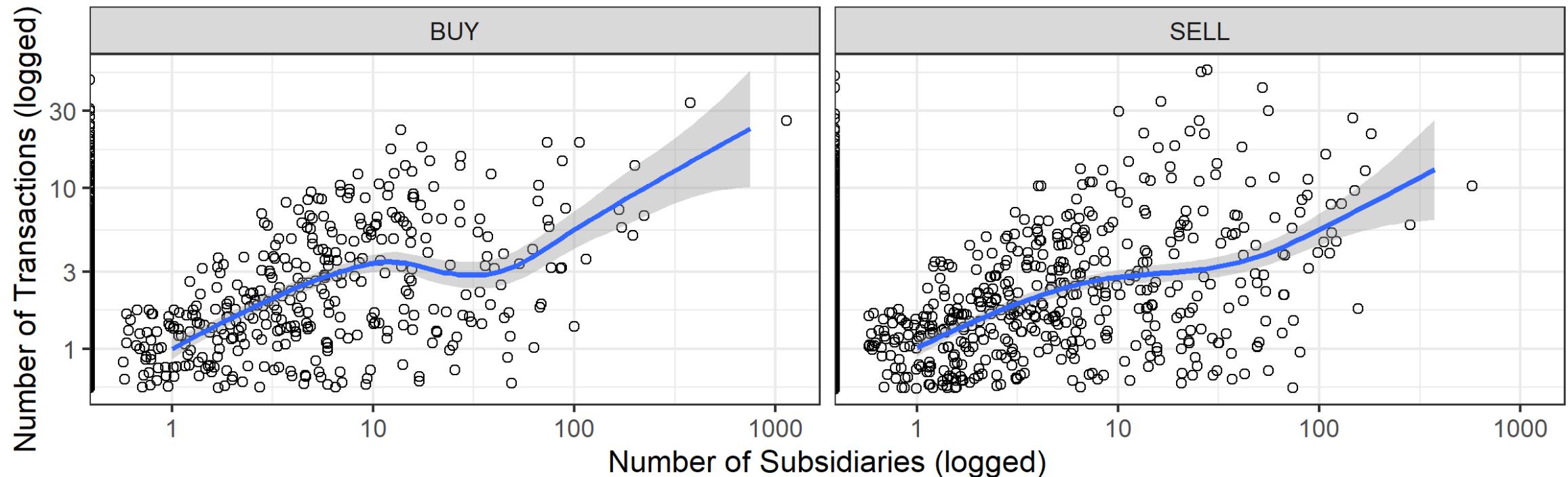


# Descriptive Visualization

- How much more do politicians invest in firms that employ their constituents relative to other firms?

## Bivariate Non-Linear Descriptives

Logged measures, visualized with jitter

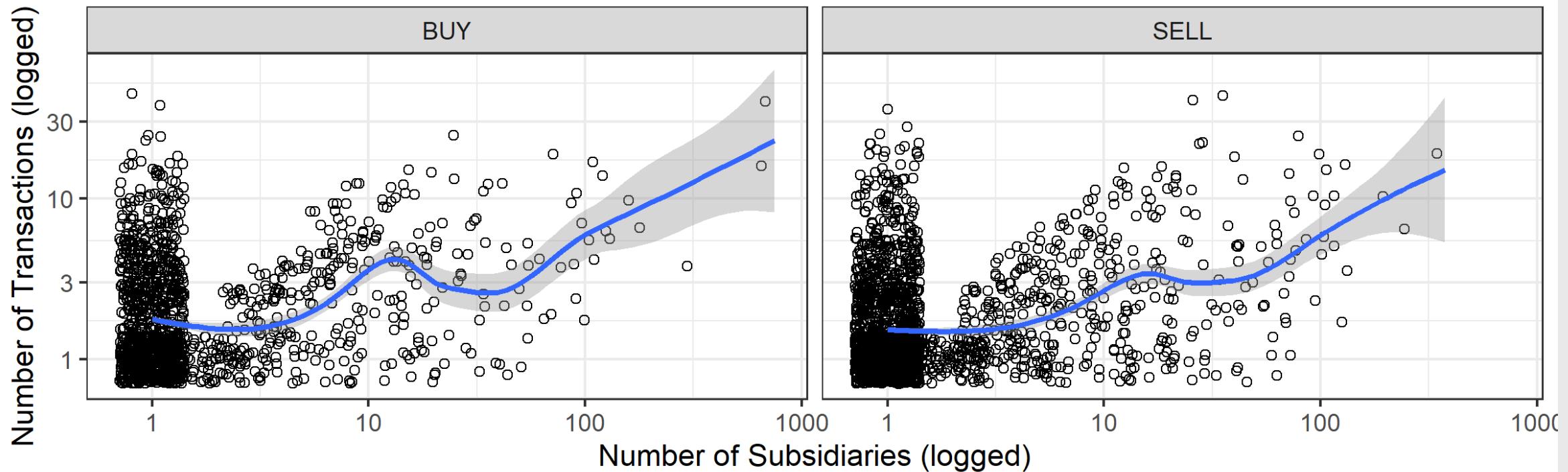


# Descriptive Visualization

- How much more do politicians invest in firms that employ their constituents relative to other firms?

## Bivariate Non-Linear Descriptives

Logged+1 measures, visualized with jitter



# Regression Results

$$invest_{p,f,t} = \alpha_p + \gamma_f + \beta_1 jobs_{p,f,t-1} + u_{p,f,t}$$

```
require(fixest)

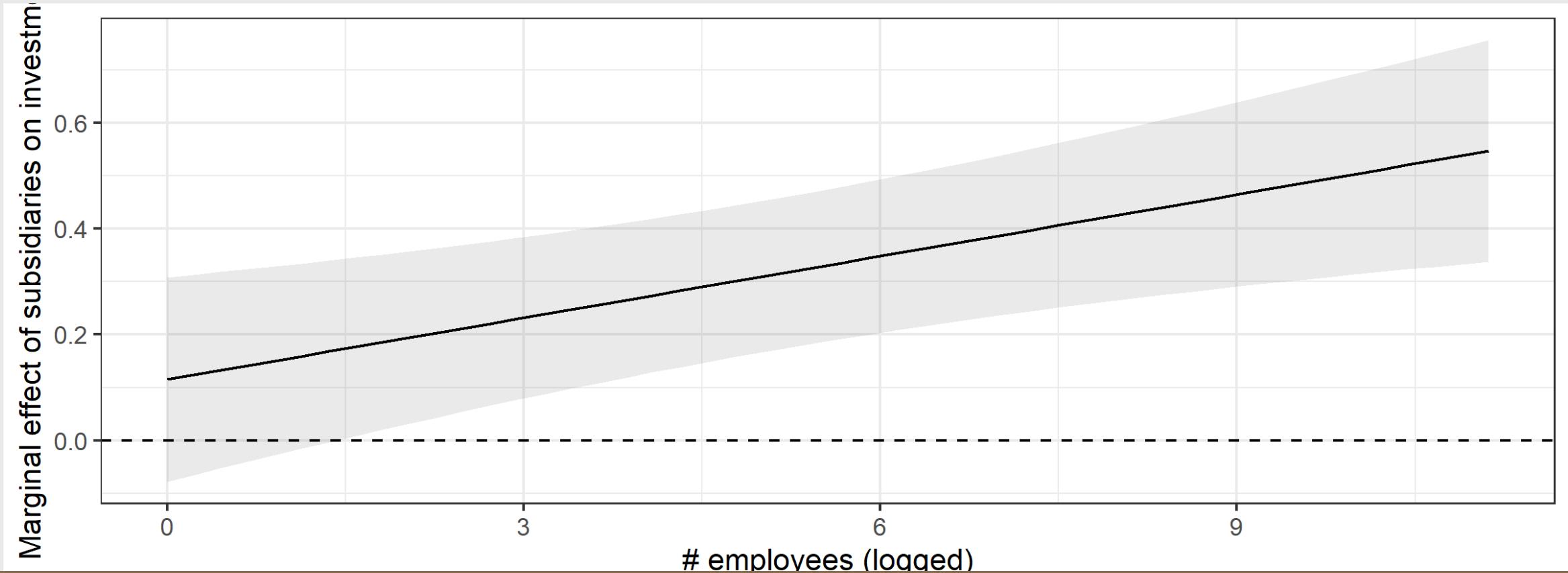
m1 <- feols(log(nTrans) ~ log(nsups+1) | ReportingIndividualId + ref_usa,
             toanal2 %>% filter(TransactionType == 'BUY'),
             cluster = c('ref_usa + ReportingIndividualId'))
m2 <- feols(log(nTrans) ~ log(nemp+1) | ReportingIndividualId + ref_usa,
             toanal2 %>% filter(TransactionType == 'BUY'),
             cluster = c('ref_usa + ReportingIndividualId'))
m3 <- feols(log(totAmount) ~ log(nsups+1) | ReportingIndividualId + ref_usa,
             toanal2 %>% filter(TransactionType == 'BUY'),
             cluster = c('ref_usa + ReportingIndividualId'))
m4 <- feols(log(totAmount) ~ log(nemp+1) | ReportingIndividualId + ref_usa,
             toanal2 %>% filter(TransactionType == 'BUY'),
             cluster = c('ref_usa + ReportingIndividualId'))
```

# Regression Results

	<b>m1</b>	<b>m2</b>	<b>m3</b>	<b>m4</b>
Dependent Var.:	# Transactions (logged)	# Transactions (logged)	\$ Invested (logged)	\$ Invested (logged)
# Subsidiaries (log+1)	0.1880*** (0.0353)		0.2087*** (0.0452)	
# Employees (log+1)		0.0501*** (0.0130)		0.0550** (0.0166)
Fixed-Effects:	-----	-----	-----	-----
Politician	Yes	Yes	Yes	Yes
Firm	Yes	Yes	Yes	Yes
S.E.: Clustered	by: Firm. & Poli.	by: Firm. & Poli.	by: Firm. & Poli.	by: Firm. & Poli.
Observations	1,342	1,342	1,342	1,342
R2	0.78306	0.77412	0.85409	0.85101
Within R2	0.06345	0.02484	0.03307	0.01265

# Regression Results

$$invest_{p,f,t} = \alpha_p + \gamma_f + \beta_1 subs_{p,f,t-1} + \beta_2 jobs_{p,f,t-1} + \beta_3 subs * jobs + u_{p,f,t}$$



# Next steps

1. Get the data
2. Create **dyadic version**
3. Exploit **changes** in subsidiaries
4. Heterogeneous effects by **electoral security**
  - jobs are more important to the electorally vulnerable, (Raiha, 2017, Bisbee & You, 2023

# Thank you!

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[www.jamesbisbee.com](http://www.jamesbisbee.com)

# APPENDIX

# History

- Prior to 1978, there was no formal restriction on politician investing behavior
- **Ethics in Government Act** of 1978 required public disclosures of financial and employment history of public officials and immediate family
  - Financial disclosure forms detail sources and amounts of income, gifts, reimbursements, property; list transactions of property, commodities, and securities (filed annually)
  - Created **Office of Independent Counsel** to investigate government officials
  - Limits on lobbying efforts after leaving public office; proportion of income earned outside public office could not exceed 15% of total public service income; **no prohibition on insider trading!**
- STOCK Act (2012): **S**top **T**rading **on** **Congressional** **K**nowledge
  - Explicitly prohibits trading based on non-public information
  - Increases cadence of reporting to within 45 days

# Agency

- How do we know politicians are doing this intentionally? What if these are all just decisions made by money managers?
  - "Our analysis includes all holdings and trades reported by members, including those owned by spouses and dependent children. Members may also choose to create qualified blind trusts, which are managed on their behalf and whose holdings are unknown to the member. In our data 20 members report qualified blind trusts. **It is impossible to know from the disclosure forms how much a member personally directs his or her investments, but unless a member uses a blind trust it would be easy to pass on information to a money manager.**" - Eggers & Hainmueller, 2013
- In the trial data, 8404 out of 12104 transactions do not include a transaction comment.
- Of the rest, 3287 contain the prefix "Subholding Of:", followed by some type of trust, IRA, or Account
- The remaining 413 have a lot of different comments, some describing "Option Type: Put Strike Price" along with a value and expiration date, others describing a Rate/Coupon, and the majority describing either a reinvestment of shares or "part of my spouse's retirement portfolio"

# Selection

- Why do some politicians invest at all, while others don't?
  - 129 politicians are in our data in 2022-2023, 114 from the House and 25 from the Senate
- Need to analyze covariates among those who do and don't invest
  - **TO DO**

# Types of Trades

- We have 8906 stocks, 1098 municipal securities, 421 corporate bonds, and then a bunch of other things that show up in fewer than 3% of total transactions.
  - Stock options are 272 out of 12,104 total transactions in the trial data.
  - We also have information on financial instrument, although majority are missing, followed by CLASS A
- May be able to use some types of transactions as placebo tests (i.e., certain types of trades are more likely to be pro-forma behaviors that politicians don't decide / more likely to be decisions made by money-managers)

# Counterfactuals

- What is the appropriate counterfactual?
  - A politician who is not behaving in accordance with our theory would look like ...?
- Potentially could compare to other "insiders" (as defined by the SEC, senior executives, directors, and 10%+ shareholders)

