

Trading on Access? Examining the Financial Activity of US Elected Officials

James Bisbee and Joshua D. Clinton

Department of Political Science, Vanderbilt University

Research questions

- **Who?**
- **Where?**
- **When?**

Research questions

- **Who** invests?
- **Where** do they invest?
- **When** do they invest?

Research questions

- **Who** invests?
- **Where** do they invest?
- **When** do they invest?
- **Why?**

Motivation

- Politicians are **corrupt!**

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

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Motivation

- Politicians are **corrupt!**
 - GFC **sketchiness**

HOME > POLITICS

'60 Minutes' Blows The Lid Off Congressional Insider Trading

John Miller Nov 16, 2011 6:52 AM CEST

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 Treasury Secretary Hank Paulson.

Motivation

- Politicians are **corrupt!**
- GFC **sketchiness**
- Covid-19 **sketchiness**

Sen. Kelly Loeffler Dumped Millions in Stock After Coronavirus Briefing

TRADE IN

Ian Kelly Loeffler is the second senator who has gotten rid of their holdings right as the stock market went bad.

John Markay, William Bredderman, Sam Brody

Updated Mar. 26, 2020 8:12AM EST | Published Mar. 19, 2020 8:49PM EST



Motivation

- Politicians are **corrupt!**
- GFC **sketchiness**
- Covid-19 **sketchiness**

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



Motivation

- Politicians are **corrupt!**
- GFC **sketchiness**
- Covid-19 **sketchiness**
- Favored **attack ad** topic



DeGroot TV ad hits back on Sherrill's attacks
Spot focuses heavily on Sherrill's stock trades, calling congressionalman a 'swamp' creature

By Steve Pate October 28, 2022 3:30 pm

More insights of getting punched in the stomach by Rep. Brian "Beto" B. Beto (D-N.J.), former Assistant Bergen County Prosecutor, are coming from the campaign of his Democratic opponent for that same seat, Rep. Tom DeGroot.

Rep. DeGroot's "new career as a Sun Belt state" TV ad, airing on Monday night, is packed with accusations against Mr. DeGroot, who caught breaking federal law — trading millions in stocks, potentially using insider knowledge he acquired as congressional overseer. While others have worked to avoid off-the-chessboard, Rep. DeGroot was fighting chessboard, 2D pieces.

An attorney DeGroot appointed in late 2021, Tom, who was [also accused](#) of other rules violations by his federal colleagues at the Federal Election Commission, who began selling off his individual stocks before he became a member of Congress, said that she witnessed the filing as soon as it was discovered.

DeGroot won the only Republican candidate in New Jersey to face an election in the highly competitive 7th district, for two terms. He beat Rep. Tom Rose in 2020, defeating Rep. Tom DeGroot, Rep. DeGroot's predecessor, in the most lopsided election in the history of a state congressional House District Committee inquiry.

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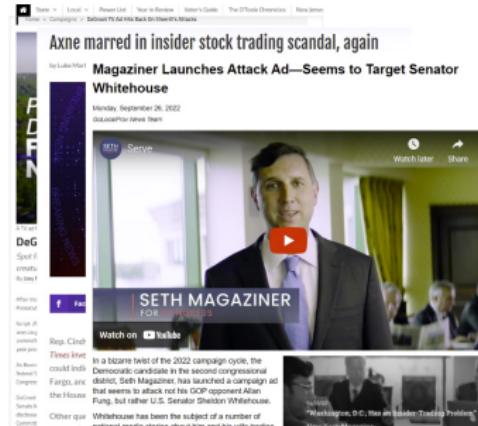
Motivation

- Politicians are **corrupt!**
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Motivation

- Politicians are **corrupt!**
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Motivation

- Politicians are **corrupt!**
- GFC **sketchiness**
- Covid-19 **sketchiness**
- Favored **attack ad** topic
- New push for **additional restrictions**

Why both Democrats and Republicans are politicizing their opponents' stock trades as a 2022 midterm campaign strategy

Kimberly Leonard Feb 10, 2022 2:28PM CST



A push to restrict congressional stock trading has become a hot political weapon in the 2022 midterms. Clockwise: See. Josh Hawley, a Republican of Missouri; House Speaker Nancy Pelosi, Democrat of California; Rep. Alexandria Ocasio-Cortez, Democrat of New York; and Rep. Tom Malinowski, Democrat of New Jersey. Clockwise: Tom Williams-Pool/Getty Images; Win McNamee/Getty Images; Ian Forrester/Getty Images; Scott M. Gable-CQ-Roll Call Getty Images

* There's a ton of momentum behind a congressional stock ban.

Answers

4

- Who: **Educated white men** with backgrounds in medicine.
- Where: In **larger** firms that **lobby** the bills they sponsor.
- When: Upon learning about changes in market conditions, but **no earlier** than the public.

puzzle

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Answers

- Who: **Educated white men** with backgrounds in medicine.
 - Where: In **larger** firms that **lobby** the bills they sponsor.
 - When: Upon learning about changes in market conditions, but **no earlier** than the public.
 - Why: Mostly **selection**, although lobbying patterns are suspicious

Data

5

- Quarterly financial disclosures are **messy**

The image shows a screenshot of a quarterly financial disclosure document. At the top right, there is a vertical column of words: puzzle, data, who, where, when, end, app. On the far right edge, there is a small horizontal bar with colored dots.

TRANSACTIONS

ID	Owner Asset	Transaction Date	Notification Amount	Caps. (Total Value of Assets?)
MF	Apollo Inc., Class C Capital	P	exp/loss exp/loss	Assets - Equity
	Private Share Sale			
	Private Share Purchase - Preferred 10%			
MF	Boring Company (B2) (1)	S	exp/loss exp/loss	Assets - Equity
	Private Share Sale			
	Private Share Purchase - Preferred 10%			
MF	Class Systems, Inc. (ESSE) (1)	S	rec/rec loss exp/loss	Assets - Equity
	Private Share Sale			
	Private Share Purchase - Preferred 10%			
MF	Global Payments Inc. (GPI)	P	rec/rec loss exp/loss	Assets - Equity
	Private Share Sale			
	Private Share Purchase - Preferred 10%			

NOTES

EXHIBIT 101

Periodic Transaction Report for 06/15/2021
Thomas H. Tubberville (Tubberville, Tommy)
[Redacted]
[Redacted]

The following exhibits and appendices may be viewed online at the SEC's website at www.sec.gov.
1. Confidential non-public information may be filed. To make available, it can update an electronic document.

Data

- Quarterly financial disclosures are **messy**
 - Capitol Trades assigns **Bioguide** and **GVKEY** IDs



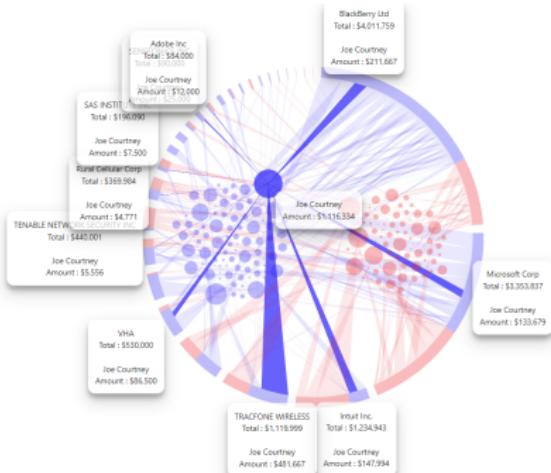
Data

- Quarterly financial disclosures are **messy**
- Capitol Trades assigns **Bioguide** and **GVKEY** IDs
- Link with **demographics**



Data

- Quarterly financial disclosures are **messy**
- Capitol Trades assigns **Bioguide** and **GVKEY** IDs
- Link with **demographics**
- Link with **lobbying**



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Data

- Quarterly financial disclosures are **messy**
- Capitol Trades assigns **Bioguide** and **GVKEY** IDs
- Link with **demographics**
- Link with **lobbying**
- Link with **employees**

The screenshot shows the homepage of data axle. 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". Below the navigation is a search bar and a "Contact Us" button. The main headline reads "The most trusted and accurate source of business data". It features a large yellow diagonal shape on the left. Below the headline are three statistics: "17.5M Businesses", "150M+ Business Contacts", and "400+ Business Attributes". A map of the United States is shown with a red line highlighting a path from Montgomery & Associates in North Little Rock, AR to Louisville, KY. A note indicates "Last updated 2 hrs 5 min ago". At the bottom, a dark blue section highlights that Data Axle was named a leader in the Forrester Wave™: B2B Marketing Data Providers, Q2 2021.

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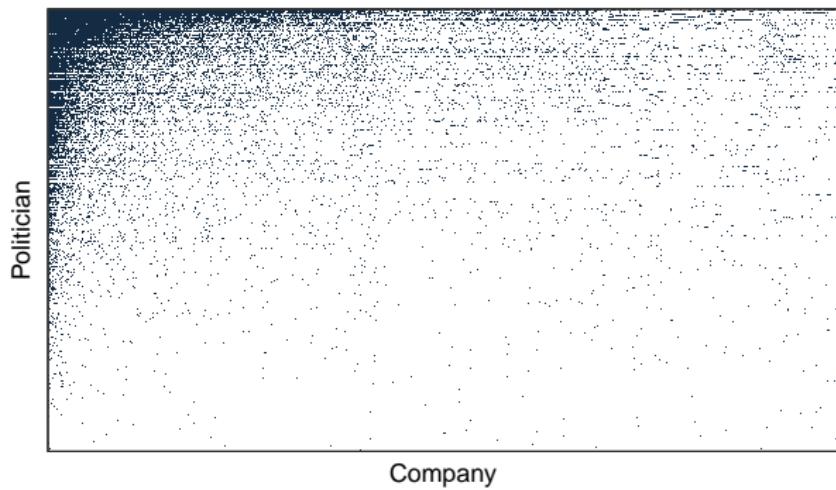
Data

- Quarterly financial disclosures are **messy**
 - Capitol Trades assigns **Bioguide** and **GVKEY** IDs
 - Link with **demographics**
 - Link with **lobbying**
 - Link with **employees**
 - Link with **contributions, hearings** (TBD)



Data

148 unique investors



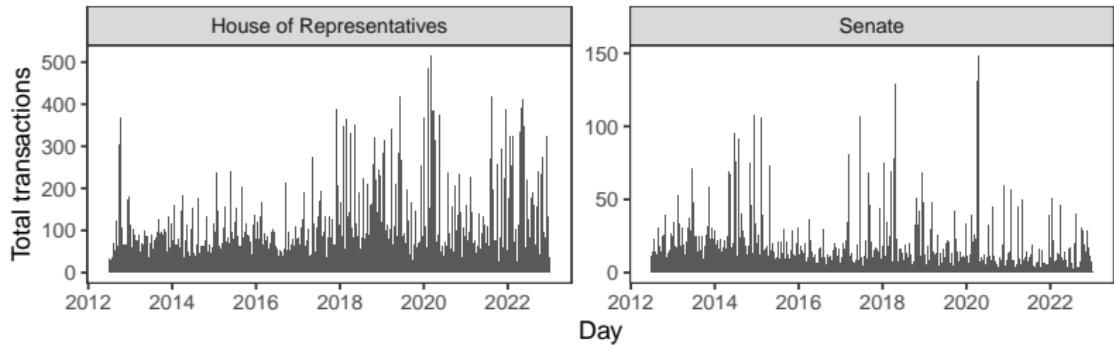
1676 unique firms

Trans

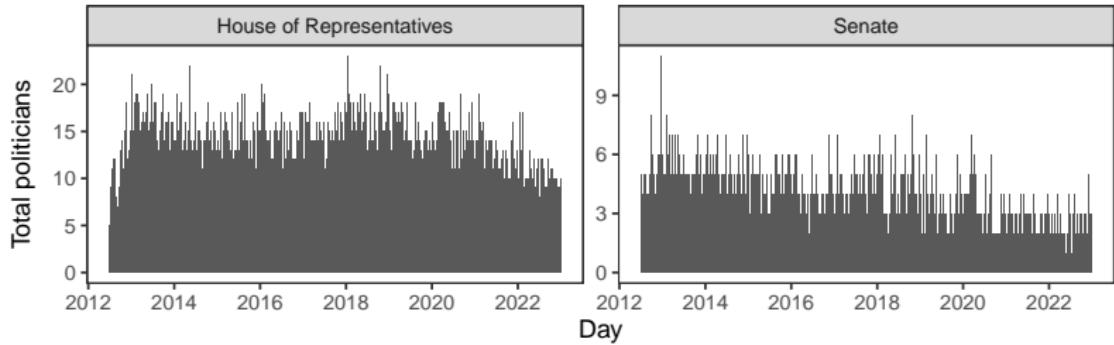
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Data

Total transactions by day

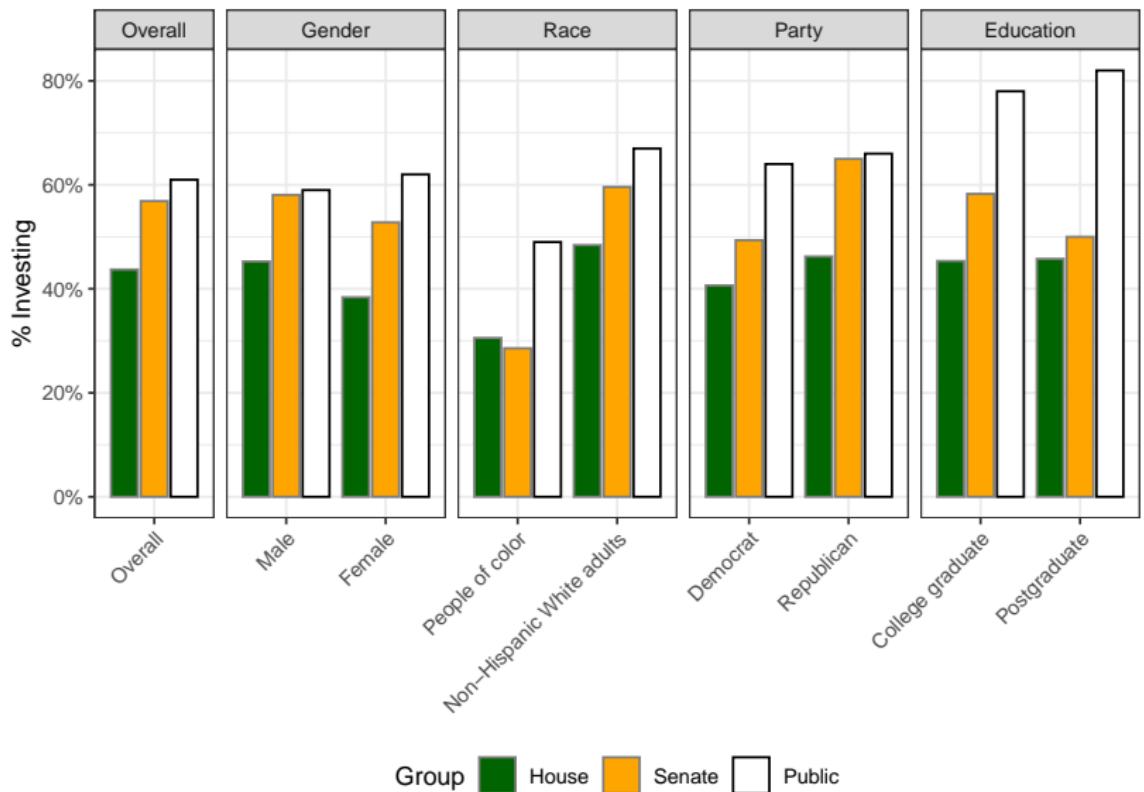


Total politicians transacting by day

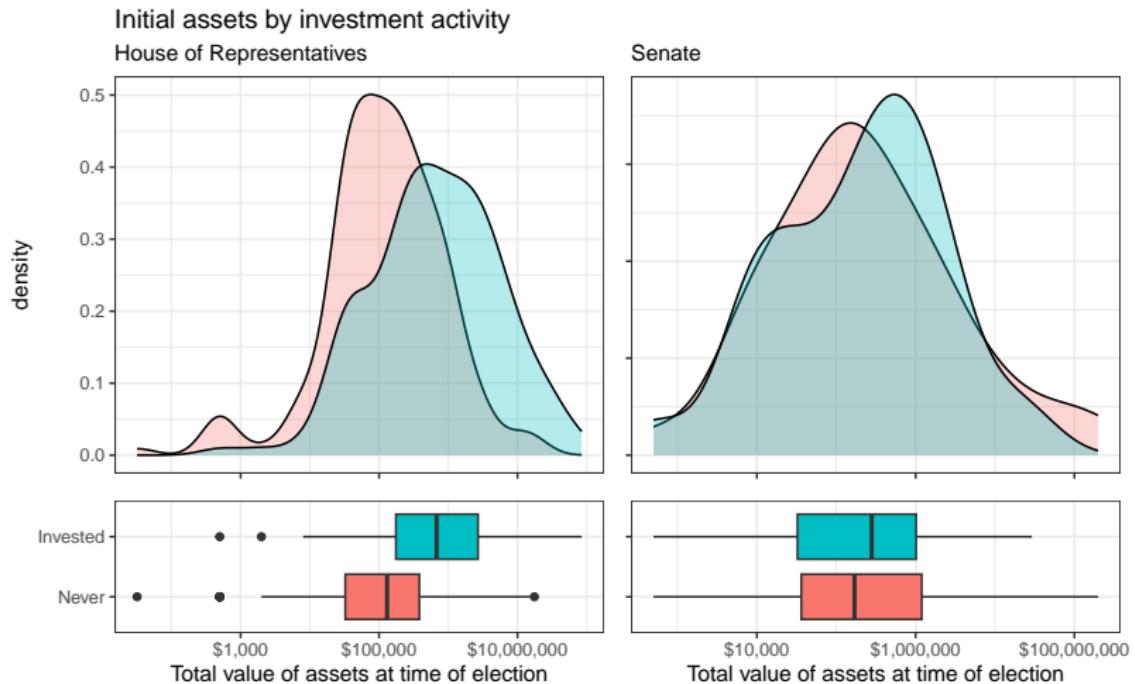


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Who invests?



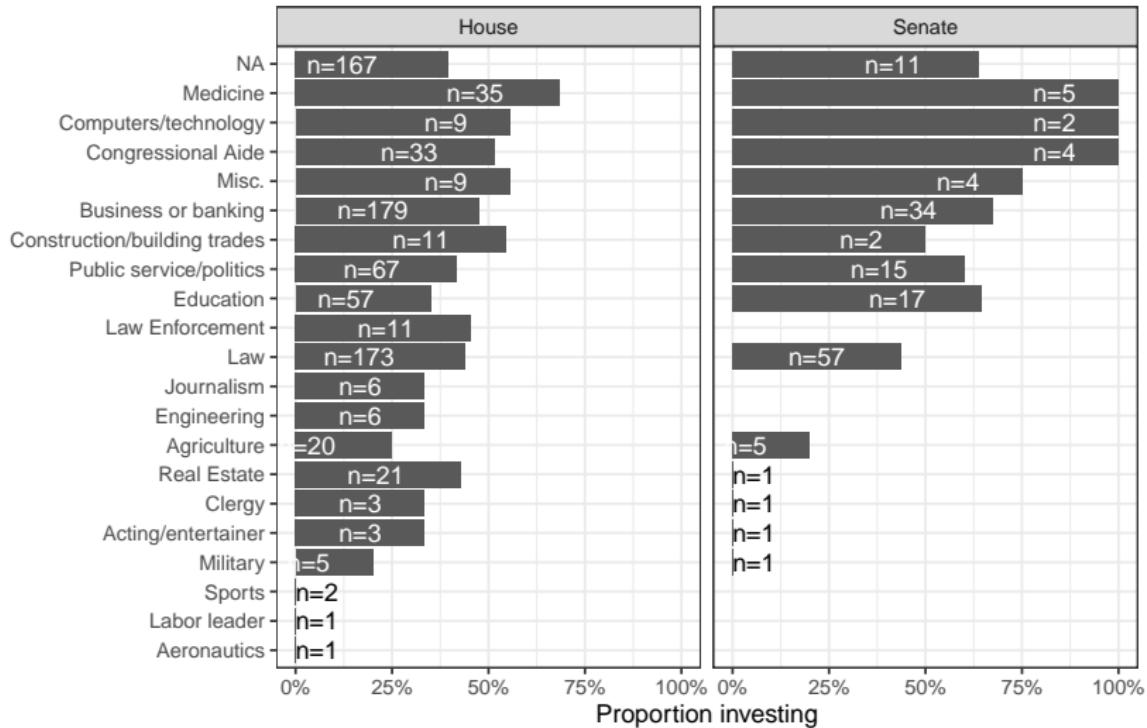
Who invests?



Who invests?

Proportion investing by occupation

Ever transacted: 2012 – 2023



Who invests?

- Time-varying characteristics
 - Speaker of the House
 - “Powerful” congressional committee member
 - Chair of a committee
 - Chair of a subcommittee
 - Majority or Minority leader
 - In their first term
 - Majority of their chamber
 - Vote margin

Who invests?

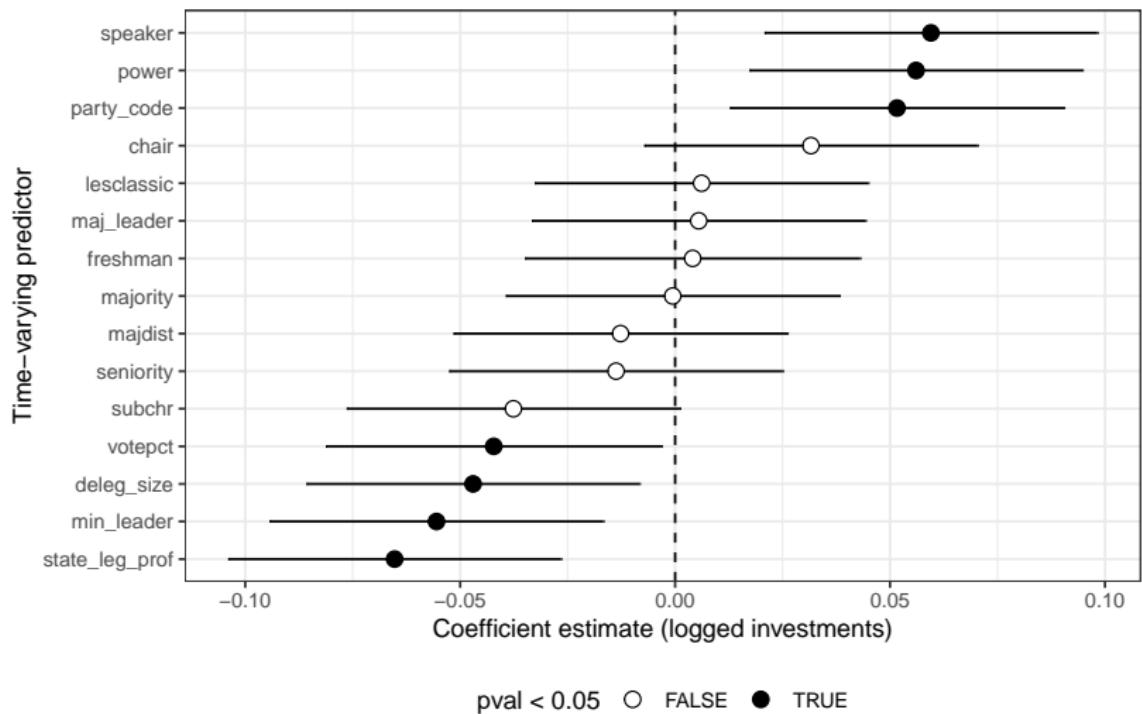
- Time-varying characteristics
 - Speaker of the House
 - “Powerful” congressional committee member
 - Chair of a committee
 - Chair of a subcommittee
 - Majority or Minority leader
 - In their first term
 - Majority of their chamber
 - Vote margin
- Time-invariant characteristics
 - Party
 - Delegation size
 - State legislative professionalism

Who invests?

- Time-varying characteristics
 - Speaker of the House
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 - Vote margin
- Time-invariant characteristics
 - Party
 - Delegation size
 - State legislative professionalism
- Time-collinear characteristics
 - Seniority

Who invests?

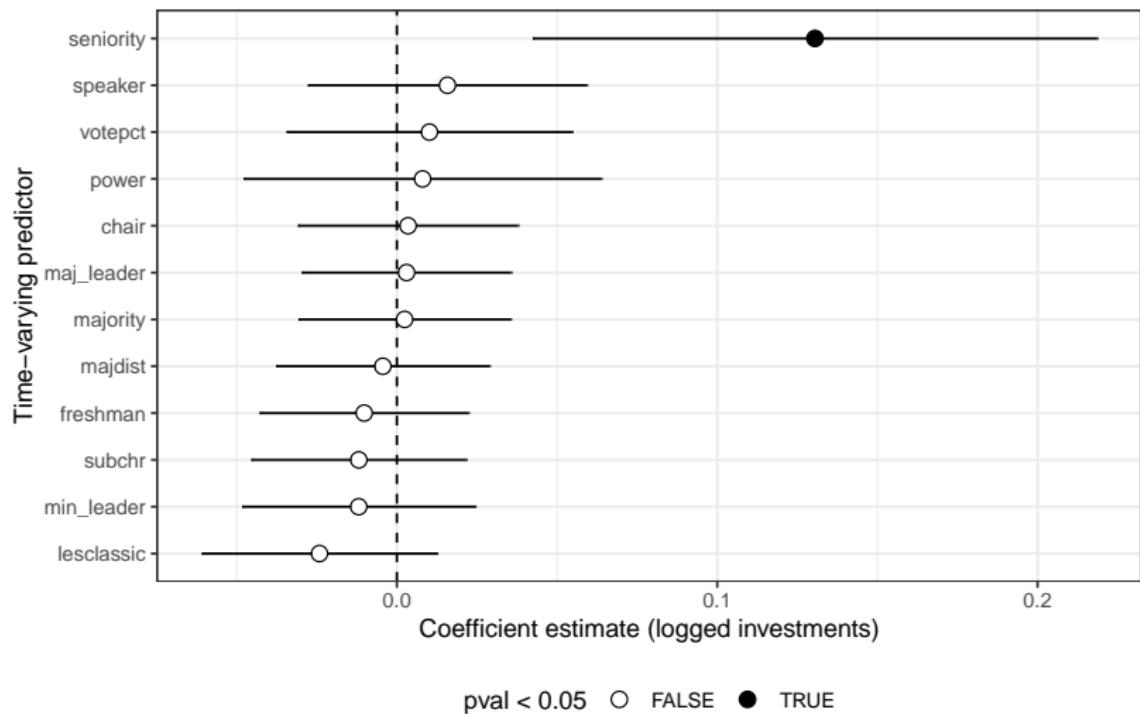
Descriptive regression results: House
Between-politician variation: Congress FEs



Who invests?

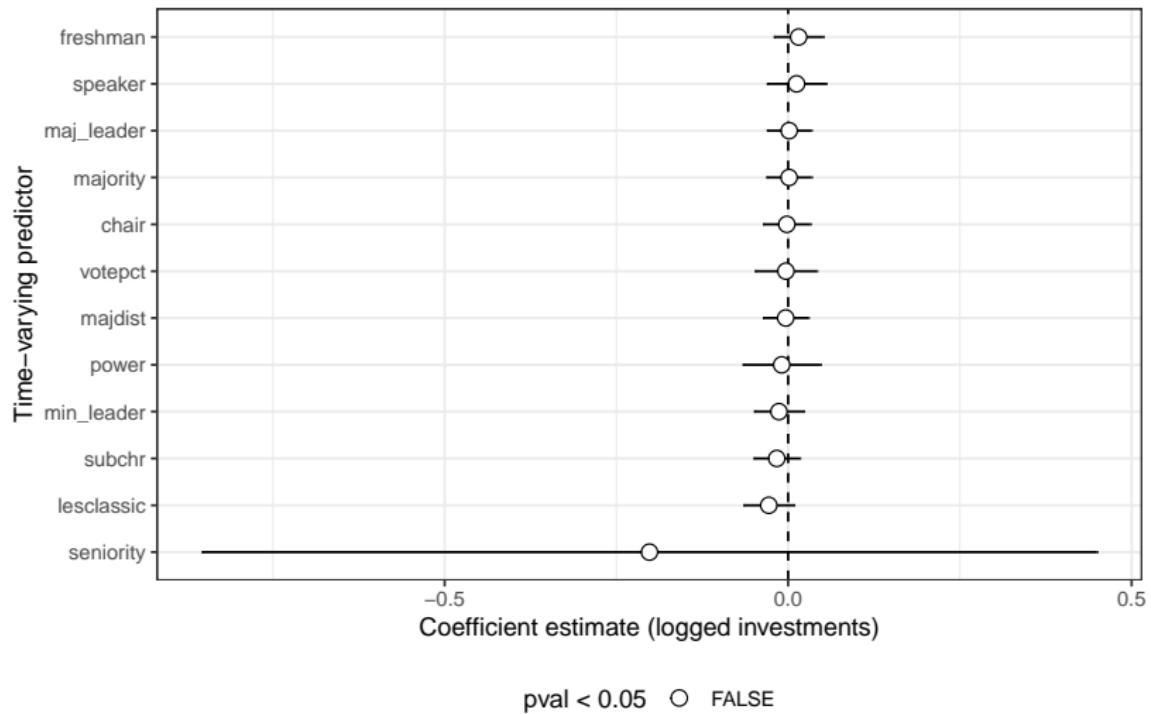
Descriptive regression results: House

Within-politician variation: Bioguide FEs



Who invests?

Descriptive regression results: House
Two-way fixed effects



Where do they invest?

- Turning to dyadic data
- Measure two types of “links” between politicians and firms
 - Lobbying (did the firm lobby a bill that the legislator sponsored?)
 - Employment (does the firm employ the MC’s constituents?)
- To come: campaign contributions, previous employment, hearings?

Where do they invest?

- Aggregate to politician-firm-year
 - 56m observations
 - Politician-year FE capture which firms politicians are more likely to invest in
 - Firm-year FE capture which politicians invest in a firm
 - Firm-politician FE capture overtime changes

Where do they invest? Lobbying

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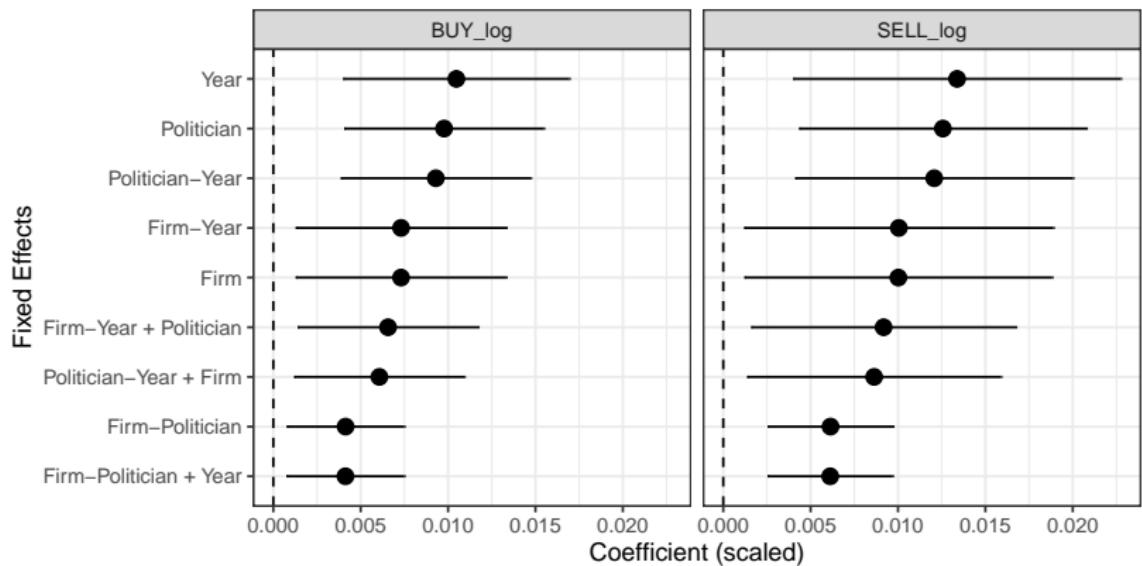
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Investing–Lobbying Relationship

Lobbying proxied with bills sponsored which are lobbied by firms



Where do they invest? Lobbying

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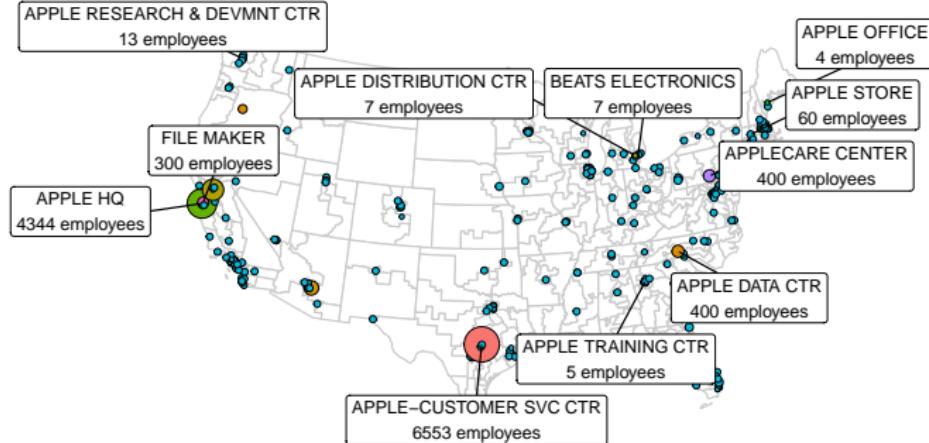
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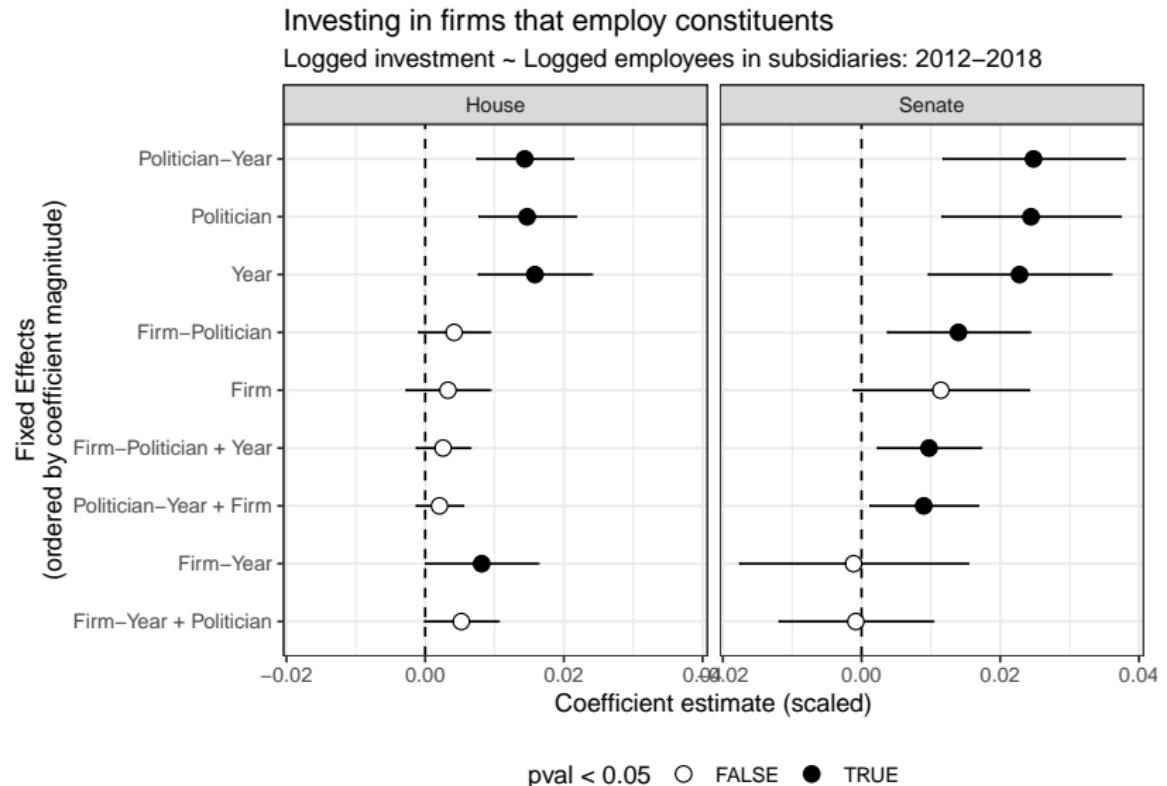
	No investment	Any investment	Proportion
No lobbying	56,073,762	28,401	0.051%
Any lobbying	55,306	491	0.88%
Ratio			17.25X

Descriptive proportions: Lobbying

Where do they invest? Geography



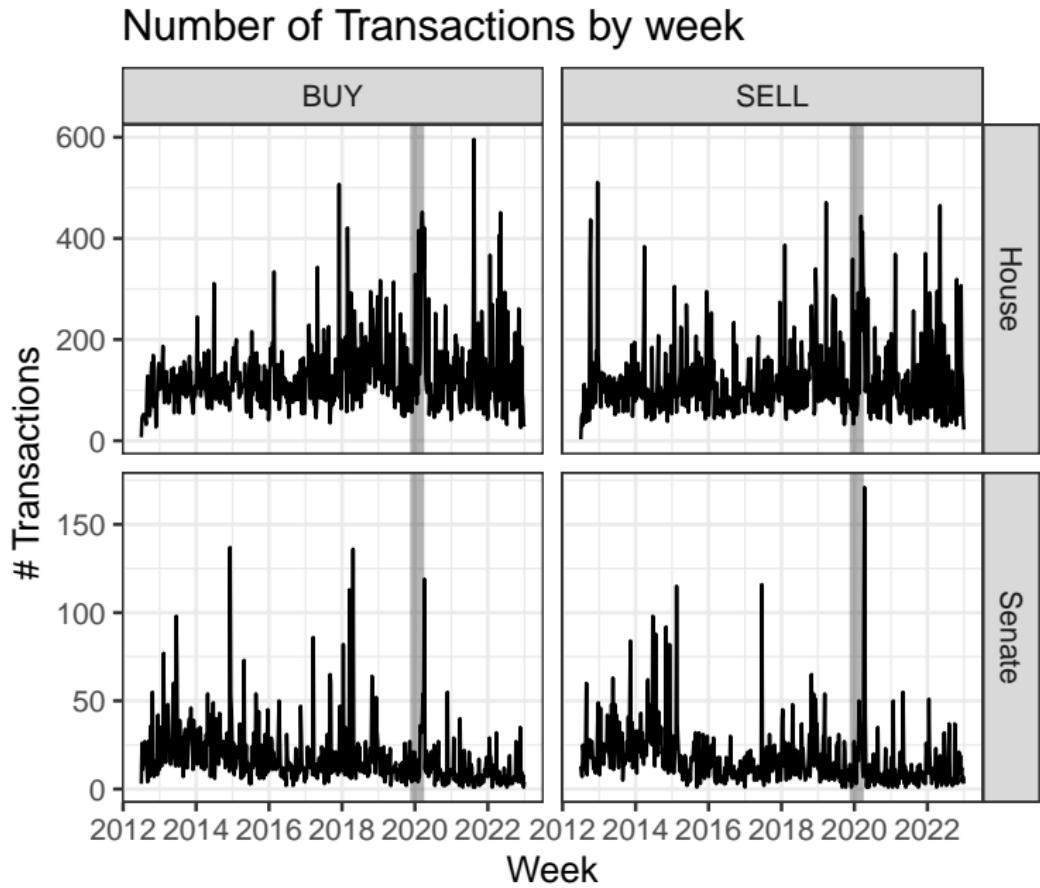
Where do they invest? Geography



When do they invest?

- Daily data aggregated to the week for visual legibility
- Several different methods
 - ITSA
 - Aberrations analysis
 - Other, fancier, innovative methods?

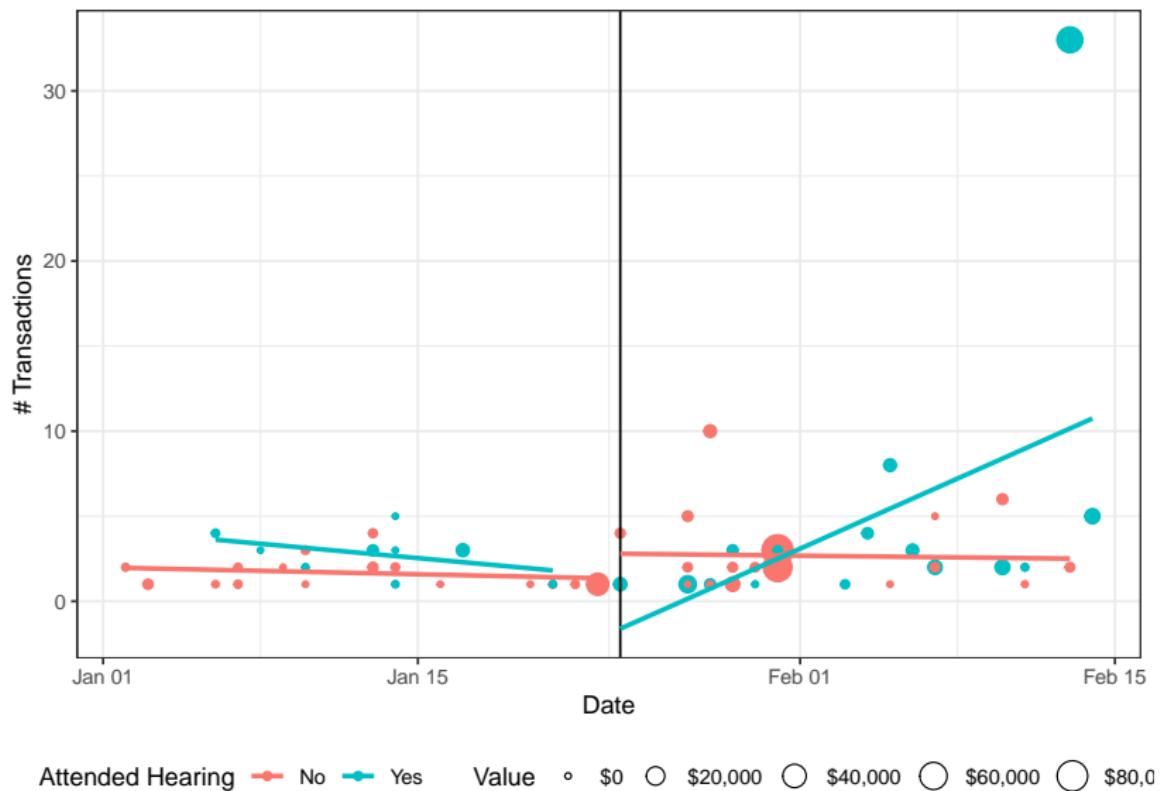
When do they invest?



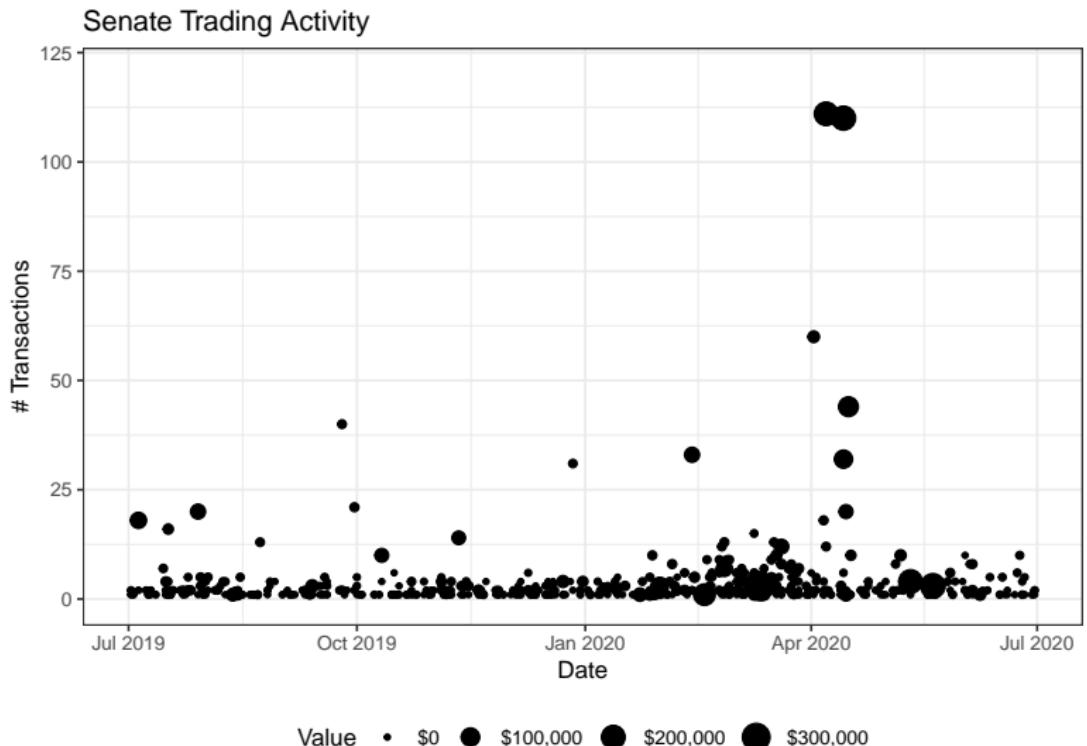
Covid-19 Closed Hearing

- Closed hearing on January 24th, 2020 source of media coverage of potential insider trading
- Investigated by DOJ on March 30, 2020
- Consider all attending senators as “treated” and run diff-in-diff

Covid-19 Closed Hearing

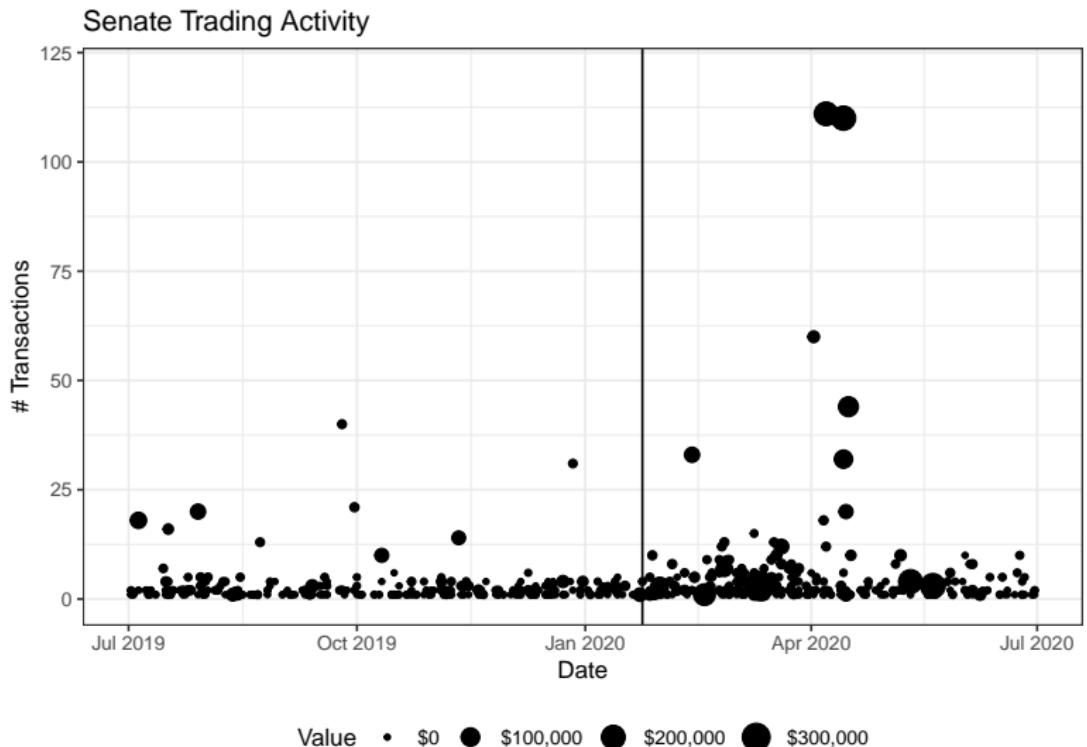


Suspicious Activity



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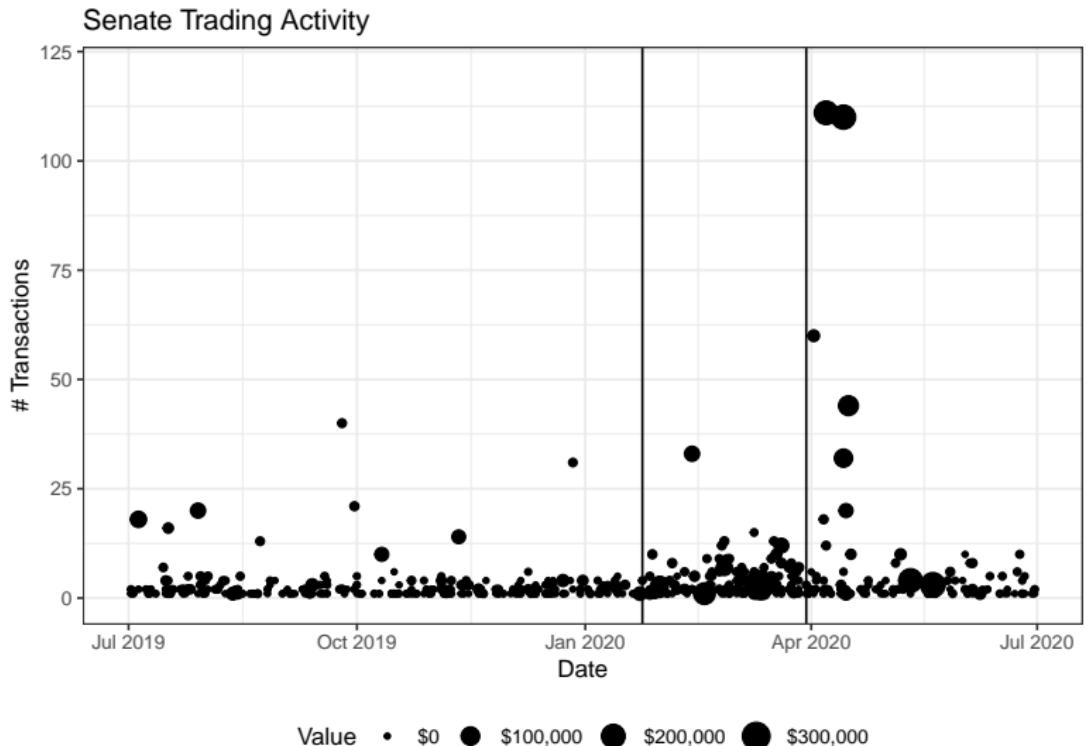
Suspicious Activity



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Suspicious Activity



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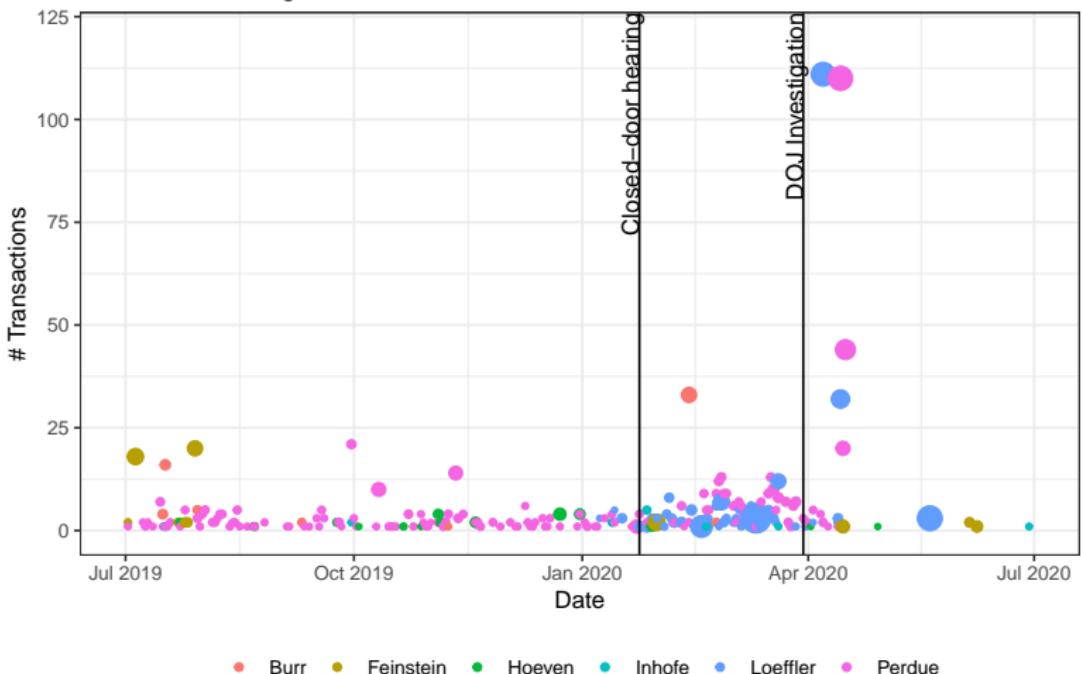
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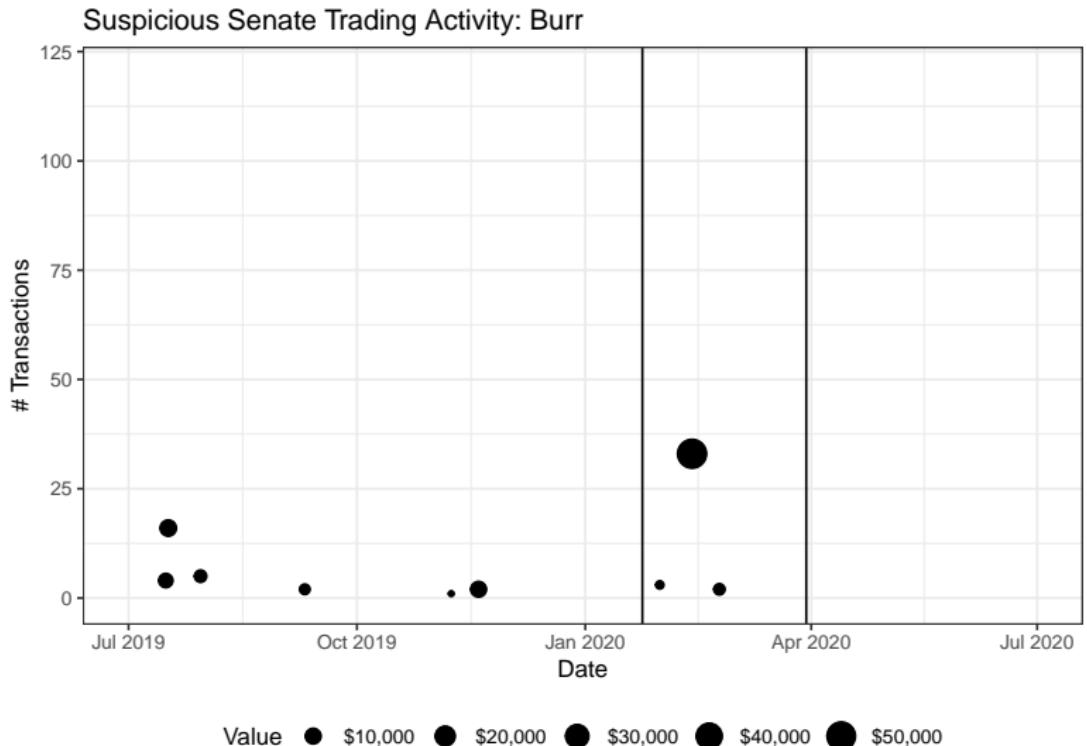
Suspicious Activity

Suspicious Senate Trading Activity

Closed door hearing on Covid-19



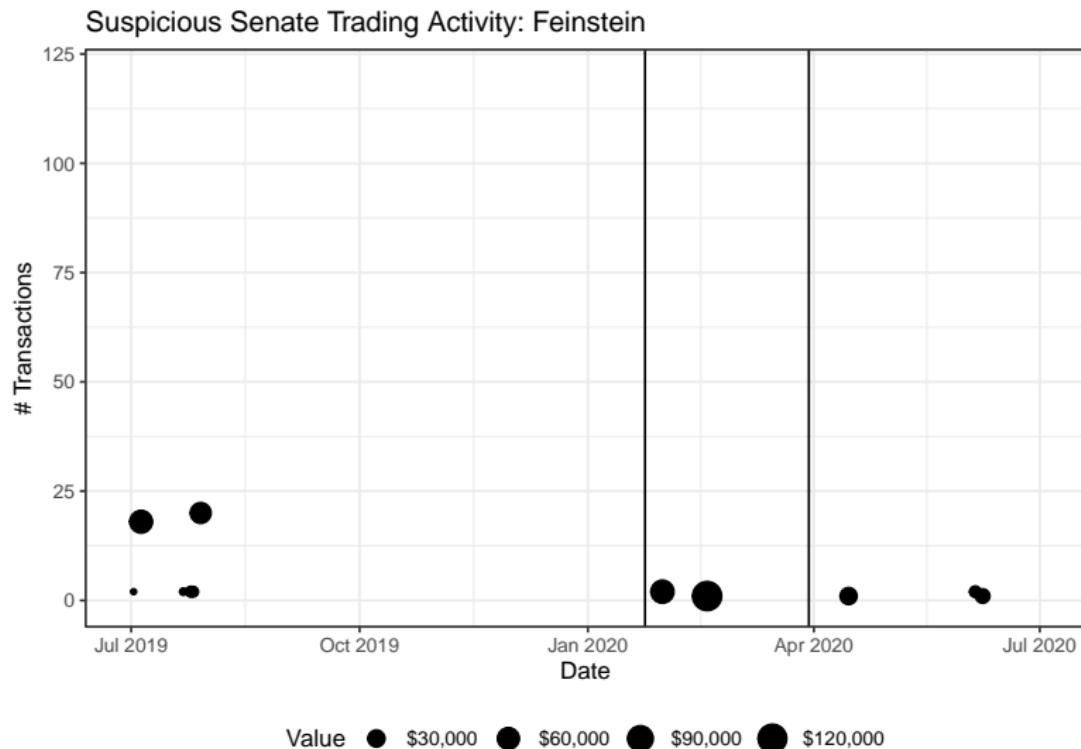
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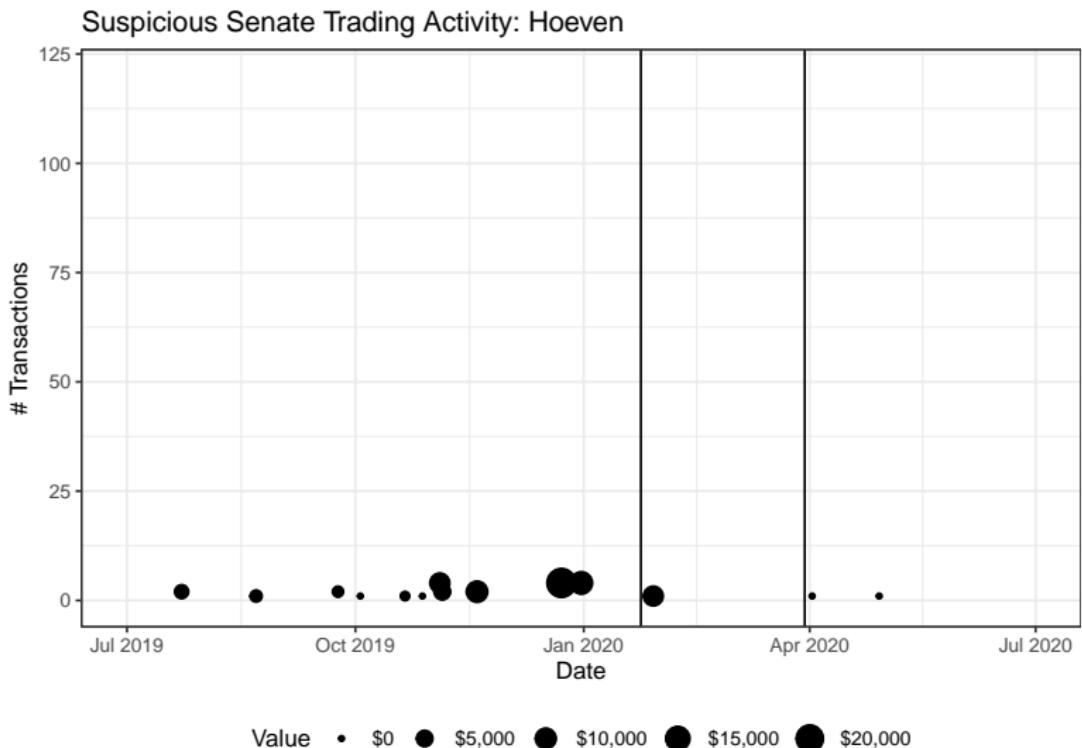
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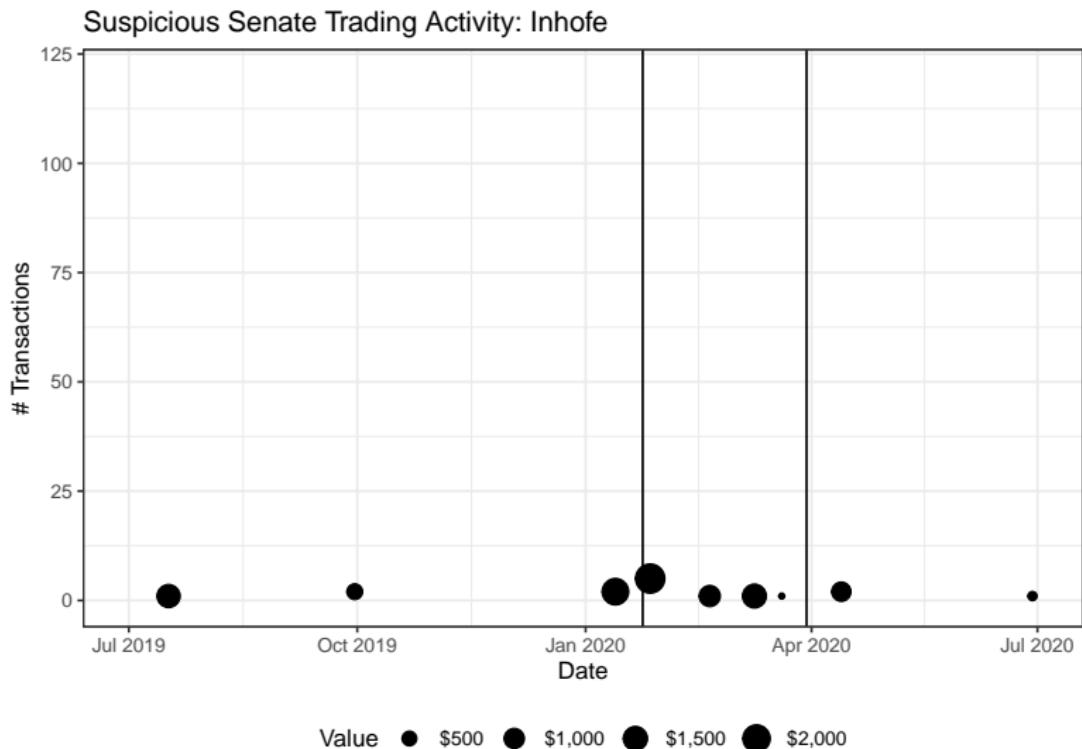
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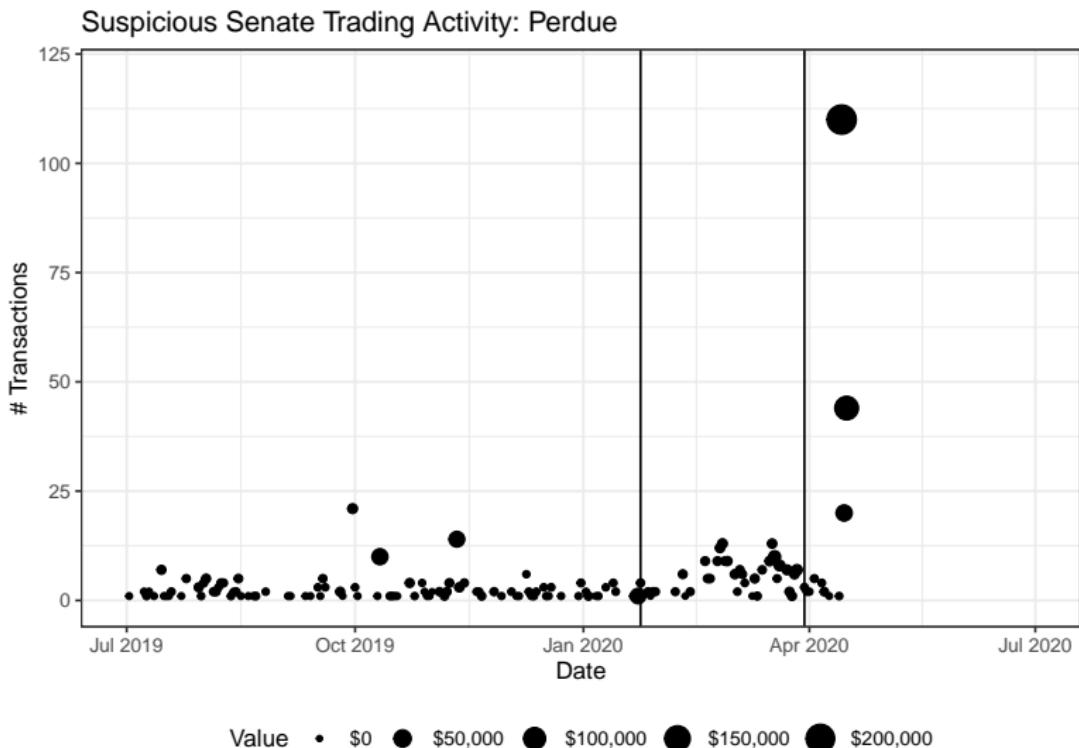
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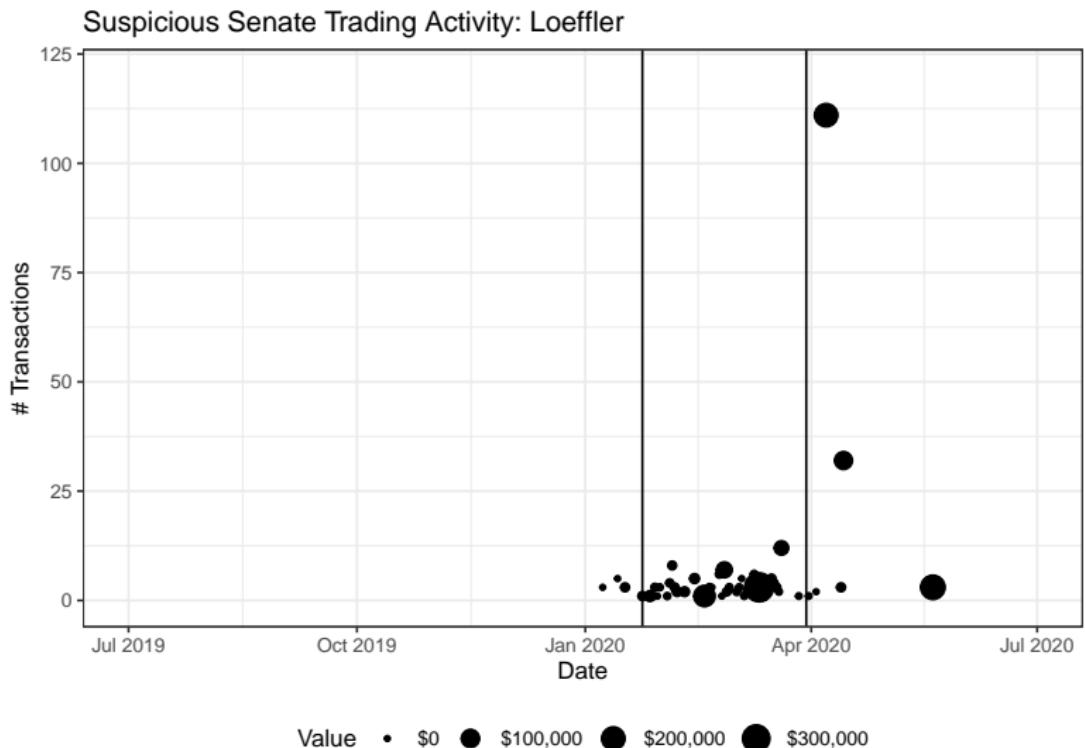
Suspicious Activity



Suspicious Activity



Suspicious Activity



Conclusion

- Fewer politicians invest in the stock market than we might suspect
- More likely to buy and sell stocks in firms that lobby them
- (Weakly) more likely to invest in firms that employ their constituents
- Aggregate empirical analyses can only take you so far?

Thank you!

- james.h.bisbee@vanderbilt.edu
- jamesbisbee.com

Appendix Stuff

- Who relative to Congress
- Detailed committees
- Aggregate Lobbying
- Firm headquarters

Who invests?

23

- Randomly draw 10,000 politicians with replacement from transaction data
 - Most commonly occurring investor is a Roman Catholic white Republican male, with a professional degree and background in business / banking
 - Same for Senate, with the exception of prior legal occupation
- Weighted sampling strategy where weights are the number of transactions
 - Same conclusions, except in the Senate where the guy is Presbyterian

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Who invests?

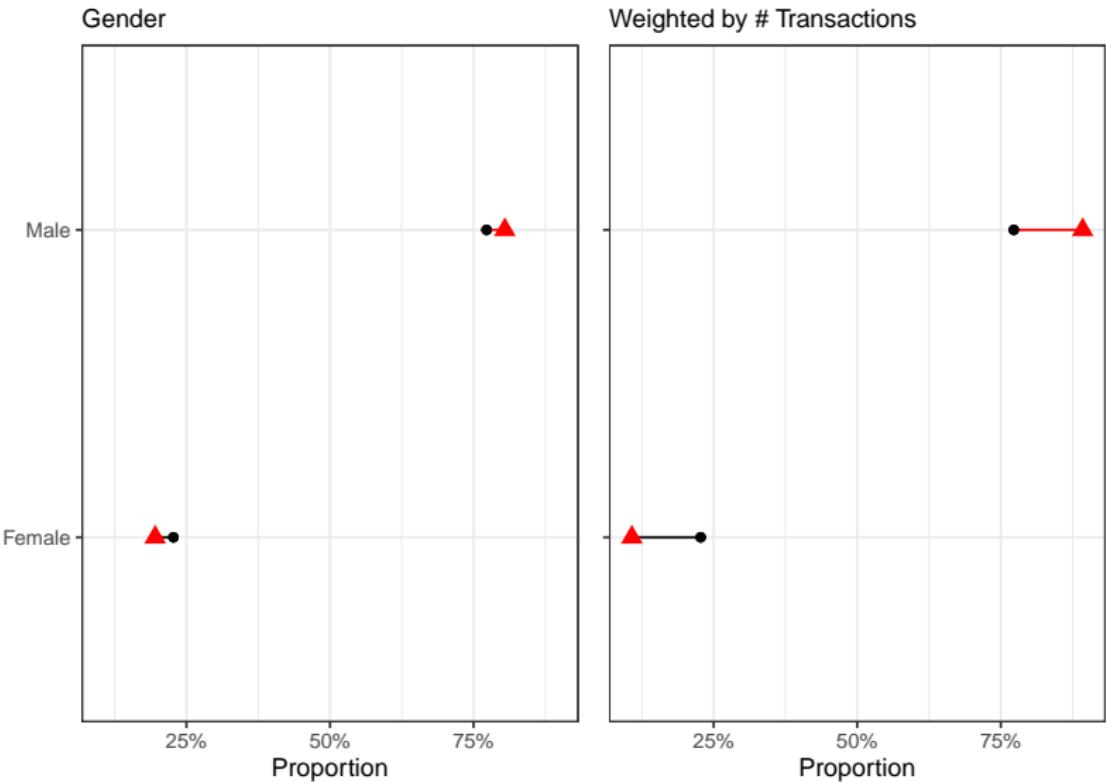
- What about relative to demographic make-up of Congress?
- Randomly draw 10,000 politicians with replacement from the transaction data
 - Raw: whether they ever invest
 - Weighted: weighted by the number of transactions
- Compared to who is in Congress (black circles), who invests (red triangles)?
- Red > black \Rightarrow overrepresented in the investment data

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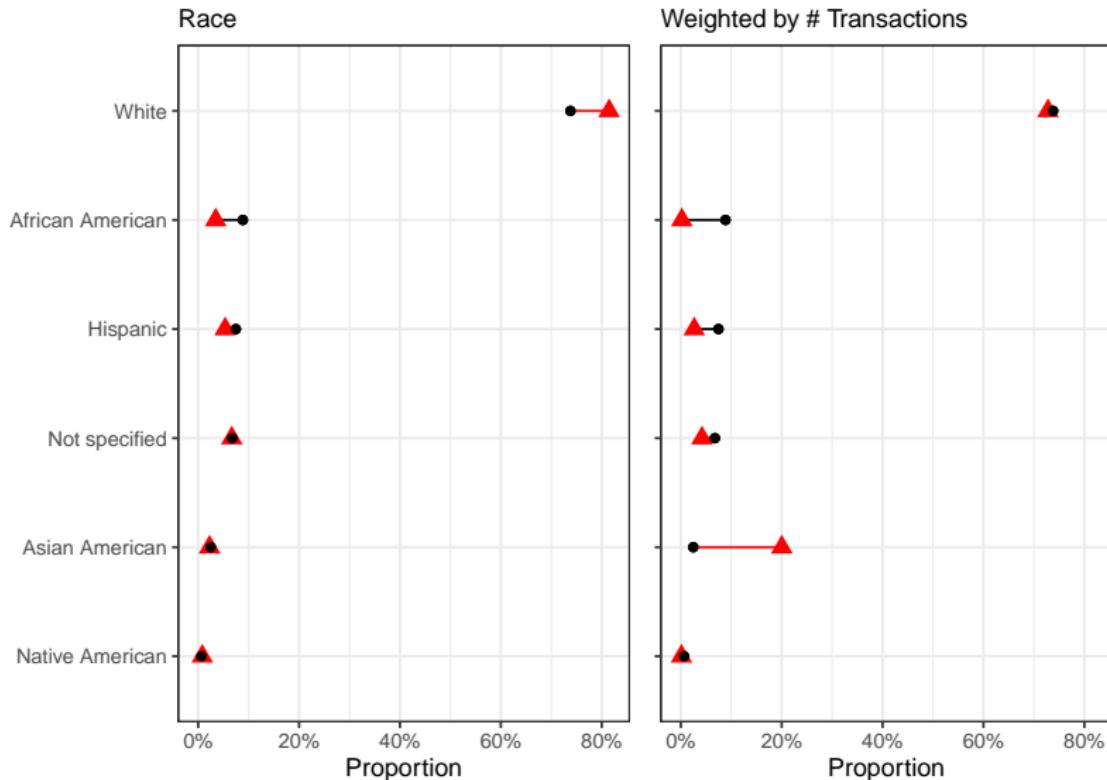
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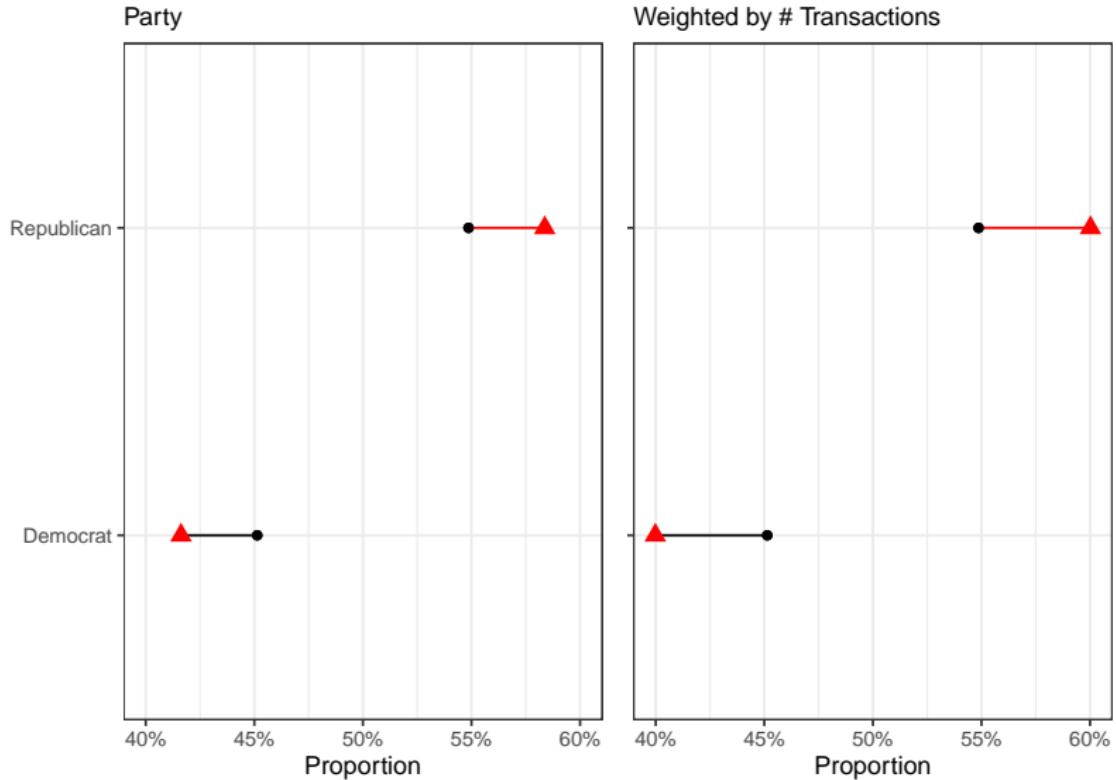
Who invests?



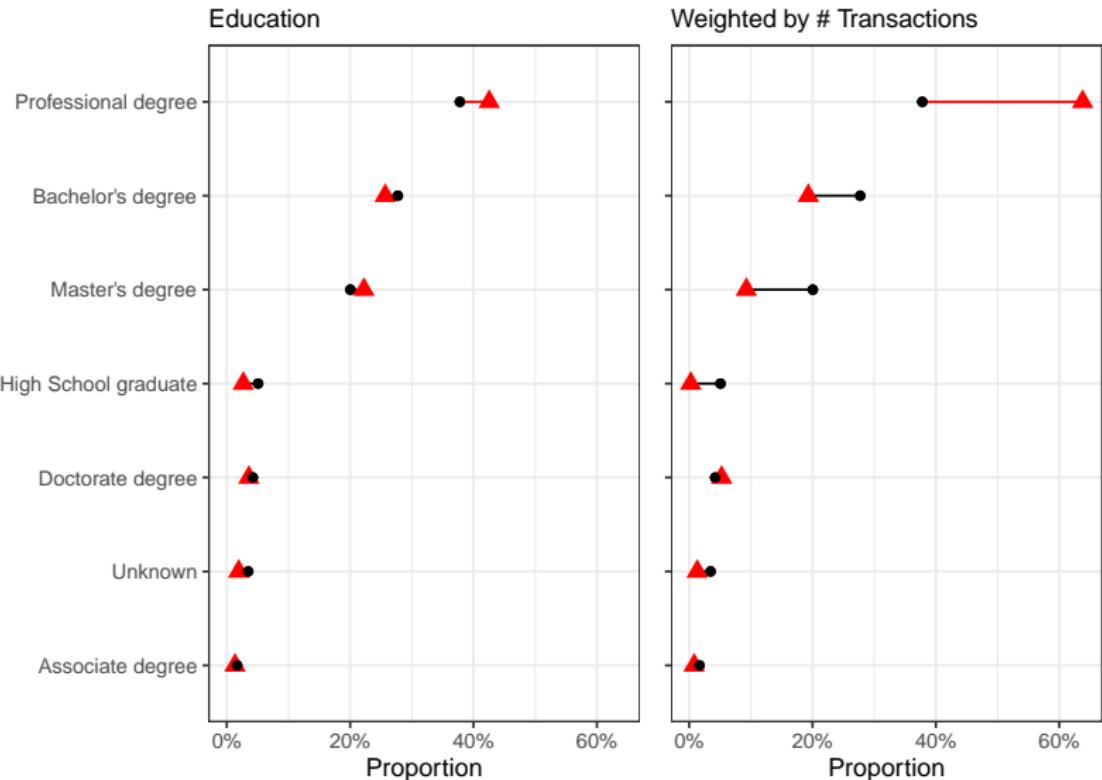
Who invests?



Who invests?



Who invests?

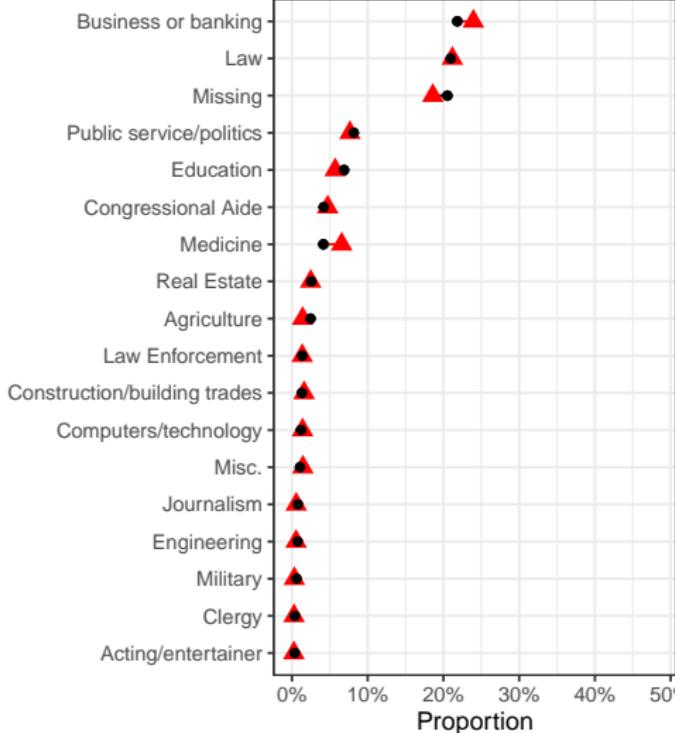


Who invests?

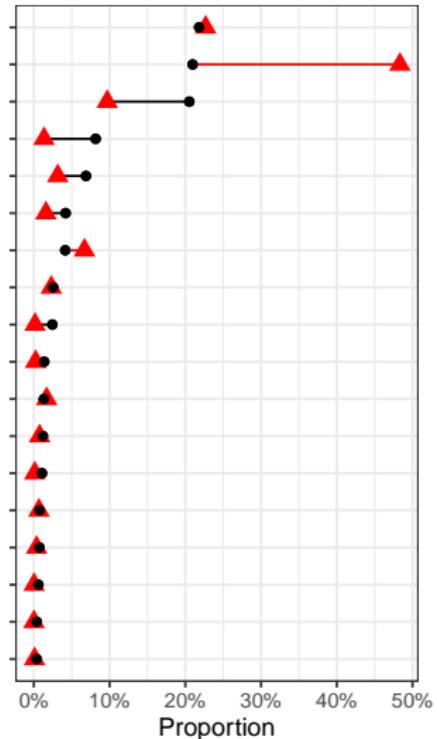
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Prior Occupation



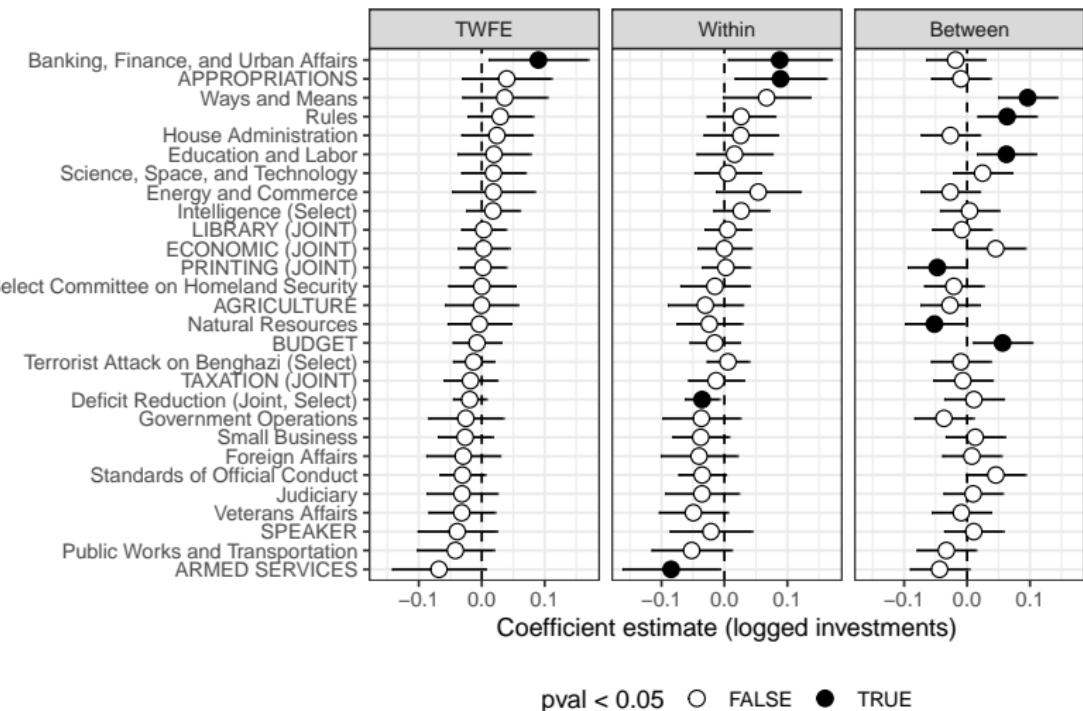
Weighted by # Transactions



Who invests?

Time-varying predictor

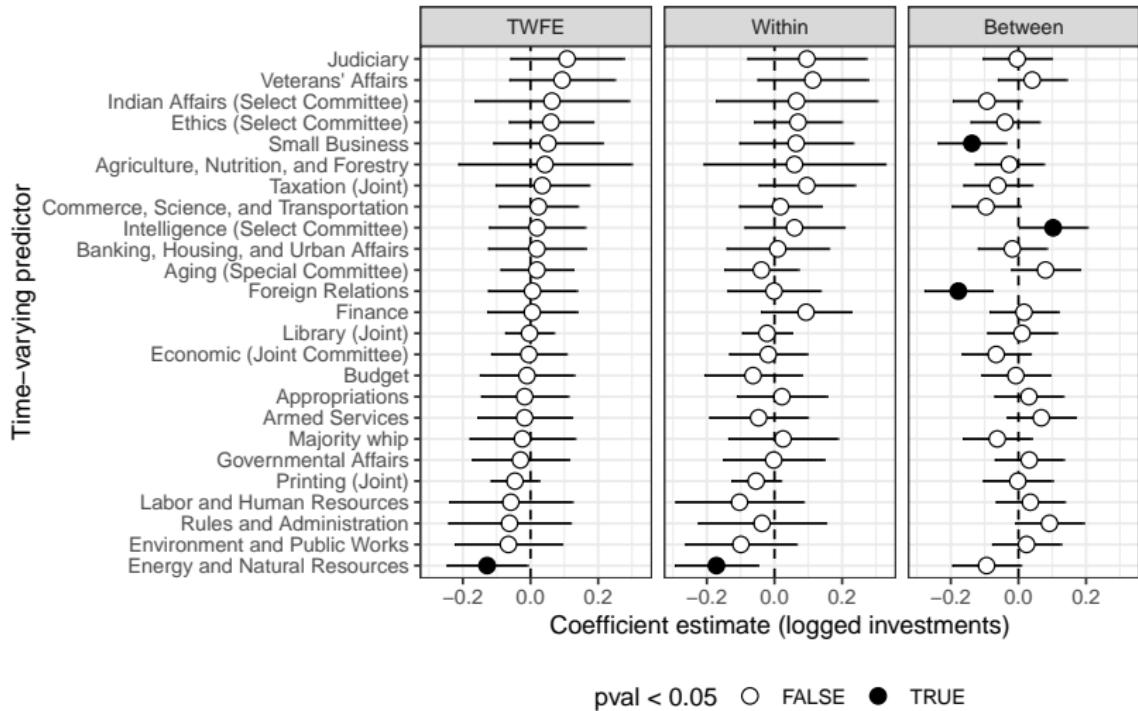
Descriptive regression results: House
Time-varying characteristics of politicians who invest



pval < 0.05 ○ FALSE ● TRUE

Who invests?

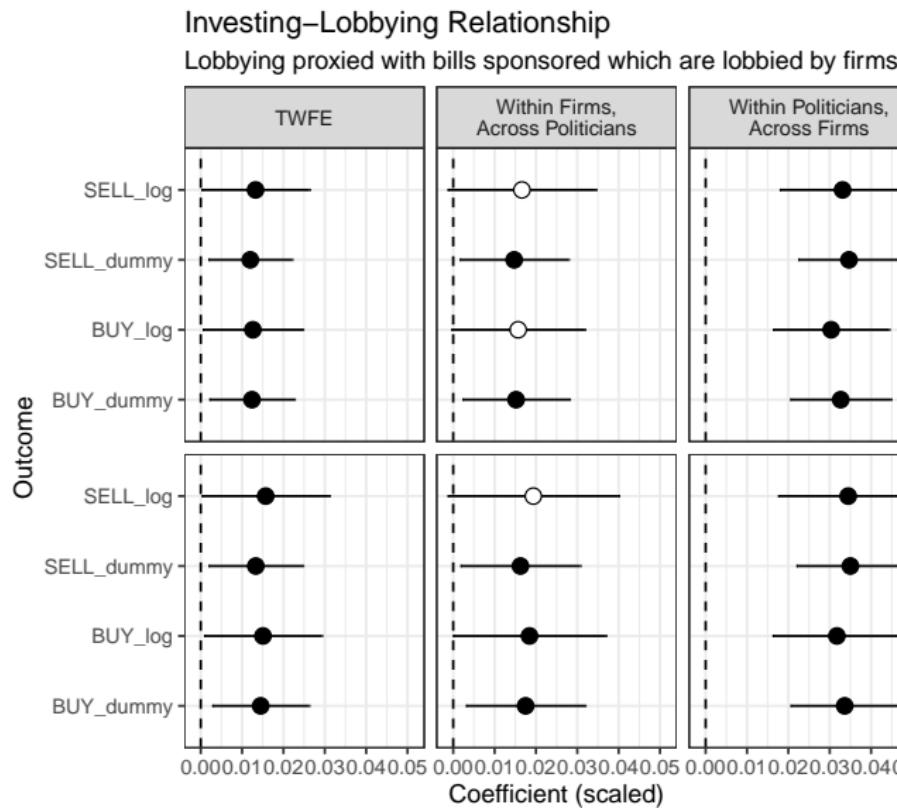
Descriptive regression results: Senate
Time-varying characteristics of politicians who invest



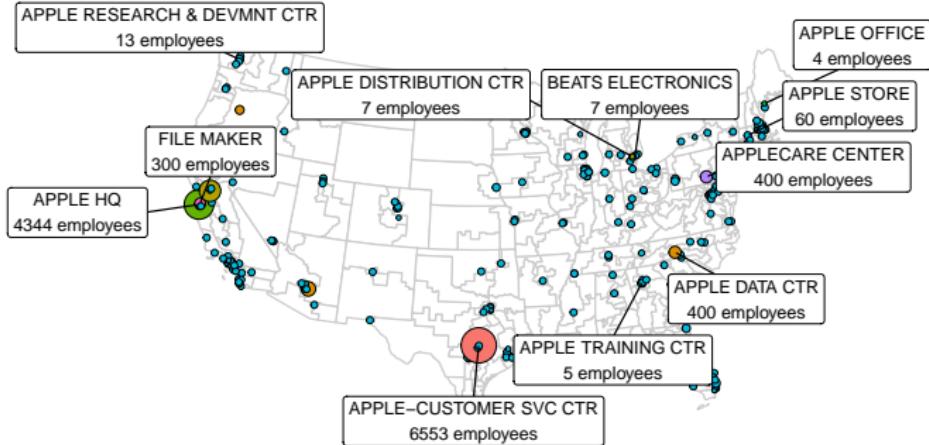
Lobbying in aggregate

- Aggregate to time-invariant dyadic data
 - 7.4m observations adding up all investment and lobbying relationships between 2012 and 2018
 - Politician FE capture which firms politicians are more likely to invest in
 - Firm FE capture which politicians invest in a firm

Where do they invest? Lobbying



Where do they invest? Geography

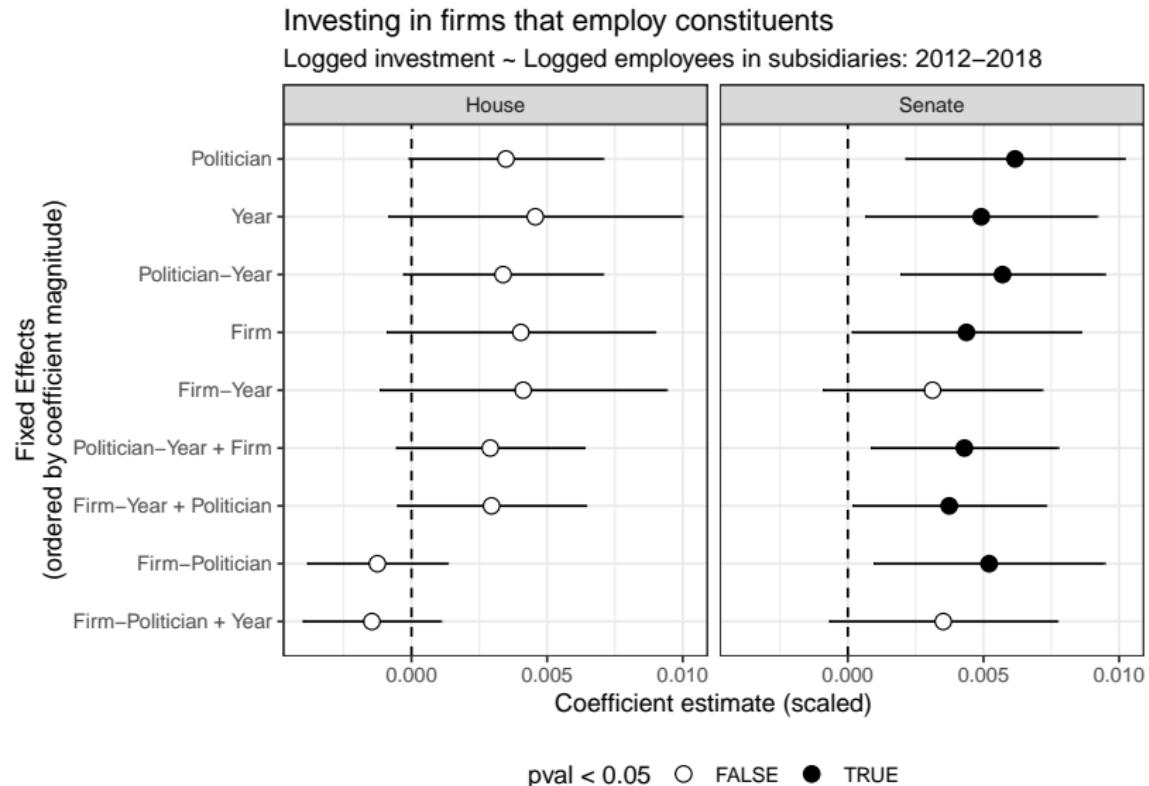


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Where do they invest? Geography



Where do they invest? Geography

	House			Senate		
	None	Any	%	None	Any	%
No Sub	11.07m	14,428	0.13%	2.26m	1,828	0.081%
Any Sub	876k	3,094	0.352%	423k	1,164	0.275%
Ratio			2.7X			3.4X

Descriptive proportions: Subsidiaries

	House			Senate		
	None	Any	%	None	Any	%
No HQs	11.94m	17,450	0.146%	2.67m	2,934	0.110%
Any HQ	12,204	72	0.587%	24,686	58	0.234%
Ratio			4.02X			2.1X

Descriptive proportions: Headquarters

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