Information Acquisition and Volatility Reduction: A New Theory of Lobbying

17.802 Final Project

Suyeol Yun and Preston Johnston

May 9, 2022

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- But there are other puzzles that legislative subsidy theory cannot solve
  - We often observe lobbying where the firm has no special expertise, and where there's no clear common goal between legislator and firm (contrary to legislative subsidy theory)

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  - Politics changes fast
  - Need updated information to make **investment and planning decisions**

Motivating Example I

K&L GATES

TO: **KITA**
FROM: **Stacy J. Ettinger, K&L Gates**
DATE: **June 9, 2021**
RE: **China Legislation**

This memorandum is in response to your request for a discussion of current Congressional actions related to China.

- Part I discusses the Senate bill – the U.S. Innovation and Competition Act – related to US competition with China. Part I includes information regarding the purpose and impact of the legislative provisions, as well as recommendations related to specific provisions KITA might want to review more closely.

Motivating Example I

- Part II summarizes recently-proposed possible legislative components of a parallel House China bill.

- Part III summarizes evaluations from Washington insiders regarding the Senate legislation. A House legislative package is still being developed, so Washington insiders have yet to offer specific evaluations.

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- *"Monitor"* H.R.2144, Token Taxonomy Act of 2019 (Mastercard)

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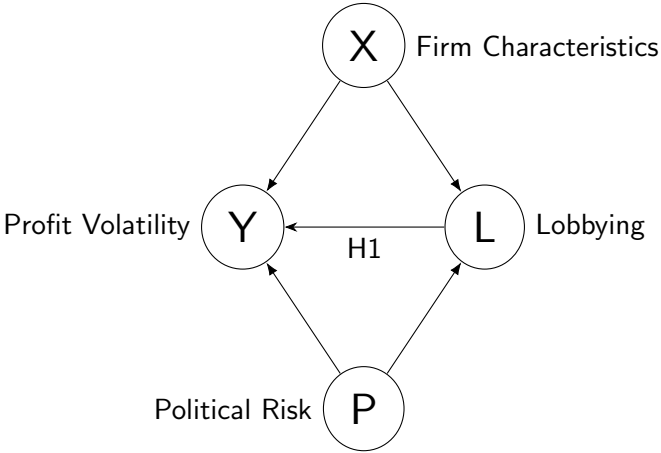
- Firms strongly desire lower earnings volatility—assuage investors, make better plans
- **Hypothesis 1**: All else equal, engaging in lobbying lowers the profit volatility experienced by a firm.

Research design (DAG)



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  - Treatment is 1 if firm lobbied in any quarter in a given year, 0 otherwise
- Resulting **panel dataset** has 324,199 firm-year observations, although missingness is severe among some of the variables

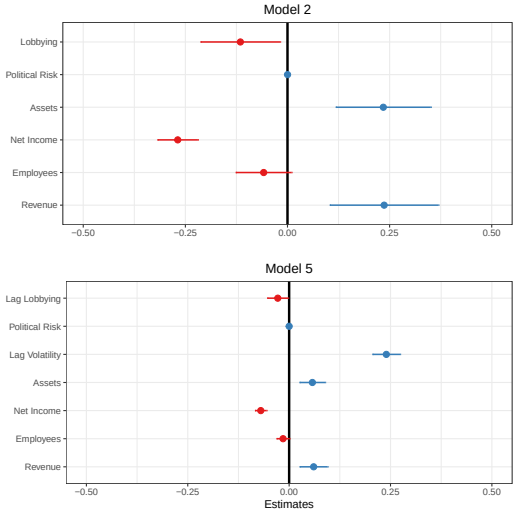
Table: TWFE regression results of firm profit volatility against lobbying.

	Dependent variable:				
	Volatility		Vol. (relative to sector)	Volatility	Vol. (relative to sector)
	(1)	(2)	(3)	(4)	(5)
Lobbying	0.018	−0.115**	−0.036**	−0.095*	
	(0.032)	(0.047)	(0.016)	(0.054)	
Lag Lobbying					−0.028**
					(0.012)
Political Risk		0.0001	0.00002	0.00003	0.00003
		(0.0001)	(0.00004)	(0.0001)	(0.00003)
Lag Relative Volatility					0.240***
					(0.016)
Assets	0.099**	0.235***	0.072***	0.340***	0.057***
	(0.046)	(0.056)	(0.017)	(0.037)	(0.015)
Net Income	−0.267***	−0.269***	−0.083***	−0.217***	−0.070***
	(0.025)	(0.024)	(0.007)	(0.033)	(0.007)
Employees	0.100***	−0.058*	−0.022**	−0.062**	−0.015*
	(0.027)	(0.033)	(0.010)	(0.027)	(0.008)
Market Value				−0.125**	
				(0.050)	
Revenue	0.217***	0.237***	0.076***	0.193***	0.060***
	(0.048)	(0.064)	(0.019)	(0.051)	(0.017)
Year FE	Yes	Yes	Yes	Yes	Yes
Subsector (3-digit NAICS) FE	Yes	Yes	Yes	Yes	Yes
Observations	158,999	25,708	25,708	19,432	25,513
R^2	0.287	0.265	0.256	0.261	0.304
Adjusted R^2	0.287	0.262	0.253	0.257	0.301
Residual Std. Error	1.341 (df = 158873)	1.519 (df = 25601)	0.483 (df = 25601)	1.421 (df = 19329)	0.467 (df = 25405)

*p<0.1; **p<0.05; ***p<0.01

Note: Standard errors clustered at the subsector (3-digit NAICS) and calendar year level

Results


Model 2
Lobbying
Political Risk
Assets
Net Income
Employees
Revenue
−0.50
−0.25
0.00
0.25
0.50
Model 5
Lag Lobbying
Political Risk
Lag Volatility
Assets
Net Income
Employees
Revenue
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- Evidence for **H1**: Firms which lobby have lower profit volatility.
  - Suggests informational/planning advantage for lobbying

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  - Effect is smaller, but direction and significance still unchanged

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- Categorizing different types of lobbying contracts as either persuasion-seeking or merely information seeking is subject for future research

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