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Presidential Power and Shareholder Wealth

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Presidential Power and Shareholder Wealth

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Abstract

We identify a novel channel of political influence by studying network ties to Donald J. Trump prior to his 2016 election campaign. We exploit the combination of Trump's non-political background together with his widely unexpected election results to identify the value of sudden connectedness to the US President. Trump-connected firms had significantly higher abnormal stock returns around the 2016 presidential election than their nonconnected counterparts. Additionally, we show that subsequent disconnection from the Trump administration destroyed firm value. Since Trump's inauguration, connected firms have had better performance; were more likely to receive government procurement contracts; and were less subject to unfavorable regulatory actions. We rule out a number of factors potentially confounding our estimation.

JEL Classification: G14, P16, H5.

Keywords: Political connections, event study, firm performance, regulation, procurement, Donald Trump

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1 Introduction

The US President wields considerable authority to implement policy absent of congressional and judicial oversight (Howell, 2003; Crouch, Rozell, and Sollenberger, 2017). A broad array of instruments have historically empowered US Presidents in this regard (Relyea, 2008). President Donald J. Trump has issued a record number of executive orders carrying major economic implications in the domains of: environmental protection; infrastructure development; broad deregulation; trade; procurement; taxation; subsidization; and advisory councils (NBC News, 2017).¹ These developments have generated much discussion around whether the power of the executive office could be used to benefit the president's family and professional network (The Wall Street Journal, 2017). Many have questioned whether foreign diplomatic relations could be used to benefit businesses linked to Trump's personal and professional network – from golf courses to property developers (Fox News, 2018; The New York Times, 2016; Reuters, 2017). Others have wondered whether regulators could be influenced to make favorable rulings on matters of financial import to the President's network constituents (including, for example, a pipeline project in which Trump is co-invested; and a Trump Organization creditor under Department of Justice investigation (BBC News, 2017)).

Any financial benefits accrued to the president's network during his tenure in office would be viewed by his detractors as evidence of cronyism or outright corruption.

¹For example, President Trump has pulled the US out of both the Trans-Pacific Partnership (TPP) and the Paris Climate Accord, and plans to renegotiate the North American Free Trade Agreement (NAFTA).

Supporters of the president, however, would argue the administration is merely resolving information asymmetries between policymakers and private industry, by the very virtue of Trump's extensive professional experience. These alternative interpretations are observationally equivalent in our study, so we make no suggestion of cronyism or lack thereof.² However, we do examine the financial and economic benefits enjoyed by firms in the president's network and find that connected firms non-trivially benefit from Trump's presidency.

To our knowledge, this is the first paper to study the value of political connection through both the establishment and destruction of connection to a head of government.³ We estimate the impact of network ties to the president on firm value around the unpredictable 2016 US Presidential election results using a variety of event study models. Politically connected firms had positive and significant cumulative abnormal returns (CARs) following the election, whilst nonconnected firms had economically insignificant CARs. The difference in CARs between connected and nonconnected firms was 1.93% over a two-day window following the election, and 3.68% over a 21-day window. We also study value destruction following the severance of political ties. Specifically, we examine the impact of CEOs resigning from Trump's business councils, following his remarks on the Charlottesville riots in August 2017. Newly disconnected firms experienced significant share price underperformance compared to those that remained on the councils until dis-

²This limitation has plagued most studies in this vein of inquiry, with few notable exceptions. Faccio and Hsu (2017) find that targets of politically connected private equity firms increase employment more during election years. This is consistent with the exchange of favor hypothesis and the model proposed by Shleifer and Vishney (1994), in which politicians provide aid to companies in exchange for personal benefits.

³Fisman (2001) examines getting disconnected from the Indonesian Prime Minister, while Fisman, Fisman, Galef, Khurana, and Wang (2012) focus on (dis)connections to Dick Cheney as vice-president.

bandment (and those uninvolved with the councils), despite the widespread unpopularity of President Trump's initial remarks. Furthermore, value created and destroyed were similar in magnitude, suggesting any gains are reversed once the connection is terminated.

To determine why the market attributes value to Trump network ties, we examine their impact on accounting performance, procurement of government contracts, and regulatory exposure. We apply a difference-in-difference regression model to a firm-quarter panel, and analyze differences in post-election real outcomes between connected and non-connected firms. We find that connected firms' operating performance significantly increases, and they are also more likely to receive government contracts. Previous studies' examination of regulatory relief were relatively narrow; for instance, Duchin and Sosyura (2012) looked at TARP funding. We eliminate any sampling bias by collecting *all* regulatory news items related to our sample firms between 2014 and 2018, allowing for more generalizable inferences (about regulatory relief). Our analysis of news sources indicates connected firms may benefit from preferential treatment by US regulatory authorities (we find fewer news mentions of regulatory investigations into these firms, or penalties imposed by regulators). The economic magnitudes of our results are non-negligible.

Our paper is related to a large strand of literature that focuses on the financial and economic benefits of firms' political connections. Many researchers find evidence that political connections generate market value.⁴ In the US context, political connections have

⁴See, for example, Fisman (2001); Faccio (2006); Fan, Wong, and Zhang (2007); Goldman, Rocholl, and So (2009); Akey (2015); Acemoglu, Johnson, Kermani, Kwak, and Mitton (2016); Borisov, Goldman, and Gupta (2016); Johnson and Mitton (2003); Claessens, Feijen, and Laeven (2008); Tahoun (2014); Fisman, Fisman, Galef, Khurana, and Wang (2012).

also been associated with a variety of real economic benefits: bailout funds (Duchin and Sosyura, 2012); government contracts (Faccio and Hsu, 2017; Goldman, Rocholl, and So, 2013); performance effects (Tahoun, 2014; Akey, 2015); and regulatory exposure (Brown and Huang, 2017). Our study complements this literature by comprehensively documenting numerous economic and financial benefits of network connections to the US President.

Previous studies set in Western countries have considered firms to be politically connected if they: (i) make campaign contributions (Claessens, Feijen, and Laeven, 2008; Akey, 2015; Jayachandran, 2006); (ii) invest in lobbying efforts (Tahoun, 2014; Duchin and Sosyura, 2012); (iii) employ politically connected directors (Goldman, Rocholl, and So, 2009; Amore and Bennedsen, 2013; Bertrand, Kramarz, Schoar, and Thesmar, 2018; Cingano and Pinotti, 2013; Agrawal and Knoeber, 2001); or (iv) hold meetings with politicians (Brown and Huang, 2017; Acemoglu, Johnson, Kermani, Kwak, and Mitton, 2016). In each of these cases, the formation of the political connection by the firm is deliberate. As such, the economic effects of these connections are difficult to disentangle from selection effects. We contribute to the literature by adopting a research design comparably free of such shortcomings.

We identify political connections resulting from business connections to Donald Trump *prior* to the announcement of his 2016 US presidential campaign. In our sample, firms formed their connections to Trump when he was a private businessman and *not* a politician. His unexpected electoral victory brought about a unique circumstance in which his existing business network was transformed overnight into a political network. We

exploit the suddenness of these firms' political connectedness to identify the impact of executive branch ties on shareholder wealth and real economic outcomes. Our research design helps overcome a number of endogeneity concerns surrounding alternative measures of political connectedness, including selection on potential gains, reverse causality, and confound with policy sensitivity.⁵

We use relationship maps published by Muckety to construct Trump's business network. Acemoglu et al. (2016) used Muckety to measure connectedness to former Treasury Secretary Timothy Geithner. These data reveal the links between a given individual and other entities (both people and organizations). One major advantage of Muckety is that it shows connections individuals might omit from their own public profiles. For the period prior to the announcement of Trump's election campaign, we tracked the active business links for Trump and the two members of his family (his daughter, Ivanka Trump, and her husband, Jared Kushner) actively involved in Trump's business empire and presidential campaign. We track connections to S&P 500 firms because they represent around 80% of US equity market capitalization.

The broader literature suggests a number of factors potentially confounding the relation between political connections and financial or economic performance. The importance of lobbying and campaign donations has been established by numerous authors (Claessens, Feijen, and Laeven, 2008; Akey, 2015; Jayachandran, 2006; Tahoun, 2014; Duchin and Sosyura, 2012). Akey and Lewellen (2017) find that policy-sensitive firms have an incentive to become politically connected. Wagner et al. (2018) find that firms

⁵In the parlance of randomized controlled trials (RCTs), we attempt to identify the average treatment effect (ATE) of political connections rather than the average treatment effect on the treated (ATT.)

with high-tax burden (foreign exposure) experienced positive (negative) CAR following the 2016 presidential election results. Notwithstanding our identification strategy which arguably alleviates these sources of confound, throughout our main analysis we control for campaign donations, lobbying, policy sensitivity, tax burden, and foreign exposure.

The remainder of this paper is structured as follows. Section 2 discusses related literature. Section 3 describes our primary data on Trump's personal network, procurement contracts, regulations, campaign donations, and lobbying, as well as secondary-source financial data. Section 4 conducts event studies around Trump's unexpected election, and firms' voluntary departure from Trump's advisory councils. Section 5 compares real outcomes between Trump-connected and nonconnected firms. Section 6 conducts robustness checks. Section 7 concludes, with a discussion of our agenda for this project moving forward.

2 Related Literature

Our paper is related to three strands of existing literature. First, several researchers have examined the impact of Trump's election victory on various aspects of economic issues. Wagner et al. (2018) studied stock price reactions to Trump's election. They find that firms and industries towards which Trump adopted a favorable tone during his campaign outperformed the rest (these included defense firms, and those with high-tax-burdens). Brown and Huang (2017) study connection to the executive branch of the U.S. government using a novel dataset of White House visitors. They find that firms with access to

the Obama administration experienced significantly lower stock returns following the announcement of the 2016 presidential election results compared to otherwise similar firms. The firms which interact with President Obama do so consciously, which makes it difficult to disentangle the economic effect of political connection from a firm's inherent policy sensitivity. The identification approach in our paper overcomes this shortcoming in the empirical design. We also contribute to this growing body of research by using Trump's victory as an exogenous shock to the market to gauge the value of connection to the US executive branch and the US President in particular.

Our paper is also related to a large strand of literature that focuses on the link between political connection and firm value. Many researchers, including Fisman (2001), Faccio (2006), Fan, Wong, and Zhang (2007), Goldman et al. (2009), Akey (2015), Acemoglu et al. (2016), Borisov et al. (2016), and Akey and Lewellen (2017) find evidence supporting the notion that political connection and firm value are positively associated. Faccio and Hsu (2017) study the other side of the story, namely, how firms could help politicians. They find that targets of politically connected private equity firms increase employment more during election years and in states with high levels of corruption than targets of nonconnected firms. This is consistent with the exchange of favor hypothesis and the model proposed by Shleifer and Vishney (1994), in which politicians provide aid to companies in exchange for personal benefits (e.g., votes). Taking a different approach, Fisman (2001) examines the stock performance of companies connected to former Indonesian President Suharto at times of rumors about his health. Our study complements this literature by documenting the economic value of political connection to, and disconnec-

tion from a head of government in a country known globally for high-quality institutions and governance.

The third strand of literature to which our paper is related is study of the channels of value creation of being politically connected. One suggested channel of value creation is through increased probabilities of government bailouts (Faccio, 2006; Duchin and Sosyura, 2012). Another likely channel is through higher government-related revenue (Goldman et al., 2013; Akey, 2015; Brogaard et al., 2015; Schoenherr, 2017).⁶ A third potential channel of value creation is through increased credit availability and lower probability of becoming financially constrained (Khwaja and Mian, 2005; Claessens et al., 2008). Hanouna, Ovtchinnikov, and Prabhat (2014) provide empirical evidence from the credit default swap market consistent with this channel. These papers show that politically connected firms have a variety of potential channels of value creation.

3 Data

We focus on firms comprising the S&P 500 index as of Q4 2016. Firms in this index often receive the greatest analyst coverage and the strongest investor attention. The market capitalization of the index represents around 80% of the US equity market. We exclude two firms having undergone major restructuring during our sample period, leaving us with 498 sample firms. When a firm has multiple share classes, we only include the class with the largest average daily trading volume in 2016.

⁶Brogaard et al. (2015) find that politically connected firms are less innovative. Schoenherr (2017) suggests these government procurement contracts are often poor in quality.

3.1 Trump's Business Network

Following the methodology of Acemoglu et al. (2016) we use relationship maps assembled by journalists at Muckety to construct Trump's business network. The database reflects individual associations of public figures across the domains of government, business, and non-profits. Muckety built their database using government documents from the White House, Congress, and agencies such as the FEC and SEC, along with reports from news outlets, such as the *New York Times*, *Washington Post*, and *Politico*.

Prior to the announcement of his election campaign, we trace the active business network of Donald Trump.⁷ We consider connections at both the firm and individual level. A firm is categorized as connected to Trump if it had direct business ties with any of Trump's businesses, or if any of a firm's C-suite officers, board members, or treasurers had connections with Trump's family (the family is defined for this purpose as Donald Trump, Ivanka Trump, and Jared Kushner). For example, Kenneth Duberstein, director at the Travelers Companies, is a member of Mar-a-Lago – Trump's resort in Florida. Thus, we consider the Travelers Companies and Trump to be connected. We create two measures of political connectedness. The first is a dummy variable – *Connection* – which indicates if a firm is connected to Trump (as above). The second measure – *Connections (count)* – tabulates each firm's links with Trump (and his family). In our sample (see Table 1 Panel A), Trump and his family are connected to 65 of the S&P 500 firms. The average number of connections is 0.18, with the maximum being five.

⁷To ensure the accuracy of our data, we cross-verify items from Muckety with news outlets and media sources. Similarly, we check *when* each connection has been established.

3.2 Channels of Benefits

We obtain regulatory news from the Capital IQ Key Developments database.⁸ Capital IQ features a repository of business news items released by media outlets, firms, and regulatory agencies. We start by obtaining all news related to US regulatory actions towards S&P 500 firms, from 2014 to 2018. Two-fifths of our sample firms face some regulatory action over this period (among these we observe an average of four news items per firm). Next we sort news items into two categories for which there are sufficient observations to analyze formally: (i) the opening of an investigation/inquiry into firm activity; and (ii) the payment by a firm to a regulator in the form of a penalty, fine, or settlement. To measure the extent of regulatory actions against each firm, we build firm-quarter aggregates of categories (i) and (ii), labeled *Investigation* and *Payment*, respectively. In 110 (297) firm-quarters, *Investigation* (*Payment*) are non-zero.⁹

Procurement data are gleaned from the US government's Federal Procurement Data System (FPDS). For our sample period we gather information on every (non-classified) government contract awarded to S&P 500 firms. In this capacity we are also able to account for contracts awarded to S&P 500 subsidiaries (and we attribute these to the parent). We find that around 80% of our sample firms receive procurement contracts during our sample period, which is consistent with prior studies on procurement of S&P 500 firms over more vintage periods (e.g., Goldman et al., 2013; Tahoun, 2014). Across our sample

⁸Brown and Huang (2017) also study regulatory news using the same datasource.

⁹One caveat here is that we only *indirectly* observe regulatory actions (through regulatory press releases or news wire). Note that some widely used datasets on regulatory enforcement are of limited use in our setting as we require very recent data (see Karpoff et al., 2017).

we see at least one contract being awarded in 55% of firm-quarters.

We gather daily stock returns from the Center for Research in Security Prices (CRSP); stock return factors and industry classifications are from Ken French's website.¹⁰ Accounting data are collected from Compustat. For the purpose of consistency with other data items, we match companies' fiscal quarter to calendar quarter based on Compustat's classification. For example, if a company's fiscal year-end is April 31, we would classify its fiscal Q1 (May 1 - July 31) as calendar Q2, since two-thirds of its fiscal Q1 fall in calendar Q2. Detailed definition for each variable can be found in Table A1. Descriptive statistics are presented in Table 1.

3.3 Potential Confounders

Political donation data are obtained from the US Federal Election Commission (FEC) database, which provides transaction-level data by election cycle. Individual donors to federal election campaigns are required to report their employer and job title to the FEC. For each firm we consider donations to Trump's 2016 presidential campaign by its employees. To this end, we construct the variable *Campaign Donation*, defined as donation made toward Trump's PACs during the 2016 election cycle.

Lobbying expenditure data are from the Center for Responsive Politics. Spending by subsidiaries are included as part of the parent company's lobbying expense. Under the Lobbying Disclosure Act of 1995, lobbying firms must register on behalf of their client

¹⁰<http://mba.tuck.dartmouth.edu/pages/faculty/ken.french>

if they received more than \$3,000 in income from that client in any given quarter. For companies that employ in-house lobbyists, they must register if they spend \$12,500 in a given quarter. Registered firms then report lobbying expenditures, rounded to the nearest \$10,000, on a quarterly basis. During the year prior to the 2016 election, connected firms spent approximately \$5 million on lobbying (more than three times the amount spent by nonconnected firms). Lobbying figures are similar to those reached in related studies (e.g., Brown and Huang, 2017; Tahoun, 2014).

To measure economic uncertainty we use Baker et al.'s (2016) Economic Policy Uncertainty Index (EPU). The EPU is an aggregate time-series index based on the frequency of news articles (among 10 major US newspapers) indicating uncertainty about economic policy; expiring tax provisions; and dispersion in analysts' forecasts of macroeconomic indicators. To identify policy-sensitive firms we follow Akey and Lewellen (2017) by regressing each firm's daily stock returns on the daily EPU (for 18 months preceding the 2016 presidential election). We then construct a policy-sensitive dummy indicating whether the firm's stock returns are significantly correlated with policy uncertainty at the 10% level.¹¹

We also control for a firm's tax burden and foreign exposure. Wagner et al. (2018) find that firms with high-tax burden (foreign exposure) experienced positive (negative) CAR following the 2016 presidential election results. We therefore construct a dummy variable indicating whether the tax burden (operationalized as Tax Paid/Pretax Income)

¹¹Specifically, we verify the significance level of β_i in the following statistical model: $R_{i,t} = \alpha_i + \beta_i EPU_t + \varepsilon_{i,t}$. Here R is the stock return; t and i index the day and firm, respectively. We find (perhaps unsurprisingly) all 'policy-sensitive' firms' share prices react negatively to macroeconomic uncertainty.

is above the sample median in a given quarter.¹² We measure foreign exposure as pretax income from foreign operations divided by total pretax income.

4 Market Valuation of Political Connections

4.1 2016 US Presidential Election

To help determine the value of connections to the US executive branch, we check whether network ties to Trump are associated with positive stock returns following the 2016 US presidential election of November 9, 2016. To isolate the impact of new information on stock prices, we calculate the cumulative abnormal returns (CARs) using four benchmark models: the value- and equal-weighted market models, Fama-French (FF) three-factor model, and Carhart (FFC) 4-factor model. Following standard practice in the literature, we adopt a 255-trading day estimation window ending 46 days prior to the event day. For each firm, we require a minimum of 40 observations in the estimation window.

Figure 1 plots CARs for connected and nonconnected firms using the value-weighted market model for the (-5, 20) trading day window surrounding the election day (the event day for which $t = 0$). Visually, there appears to be little difference in CARs between the two groups prior to the announcement day, but significant post-election divergence. Con-

¹²We use a dichotomous and not continuous variable because the latter would be correlated by construction with accounting outcomes. We use quarterly tax expense as a proxy for tax paid if the firm has yet to pay their annual taxes on profits. This is commonly the case for calendar 2018.

nected firms enjoy abnormal stock returns superior to nonconnected firms. In Table 2 we report CARs calculated using a value-weighted market model for (0, 1), (0, 5), and (0, 20) trading-day windows. Panels A, B and C presents CARs for the full sample, connected firms, and nonconnected firms, respectively. CARs for connected firms are positive and significant for all three windows, while for nonconnected firms they are close to zero and mostly insignificant. On top of the standard Patell Z score, we also report the standardized cross-sectional Z score (Boehmer, Masumeci, and Poulsen, 1991) to account for event-induced volatility and serial correlation. In addition, we conduct a nonparametric test in the form of the generalized sign test (Cowan, 1992), which accounts for skewness in stock returns. CAR (0, 1) for the connected firms (Panel B) is 1.74% and significant at the 5% level (based on the standardized cross-sectional Z score), whilst it is 0.02% and insignificant for firms with no connection to Trump (Panel C).

While the above observations suggest business connections to President Trump generated value to shareholders after the presidential election, we now turn to more formal tests of this effect. To control for firm-specific characteristics, we formally test the relation between CARs and business connections to Trump, within a regression framework. We estimate the following statistical model:

$$CAR_i = \beta_0 + \beta_1 P_i + \beta_2' G_i + \beta_3' Z_i + \varepsilon_i, \quad (1)$$

where CAR covers the windows (0, 5) and (0, 20), i indexes the firm; P is political connectedness to Trump; G is a set of potential confounding factors (campaign donations,

lobbying, policy sensitivity, tax burden, and foreign exposure); and Z is a set of standard firm-level characteristics (industry, book-to-market ratio, size, and leverage). Standard errors are clustered by industry (using the Fama-French 30-industry classification).

Regression results are shown in Table 3. Panels A, B, C, and D use value-weighted market, equal-weighted market, Fama-French three-factor, and Carhart four-factor models, respectively, to measure CARs. We observe economically and statistically significant loadings on *connection*. For instance, connection to Trump generates 1.79% (column 1) in value-weighted CAR over a six-day window and 3.16% (column 3) over a 21-day window. Given the average S&P 500 firm in our sample has a market capitalization of \$38 billion, these translate to \$680 million and \$1.2 billion in wealth creation for shareholders. Our findings are qualitatively unaffected by the introduction of potential confounders and other models of CAR estimations.¹³ We also estimate the same model but use the number of connections to the Trumps as our measure of connection. Results are presented in Table A3 and consistent with those in Table 3.

4.2 Business Council Resignations

If connection to the president creates firm value, then disconnecting from the president should destroy firm value. To test this idea, we examine the stock performance of companies whose CEO or other senior executives resigned from the American Manufacturing Council or the Strategic and Policy Forum. Following Trump's comments on

¹³It is worth noting that the loadings on *lobbying* and *tax burden* in Table 3 are consistent with the findings in Wagner et al. (2018)

the August 2017 events in Charlottesville, VA,¹⁴ several business leaders distanced themselves from Trump by resigning from his business councils.¹⁵ We consider a firm to have resigned if its leader publicly announced his/her exit from either of the two councils. Firms whose leaders remained on either council until disbandment are placed in the reference group. All remaining firms are defined as uninvolved.

For each group, using the market model we compute CAR around the resignation date. Figure 2 visually demonstrates that resigned firms underperformed non-involved and non-resigned firms. Table 4 contains standard event study results confirming this observation. Resigned firms demonstrate economically and statistically significant stock underperformance during the post-resignation period. By contrast, firms whose leaders stayed on the councils until disbandment experienced little stock under or overperformance. Firms that were never involved with the business councils had insignificant CARs in the days following disbandment. Despite the widespread unpopularity of Trump's remarks, our results confirm the economic value of political connection ceased to exist for the resigned group. Notably, the average positive CAR of connected firms following Trump's election victory over the (0, 20) window (3.47%) is roughly the same in magnitude as the average negative CAR of resigned firms following their resignations over the (0, 30) window (-3.35%). This implies the market reverses gains from being connected to the president once that connection is terminated.

¹⁴White supremacist groups protested the removal of a statue of confederate general Robert E. Lee. A counter-demonstrator was murdered during the protests. President Trump came under intense criticism for initially failing to condemn white supremacists and neo-Nazi groups.

¹⁵One would generally expect political disconnection to destroy firm value, but it could have the opposite effect in this context, given the widespread unpopularity of Trump's remarks. If the market rewards political correctness, active disassociation could actually generate positive returns.

5 Channels of Benefits

Having established a connection between firm value and political ties to the executive branch, it still remains unclear *why* the market attributes such value. Accordingly, we test the impact of political connectedness on a number of real outcomes. This analysis follows a difference-in-difference framework. We estimate the model

$$Y_{i,t} = \beta_0 + \beta_1 P_i + \beta_2 T_t + \beta_3 P_i \cdot T_t + \beta_4' G_{i,t} + \beta_5' Z_{i,t} + \epsilon_{i,t}, \quad (2)$$

where Y is some real outcome; i and t respectively index firm and time; P is political connectedness to Trump; T is a post-inauguration indicator; G is the set of potential confounding factors; and Z is the set of standard firm-level characteristics. Standard errors are clustered by industry (using the Fama-French 30-industry classification).

5.1 Firm Performance

First we examine firm performance, because it should reflect the net real benefits conferred by politicians. To this effect we follow earlier work examining the real effects of political connections in separate contexts. Akey (2015) documents that a firm's political contributions to US Senators and Representatives is positively related to sales, which carries cash flow implications. Amore and Bennedsen (2013) find (in a sample of Danish firms) that increasing political power boosts connected firms' operating performance. Recent findings regarding a firm's bottom line (i.e., earnings) are somewhat mixed in the

US setting. Tahoun (2014) finds that firms disconnected to Congress experience negative changes in ROA, while Acemoglu et al. (2016) find no relation between connections to the former US Treasury Secretary and ROE or Tobin' Q.

Table 5 contains our results for the impact of executive branch connections on accounting measures. Columns 1 to 3 control for basic firm characteristics and industry fixed effects. Columns 4 to 6 control for other potentially confounding variables (including lobbying, political donations, policy sensitivity, tax burden, and foreign exposure). The effect of political connections is statistically significant for revenue and operating income. After Trump took office, connected firms' revenue was, on average, \$1 to \$1.49 billion higher than that of nonconnected firms. They also had higher operating income by \$132 to \$167 million, which is 8.1% and 10.3% of a standard deviation in operating income, respectively.¹⁶ The insignificance of the coefficient of the interaction term when using net income as our dependent variables warrants further discussion.

We find that connected firms' average net income decreased significantly in the second half of 2017, especially Q4 2017. Upon closer examination, we find that this is primarily due to these firms incurring significantly negative special items, which includes expenses such as writing off assets, discontinued operations, and other one-off expenses. While we do not further investigate this, one possible explanation is the following: connected firms, in anticipation of the Tax Cuts and Jobs Act of 2017 (which decreased companies' benefits from tax-shields starting in 2018), decided to utilize special item expenses

¹⁶Results are qualitatively unaffected when we use the logarithmic transformation of revenue as our dependent variable. We do not take the log of operating income or net income due to the existence of negative values.

to decrease their taxable income for 2017.

We interpret our results as suggestive evidence that connected firms have better firm performance post-election. Specifically, political connections seem to benefit firms' operating performance, which is in line with both Akey (2015) and Amore and Bannedsen (2013). We do not find an effect on firms' bottom line, consistent with Acemoglu et al. (2016) but inconsistent with Tahoun (2014).

5.2 Procurement

Political connections may enable firms to strengthen procurement of government contracts (e.g., Brown and Huang, 2017; Goldman et al., 2013; Tahoun, 2014). As such, we examine the difference in likelihood and volume of procurement, between connected and nonconnected firms. Results are reported in Table 6. We indeed find that firms connected to Trump are by 6.8% more likely to receive procurement contracts post-election (columns 1 and 3). However, we do not find that the award number of procurement contracts of connected firms increases significantly (columns 2 and 4). Thus the effects on procurement are restricted to the extensive (rather than intensive) margin of government engagement. In other words, Trump-connected firms are disproportionately likely to be newly solicited for goods and services by the government. But if those firms already enjoyed pre-existing contractual arrangements, it is not as though more resources are suddenly being invested into those relationships. This distinction may be interpreted as evidence that political connections improve the flow of information (i.e., awareness)

between firms and government, rather than incentivizing favoritism.

5.3 Regulatory Relief

Large listed firms are regularly scrutinized by various agencies (e.g., SEC, DOJ, FTC, EPA) and can therefore benefit immensely from regulatory relief. Basic political capture theory (e.g., Stigler, 1971) would suggest firms connected to the president may receive preferential treatment by regulators, or may enjoy information advantages when dealing with regulators. For example, politicians can interfere with SEC investigations, use budget allocations to control the SEC, or influence SEC officials' careers Weingast (1984). This suggests a potential reduction in the likelihood of enforcement actions (and the magnitude of penalties) for connected firms. We therefore examine whether Trump connected firms are subject to fewer instances of regulatory investigation or fewer payments to regulators.

In Table 7 we find that instances of payment by firms to regulators (columns 1 and 3), and new regulatory investigations (columns 2 and 4), are both lower for connected firms in the post-election period. The *diff-in-diff* interaction variable is negative and significant across all specifications, even after controlling for alternative measures of political ties (such as lobbying and campaign donations). Post election, firms connected to Trump are 10% less likely to receive a fine, and 5% less likely to have an investigation opened by a regulator. This finding corroborates recent evidence linking different types of political connections to regulatory actions in the US context (e.g., Brown and Huang, 2017; Correia,

2014; Yu and Yu, 2011).

6 Robustness

6.1 Alternative Identification – Polling Probabilities

If the market believes there are economic benefits to having business connections with Trump, then Trump's probability of winning the election prior to November 2016 would be positively correlated with the stock prices of connected firms. We verify this by obtaining daily probabilities of a Trump victory from FiveThirtyEight's 2016 Election Forecast website.¹⁷ From this, we calculate daily percentage point changes in Trump's probability of winning the election. Daily abnormal returns of connected firms are measured using the value-weighted market model. We then lag daily changes in Trump's probability of winning by one day to allow for market reaction. We focus on the last six days before the announcement of the election results, when Trump's probability of winning hovered around 30%.¹⁸

Figure 3 plots daily abnormal returns together with the lagged change in probability of a Trump victory. Trump's probability of winning and abnormal returns for connected firms are strongly positively correlated (with Pearson correlation of 0.90). The returns of nonconnected firms are significantly less correlated with Trump's odds of winning (as reflected in the figure). These results based on incremental changes to a Trump victory

¹⁷<https://projects.fivethirtyeight.com/2016-election-forecast>

¹⁸Before this, the perceived odds of a Trump victory were significantly lower and fairly static.

support our main results identified from a certain electoral win.

6.2 Alternative Explanation – Resilience to Political Uncertainty

Here we examine whether Trump-connected firms are collectively more resilient to general political uncertainty than nonconnected firms. To test this, we examine CARs around the 2012 US presidential election as a placebo test. We compute abnormal returns for Trump-connected and nonconnected firms over the same windows $((0, 1), (0, 5), \text{ and } (0, 20))$, with the event day now being November 7, 2012.¹⁹

Figure 4 is a graphical presentation of CARs for connected and nonconnected firms around the 2012 election. The graph shows no significant difference between the two lines – they are visually parallel before and after the announcement of President Obama’s 2012 victory. This suggests that the two groups’ stock prices reacted similarly to the 2012 election result announcement. To confirm this finding, we conduct three simple univariate *t*-tests for the difference in CARs between the two groups using three windows $((0,1), (0,5) \text{ and } (0,20))$. Untabulated results show no significant difference in CARs between connected and nonconnected firms across all three windows, suggesting the positive CAR of Trump-connected firms around his election are not attributable to a resilience or appetite towards political uncertainty.

¹⁹Major news networks called Ohio for Obama at around 11:15 p.m. EST on November 6, 2012, projecting him to be the overall winner. Romney conceded the election at around 1:00 a.m. EST on November 7, 2012.

7 Conclusion

We estimate the financial and economic value of political connections to the US President. Our identification strategy relies on network ties forged to the *businessman* Donald Trump, long before firms imagined he may some day become President. We then exploit Donald Trump's surprise victory in the 2016 presidential election to evaluate the gains of sudden political connectedness among S&P 500 firms. We find that an ex-ante business association with Trump generated abnormal returns 3.68% greater than those of nonconnected firms over a 21-day post-election window. We also demonstrate a number of real economic benefits enjoyed by connected firms. In the post-election period, those firms performed better, were more often government contract recipients, and were subject to more favorable regulation than their nonconnected counterparts.

An upcoming version of this paper invokes a more sophisticated dataset of Trump network data. We have gathered over 100,000 media articles published about Donald Trump during the past 20 years. From these we extract the names of Trump's associates, and whether they form part of this professional, social, or family network. This categorization of network ties is enabled by running a topic analysis algorithm (latent Dirichlet allocation) across the universe of Trump articles. By assembling network data along various dimensions of influence, we hope to shed light on the channels underpinning benefits conferred to connected firms. If effect heterogeneity is observable across network types, we hope to distinguish cronyism from information when mapping the benefits of political connections via real outcomes.

Given the unique character and behavior of Donald Trump, readers may understandably question whether our findings are generalizable. In this respect we acknowledge the strength of our analysis lies in its internal (rather than external) validity. We would also point out, however, previous studies examining firm connections to a single authoritative figure are subject to the same caveat (Acemoglu et al., 2016; Fisman, 2001). Furthermore, even in the absence of generalizability our findings would nevertheless shed light on the present-day value and nature of network ties to the highest government office in the United States.

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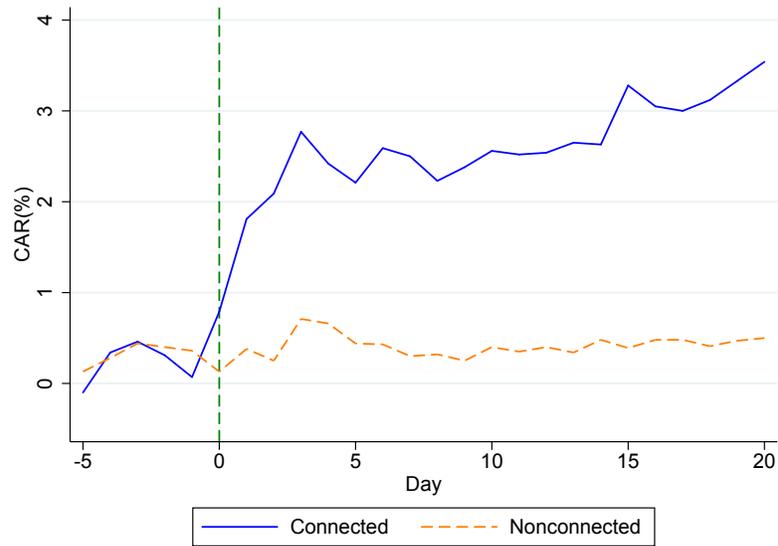


Fig. 1: Illustration of differences in CARs between connected and nonconnected firms around the 2016 US presidential elections. Day 0 is defined as the election results announcement day. A firm is considered to be connected if it had direct business ties with any of Trump’s businesses, or if any of its C-suite officers, board members, or treasurers had first or second-degree connections with the president’s family prior to the announcement of his campaign (i.e., split by *Connection*).

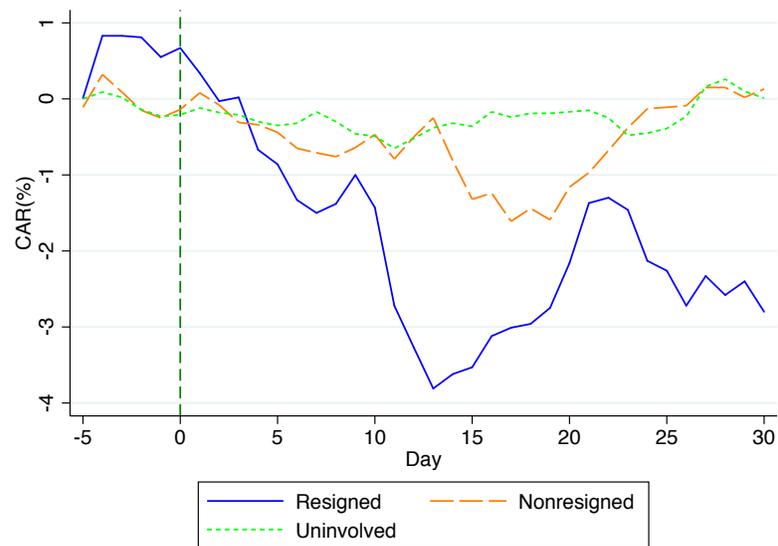


Fig. 2: Illustration of differences in CARs of resigned, nonresigned and uninvolved groups around the active resignation from or disbandment of President Trump’s business councils. A firm is considered to have actively resigned if its leader publicly announced his or her exit from either the Strategic and Policy Forum or the American Manufacturing Council. Nonresigned firms are those whose leaders remained on either of the two councils until their disbandment. Firms whose leaders were a member of neither councils are considered to be uninvolved.

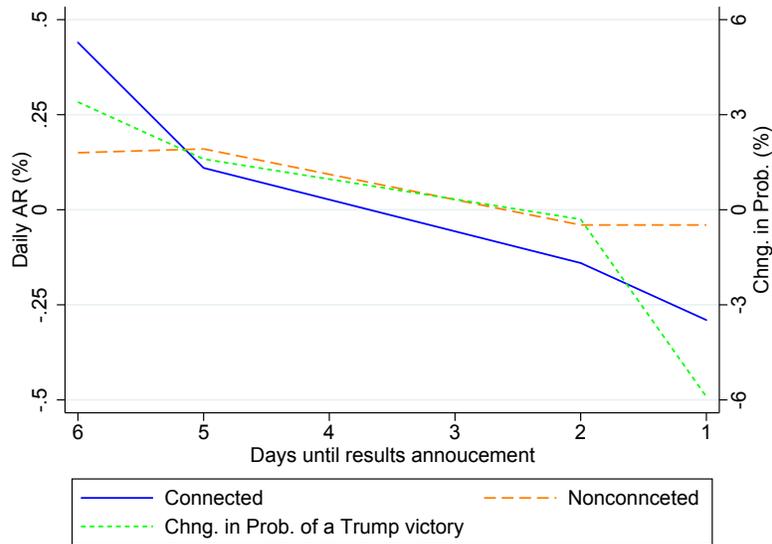


Fig. 3: Illustration of the pairwise correlations between one-day lagged daily changes in Trump’s probability of winning and daily abnormal returns of connected and nonconnected firms prior to the 2016 US presidential election. A firm is considered to be connected if it had direct business ties with any of Trump’s businesses, or if any of its C-suite officers, board members, or treasurers had first or second-degree connections with Trump’s family prior to the announcement of his campaign. Abnormal return is measured using the value-weighted market model.

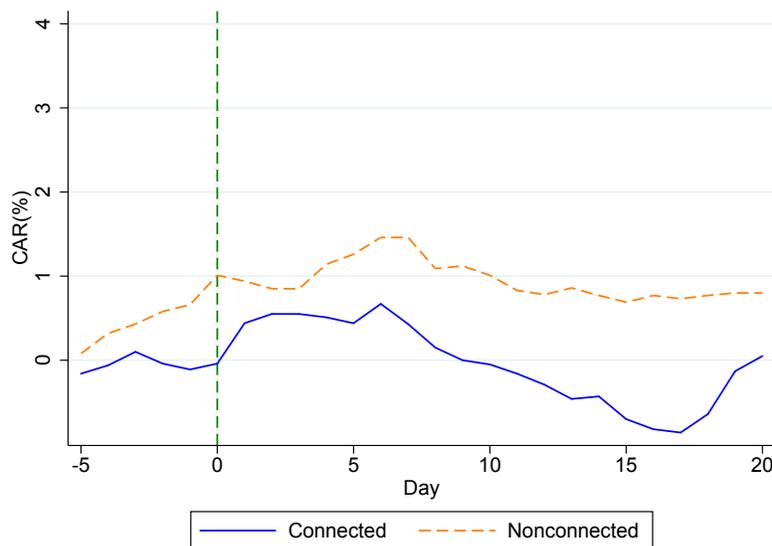


Fig. 4: Falsification test figure. CARs of connected and nonconnected firms around the 2012 US presidential election. Day 0 is defined as the election result announcement day (November 7, 2012). A firm is considered to be connected if it had direct business ties with any of Trump’s businesses, or if any of its C-suite officers, board members, or treasurers had first or second-degree connections with Trump’s family prior to the announcement of his campaign (i.e., split by *Connection*).

Table 1

Descriptive statistics for connection, firm financial, donation data, and CARs. We exclude firms from our sample of S&P 500 firms that underwent restructuring over our sample period. A firm is considered to be connected if it had direct business ties with any of the president's businesses, or if any of its C-suite officers, board members, or treasurers had first or second-degree connections with the president's family prior to the announcement of his campaign. Detailed description of variables can be found in Table A1 in the Appendix.

	N	Mean	SD	p1	p25	p50	p75	p99
<i>Panel A: Full Sample</i>								
Connection (count)	496	0.18	0.55	0.00	0.00	0.00	0.00	2.00
Campaign Donation (\$M)	496	0.03	0.24	0.00	0.00	0.00	0.01	0.50
Policy Sensitivity	496	0.37	0.48	0.00	0.00	0.00	1.00	1.00
MV of Assets (\$Bn)	496	53.23	91.52	5.33	13.37	24.36	47.09	564.85
Book-to-Market	496	0.39	0.34	-0.16	0.17	0.31	0.52	1.40
Leverage	496	0.49	1.53	0.00	0.14	0.25	0.53	3.61
Tax Burden	496	0.22	0.20	0.00	0.08	0.21	0.32	0.85
Foreign Exposure	496	0.23	0.30	0.00	0.00	0.05	0.41	0.99
Lobbying (\$M)	496	2.19	3.77	0.00	0.00	0.64	2.57	20.66
CAR (0, 5)	496	0.35	6.38	-11.85	-4.30	0.08	4.29	16.48
CAR (0, 20)	496	0.59	9.65	-19.54	-6.15	-0.41	7.20	22.68
FFC CAR (0, 5)	496	0.09	5.90	-14.88	-3.68	-0.31	3.83	16.71
FFC CAR (0, 20)	496	0.25	8.24	-19.48	-5.13	-0.30	5.36	20.81
Revenue (\$Bn)	8854	5.47	10.06	0.22	1.07	2.31	4.92	47.55
Operating Income (\$Bn)	8854	0.82	1.62	-0.48	0.18	0.36	0.82	8.44
Net Income (\$Bn)	8854	0.49	1.31	-1.47	0.09	0.20	0.51	5.52
Procurement	7890	0.56	0.50	0.00	0.00	1.00	1.00	1.00
Procurement (count)	7890	458.29	4216.24	0.00	0.00	1.00	21.00	7850.00
Payment	8854	0.05	0.30	0.00	0.00	0.00	0.00	1.00
Investigation	8854	0.01	0.13	0.00	0.00	0.00	0.00	1.00
<i>Panel B: Connected</i>								
Connection (count)	64	1.41	0.77	1.00	1.00	1.00	2.00	5.00
Campaign Donation (\$M)	64	0.05	0.09	0.00	0.00	0.01	0.05	0.50
Policy Sensitivity	64	0.38	0.49	0.00	0.00	0.00	1.00	1.00
MV of Assets (\$Bn)	64	140.78	179.75	7.02	28.73	58.85	173.10	719.90
Book-to-Market	64	0.46	0.40	-0.16	0.22	0.34	0.60	1.74
Leverage	64	0.64	0.99	0.00	0.18	0.34	0.67	5.58
Tax Burden	64	0.25	0.14	0.00	0.16	0.26	0.33	0.51
Foreign Exposure	64	0.22	0.25	0.00	0.00	0.10	0.39	0.93
Lobbying (\$M)	64	5.34	6.21	0.00	1.06	3.18	6.74	26.30
CAR (0, 5)	64	2.04	6.12	-8.57	-2.07	0.88	6.05	20.53
CAR (0, 20)	64	3.39	8.92	-11.65	-4.14	2.39	10.70	25.35
FFC CAR (0, 5)	64	2.07	5.02	-5.55	-2.45	1.71	5.08	16.96
FFC CAR (0, 20)	64	2.82	7.12	-7.87	-3.00	1.59	7.93	19.93
Revenue (\$Bn)	1151	10.62	9.54	0.29	2.71	7.83	16.63	34.25
Operating Income (\$Bn)	1151	2.18	2.78	-0.13	0.44	1.24	2.50	12.94
Net Income (\$Bn)	1151	1.23	2.02	-1.93	0.20	0.68	1.60	7.32
Procurement	1023	0.63	0.48	0.00	0.00	1.00	1.00	1.00
Procurement (count)	1023	243.70	982.72	0.00	0.00	3.00	34.00	4144.00
Payment	1151	0.16	0.64	0.00	0.00	0.00	0.00	3.00
Investigation	1151	0.04	0.25	0.00	0.00	0.00	0.00	1.00
<i>Panel C: Nonconnected</i>								
Connection (count)	432	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Campaign Donation (\$M)	432	0.03	0.25	0.00	0.00	0.00	0.01	0.28
Policy Sensitivity	432	0.37	0.48	0.00	0.00	0.00	1.00	1.00
MV of Assets (\$Bn)	432	40.26	59.91	5.33	12.67	22.18	40.74	302.87
Book-to-Market	432	0.38	0.33	-0.10	0.16	0.31	0.52	1.40
Leverage	432	0.47	1.60	0.00	0.14	0.24	0.52	2.80
Tax Burden	432	0.22	0.20	0.00	0.06	0.21	0.32	0.85
Foreign Exposure	432	0.23	0.30	0.00	0.00	0.05	0.42	0.99
Lobbying (\$M)	432	1.72	3.00	0.00	0.00	0.45	2.15	15.05
CAR (0, 5)	432	0.10	6.39	-11.85	-4.75	-0.09	4.12	16.35

Table 1 (continued)

	N	Mean	SD	p1	p25	p50	p75	p99
CAR (0, 20)	432	0.17	9.69	-19.54	-6.52	-0.75	6.58	22.52
FFC CAR (0, 5)	432	-0.21	5.97	-14.88	-3.86	-0.58	3.32	16.02
FFC CAR (0, 20)	432	-0.13	8.33	-19.48	-5.49	-0.61	5.13	20.81
Revenue (\$Bn)	7703	4.70	9.91	0.21	1.00	2.03	4.03	49.03
Operating Income (\$Bn)	7703	0.62	1.25	-0.51	0.17	0.32	0.66	5.59
Net Income (\$Bn)	7703	0.38	1.13	-1.41	0.09	0.18	0.42	4.16
Procurement	6867	0.55	0.50	0.00	0.00	1.00	1.00	1.00
Procurement (count)	6867	490.26	4502.63	0.00	0.00	1.00	20.00	9607.00
Payment	7703	0.03	0.21	0.00	0.00	0.00	0.00	1.00
Investigation	7703	0.01	0.10	0.00	0.00	0.00	0.00	0.00

Table 2

Event study of Donald Trump's victory in the 2016 US presidential election. CARs are calculated based on the value-weighted market model. Day 0 is defined as the day of result announcement (November 9, 2016). We adopt a 255-trading day estimation window ending 46 trading days prior to the event day. For each firm, we require a minimum of 40 observations in the estimation window. A firm is considered to be connected if it had direct business ties with any of Trump's businesses, or if any of its C-suite officers, board members, or treasurers had first or second-degree connections with Trump's family prior to the announcement of his campaign.

Window	N	Mean CAR	Pos:Neg	Patell Z	StdCsect. Z	Gen. Sign Z
<i>Panel A: Full Sample</i>						
(0, 1)	498	0.25%	253:245	1.083	0.350	0.271
(0, 5)	498	0.36%	251:247	0.215	0.108	0.091
(0, 20)	498	0.58%	245:253	-0.337	-0.212	-0.446
<i>Panel B: Connected</i>						
(0, 1)	65	1.74%	38:27	7.771***	2.273**	1.313*
(0, 5)	65	2.14%	39:26	5.018***	2.332**	1.561*
(0, 20)	65	3.47%	38:27	4.425***	2.704***	1.313*
<i>Panel C: Nonconnected</i>						
(0, 1)	433	0.02%	215:218	-1.849**	-0.624	-0.219
(0, 5)	433	0.09%	212:221	-1.713**	-0.903	-0.507
(0, 20)	433	0.15%	207:226	-2.076**	-1.351*	-0.987

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$ using a one-tailed test.

Table 3

Explanation of cross-sectional variation in CARs, measured under various benchmark models, among firms by using OLS regressions of CARs on *Connection*. Firm characteristic and other measures of connection are used as controls. Day 0 is defined as the day of election results announcement. Industry fixed effects are based on Fama-French 30 industry classification. Detailed definition of variables can be found in Table A1. *t*-statistics are in parentheses. Standard errors are clustered by industry.

	(1) CAR (0, 5)	(2) CAR (0, 5)	(3) CAR (0, 20)	(4) CAR (0, 20)
<i>Panel A: Value-Weighted</i>				
Connection	1.789*** (3.31)	1.517** (2.31)	3.164*** (4.48)	2.936*** (3.98)
Book-to-Market	4.180** (2.07)	4.017* (1.94)	7.924*** (2.96)	7.689*** (2.78)
Leverage	0.914*** (8.97)	0.913*** (9.00)	1.007*** (2.77)	0.970*** (2.77)
Log(Assets)	-0.700 (-1.35)	-0.961 (-1.59)	-1.376* (-1.93)	-1.462 (-1.68)
Campaign Donation		0.406 (0.93)		0.690 (1.69)
Policy Sensitivity		-1.288 (-1.10)		-1.966 (-1.34)
Foreign Exposure		-2.693*** (-3.42)		-5.321*** (-5.03)
Tax Burden		1.959 (0.87)		2.502 (0.78)
Lobbying		0.136 (1.54)		0.075 (0.57)
<i>R</i> ²	0.347	0.379	0.410	0.448
<i>Panel B: Equal-Weighted</i>				
Connection	1.496*** (3.47)	1.112* (2.00)	2.781*** (4.60)	2.413*** (3.96)
<i>R</i> ²	0.294	0.337	0.364	0.410
<i>Panel C: Fama-French Three-Factor</i>				
Connection	1.020* (1.98)	0.628 (1.06)	1.834** (2.50)	1.422** (2.14)
<i>R</i> ²	0.315	0.351	0.347	0.396
<i>Panel D: Carhart Four-Factor</i>				
Connection	1.328** (2.55)	1.000 (1.68)	2.666*** (3.89)	2.425*** (4.01)
<i>R</i> ²	0.270	0.319	0.271	0.355
Industry FE	Yes	Yes	Yes	Yes
Firm Controls	Yes	Yes	Yes	Yes
Confounders	No	Yes	No	Yes
<i>N</i>	496	496	496	496

Table 4

Event study results for the resignation of business leaders following President Trump's remarks on Charlottesville riots. CARs are calculated based on the value-weighted market model. Day 0 is defined as either the day of resignation by the firm's leader or the day of business council disbandment (August 16, 2017). We adopt a 255-trading day estimation window ending 46 trading days prior to the event day. For each firm, we require a minimum of 40 observations in the estimation window. A firm is considered to have actively resigned if its leader publicly announced his or her exit from either the Strategic and Policy Forum or the American Manufacturing Council. Nonresigned firms are those whose leaders remained on either of the two councils until their disbandment. Firms whose leaders were a member of neither councils are considered to be uninvolved.

Window	N	Mean CAR	Pos:Neg	Patell Z	StdCsect. Z	Gen. Sign Z
<i>Panel A: Full Sample</i>						
(0, 1)	496	0.11%	258:238	1.413*	1.903**	0.969
(0, 5)	496	-0.15%	238:258	-1.164	-1.409*	-0.827
(0, 20)	496	-0.03%	255:241	-1.320*	-1.267	0.700
<i>Panel B: Resigned</i>						
(0, 1)	10	-0.22%	3:7	-0.281	-0.298	-1.265
(0, 5)	10	-1.42%	2:8	-1.563*	-1.798**	-1.897**
(0, 20)	10	-2.73%	2:8	-2.116**	-2.631***	-1.897**
<i>Panel C: Nonresigned</i>						
(0, 1)	18	0.32%	11:7	0.791	1.171	1.112
(0, 5)	18	-0.20%	8:10	-0.343	-0.619	-0.303
(0, 20)	18	-0.89%	9:9	-0.751	-0.805	0.168
<i>Panel D: Uninvolved</i>						
(0, 1)	468	0.11%	244:224	1.350*	1.819**	0.965
(0, 5)	468	-0.12%	228:240	-0.902	-1.084	-0.514
(0, 20)	468	0.06%	244:224	-0.902	-0.862	0.965

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$ using a one-tailed test.

Table 5

Real benefits of being connected to Trump after this inauguration as measured by **accounting variables**. *Post-election* period is defined as in or after Q1 2017. A firm is considered to be connected if it had direct business ties with any of Trump's businesses, or if any of its C-suite officers, board members, or treasurers had first or second-degree connections with Trump's family prior to the announcement of his campaign. All dependent variables are in billions of dollars. Detailed definition of variables can be found in Table A1. *t*-statistics are in parentheses. Standard errors are clustered by industry.

	(1)	(2)	(3)	(4)	(5)	(6)
	Revenue	Op. Income	Net Income	Revenue	Op. Income	Net Income
Connection	0.893 (0.88)	0.312*** (3.51)	0.166** (2.48)	0.201 (0.21)	0.259*** (3.01)	0.130** (2.21)
Post-Election	-0.526*** (-4.20)	-0.092** (-2.56)	-0.041 (-1.13)	-0.102 (-0.68)	-0.058 (-1.46)	-0.017 (-0.44)
Connection * Post-Election	0.949*** (4.05)	0.132** (2.73)	0.009 (0.12)	1.486*** (5.55)	0.167*** (3.44)	0.035 (0.46)
Book-to-Market	2.414*** (3.27)	0.373** (2.64)	0.182*** (3.51)	2.439*** (3.40)	0.332** (2.57)	0.170*** (3.43)
Leverage	-0.483** (-2.45)	-0.023 (-0.79)	-0.058*** (-6.06)	-0.380*** (-2.82)	-0.018 (-0.63)	-0.054*** (-6.83)
Log(Assets)	5.496*** (8.83)	0.990*** (9.40)	0.637*** (14.16)	4.615*** (8.45)	0.900*** (8.15)	0.582*** (11.12)
Campaign Donation				-6.120** (-2.30)	1.017 (1.50)	0.147 (0.43)
Policy Sensitivity				-0.952* (-1.72)	-0.006 (-0.08)	-0.054 (-1.38)
Foreign Exposure				-0.105*** (-2.99)	-0.006 (-1.57)	-0.011*** (-3.67)
Tax Burden (binary)				0.781 (1.52)	0.050* (1.73)	0.013 (0.27)
Lobbying				2.204*** (4.36)	0.155** (2.47)	0.115*** (2.80)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
<i>N</i>	8854	8854	8854	8854	8854	8854
<i>R</i> ²	0.531	0.625	0.485	0.568	0.633	0.492

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

Table 6

Real benefits of being connected to Trump after this inauguration as measured by **procurement contracts**. *Post* period is defined as in or after Q1 2017. A firm is considered to be connected if it had direct business ties with any of Trump's businesses, or if any of its C-suite officers, board members, or treasurers had first or second-degree connections with Trump's family prior to the announcement of his campaign. Detailed definition of variables can be found in Table A1. *t*-statistics are in parentheses. Standard errors are clustered by industry.

	(1)	(2)	(3)	(4)
	Procurement	Procurement (count)	Procurement	Procurement (count)
Connection	0.022 (0.64)	18.919 (0.27)	0.011 (0.29)	-41.126 (-0.61)
Post-Election	0.047*** (6.26)	58.896** (2.63)	0.051*** (6.08)	75.992*** (3.00)
Connection * Post-Election	0.068*** (2.83)	2.913 (0.06)	0.066** (2.46)	-8.164 (-0.17)
Book-to-Market	0.006 (0.09)	-78.583 (-1.07)	-0.004 (-0.05)	-91.052 (-1.42)
Leverage	0.009 (1.70)	-21.440*** (-3.21)	0.012* (1.98)	-9.066 (-1.29)
Log(Assets)	0.073** (2.65)	122.415** (2.46)	0.043 (1.03)	-7.586 (-0.15)
Campaign Donation			-0.043 (-0.14)	-185.435 (-0.66)
Policy Sensitivity			0.020 (0.61)	-113.117 (-1.10)
Foreign Exposure			-0.002 (-1.43)	9.504 (0.55)
Tax Burden / 1,000,000			0.707*** (7.67)	-72.376 (-0.90)
Lobbying			0.060** (2.12)	254.798** (2.21)
Industry FE	Yes	Yes	Yes	Yes
<i>N</i>	7890	7890	7890	7890
<i>R</i> ²	0.159	0.252	0.165	0.284

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

Table 7

Real benefits of being connected to Trump after this inauguration as measured by **regulatory relief**. *Post-election* period is defined as in or after Q1 2017. A firm is considered to be connected if it had direct business ties with any of Trump's businesses, or if any of its C-suite officers, board members, or treasurers had first or second-degree connections with Trump's family prior to the announcement of his campaign. *t*-statistics are in parentheses. Standard errors are clustered by industry.

	(1)	(2)	(3)	(4)
	Payment	Investigation	Payment	Investigation
Connection	0.100** (2.16)	0.034** (2.59)	0.099* (2.02)	0.031** (2.19)
Post-Election	-0.029*** (-3.77)	-0.008** (-2.13)	-0.027*** (-3.32)	-0.006 (-1.52)
Connection * Post-Election	-0.101** (-2.26)	-0.048*** (-3.02)	-0.100** (-2.16)	-0.046*** (-2.81)
Book-to-Market	0.061*** (3.22)	0.006 (1.48)	0.054*** (3.54)	0.003 (0.64)
Leverage	0.003 (0.69)	-0.001** (-2.41)	0.003 (0.88)	-0.001 (-1.58)
Log(Assets)	0.054** (2.25)	0.016*** (3.96)	0.048* (2.01)	0.010** (2.48)
Campaign Donation			0.111 (0.86)	0.038 (0.92)
Policy Sensitivity			0.023 (1.05)	0.006 (1.08)
Foreign Exposure			0.000 (0.27)	0.000 (0.36)
Tax Burden / 1,000,000			-0.143 (-1.62)	-0.051** (-2.68)
Lobbying			0.009 (1.31)	0.010** (2.59)
Industry FE	Yes	Yes	Yes	Yes
<i>N</i>	8854	8854	8854	8854
<i>R</i> ²	0.072	0.031	0.074	0.033

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

Internet Appendix

Table A1
Variable Definition.

Variable	Definition
Connection	1 if the firm had direct business ties with any of the president's businesses, or if any of its C-suite officers, board members, or treasurers had first or second-degree connections with the Trump family (limited to Donald Trump, Ivanka Trump, and Jared Kushner) prior to the announcement of his election campaign; 0 otherwise.
Coonection (count)	The number of links between the firm and the president. Link is defined in the same way as <i>Connection</i> .
Campaign Donation	The firm's total donation to Donald Trump's campaign during the 2016 US presidential election campaign.
Policy Sensitivity	1 if the firm's share price's loadings on the Economic Policy Uncertainty Index over the 18 months prior to the 2016 election is statistically significant at the 10% level; 0 otherwise.
MV of Assets (\$Bn)	Market value of common equity plus book value of debt. Compustat: $(mkvalt + dllt + dlc)/1000$
Log(Assets)	Natural logarithmic transformation of MV of assets in millions of dollars.
Book-to-Market	Book value of common equity divided by market value of common equity. Compustat: $ceq \div mkvalt$
Leverage	Book value of debt divided by market value of equity. Compustat: $(dllt + dlc) \div mkvalat$
Tax Burden	Total tax paid divided by pretax income. Compustat: $txpd \div pi$
Foreign Exposure	Pretax income from foreign operations divided by total pretax income. Compustat: $pifo \div pi$
Post-Election	1 for periods in or after Q1 2017; 0 otherwise.
Lobbying Expense	A firm's total lobbying expense (including spendings by subsidiaries) in a calendar year or quarter.
Procurement	1 if a firm is awarded a least one government contract in a given quarter; 0 otherwise.
Procurement (count)	The number of government contracts newly awarded to the firm in a given quarter.
Payment	1 for each fine imposed on or payment made by the firm.
Investigation	1 for each investigation or inquiry into the firm's activities opened.

Table A2

Correlation matrix of CAR (0, 1) calculated based on value-weighted market model, firm financial, connection, and donation variables. Day 0 is defined as the day of election results announcement (November 9, 2016). Detailed definition of variables can be found in Table A1.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1. CAR (0, 1)	1.000										
2. Connection	0.100	1.000									
3. Connection (count)	0.104	0.864	1.000								
4. Campaign Donation	0.025	0.027	0.060	1.000							
5. Policy Sensitivity	-0.176	0.003	0.035	-0.032	1.000						
6. Book-to-Market	0.225	0.073	0.110	0.042	0.055	1.000					
7. Log(Assets)	0.002	0.342	0.374	0.159	-0.028	0.011	1.000				
8. Leverage	0.186	0.038	0.090	0.022	-0.027	0.221	0.128	1.000			
9. Tax Burden	0.156	0.047	0.055	-0.021	-0.022	-0.100	-0.007	-0.094	1.000		
10. Foreign Exposure	-0.093	-0.006	0.022	0.047	0.160	-0.182	0.035	-0.095	-0.040	1.000	
11. Lobbying	0.053	0.322	0.308	0.141	-0.070	0.009	0.643	0.022	0.011	-0.005	1.000

Table A3

Explanation of cross-sectional variation in CARs, measured under various benchmark models, among firms by using OLS regressions of CARs on *Connection (count)*. Firm characteristic and other measures of connection are used as controls. Day 0 is defined as the day of election results announcement. Industry fixed effects are based on Fama-French 30 industry classification. Detailed definition of variables can be found in Table A1. *t*-statistics are in parentheses. Standard errors are clustered by industry.

	(1) CAR (0, 5)	(2) CAR (0, 5)	(3) CAR (0, 20)	(4) CAR (0, 20)
<i>Panel A: Value-Weighted</i>				
Connection (count)	0.854*** (2.82)	0.782** (2.43)	1.912*** (5.03)	1.927*** (4.97)
Book-to-Market	4.182** (2.05)	4.011* (1.92)	7.875*** (2.93)	7.629** (2.74)
Leverage	0.900*** (8.93)	0.901*** (9.23)	0.978*** (2.98)	0.940*** (3.02)
Log(Assets)	-0.671 (-1.29)	-0.966 (-1.63)	-1.408** (-2.14)	-1.539* (-1.94)
Campaign Donation		0.331 (0.78)		0.573* (1.77)
Policy Sensitivity		-1.318 (-1.14)		-2.026 (-1.40)
Foreign Exposure		-2.733*** (-3.41)		-5.443*** (-5.15)
Tax Burden		1.936 (0.85)		2.368 (0.76)
Lobbying		0.146* (1.73)		0.084 (0.68)
<i>R</i> ²	0.344	0.378	0.410	0.449
<i>Panel B: Equal-Weighted</i>				
Connection (count)	0.646** (2.41)	0.516* (1.75)	1.647*** (4.76)	1.588*** (4.51)
<i>R</i> ²	0.291	0.336	0.363	0.410
<i>Panel C: Fama-French Three-Factor</i>				
Connection (count)	0.303 (1.15)	0.177 (0.64)	0.935** (2.58)	0.899*** (2.85)
<i>R</i> ²	0.313	0.350	0.345	0.396
<i>Panel D: Carhart Four-Factor</i>				
Connection (count)	0.422 (1.44)	0.341 (1.21)	1.256*** (3.53)	1.339*** (5.18)
<i>R</i> ²	0.267	0.317	0.267	0.353
Industry FE	Yes	Yes	Yes	Yes
Firm Controls	Yes	Yes	Yes	Yes
Other Connection Controls	No	Yes	No	Yes
<i>N</i>	496	496	496	496