Study explores outcomes when politicians talk to businesses

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New research by two University of Oregon business professors shows that politicians share valuable information with companies that can be passed on to investors, affecting industries and markets.

That's an important finding because communication between politicians and firms is unregulated in the United States. Politicians are free to share their insights about regulatory changes or other policy matters that could affect business and markets.

Past attempts to regulate this communication channel have failed, in part because it wasn't clear how information traveled from politicians to outsiders and for what purpose. This research shines some light on those questions.

The article, available online, will appear in the May 2024 issue of *The Accounting Review*.

"We wanted to understand how information about the impact of evolving government policies spreads through capital markets," said one of the article's co-authors, Laura Wellman, the Richard W. Lindholm Professor in Taxation at UO's Lundquist College of Business. "Our paper focuses on how this information is shared through the financial disclosures of politically active firms and whether this information is useful to stock market participants."

She collaborated with her UO colleague, Dane Christensen, associate professor of accounting and Scharpf-Knight Chair in Accounting. Other co-authors include Hengda Jin with Texas A&M University; Joshua Lee, Brigham Young University; and Suhas Sridharan, Emory University.

The researchers looked at earnings announcements between 1997 and 2018 and tracked what happened to the stock prices of a firm's competitors after the firm announced its earnings. For example, when Allstate announced its earnings, how did the stock prices of other insurance companies, like Progressive, respond?

They found that competitors' stock prices moved more when the announcing firm was "politically active," meaning it had a political action committee that made campaign contributions. The stock price responses were especially large when a politically active firm discussed political topics, such as a new bill or regulation with industrywide or marketwide impacts, during its earnings conference call.

The responses also were especially strong at times of political uncertainty. Those findings suggest that when politically active firms share political information with their investors, that information is also used by investors of competing firms.

The inquiry comes amid continued calls to increase transparency in Congress. The most recent attempt was The Political Intelligence Transparency Act, which was introduced in 2017 but never enacted. Five years earlier, the Stop Trading on Congressional Knowledge Act, also known as STOCK, passed, but mandatory disclosure rules around the flow of political information were removed from the bill before the final vote.

"In a democracy, elected representatives need to be able to talk with their constituents," Christensen said. "The fascinating policy question is how to ensure that's done in the best way."

More information: Dane M. Christensen et al, Corporate Political Activism and Information Transfers, *The Accounting Review* (2023). DOI: 10.2308/TAR-2021-0254

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https://phys.org/news/2024-01-explores-outcomes-politicians-businesses.html