Political Activism and Market Power*

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October 2024

Abstract

We document an increase in market power for politically active firms during times of heightened policy uncertainty, when their information and influence advantage is greater. The effect is long-lasting and stronger for large politically active firms. We show that relatively large investments during high uncertainty periods serve as a potential mechanism for gains in market power. Industries populated with politically active firms experience lower business dynamism and import penetration, consistent with active firms leveraging investment timing to restrict competition. Results suggest that political activism is a likely contributing factor to the dominance of large firms over the last two decades.

Keywords: Market Power, Political Activism, Policy Uncertainty, Competition, Profitability, Profit Margins, Capital Investment.

JEL Codes: D72, G31, G38, P16

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I. Introduction

Over the last two decades, research has shown that firms in industries with the largest increases in concentration exhibit increased market power in the United States (U.S.) (e.g., Autor, Dorn, Katz, Patterson, and Van Reenen (2020), De Loecker, Eeckhout, and Unger (2020), Grullon, Larkin, and Michaely (2019)). Studies also show that the number of small profitable companies is shrinking (Gao, Ritter, and Zhu (2013), Kahle and Stulz (2017)). These phenomena result partly from the increasing difficulty that small firms face in competing with large firms along several dimensions, which has widened the gap in market power between small and large firms (Grullon et al. (2019), Gutiérrez and Philippon (2018)). A likely contributing factor to the dominance of large firms is the dangerous commingling of market power with political power, which enables politically active firms to gain a competitive advantage by combining well-timed investments and lobbying (Zingales (2017)). A large body of research documents the benefits that accrue to politically active firms (e.g., Agrawal and Knoeber (2001), Brogaard, Denes, and Duchin (2021), Bunkanwanicha and Wiwattanakantang (2009), Duchin and Hackney (2021), Duchin and Sosyura (2012), Faccio (2006)). Little is known, however, about how firms' investments in political influence limit competition, allowing politically active firms to gain and maintain a competitive advantage over their inactive peers.

In this paper, we investigate whether firms' ability to navigate the political arena translates into gains in market power. We expect that political activism allows firms to grow their market power because active firms can access information about policy developments and/or directly influence policies. We further expect that these advantages are particularly acute around periods of high policy uncertainty. While these periods on average have a destabilizing effect on firms (e.g., Baker, Bloom, and Davis (2016), Bonaime, Gulen, and Ion (2018), Gulen

and Ion (2016), Hassan, Hollander, van Lent, and Tahoun (2019), Julio and Yook (2012)), they may represent an opportunity for politically active ones. For example, politically active firms may face less information uncertainty and have more opportunities for political influence throughout the political process, which would enable them to better anticipate and respond to policy developments (Chan and Dickstein (2019), Ovtchinnikov, Reza, and Wu (2020), Wellman (2017)). As a result, these firms may be better able to assess the implications of policy uncertainty for their economic environment and therefore allocate capital more efficiently during these times.

We test whether politically active firms leverage periods of high policy uncertainty to amass market power using a sample of 219,136 firm-quarter observations distributed among 7,868 firms in combination with two proxies of political activism. Our first proxy is based on a new dataset that identifies firms' government relations staff, a centralized team managing all aspects of the firm's political activity. Firms depend on this resource to organize campaign financing, execute lobbying strategies, and conduct political risk analysis. For our second proxy, we measure the power of politicians in office who were supported by firms through campaign contributions (Cooper, Gulen, and Ovtchinnikov (2010)). We measure policy uncertainty using the Economic Policy Uncertainty (EPU) Index created by Baker, Bloom, and Davis (2016). Finally, we measure market power using three complementary approaches. Our first measure is the Lerner index (Lerner (1934)), which relies on profit margins. Despite its theoretical foundation and extensive use (e.g., De Loecker et al. (2020), Grullon et al. (2019)), the Lerner index imposes restrictions on firm cost structures and could therefore reflect both market power and efficiency in investment decisions. Thus, we supplement our analysis with two additional measures that are less likely to commingle market power and investment efficiency: markup

calculated as in De Loecker et al. (2020), and relative producer prices. Collectively, these measures allow us to isolate the effect of market power from efficiency considerations and thereby discern the relation between political power, market power, and policy uncertainty.

To test the link between political power and market power, we use a comprehensive fixed effects structure that includes firm and sector-by-year fixed effects. This reduces the confounding effect of time-invariant cross-sectional differences between politically active and inactive firms, as well as different sectors' time trends in market power. We document that politically active firms gain market power following periods of high policy uncertainty. Importantly, these increases are long-lasting: they persist for up to two years. Moreover, their economic magnitude is non-trivial: a one-standard-deviation increase in the size of the government relations office, which is roughly equivalent to doubling the number of employees in the government relations office for politically active firms, is associated with a 2.9% increase in Lerner index following periods of high policy uncertainty. Similarly, a one-standard-deviation increase in the power of supported politicians currently in office is associated with a 2.6% increase in Lerner index following periods of high uncertainty. Our inferences hold when we replace Lerner index with markups, which restricts our analysis at the firm-year (instead of firm-quarter) level; they continue to hold when we use relative producer prices, which restricts our analysis at the industry-quarter (instead of firm-quarter) level. These results suggest that the evidence reflects changes in market power rather than other drivers of superior performance such as investment efficiency.

As in much of the prior literature, it is challenging to identify the causal effect of political power. We address this challenge in two additional ways. First, we verify that our findings extend to a different setting by studying firms belonging to industries affected by a new,

favorable bill. We test whether changes in these firms' market power vary with their political activism.[1] This setting, while less general, presents two benefits. First, it allows us to better identify both the timing and the source of policy uncertainty that firms can resolve through political activism. Second, it reduces concerns about selection, that is, the notion that firms may be more politically active when they are more exposed to policy uncertainty. We find that firms that were already active before enactment experience increases in market power after the legislation is enacted. These increases hold after we control for whether these firms lobbied in favor of the legislation, which should capture firms' exposure to it by revealed preferences.

Second, we conduct a falsification test to address another identification challenge with our analyses. Specifically, it is possible that our findings reflect the superior quality of active firms, which enables them to better navigate uncertainty in general. If political activism helps active firms navigate policy uncertainty because of their superior information and influence, then this effect should not extend to periods of general economic uncertainty when active firms do not have any information/influence advantage. Indeed, we find no differences in market power between active and inactive firms following periods of high macroeconomic uncertainty. This finding supports the notion that political activism is a resource that is specific to the policy arena.

We then perform three analyses to investigate possible mechanisms for the observed differences in market power between politically active and inactive firms following periods of heightened policy uncertainty. First, prior literature shows that policy uncertainty depresses firms' investment, but this effect is not homogeneous (e.g., Gulen and Ion (2016)). To the extent that politically active firms are better equipped to interpret and influence policy discussions, these firms face lower policy uncertainty and can invest relatively more at a time when others are

[1] See section II.B.3 for a detailed discussion of how we identify favorable legislative developments.

cutting back. Indeed, we find that politically active firms are relatively more likely to make large investments during periods of high policy uncertainty, and that this finding does not extend to times of general macroeconomic uncertainty.

The investment finding indicates that active firms' superior information and influence during high uncertainty periods likely help to create barriers to entry, ultimately resulting in superior market power. We further support this interpretation by performing analyses that speak to the ability of politically active firms to restrict competition. If politically active firms leverage their investment timing to restrict competition during periods of heightened policy uncertainty, we should observe that industries with more politically active firms experience less competition after these periods. We test this prediction using two manifestations of competition at the industry level: business dynamics and foreign competition.

We use Business Dynamics Statistics from the U.S. Census to investigate differences in job creation and destruction across politically active and inactive industries following periods of high policy uncertainty. This analysis produces three key insights. First, more politically active industries experience relatively less job creation from new entries after periods of high policy uncertainty, consistent with higher barriers to entry and therefore lower competition. Second, less politically active industries experience relatively more job destruction from firms going out of business following high uncertainty periods, consistent with lower barriers to exit and therefore higher competition. Finally, politically active industries experience relatively sharper declines in the number of firms following periods of high policy uncertainty. This finding is broadly consistent with more active industries becoming relatively less competitive following periods of high policy uncertainty. Overall, the industry dynamics we document are consistent

with the notion that active firms exploit heightened policy uncertainty to reduce competition and increase market power.

We next focus on a particular hurdle to entry: trade barriers that reduce international competition. Using data on time-series variation in trade policy uncertainty from Caldara, Iacovello, Molligo, Prestipino, and Raffo (2020), we first confirm that politically active firms (i) are more likely to make large investments during periods of heightened trade policy uncertainty, and (ii) amass market power following these periods. We then use industry-level data on import penetration as in Xu (2012) to study whether more politically active industries experience reduced competition following periods of heightened trade policy uncertainty. We show that more active industries sustain lower import penetration following heightened policy uncertainty, and this effect persists for at least one year. This is consistent with Stigler's (1971) arguments that industries with a greater concentration of politically active firms can increase their market power through barriers to entry.

The finding that political activism is positively associated with firms' market power suggests that such activism may contribute to the increasing dominance of large firms (e.g., Autor et al. (2020), Gutiérrez and Philippon (2018)). To assess this link more explicitly and tie the paper back to the broader literature, we test whether (and find that) large and politically active firms experience sharper increases in market power – not only relative to small firms, but also relative to large politically *inactive* firms. Furthermore, large inactive firms do not consistently experience increases in market power relative to small firms following periods of heightened policy uncertainty. Together, these findings indicate that political activism represents a factor in the increasing performance gap between small and large firms; it may also contribute to increased product market concentration over time. From this perspective, our findings

complement those of Faccio and McConnell (2020), who show that political connections are a determinant of the difference in survival rates between large and small firms.

Taken together, our findings point to a possible connection between political activism and gains in market power. Politically active firms experience relative increases in profit margins, markups, and prices following periods of high policy uncertainty. The increases in profit margins persist for up to two years and are particularly significant for large politically active firms. One likely mechanism for these dynamics is strategically timed investment during periods of high policy uncertainty, which increases barriers to entry and restricts competition. Correspondingly, more politically active industries experience reduced business dynamism and foreign competition following periods of heightened policy uncertainty. These findings contribute to our understanding of political activism and suggest that the combination of firms' activism and well-timed investments creates a barrier to entry (Zingales (2017)). Our results thus offer one explanation for the increased differences in performance between large and small firms.[2]

Our study is subject to certain caveats and limitations. First, firms that engage in political activism may also be more likely to take other actions that contemporaneously impact their market power. Although we perform numerous analyses to mitigate these concerns, as outlined above, we cannot entirely eliminate such interpretational issues in our setting. Second, we recognize that firms have a veritable menu of options to choose from when engaging in the political process. While we capture many of these strategic choices (i.e., government relations staff, campaign financing, and lobbying), we cannot provide evidence on the relative importance of the activities

[2] Additional related studies on political activism using a US setting include Adelino and Dinc (2014) and Goldman, Rocholl, and So (2009). Studies using an international setting include Amore and Bennedsen (2013), Faccio, Masulis, and McConnell (2006), Johnson and Mitton (2003), and Khwaja and Mian (2005).

we do and do not observe. Despite these limitations, our study provides novel evidence that enhances our understanding of firms' ability to amass market power through political activism.

II. Empirical Design

In this section, we discuss the methodology and sample that we use to study the links between market power, political activism, and policy uncertainty. We first describe our measures of market power (section II.A.1), political activism (II.A.2), and policy uncertainty (III.A.3). We then explain our empirical design (section II.B) and our sample (section II.C).

A. Measurement and Institutional Details

1. Market Power

Landes and Posner (1981) define market power as a firm's ability to raise prices above the level that would be charged in a competitive market. Consistent with this definition, our main measure of market power is the Lerner index *(LI)*, that is, the extent to which a firm can price goods above the marginal cost, under the assumption that operating expenses are a good proxy for marginal costs. We follow Aghion, Bloom, Blundell, Griffith, and Howitt (2005) and measure *LI* as the ratio of operating income before depreciation over sales.

One important assumption behind the use of the Lerner index to measure market power is that average (accounting) costs are a good approximation for marginal costs; thus, using the Lerner index imposes restrictions on differences in firms' cost structure. If this assumption is violated, a higher Lerner index could reflect not only market power but also higher operational efficiencies. We use two complementary measures to mitigate this concern. First, we follow De Loecker et al. (2020) and measure markups using the production approach, which is based on the firm's cost minimization decision. This measure allows firms to have different cost structures under the assumption that within one year, variable inputs can be adjusted frictionlessly while

capital is subject to adjustment costs. The caveat is that markups can be estimated only at a lower frequency than the Lerner index (yearly as opposed to quarterly). The authors define markup as the price-to-marginal cost ratio ($\mu = \frac{P}{\lambda}$) and estimate the marginal cost by setting up the objective function associated with the firm's (conditional) cost minimization. The output of this process results in the following simple expression for markup: $\mu_{i,t} = \theta_{i,t}^{v}\left(\frac{P_{i,t}Q_{i,t}}{P_{i,t}^{V}V_{i,t}}\right)$. The two key ingredients are the revenue share of the variable input $\left(\frac{P_{i,t}Q_{i,t}}{P_{i,t}^{V}V_{i,t}}\right)$ and the output elasticity of the variable input $(\theta_{i,t}^{v})$. We measure the former from financial statement information by taking the ratio of sales to cost of goods sold, and the latter nonparametrically using industry-year specific cost shares.

Our second alternative measure is the relative producer price, calculated as the difference between the industry-specific producer price index and the consumer price index. The intuition behind this metric is that industries with more market power should be able to charge higher prices relative to the general price level. We construct this measure at the industry-quarter level using data on consumer and producer price indices from the U.S. Bureau of Labor Statistics. Due to data availability, both alternative measures are calculated at a less granular level than our main measure and are not always available for all firms and industries. Nevertheless, using all three measures provides more compelling evidence of the link between political power and market power.

2. Political Activism

We use two measures of firms' political activism. Both relate to activities that allow firms to influence policy and enable them to mitigate two types of uncertainty: whether policies will change (i.e., political uncertainty), and how policy changes will affect firm profitability (i.e., impact uncertainty; Pástor and Veronesi (2012), (2013)). First, we construct a novel measure of

political activism intended to capture how various political strategies work in concert. To this end, we collect data from *Washington Representatives* on firms' government relations offices, which are a central resource dedicated to managing all aspects of a firm's political strategy.[3] The specific objectives of government relations offices may vary across firms, but the staff generally interacts with government officials to gather information about government actions and advocate for policies favorable to the firm. Corporations typically staff the government relations office with former government officials. For example, around 2010, Facebook's government relations team included Kevin Martin, a former Republican chairman of the Federal Communications Commission, and Joel Kaplan, a former member of the George W. Bush White House team (Hudson (2011)). Former U.S. representative Susan Molinari served as the head of Google's DC office (Allen (2012)).

In addition, government relations teams allocate political action committee (PAC) funds to various candidate campaigns, host fundraising events, identify and analyze relevant policy issues, and lobby for favorable policy positions. These efforts usually involve both internal and external lobbyists. While members of the firm's government relations team may compile policy research and provide it to policymakers, they may also engage external lobbyists who have specific policy knowledge or useful political connections. For example, Google's key government relations officers represent their company in meetings with government officials, orchestrating massive lobbying efforts over issues such as privacy, data security, and antitrust disputes (Romm (2014)). Through its government relations office, during 2018 alone, Google

[3] CBIS was able to provide an electronic dataset beginning in 2011. For the earlier years in our sample, we hand collected data on firms' government relations offices from *Washington Representatives*. We augment the electronic dataset provided by CBIS with our hand-collected data.

spent over $21.7 million on lobbying various branches of the government and donated over $16.5 million to candidate campaigns.

We then define our first measure of political activism as the natural logarithm of (1 + *GovRelations*), where *GovRelations* is the number of government relations staff employed by firm *i* in year *t.* An important advantage of this measure is its concise summary of many of the strategies previously examined on an individual basis in the extant literature, some of which we validate in our data. Table 1 reports descriptive statistics on the political strategy of firms with active campaign financing and lobbying, both in aggregate and then separately for firms with and without a government relations office.

Insert Table 1 here

We observe that firms included in our panel support, on average, about 8.2 candidates every year (*#Candidates*), and they spend, on average, $206,578 on lobbying annually (*TotalLobbying*). Most firms frequently contribute to and support candidates of both the Democratic and Republican Parties, and they balance these activities across the parties. We find that 93.4% of the firms for which we have information contribute to both the Democratic and the Republican Party, and 30.7% of firms direct at least 40% of their contributions to each party. The data are consistent with our expectation that firms with government relations offices engage more extensively in political activism. We find that these firms have greater annual lobbying expenditures, contribute to more candidates, and balance those contributions across party lines more frequently. Such actions are documented attributes of large political players (e.g., Christensen, Jin, Sridharan, and Wellman (2022), Cooper et al. (2010), Gao and Huang (2016)). Further, this measure does not vary with the election cycle. Thus, both the concept of measuring political activism through the size of the government relation office, and the associated empirical

evidence suggest that this measure captures political activism more comprehensively than most other measures in the literature.

Nonetheless, we also use a second more traditional measure of political activism. A successful political strategy hinges on maintaining access to policymakers (Snyder (1990)). Because of the mandatory reporting requirements surrounding campaign financing, campaign disclosures allow researchers to distinguish contributing firms from non-contributing firms across a large sample of firms over time.[4] For this reason, prior literature generally relies on campaign contributions as the most observable proxy for access, arguing that contributions represent entrance fees into the political arena (Cooper et al. (2010)). Research shows that contributions to politicians who win their election are more valuable than contributions to politicians who lose their election (Akey (2015)), and that connections to elected politicians are more valuable when these politicians belong to the majority party or occupy a higher committee ranking (e.g., Ansolabehere and Snyder (1998)). Thus, our second measure of political activism uses campaign financing disclosures to identify the power of elected politicians supported by the firm *(PoliticiansPower)*. Following Cooper et al. (2010, p. 698), we define *PoliticiansPower* as $\sum_{p=1}^{J} Cand_{pt} \times I_{pt} \times \frac{NCV_{pt}}{NOV_{pt}} \times [\sum_{m=1}^{M} \frac{Median\ Committee\ Rank_{mt}}{Committee\ Rank_{mt}}]_{p}$, where *Cand* is an indicator variable equal to 1 if the firm has contributed money to candidate *p* in year *t*, and zero otherwise; I_{pt} is an indicator variable equal to 1 if candidate *p* is in office at time *t*, and 0 otherwise; NCV_{pt} is the number of votes that candidate *p*'s party holds in office at time *t*; NOV_{pt} is the number of votes

[4] The FEC regulates political contributions. Any contribution of $200 or more is publicly available on the FEC website starting with the 1979–1980 election cycle (http://www.fec.gov). A corporate-sponsored political action committee (PAC) can solicit limited contributions from employees, officers, and shareholders of the firm and direct these funds to candidate campaigns. Specifically, individual employees, officers, and shareholders can each contribute up to $5,000 to the corporate-sponsored PAC. The corporate-sponsored PAC can contribute up to $5,000 to an individual candidate's campaign.

that candidate *p*'s opposing party holds in office at time *t*. Thus, $\frac{NCV_{pt}}{NOV_{pt}}$ represents the ratio of total House or Senate votes the candidate's party has (NCV_{pt}) relative to the total votes of the opposing party for the House or the Senate (NOV_{pt}). It builds on the notion that the candidate's relative power in Congress is stronger (weaker) if the candidate belongs to the controlling (opposing) party. Finally, $Median\ Committee\ Rank_{mt}$ is the median number of members on a given committee *m* of which candidate *p* is a member, and $Committee\ Rank_{mt}$ is candidate *p*'s rank on committee *m* (where rank = 1 for the most important member, rank = 2 for the next-important member, and so on).[5] Thus, $[\sum_{m=1}^{M} \frac{Median\ Committee\ Rank_{mt}}{Committee\ Rank_{mt}}]_p$ is increasing with the candidate's committee rank.[6] We obtain data on committee assignments from Charles Stewart's Congressional Data Page.[7] In our sample, the power of elected politicians supported is 73 (standard deviation of 265) for the average firm but 524 (standard deviation of 629) for firms with a government relations office.

Our two measures capture active firms' advantage over inactive ones in influencing policy discussions and acquiring and interpreting policy information. Anecdotal evidence from conference and earnings calls, during which analysts/shareholders often ask questions related to recent legislative developments, confirms the existence of these advantages. Political activism makes it easier for firms to directly shape legislative developments and manage regulatory scrutiny. For example, when discussing immigration reform at a shareholder/analyst call on May 20, 2015, Martin Barrington, then CEO of Altria Group Inc., stated (emphasis added): "Yes, our

[5] This measure requires that candidate *p* serve on at least one Congressional committee in year *t*. It thereby ensures that the candidate won their most recent election.

[6] Following Cooper et al. (2010), we do not standardize committee rankings based on committee size. Thus, holding a higher rank on a larger committee equates to having relatively more power.

[7] We thank Charles Stewart III for generously providing these data on his website http://web.mit.edu/17.251/www/data_page.html#2. Candidates' committee assignments are obtained from "Congressional Committees, Modern Standing Committees, 103rd – 115th Congress." The codebook associated with this dataset summarizes the specific committees included in the committee rankings.

– actually, *our government affairs team is pretty active on working on that issue*. […] We have certain interests – for example, it's important to us that we have access to certain skilled labor, so the visa program needs reform. And so, we've been working to make sure that we're covered in that regard. […]" Thus, Altria Group Inc. actively uses its government affairs office to influence the policy discussion around immigration reform.

Through their political activities, active firms may also gain information that reduces their uncertainty about policy developments. While managers can learn about regulatory and legislative outcomes through various public disclosure mechanisms (e.g., U.S. Food and Drug Administration (FDA) and the U.S. Patent and Trademark Office (USPTO) disclose product approvals on their websites), we expect that active firms are likely to have access to policy-relevant information before government policies are finalized. This timing advantage is relevant to the extent that active firms can readily anticipate and react to policy developments before policies are finalized and decisions are made public. This can include information that politicians glean from their committee positions, such as (i) details about the timing and content of legislative proposals and hearings, (ii) the policy positions of other committee members, and (iii) any proposed amendments that outside organizations might push (Jerke (2010), Wright (1996)). Early access to information about policy developments is made possible because members of Congress are legally permitted to selectively disclose information about policy developments to their constituents (see, e.g., Bainbridge (2010), Jerke (2010), Nagy and Painter (2012), Wright (1996)). We expect that firms involved in ongoing discussions with policymakers (i.e., politically active firms) have an advantage in obtaining information about policy developments before legislation is made public. For example, commenting on the prospects of the Trans-Pacific Partnership at a Nucor Corporation shareholder/analyst call on May 13, 2016, a conference call

participant named Francois Swanepoel asked (emphasis added), "[…] *I know we have offices in Washington D.C.* So I know that all of you are working on this […]. *Could you update us on what's going on with our negotiations with our government in D.C.* regarding – and I don't like that project. I'm not a fan of it. But where do we stand on TPP?" In response, John Ferriola, at the time chairperson, CEO, and president, stated (emphasis added), "Well, here's where we stand on TPP. We have an open mind. We're willing to consider it. […] So, *we're willing to listen to what they have to say.* We're involved in the negotiations. I can tell you there were certain elected officials who would like us to support it. Bur frankly, at this time, while we're still open-minded about it, we have some serious concerns about TPP. […]" Thus, through conversations with elected officials, Nucor Corporation can gather detailed information about TPP from those officials before it is available to competitors that do not have access to those elected officials.

Even when policy outcomes are known through public announcements or through industry groups' participation, it is still difficult for firms to accurately assess the impact of policy changes on profitability (Pástor and Veronesi (2012), (2013)). Interpreting policy news is less difficult for firms that have greater access to policymakers and in-house expertise, such as firms that invest in campaign financing and maintain a government relations office. These firms face lower costs of processing political information (public or private). Thus, even if all firms have the same policy information, which might be the case in some circumstances, we expect politically active firms to have a superior ability to process and interpret this information. For example, commenting on the same issue of the Trans-Pacific Partnership at the Q3 2016 earnings call, Frederick Smith, founder and chairman of FedEx, stated (emphasis added), "Now, TPP, it should be noticed – and *everybody makes a big thing out of the fact that it's a 54,000-page document or something like that. What it does in the main is to reduce 18,000 tariffs on U.S.*

goods. So it helps us a lot."[8] Thus, while TPP is a lengthy document that many perceive as complex, FedEx has a good understanding of how the legislation would affect its performance – perhaps thanks to the firm's political activism.

We view firms' influence over political outcomes and firms' access to policy information as complementary, interrelated activities, and we expect both channels to reduce uncertainty and contribute to gains in market power for active firms. Likewise, we maintain that our two measures of political activism capture both channels.

3. Policy Uncertainty

We measure policy uncertainty using the EPU index developed by Baker et al. (2016), a textual analysis–based measure built from the frequency of newspaper references to "economic policy uncertainty" found in over 2,000 local and national US newspapers. Starting from the raw EPU index, we identify "high" uncertainty periods – that is, periods over which we expect politically active firms to have the greatest advantage over their inactive counterparts – as an indicator variable set to 1 if the average EPU index during a quarter-year is in the top quartile of the sample distribution, and 0 otherwise (*PolicyUncertainty*). The reader may be concerned that our indicator variable is equal to 1 predominantly during the great recession. Our inspection of the data indicates that while there is overlap between uncertainty and recessions, high policy uncertainty also occurs outside of recessions. Thus, the construct of policy uncertainty is distinct from that of economic downturns. Nonetheless, we rely on the continuous EPU index to provide robustness in section V.A.

B. Empirical Design

[8] The full transcript to the conference call can be found here: https://seekingalpha.com/article/3959098-fedexs-fdx-ceo-fred-smith-on-q3-2016-results-earnings-call-transcript.

To test whether politically active firms experience increases in market power following periods of heightened policy uncertainty, we use the following panel estimation:

$$(1)\quad MarketPower_{i,t+q} = \beta_1 PoliticalActivism_{i,t} * PolicyUncertainty_t + \beta_2 PoliticalActivism_{i,t} + \beta_3 PolicyUncertainty_t + \sum \delta\ Controls_{i,t} + \gamma_i + \tau_{sec} * \zeta_t + \varepsilon$$

The three variables of interest, *MarketPower*, *PoliticalActivism*, and *PolicyUncertainty*, are defined as above. The subscript *i* identifies firms, the subscript *sec* defines Fama-French 17 sectors, and *t* describes the quarter in which the variable is observed. Finally, *q* modifies the time indicator and can take the value of 1 (one quarter ahead), 4 (one year ahead), or 8 (two years ahead). The coefficient of interest is β_1, which describes how the change in market power associated with political activism varies as a function of policy uncertainty. We expect this coefficient to be positive if politically active firms amass more market power than inactive ones following periods of heightened policy uncertainty.

Our empirical specification includes an exhaustive set of control variables: cash holdings, dividend payment, investment, leverage, operating cash flows, Tobin's Q, sales growth, size, and tangibility, all defined as in Appendix A. We also include both firm (γ) and sector (τ)-by-year (ζ) fixed effects in our baseline regression. Firm fixed effects allow us to compare changes in market power relative to the firms' own sample average. As a result, any time-invariant cross-sectional difference between active and inactive firms will be absorbed by the firm fixed effects. Furthermore, sector (Fama French 17) by time (year) fixed effects control for different trends in market power among different industries; therefore they identify the effect of political activism on market power from within sector–year variation. These tight fixed effects notwithstanding, the reader may still have identification concerns related to correlated omitted variables (e.g., politically active firms may be of higher quality than their inactive counterparts) or selection

issues (because the assignment into being politically active is not random). We describe these concerns and our attempt to mitigate them later in the paper.

C. Sample

Our sample spans the period 1993 (the first year for which data on firms' government relations staff are available) through 2017, with 219,136 firm-quarter observations distributed among 7,868 firms. The sample selection criteria are described in Appendix B.

Insert Table 2 here

Table 2 Panel A reports descriptive statistics separately for firms with and without government relations staff. We observe that active and inactive firms differ on several observable characteristics. Politically active firms are significantly larger than their inactive counterparts. The size difference appears to be both economically and statistically relevant (p-value < 0.01). Furthermore, politically active firms, on average, have higher margins, higher leverage, and more tangible assets than inactive firms. In Table 2 Panel B, we sort sample firms into size deciles. Although politically active firms are represented in each size decile, the percentage of politically active firms increases dramatically from just over 8% in the 8th decile to more than 40% in the 10th decile. Thus, large firms appear to be more likely to invest in political activism, a venture that requires significant firm resources to maintain. We also investigate the prevalence of political activism by industry (in Appendix C). We observe that political activism is widespread across most industries. However, there is considerable variation across industries, and political activism appears more prominent among industries that are traditionally less competitive. For example, Chemicals; Drugs, Soap, Perfumes, and Tobacco; Transportation; and Utilities all exhibit a relatively higher portion of active firms (i.e., the percentage of firms with a government relations office in the industry exceeds 10%) and a higher portion of dominant industry players

investing in government relations offices (where dominant industry players are defined as the four largest firms in the industry).

III. Results

A. Main Results

To study how differences in market power between politically active and inactive firms change as a function of policy uncertainty, we estimate Equation (1) from section II.B. The coefficient of interest is β_1, which describes how the difference in Lerner index associated with political activism varies as a function of policy uncertainty.

Insert Table 3 here

Table 3 Panel A presents the coefficient estimates we obtain when we measure political activism based on firms' government relations offices and measure Lerner index one quarter (columns 1 and 2), one year (columns 3 and 4), or two years (columns 5 and 6) ahead. In all cases, the coefficient of interest is positive and statistically different from zero, indicating that more politically active firms realize higher Lerner index values following periods of high policy uncertainty. In terms of economic magnitude, column 2 (where we include controls) shows that following periods of heightened (low) policy uncertainty, a one-standard-deviation increase in the size of the government relations office is associated with a 2.9% (1.0%) increase in Lerner index in the next quarter relative to the unconditional sample mean.[9] We also find strong evidence that the difference in Lerner index between politically active and inactive firms following periods of high policy uncertainty persists for up to two years: in columns 3 to 6, the

[9] We focus on the economic magnitude of the effect induced by doubling the size of the government relations office for three reasons. (i) Doubling the size of the government relations office is a one-standard-deviation increase in the number of employees for firms with a government relations office. (ii) Given that we measure political activism as *ln(1 + GovRelations)*, increasing the number of employees from 0 to 1 represents a 100% change in the size of government relations offices. (iii) Doubling the size of the government relations office is the most frequent change in government-relations-office size (27.29% of the changes are a 100% increase).

coefficient of interest is positive and statistically different from zero at conventional significance levels, and the magnitude of the effect is only slightly diminished.

Table 3 Panel B reports the same analyses but measures political activism with the power of supported politicians currently in office. We continue to find a positive and statistically significant coefficient of interest, indicating that firms supporting more powerful elected politicians realize higher Lerner index values following periods of high policy uncertainty. Thus, our inference extends to other proxies of political activism as well. In terms of economic magnitude, column 2 indicates that after periods of heightened policy uncertainty, a one-standard-deviation increase in the power of supported candidates translates into a 3.2% increase in Lerner index relative to the unconditional sample mean.[10] Overall, this evidence is consistent with the notion that politically active firms experience an increase in selling prices and/or a decrease in costs relative to their inactive peers following high-uncertainty periods.

B. Alternative Measures of Market Power

The findings thus far suggest a strong and economically meaningful link between political power and market power following periods of high policy uncertainty. We further examine the possibility that the differences in Lerner index we observe result from differences in efficiency or economies of scale between politically active and inactive firms, rather than differences in their market power. To mitigate this concern, we use two additional proxies of market power that are not subject to this possible criticism.

1. Markups

[10] In untabulated analysis, we use data kindly shared with us by Pat Akey and Stefan Lewellen to separate firms' supported politicians into two categories: electoral winners and losers. Using these data, which are available for a shorter time period (2000-2017), we find that firms' support of electoral winners is associated with increases in market power for up to two years, while firms' support of losing politicians is associated with decreases in market power for up to one year. This finding is consistent with the notion that supported politicians who are elected are more valuable to firms (Akey (2015)).

Our first alternative measure of market power is markups estimated from the production approach as in De Loecker et al. (2020). Using this measure as the dependent variable, we re-estimate Equation (1) above. Since this measure is available only at the firm-year level, we construct an alternative sample at the firm-year level (as described in sections II.B and II.C). This sample includes 51,910 observations distributed among 6,136 firms. Because of the reduced frequency of data, we modify our estimation of Equation (1) in two additional ways: (i) we measure the outcome variable annually in years *t*, *t+1*, and *t+2*, and (ii) we identify periods of heightened policy uncertainty at the yearly – rather than quarterly – level.

Insert Table 4 Panel A here

We report our coefficient estimates in Table 4 Panel A, where we measure political activism based on firms' government relations offices in columns 1 to 3 and based on the power of supported elected politicians in columns 4 to 6. We find that the coefficient of interest is positive across all estimations. It is also statistically different from zero at conventional significance levels when we measure markups in year *t* or in year *t+1*, but not when we measure markups in year *t+2*. These findings suggest that more politically active firms realize higher Lerner index values following periods of high policy uncertainty, although the effect vanishes sooner than the main tests, possibly because the annual dataset has fewer observations.

2. Relative Producer Price Index

Our second measure is relative producer prices (RPPI), calculated as the difference between the industry-specific producer price index and the consumer price index. We use this metric as the dependent variable in the following empirical model:

$$RPPI_{ind,t+q} = \beta_1 PoliticalActivism_{ind,t} * PolicyUncertainty_t + \beta_2 PoliticalActivism_{ind,t} + \beta_3 PolicyUncertainty_t + \sum \delta\, Controls_{ind,t} + \gamma_{ind} + \zeta_t + \varepsilon \quad (2)$$

Because RPPI is available only at the industry level but at high frequency, we create an industry- (four-digit NAICS code-) quarter level database. The subscript *ind* identifies industries, whereas the subscript *t* describes the quarter in which the variable is observed. Finally, *q* modifies the time indicator and can take the value of 1 (one quarter ahead), 4 (one year ahead), or 8 (two years ahead). We measure political activism alternatively with the logarithm of one plus the average number of government relations staff employed by firms in industry *ind* in quarter *t*, and the logarithm of one plus the average power of supported elected politicians by firms in industry *ind* in quarter *t*. We expand the model to include the following control variables: (i) Barriers to entry, which are associated with higher prices, are measured with the weighted-average ratio of advertisement expenditures over sales (*IndADV*), the weighted-average ratio of property, plant and equipment expenditures over total assets (*IndPPE*), and the weighted-average ratio of research and development expenditures over total assets (*IndR&D*). (ii) Demand pressure is measured with the quantity of units sold (*Quantity*) and the weighted-average industry sales growth (*IndSalesGrowth*). (iii) Input price pressure is measured with the change in materials cost (Δ *Materials ($)*) and the change in wages (Δ *Wages ($)*). We also include industry fixed effects to control for time-invariant industry heterogeneity and year-by-quarter fixed effects to control for industry-invariant time effects.

We estimate Equation (2) on a final sample of 1,010 observations distributed among 23 industries over the period 2005-2016. We obtain this sample after applying data requirements for our variables, which we source from Compustat (i.e., *IndADV*, *IndPPE*, *IndR&D*, *IndSalesGrowth*), the Federal Reserve of St. Louis industrial production series (i.e., *Quantity*), and the U.S. Census Bureau Annual Survey of Manufacturing (i.e., Δ*Materials ($)* and Δ*Wages ($)*). The coefficient of interest is β_1, which describes how the change in relative producer prices

associated with political activism varies as a function of policy uncertainty. We expect this coefficient to be positive if politically active firms charge relatively higher prices following periods of heightened policy uncertainty.

Insert Table 4 Panel B here

Table 4 Panel B reports the associated coefficient estimates, where we measure political activism based on government relations staff in columns 1 to 3, and the power of supported elected politicians in columns 4 to 6. The coefficient of interest is always positive and is statistically different from zero in five out of six estimations (column 1 is the exception). Consistent with economic theory, we find that relative producer prices are negatively associated with quantity and (weakly) positively associated with input price pressure. Overall, this evidence suggests that following periods of heightened policy uncertainty, more politically active industries charge higher prices relative to both (i) less politically active industries and (ii) general price trends, as measured with the consumer price index. Moreover, the ability to charge higher prices lasts for up to two years.

C. Alternative Setting: Enactment of Favorable Legislation

Our panel estimates imply that political activism allows firms to reduce policy uncertainty through either superior information or influence over policy makers, and thereby to grow their market power. Next, we verify whether these relations hold in a different setting: the passage of new, favorable legislation. This setting, while less general, offers two advantages over our panel estimates. First, it allows us to better identify both the timing and the source of policy uncertainty that firms can resolve through political activism, tightening the link between our conceptual and empirical measures. Second, the setting helps us reduce concerns about selection, that is, the possibility that assignment into political activism is not random. It is possible and quite likely

that firms facing higher exposure to policy uncertainty will devote more resources to political activism. While we employ a rich fixed effects structure and a host of control variables, as well as entropy balancing (see section V.B), the alternative setting allows us to address this concern from a different and perhaps better perspective.

We study changes in market power for firms belonging to industries affected by a new favorable bill as a function of these firms' political activism. To perform this test, we assemble a comprehensive sample of legislative events relevant to different industries. We start from all bills lobbied for by firms. We identify such bills using firms' mandatory lobbying disclosures, which include details on the total amount of lobbying dollars spent by firms across all issues (e.g., taxation, budget and appropriation, healthcare, etc.).[11,12] We then retain bills that are ultimately enacted and identify industries affected by those bills through firms' lobbying behavior. Our identifying assumption is that if a firm in the industry lobbies for the bill (an indication that the firm deems the bill important), then the same bill is likely to affect not only the focal firm but also its industry peers (Cohen, Diether, and Malloy 2013). Thus, to be included in the sample for this analysis, either firm *i* must have lobbied for the enacted legislation, or firm *i* must be an industry peer of the lobbying firm. Finally, we identify and retain "favorable" bills based on the voting patterns of candidates supported by firms. We obtain voting records from ProPublica and match candidate voting records to firms' FEC disclosures. This match allows us to identify whether candidates who receive campaign support from firm *i* voted for or against the bill.[13] If

[11] Lobbying reports are filed with the Secretary of the Senate's Office of Public Records and are available by calendar year beginning in 1998. The CRP maintains the lobbying data, which we manually match to Compustat by company name. The lobbying reports disclose specific bills that firms lobby for or against.

[12] The full list of lobbying issue codes can be found on the House.gov website: https://lobbyingdisclosure.house.gov/help/default.htm?turl=WordDocuments%2Flobbyingissuecodes.htm. In total, there are 79 issues.

[13] To obtain voting records, we use Python-congress (i.e., https://pypi.python.org/pypi/python-congress/0.3.4), a Python client for ProPublica's CongressAPI.

the voting records of supported candidates are mixed – some supported candidates voted "nay" and other candidates voted "yea" – we net candidates' votes to evaluate overall support for the bill. We keep only those enacted bills that received a net "yea" vote among supported candidates.[14] We use these legislative events to assemble a stacked event dataset (e.g., Cengiz, Lube, Lindner, and Zipperer (2019)) that tracks all firms in industries with enacted favorable bills during the three years before and the three years after the enactment of the legislation. The resulting dataset includes 314,618 event-firm-quarter observations, distributed among 108 events and 2,417 firms. We use this database to estimate the following empirical model:

$$LI_{i,t,e} = \beta_1 PoliticalActivism_{i,e} * Enactment_{t,e} + \beta_2 Lobbying_{i,e} * Enactment_{t,e} + \beta_3 PoliticalActivism_{i,e} + \beta_4 Lobbying_{i,e} + \beta_5 Enactment_{t,e} + \sum \delta\ Controls_{i,t,e} + \gamma_{i,e} + \zeta_{t,e} + \varepsilon_{i,t,e} \quad (3)$$

where *i* identifies firms, *t* identifies firm-quarters, and *e* identifies legislative events. *LI* is the Lerner index, our proxy for market power. *PoliticalActivism* is firm *i*'s average political activism, based on either government relations staff or the power of supported politicians currently in office, during the period prior to the enactment of the legislation. *Enactment* represents an indicator equal to 1 during the period following the enactment of new legislation, and 0 during the period preceding it. The coefficient of interest is β_1, which describes how the difference in market power between active and inactive firms changes following the enactment of new legislation.

The model includes the same controls from Equation (1), together with firm-by-event (γ) and year-by-quarter-by-event (ζ) fixed effects. Importantly, the model also includes *Lobbying* (both in isolation and interacted with *Enactment*), an indicator variable equal to 1 if firm *i*

[14] We identify 829 instances of firms supporting candidates who vote in favor of a piece of legislation. Those instances are distributed among 196 firms.

lobbied in favor of the bill, and 0 if it did not lobby for the bill. We hold firms' decision to be politically active constant throughout the enactment period, and we control for their decision to lobby for the legislation. This approach reduces concerns that our findings are driven by selection into political activism due to exposure to policy uncertainty. We expect firms that are more exposed to the legislation to lobby in favor of its enactment, so by revealed preferences this exposure should be captured by the β_2 coefficient (*Lobbying * Enactment)*. Political activism is measured before the enactment of the legislation and held constant throughout the enactment period. Thus, its effect on market power (as captured by β_1) should not be confounded by differences in exposure to the legislation between active and inactive firms.

Insert Table 5 here

We report coefficient estimates in Table 5. Columns 1 and 3 show that, irrespective of how we measure political activism, β_1 is always positive and statistically different from zero at conventional significance levels, consistent with an increased difference in market power between politically active and non-active firms following the enactment of favorable legislation. In terms of economic magnitude, the coefficient in column 1 indicates that a one-standard-deviation increase in the size of the government relations office is associated with a 1.8% increase in Lerner index relative to the unconditional sample mean after the enactment of favorable legislation. We also document a positive β_2 coefficient, which is consistent with our expectation that lobbying firms stand to benefit the most from the legislation; thus, including *Lobbying* allows us to control for firms' exposure to the legislation. In columns 2 and 4, we separate our measure of political activism between politically active firms that directly lobbied for the legislation *(Activism&Lobbying)* and politically active firms that did not *(ActivismOnly)*. In this way, we can better isolate the information effect from the influence effect of political

activism to the extent that politically active firms that do not directly lobby the bill do not exert influence through other means. We observe that the estimated coefficient for *ActivismOnly* is positive and statistically significant at the 1% level, consistent with the information advantage of politically active firms allowing them to amass market power following the enactment.

Overall, these findings indicate that politically active firms have superior information about new bills and/or a superior ability to influence the content of the bill through their lobbying activities, which allows them to amass market power once the legislation is enacted.

D. Falsification Test: Market Power, Political Activism, and Macroeconomic Uncertainty

To further address endogeneity concerns, we perform a falsification test that relies on variation in macroeconomic uncertainty. One potentially important omitted variable in our analyses is firm quality. It is conceivable that active firms are of higher quality than inactive ones, which allows them to better navigate periods of heightened uncertainty (irrespective of the nature of that uncertainty) and therefore to accumulate market power following these periods. If active firms are indeed superior to inactive ones, we would expect this superiority to manifest in their ability to navigate macroeconomic shocks, one of the most important economic challenges firms face. At the same time, if our findings instead reflect political influence and information, as we posit, then we would not expect active firms to have an advantage in navigating macroeconomic uncertainty. To test this prediction, we expand Equation (1) to include two additional variables: the main effect of macroeconomic uncertainty and its interaction with political activism, where we define macroeconomic uncertainty *(MacroUncertainty)* as an indicator variable set to 1 if the average year-quarter macroeconomic uncertainty index from

Jurado, Sydney, and Ludvigson (2015) is in the top quartile of the distribution, and 0 otherwise:

(4) $$LI_{i,t+q} = \beta_1 PoliticalActivism_{i,t} * PolicyUncertainty_t + \beta_2 PoliticalActivism_{i,t} * MacroUncertainty_t + \beta_3 PoliticalActivism_{i,t} + \beta_4 PolicyUncertainty_t + \beta_5 MacroUncertainty_t + \sum \delta\ Controls_{i,t} + \gamma_i + \tau_{sec} * \zeta_t + \varepsilon_{i,t+q}$$

If our main results are driven by politically active firms' superior quality, we expect to observe a positive β_2 coefficient indicating that active firms experience relative increases in market power following periods of heightened macroeconomic uncertainty (just as they experience relative gains in market power following heighted policy uncertainty). If instead our main results are driven by politically active firms' superior policy information and/or influence, we do not expect to observe a positive β_2 coefficient. The lack of a positive coefficient would indicate that active firms do not experience relative increases in market power following periods of heightened macroeconomic uncertainty, namely periods when they do not have an information and/or influence advantage.

Insert Table 6 here

We report the results from this test in Table 6. The table provides two insights. On the one hand, we continue to observe a positive and statistically significant β_1 coefficient, indicating that more politically active firms realize higher and long-lasting Lerner index increases following periods of high policy uncertainty, irrespective of how we measure political activism. The coefficient magnitude is identical to the one reported in Table 3, which indicates that including macroeconomic uncertainty has no bearing on the relation between market power, political activism, and policy uncertainty. On the other hand, we observe an economically small and statistically insignificant β_2 coefficient, which indicates that more politically active firms do not realize higher Lerner index values following periods of high macroeconomic uncertainty. In addition, the β_2 coefficient is consistently statistically smaller than the β_1 coefficient, suggesting

that the evidence is not driven by lack of power to precisely estimate the coefficients associated with macroeconomic uncertainty. Overall, we interpret this evidence as suggesting that differences in quality between active and inactive firms are unlikely to drive our findings.

IV. Possible Mechanism: Investment Timing and Reduced Competition

How might politically active firms capitalize on their informational/influence advantage? One potential mechanism is investment timing. To the extent that active firms face less information uncertainty over policy outcomes, delaying irreversible investment decisions has a lower option value. This makes them more likely to make large investments during periods of heightened policy uncertainty. Such investments could allow active firms to raise rivals' fixed costs and increase barriers to new entrants, which reduces competition (e.g., Hviid and Olczak (2016)). In this section, we test (i) whether active firms are more likely to make large investments during periods of heightened policy uncertainty, and (ii) whether active industries experience less competition than inactive ones following these periods. Finally, we tie the paper to the broader literature and investigate whether the finding that political activism is positively associated with firms' market power could contribute to the increasing dominance of large firms (e.g., Autor et al. (2020), Gutiérrez and Philippon (2018)).

A. Investment Timing

We test whether active firms are relatively more likely to make large investments during periods of heightened policy uncertainty with the following regression specification:

$$SPIKE_{i,t} = \beta_1 PoliticalActivism_{i,t} * PolicyUncertainty_t + \beta_2 PoliticalActivism_{i,t} + \beta_3 PolicyUncertainty_t + \sum \delta\, Controls_{i,t} + \gamma_i + \tau_{sec} * \zeta_t + \varepsilon_{i,t} \quad (5)$$

SPIKE, our proxy for large investments, is an indicator set to 1 if the firm's investment level (capex expenditure during a quarter scaled by lagged total assets) is at least three times the firm-level median investment in the sample, and 0 otherwise (Whited

(2006)). *PoliticalActivism* and *PolicyUncertainty* are defined as above, and the model controls for the two main determinants of firms' investment policy: the Q ratio (*Q*) as a proxy for the firm's investment opportunity, and operating cash flow (O*CF*) as a proxy for the firm's level of financial constraints. We further control for cash holdings, dividend payment, leverage, sales growth, size, and tangibility, all defined as in Appendix A. Finally, the model includes the same fixed effects outlined in Equation (1). The coefficient of interest is represented by β_1, which describes how differences in the likelihood of making a large investment between politically active and inactive firms change as a function of the level of policy uncertainty in the economy.

Insert Table 7 here

We report coefficient estimates in Table 7, where columns 1 and 2 measure political activism with the size of the firms' government relations office, while columns 3 and 4 use the power of elected politicians supported by the firm. The coefficient of interest is always positive and statistically different from zero at the 5% or 1% level. The coefficient appears economically meaningful as well, since a one-standard-deviation increase in the size of the government relations office is associated with an 8.04% increase in the likelihood of large investments relative to the unconditional sample mean (column 1). These results are consistent with politically active firms taking advantage of their informational and influence edge when it is most pronounced: during times of high policy uncertainty. In columns 2 and 4, we expand the model to include macroeconomic uncertainty and its interaction with political activism. In both cases, the difference in the likelihood of large investments between politically active and inactive firms does not change as a function of macroeconomic uncertainty, which further reinforces the notion that political activism enables firms to navigate policy uncertainty specifically.

Overall, politically active firms are more likely than their inactive peers to make large investments during periods of high policy uncertainty, and these investments may facilitate the accumulation of market power following these periods as documented in the previous sections. In the next section, we investigate whether industry dynamics are consistent with this interpretation.

B. Industry Competition

If politically active firms leverage their investment timing to restrict competition during periods of heightened policy uncertainty, we should observe that industries with more politically active firms experience reduced competition following these periods. We test this prediction by studying two manifestations of competition at the industry level: business dynamics and foreign competition. Taken together, the results in these two sections reinforce the economic interpretation of our findings; namely, the notion that active firms invest more during periods of heightened policy uncertainty to reduce competition, and that the resulting decrease in competition allows them to increase their market power.

1. Business Dynamics

To examine whether political activism is associated with reduced competition, we assemble a dataset from the U.S. Census Business Dynamics Statistics database, which provides annual measures of business dynamics (such as job creation and destruction, establishment births and deaths, and firm startups and shutdowns) for the economy overall and aggregated by industry. We match these data with our measures of political activism and with Compustat to measure industry-level controls. The resulting dataset includes 5,598 industry-year observations distributed among 260 (four-digit NAICS code) industries over our full sample period (1993-

2017). Using this sample, we study whether and how industry competition varies with political activism as a function of policy uncertainty with the following empirical model:

$$(6) \quad Y_{ind,t+q} = \beta_1 PoliticalActivism_{ind,t} * PolicyUncertainty_t + \beta_2 PoliticalActivism_{ind,t} + \beta_3 PolicyUncertainty_t + \sum \delta\, Controls_{ind,t} + \gamma_{ind} + \zeta_t + \varepsilon_{ind,t+q}$$

The subscript *ind* identifies industries, whereas the subscript *t* describes the year in which the variable is observed; finally, *q* modifies the time indicator and can take the value of 0 (contemporaneous year), 1 (one year ahead), or 2 (two years ahead). *Y* represents three different proxies of business dynamism associated with industry competition, discussed below. All of these proxies are count variables, which has two implications for our empirical design. First, we estimate our model using fixed-effects Poisson, which produces consistent and reasonably efficient estimates under more general conditions than commonly assumed (Cohn, Liu, and Wardlaw (2022)). Second, we measure political activism alternatively with the average number of government relations staff employed by firms in industry *ind* in quarter *t* (*GovRelations*), or the average power of elected politicians supported by firms in industry *ind* in quarter *t* (*PoliticiansPower*). We do not log-transform these variables as in previous regressions because Poisson regression coefficients do not have a natural interpretation of count-log estimates, which would make it difficult to decipher our results. The model includes barriers to entry other than through capital investments (*indADV* and *indR&D*), industry life cycle (*IndSalesGrowth*), industry fixed effects to control for time-invariant industry heterogeneity, and year fixed effects to control for industry-invariant time effects.

Our first proxy of business dynamism is the entry of new firms, which we measure as the count of jobs created from new firms during the year. If industries with more politically active firms become less competitive because active firms' investments raise barriers to entry, we

would expect these industries to experience fewer new entries following periods of heightened policy uncertainty. Specifically, we would expect to observe a negative β_1 coefficient.

Insert Table 8 Panel A here

In Table 8 Panel A columns 1 to 3, we report coefficient estimates when we measure political activism with the size of the firm's government relations office. Consistent with our expectation, we observe a consistently negative and statistically significant β_1 coefficient estimate, indicating that industries with more politically active firms experience less job creation from new entries following periods of high policy uncertainty relative to industries with fewer politically active firms. The effect appears economically meaningful: column 1 shows that a one-standard-deviation increase in government relations office size is associated with a 6.20% decrease in jobs created by new entries during the year.[15]

Our second proxy of business dynamism is firm exits, which we measure as the count of jobs lost from firms going out of business during the year. If industries with more politically active firms become less competitive, we would expect these industries to experience fewer firm exits following periods of heightened policy uncertainty. Specifically, we would expect to observe a negative β_1 coefficient. We observe this to be the case in Table 8 Panel A, columns 4 to 6. The coefficient of interest is negative and statistically significant in all cases, and economically meaningful as well: a one-standard-deviation increase in government relations office size is associated with a decrease of 5.05% in jobs lost by firm exits during the year. Thus, industries with more politically active firms experience relatively less job destruction from firm exits following periods of high policy uncertainty.

[15] Calculated as $1 - e^{(-\beta_1 * sd(GovRelations))} = 1 - e^{(-0.153*0.418)}$ = 6.20%.

Our third proxy of business dynamism is the number of firms in the industry, which we measure as the count of firms reported by the Census for the industry during the year. We would expect more active industries to experience larger declines in the number of firms following heightened policy uncertainty. Consistent with this, the estimated β_1 coefficient is negative and statistically significant in all cases, and economically meaningful as well: a one-standard-deviation increase in government relations office size is associated with a decrease of 1.00% in the number of firms. Thus, industries with more politically active firms experience relative decreases in the number of firms following periods of high policy uncertainty.

We repeat these analyses measuring political activism with the power of supported elected politicians in Table 8 Panel B. The table shows qualitatively similar but statistically weaker patterns in business dynamism.

Insert Table 8 Panel B here

Overall, the evidence in this section suggests that industries with more politically active firms experience business dynamics consistent with a reduction in competition following periods of heightened policy uncertainty.

2. Foreign Competition

We next focus on one specific source of policy uncertainty, trade policy uncertainty, that offers strong theoretical grounds and precise empirical measurement to investigate whether industries with more politically active firms experience reduced competition following periods of heightened trade policy uncertainty. On the conceptual front, Stigler (1971) argues that industries with enough political power will seek to control entry, and that one variant of control of entry is trade barriers to reduce international competition. On the empirical front, we can measure trade

policy uncertainty using the index developed in Caldara et al. (2020) and changes in foreign competition using import penetration as in Xu (2012).

We perform this analysis in two steps. In the first step, we verify whether the following two findings extend to the trade policy uncertainty setting: (i) that politically active firms experience increases in market power following periods of heightened policy uncertainty, and (ii) that politically active firms are more likely to make large investments during periods of heightened policy uncertainty. To this end, we match our main sample with the trade policy uncertainty index and restrict the time period to later years (in our case, 2011-2017) because there is little movement in trade policy uncertainty before then (Caldara et al. (2020)). The resulting sample includes 47,828 firm-quarter observations distributed among 3,269 firms. We use this sample to re-estimate Equation (1), replacing *PolicyUncertainty* with *TradePolicyUncertainty*, an indicator variable set to 1 if the average Trade Policy Uncertainty Index from Caldara et al. (2020) during a quarter-year is in the top quartile of the sample distribution, and 0 otherwise. Columns 1 to 3 of Table 9 Panel A, where we measure political activism with the size of firms' government relations staff, show that politically active firms experience relative increases in the Lerner index following periods of heightened trade policy uncertainty, indicating that our findings in Table 3 extend to trade policy uncertainty as well. We then use this sample to re-estimate Equation (3), again replacing *PolicyUncertainty* with *TradePolicyUncertainty*. Column 4 of Table 9 Panel A shows that politically active firms are relatively more likely to make large investments during periods of heightened trade policy uncertainty, indicating that our findings in Table 7 extend to trade policy uncertainty as well. This is of great importance because on average, trade policy uncertainty is associated not only with reduced business investment (Caldara et al. (2020)), but also with reduced foreign direct

investment (Avom et al. (2020), Choi et al. (2021)). Thus, increased investment could allow politically active firms to increase barriers to entry that reduce foreign competition.

Insert Table 9 Panel A here

In the second step, we verify this prediction by studying whether industries with more politically active firms experience reduced import penetration, our measure of foreign competition, following periods of heightened trade policy uncertainty. To do this, we aggregate our firm-quarter dataset to the industry-quarter level. We then link it to (three-digit NAICS) industry data on (i) total imports from International Transactions, Services, and Investment Position (IIP) Tables of the Bureau of Economic Analysis, and (ii) total industry production from the Industry Accounts Tables of the Bureau of Economic Analysis. Finally, we follow Xu (2012) and calculate import penetration as the ratio of total import to total industry production. The resulting sample includes 414 industry-quarter observations distributed among 18 industries during the 2011-2017 period. We use this sample to estimate the following equation:

$$(7)\quad Import\ Penetration_{ind,t+q} = \beta_1 PoliticalActivism_{ind,t} * TradePolicyUncertainty_t + \beta_2 PoliticalActivism_{ind,t} + \beta_3 TradePolicyUncertainty_t + \sum \delta\ Controls_{ind,t} + \gamma_{ind} + \zeta_t + \varepsilon_{ind,t+q}$$

The subscript *ind* identifies industries; the subscript *t* describes the quarter in which the variable is observed; the subscript *q* modifies the time indicator and can take the value of 1 (one quarter ahead), 4 (one year ahead), or 8 (two years ahead). We measure political activism with the logarithm of one plus the average number of government relations staff employed by firms in industry *ind* in quarter *t*. We include the same controls as in Equation (7), relying on industry fixed effects to control for time-invariant industry heterogeneity, and year fixed effects to control for industry-invariant time effects.

If industries with more politically active firms become less competitive because active firms' investments raise barriers to entry, then we expect these industries to experience less

import penetration following periods of heightened trade policy uncertainty. Specifically, we would expect to observe a negative β_1 coefficient. Consistent with our expectation, in Table 9 Panel A columns 5 to 7, we observe negative and statistically significant β_1 estimates. These results indicate that industries with more politically active firms experience relatively less import penetration following periods of high trade policy uncertainty.

We repeat all of these analyses measuring political activism with the power of supported elected politicians in Table 9 Panel B, where we observe very similar results.

Insert Table 9 Panel B here

Overall, the evidence in this section suggests that industries with more politically active firms experience a reduction in foreign competition following periods of heightened trade policy uncertainty.

C. Political Activism and the Performance Gap between Large and Small Firms

We have found that after periods of heightened uncertainty, political activism (i) is positively associated with firms' market power, (ii) allows firms to invest when other firms are holding back because of policy uncertainty, and (iii) ultimately results in reduced industry competition. These results suggest that political activism may contribute to the increasing dominance of large firms (e.g., Autor et al. (2020), Gutiérrez and Philippon (2018)). To assess this potential link more explicitly, we test whether large and politically active firms experience larger increases in market power not only relative to small firms, but also relative to large politically *inactive* firms.

As discussed in Stigler (1971), the fixed size of the political "market" means that the cost of political activism increases less rapidly than industry size. Thus, smaller industries are excluded from the political process unless they enjoy special advantages such as geographical

concentration in sparsely settled political subdivisions. We argue that this principle applies to firms as well, and therefore large active firms are the most likely to benefit from political activism. Accordingly, we next study whether gains that accrue to politically active firms vary with active firms' size. Political activism increases with firms' resources and size (see Table 2), suggesting that political participation itself may represent a barrier to entry that contributes to the ability of large politically active firms to amass market power. To this end, we examine whether the documented differences in market power between small and large firms can be partially explained by the political activism of large firms.

We use cross-sectional firm-level analyses to assess whether the relation between market power, political activism, and policy uncertainty changes as a function of firm size. We modify Equation (1) by replacing *PoliticalActivism* with the following variables: *PoliticalActivism*Large* is an indicator variable equal to 1 if the firm is politically active and the firm's size is above the sample median, and 0 otherwise. *NonActivism*Large* is an indicator variable equal to 1 if the firm is not politically active and the firm's size is above the sample median, and 0 otherwise. *PoliticalActivism*Small* is an indicator variable equal to 1 if the firm is politically active and the firm's size is below the sample median, and 0 otherwise. This design amounts to studying whether small inactive firms experience decreases in market power relative to large firms that are either politically active or politically inactive. It thereby enables us to study whether small firms are particularly disadvantaged relative to large active firms.

Insert Table 10 here

Our estimates, reported in Table 10, suggest that large, politically active firms experience increases in Lerner index relative to small inactive firms for up to two years following periods of high policy uncertainty, and that these increases are statistically and economically larger than

those experienced by large, inactive firms. These results suggest that political activism plays a role in the increasing gap in performance between large and small firms.

V. Robustness and Other Analyses

A. Measurement

We assess the robustness of our results to alternative measures of market power, economic policy uncertainty, and political activism. First, we measure market power using ROA, calculated as operating income over total assets. Internet Appendix A shows that our results extend to ROA as well. Second, we measure political activism with either *#Candidates*, which broadens the notion of political activism by counting the number of both elected and unelected candidates supported by the firm, or *TotalLobbying*, calculated as the sum of firm *i*'s lobbying expenditures in year *t*. Internet Appendix B confirms the generalizability of our results to these proxies. Last, we verify whether our results hold when we use the continuous EPU index instead of an indicator variable that identifies periods of heightened policy uncertainty. Internet Appendix C shows that this is the case.

B. Alternative Identification Strategy

We then assess the robustness of our findings to using entropy balancing as an alternative identification strategy. This approach accounts for possible non-linear effects due to the differences in observable characteristics of politically active and inactive firms documented in Table 2 Panel B. We balance the first three moments of firm characteristics to reduce those differences, ensuring that the observable characteristics of politically active and inactive firms are similar (Internet Appendix D Panel A). We then re-estimate our main regressions and observe that our findings persist (Internet Appendix D Panel B).

C. Dynamics for the Relation between Political Activism and Market Power

In our main analysis, it is difficult to clearly isolate pre- and post-uncertainty periods, which makes it challenging to study the dynamics of the relation between political activism and market power. We overcome this difficulty by relying on the notion that economic downturns are accompanied by spikes in uncertainty (Bloom (2014)). Accordingly, we focus our attention on the great recession, which we identify using the NBER definition of recession. We investigate whether the difference in market power between politically active and inactive firms increases in the years following the great recession. Figure 1 reports the estimated coefficients and illustrates that while active and inactive firms display similar market power during the years prior to and concurrent with the great recession, this difference increases starting in 2010 and persists for the following three years.

VI. Discussion and Conclusion

Our evidence suggests that political activism has a positive relation with firms' market power following periods of high policy uncertainty, and this relation persists for up to two years. We also identify one possible mechanism driving our findings: investment timing that results in reduced competition. Active firms are more likely to make large investments in the presence of high policy uncertainty, and industries with more politically active firms experience reduced competition following these periods. We also observe that large, politically active firms sustain the most significant gains in market power. This result suggests that the increasing difficulty small firms face in competing with large firms is at least partially explained by political activism. To the extent that increased market power over long periods of time may be costly to consumers, our results indicate a potential distortion in competition between politically active and inactive firms.

Our findings contribute to an ongoing debate surrounding the concentration of economic and political power in the hands of large corporations (Zingales (2017)). In a cross-country comparison, Faccio and Zingales (2022) show that a government's pro-competitive policy has a significant effect in reducing concentration and prices in the telecommunication industry, but politically active telecommunications firms can leverage their connections to restrict competition. In addition, Faccio and McConnell (2020) rely on extensive time-series data to investigate the survival rates of large firms across many different markets and show that politically connected firms are less likely to be replaced by new entrants. We complement these studies by linking firms' government relations staff to firms' market power across a large cross section of firms that represent many different industries. Moreover, by focusing on the U.S. setting, we show that the upward trend in policy uncertainty in the U.S. creates opportunities for large and politically active firms to exploit their information and influence advantage through lobbying and strategically timed investments. From this perspective, our evidence suggests that the need to devote considerable efforts to lobbying might create barriers that prevent young firms from competing effectively. To further illustrate this point, we examine how the association between market power and political activism has changed over time. We regress market power on political activism interacted with various dummies for each year in our sample, and in Figure 2 we plot the sum of the main effect of political activism together with its interactive effect with years. We observe that the importance of political activism for gains in market power is more substantial in recent years, when policy uncertainty has increased on average. Moreover, the trend in Figure 2 coincides with recent evidence of an increase in concentration and gains in market power across many industries over a similar period (Autor et al. (2020), Grullon et al. (2019), Gutiérrez and Philippon (2018)). These results suggest one mechanism that may

contribute to the increase in market dominance of large firms, namely, the ability of politically active firms to navigate periods of high policy uncertainty and outperform their peers afterwards.

At the same time, another aspect of the political process is the feedback that policymakers solicit from firms regarding the expected impact of various policy alternatives (e.g., Chan and Dickstein (2019)). Preserving this information channel might be important to the success and efficiency of new government policies. For example, politically active firms may struggle to overcome regulatory restrictions that prevent them from utilizing certain new ideas or technologies, or from deploying new large capital. Thus, the solution to the optimal extent and form of political engagement to ensure optimal investment, innovation, and employment might be more nuanced. We hope that future research will explore whether political activism results in less efficient markets, or whether the rents enjoyed by politically active firms may be compensation for the investments required to protect the quality of their output.

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Tables

Table 1: Political Strategies for Firms with and without Government Relations Offices

GovRelations is the number of government relations staff employed by the firm during the year. *#Candidates* is the sum of the number of candidates supported by the firm during the year. *PoliticiansPower* is the sum of elected politicians supported by the firm in year *t*, weighted by the candidates' committee ranking, incumbency status, and voting power. *#Candidates* is the sum of candidates supported by the firm in year *t*. *TotalLobbying* is the sum of firm *i*'s lobbying expenditures in year *t*. *%BothParties($)* describes the percentage of firms that contribute contemporaneously to Democratic and Republican Party candidates. *%BalancedContribution($)* describes the percentage of firms who direct at least 40% of their monetary support to both the Democratic and Republican Parties. *PrincipalComponent* is the first factor of a principal component analysis of *PoliticiansPower*, *#Candidates*, and *TotalLobbying*.

Panel A: Descriptive Statistics

	Full Sample			*GovRelations > 0*			*GovRelations = 0*		
Variable	**# Obs**	**Mean**	**SD**	**# Obs**	**Mean**	**SD**	**# Obs**	**Mean**	**SD**
PoliticiansPower	219,136	73.495	265.672	17,840	524.654	629.200	201,296	33.510	148.710
#Candidates	219,136	8.205	29.828	17,840	58.827	71.194	201,296	3.719	16.496
TotalLobbying	136,914	206,573	1,357,603	11,353	1,645,333	3,948,636	125,560	76,471	629,157
%BothParties($)	43,316	0.934	0.249	12,397	0.987	0.113	30,919	0.913	0.283
%BalancedContribution($)	43,316	0.307	0.461	12,397	0.408	0.492	30,919	0.266	0.442

Panel B: Correlation Table

Variable	GovRelations	PoliticiansPower	#Candidates	TotalLobbying	PrincipalComponent
GovRelations	1.000				
PoliticiansPower	0.687	1.000			
#Candidates	0.694	0.970	1.000		
TotalLobbying	0.469	0.504	0.522	1.000	
PrincipalComponent	0.707	0.957	0.962	0.722	1.000

The table reports pairwise correlations.

Table 2: Descriptive Statistics

GovRelations is the number of government relations staff employed by the firm during the year. *LI* is operating income divided by sales. *SPIKE* is an indicator set to 1 if the firm's investment level in the quarter is at least three times the historical median investment level for the firm, and 0 otherwise. *CASH* is measured as cash and short-term investments over total assets. *DIV* is an indicator variable equal to 1 if the firm distributes dividends over the quarter, and 0 otherwise. *INV* is defined as capex over lagged total assets. *LEV* is defined as short- and long-term debt over total assets. *OCF* is calculated as operating cash flow over total assets. *Q* is given by the ratio of market value of assets over book value of assets both measured at the beginning of the quarter. *SALECH* is defined as the percentage change in sales with respect to the previous quarter. *SIZE* is measured as the natural logarithm of market capitalization. *TANG* is the ratio of tangible assets over total assets. Statistical significance indicated as follows: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Panel A: Summary Statistics by Political Activism

	GovRelations > 0			GovRelations = 0			
	# Obs	**Mean**	**SD**	**# Obs**	**Mean**	**SD**	**Diff. in Means**
LI	17,840	0.133	0.144	201,296	0.087	0.167	0.047***
SPIKE	17,840	0.019	0.136	201,296	0.057	0.232	-0.038***
CASH	17,840	0.103	0.119	201,296	0.142	0.172	-0.040***
DIV	17,840	0.782	0.413	201,296	0.483	0.500	0.299***
INV	17,840	0.014	0.012	201,296	0.018	0.020	-0.003***
LEV	17,840	0.276	0.157	201,296	0.234	0.197	0.042***
OCF	17,840	0.026	0.027	201,296	0.024	0.040	0.002***
Q	17,840	1.962	1.253	201,296	2.013	1.338	-0.051***
SALECH	17,840	0.025	0.161	201,296	0.048	0.206	-0.023***
SIZE	17,840	9.215	1.559	201,296	6.538	1.693	2.676***
TANG	17,840	0.340	0.243	201,296	0.305	0.241	0.036***

Panel B: Political Activism by Size

Size Decile	# Obs	%Active	Avg. *GovRelations*
1 – Smallest	21,914	0.374	0.016
2	21,914	0.548	0.018
3	21,913	0.497	0.026
4	21,914	1.145	0.026
5	21,913	2.140	0.048
6	21,914	2.994	0.052
7	21,916	4.431	0.086
8	21,911	8.270	0.155
9	21,914	19.157	0.461
10 - Largest	21,913	41.856	2.707

Table 3: Main Analysis

Panel A: Government Relations Office

$$LI_{i,t+q} = \beta_1 PoliticalActivism_{i,t} * PolicyUncertainty_t + \beta_2 PoliticalActivism_{i,t} + \beta_3 PolicyUncertainty_t + \sum \delta\ Controls_{i,t} + \gamma_i + \tau_{sec} * \zeta_t + \varepsilon$$

Estimation: Ordinary least squares with standard errors adjusted for clustering at the firm and year level. Statistical significance indicated as follows: * p < 0.10, ** p < 0.05, *** p < 0.01. t-statistics in parentheses. **Dependent Variable:** *LI*, defined as income before extraordinary items, depreciation, and amortization cumulated over q quarters divided by the sum of the firm's sales cumulated over the same period. **Variables of Interest:** *PoliticalActivism* is the natural logarithm of (1 +*GovRelations*), where *GovRelations* is the number of government relations staff employed by the firm. *PolicyUncertainty* is an indicator set to 1 if the average EPU index developed in Baker et al. (2016) during a quarter-year is in the top quartile of the distribution, and 0 otherwise. **Control Variables:** Defined as in Appendix A.

	+1 QTR		**+1 YR**		**+2 YR**	
	1	**2**	**3**	**4**	**5**	**6**
PoliticalActivism*PolicyUncertainty	**0.004***	**0.006****	**0.004****	**0.005*****	**0.003***	**0.005****
	(1.992)	**(2.732)**	**(2.256)**	**(2.947)**	**(2.060)**	**(2.519)**
PoliticalActivism	0.004	0.002	0.005*	0.004	0.004*	0.004*
	(1.663)	(0.953)	(2.017)	(1.623)	(1.909)	(1.746)
PolicyUncertainty	-0.008	-0.005	-0.001	0.001	0.001	0.002*
	(-1.327)	(-0.895)	(-0.363)	(0.598)	(0.912)	(1.964)
CASH	0.092***	-0.110***	0.104***	-0.047***	0.110***	0.010
	(62.586)	(-6.540)	(153.930)	(-3.206)	(329.235)	(0.731)
DIV		-0.019		-0.008		-0.008
		(-1.604)		(-0.823)		(-0.915)
INV		0.005**		0.003		0.002
		(2.356)		(1.633)		(1.024)
LEV		0.022		-0.060		-0.098**
		(0.320)		(-1.179)		(-2.217)
OCF		0.023**		0.026***		0.024***
		(2.399)		(3.142)		(3.371)
Q		0.274***		0.296***		0.196***
		(6.852)		(11.875)		(10.707)
SALECH		0.016***		0.014***		0.012***
		(6.532)		(6.109)		(6.319)
SIZE		0.041***		0.010***		0.005***
		(6.909)		(4.317)		(3.960)
TANG		0.025***		0.017***		0.010***
		(9.946)		(8.726)		(5.690)
Firm and FamaFrench17*Year FE	Yes	Yes	Yes	Yes	Yes	Yes
# Obs.	219,136	219,136	196,331	196,331	165,478	165,478
Adj. R^2	0.549	0.574	0.655	0.679	0.709	0.725

Panel B: Power of Supported Politicians

$$LI_{i,t+q} = \beta_1 PoliticalActivism_{i,t} * PolicyUncertainty_t + \beta_2 PoliticalActivism_{i,t} + \beta_3 PolicyUncertainty_t + \sum \delta\ Controls_{i,t} + \gamma_i + \tau_{sec} * \zeta_t + \varepsilon$$

Estimation: Ordinary least squares with standard errors adjusted for clustering at the firm and year level. Statistical significance indicated as follows: * p < 0.10, ** p < 0.05, *** p < 0.01. t-statistics in parentheses. **Dependent Variable:** *LI*, defined as income before extraordinary items, depreciation, and amortization cumulated over q quarters divided by the sum of the firm's sales cumulated over the same period. **Variables of Interest:** *PoliticalActivism* is the natural logarithm of (1 + *PoliticiansPower*), where *PoliticiansPower* is the sum of elected politicians supported by the firm in year *t*, weighted by the candidates' committee ranking, incumbency status, and voting power. *PolicyUncertainty* is an indicator set to 1 if the average EPU index developed in Baker et al. (2016) during a quarter-year is in the top quartile of the distribution, and 0 otherwise. **Control Variables:** Defined as in Appendix A.

	+1 QTR		**+1 YR**		**+2 YR**	
	1	**2**	**3**	**4**	**5**	**6**
PoliticalActivism*PolicyUncertainty	**0.001****	**0.002*****	**0.001*****	**0.001*****	**0.001*****	**0.001*****
	(2.496)	**(2.890)**	**(2.808)**	**(3.129)**	**(2.919)**	**(3.103)**
PoliticalActivism	0.001	-0.001	0.000	-0.001	-0.001	-0.001
	(0.694)	(-0.976)	(0.059)	(-0.945)	(-0.796)	(-1.261)
PolicyUncertainty	-0.009	-0.006	-0.002	0.000	-0.000	0.001
	(-1.447)	(-1.029)	(-0.725)	(0.034)	(-0.393)	(0.892)
CASH	0.092***	-0.110***	0.104***	-0.047***	0.112***	0.010
	(49.075)	(-6.522)	(76.522)	(-3.207)	(95.329)	(0.717)
DIV		-0.019		-0.008		-0.009
		(-1.623)		(-0.847)		(-0.951)
INV		0.005**		0.003		0.002
		(2.339)		(1.609)		(1.008)
LEV		0.021		-0.061		-0.100**
		(0.301)		(-1.214)		(-2.260)
OCF		0.023**		0.026***		0.024***
		(2.394)		(3.127)		(3.352)
Q		0.274***		0.296***		0.196***
		(6.848)		(11.860)		(10.681)
SALECH		0.016***		0.014***		0.012***
		(6.492)		(6.107)		(6.312)
SIZE		0.041***		0.009***		0.005***
		(6.904)		(4.296)		(3.904)
TANG		0.025***		0.017***		0.011***
		(9.793)		(8.705)		(5.835)
Firm and FamaFrench17*Year FE	Yes	Yes	Yes	Yes	Yes	Yes
# Obs.	219,136	219,136	196,331	196,331	165,478	165,478
Adj. R^2	0.549	0.574	0.654	0.679	0.709	0.725

Table 4: Alternative Measures of Market Power

Panel A: Markup as in De Loecker et al. (2020)

$$Markup_{i,y+q} = \beta_1 PoliticalActivism_{i,y} * PolicyUncertainty_y + \beta_2 PoliticalActivism_{i,y} + \beta_3 PolicyUncertainty_y + \sum \delta\ Controls_{i,y} + \gamma_i + \tau_{sec} * \zeta_y + \varepsilon$$

Estimation: Ordinary least squares with standard errors adjusted for clustering at the firm and year level. Statistical significance indicated as follows: * p < 0.10, ** p < 0.05, *** p < 0.01. t-statistics in parentheses. **Dependent Variable:** *Markup*, calculated as in De Loecker et al. (2020). **Variables of Interest:** *PoliticalActivism* is the natural logarithm of (1 +*GovRelations*), where *GovRelations* is the number of government relations staff employed by the firm, in columns (1) to (3); the natural logarithm of (1 + *PoliticiansPower*), where *PoliticiansPower* is the sum of elected politicians supported by the firm in year *t*, weighted by the candidates' committee ranking, incumbency status, and voting power, in columns (4) to (6). *PolicyUncertainty* is an indicator set to 1 if the average EPU index developed in Baker et al. (2016) during a year is in the top quartile of the distribution, and 0 otherwise. **Control Variables:** Defined as in Appendix A.

PoliticalActivism =	**Government Relations Office**			**Power of Supported Politicians**		
	YR	**+1 YR**	**+2 YR**	**YR**	**+1 YR**	**+2 YR**
	1	**2**	**3**	**4**	**5**	**6**
PoliticalActivism*PolicyUncertainty	**0.011*** **	**0.007***	**0.002**	**0.003*** **	**0.002** **	**0.000**
	(3.161)	**(1.855)**	**(0.428)**	**(3.007)**	**(2.651)**	**(0.075)**
PoliticalActivism	0.004	0.004	0.004*	-0.000	-0.000	0.002
	(1.191)	(1.054)	(1.937)	(-0.313)	(-0.243)	(1.135)
CASH	-0.063***	-0.057***	-0.028*	-0.063***	-0.057***	-0.028*
	(-5.185)	(-3.700)	(-1.819)	(-5.210)	(-3.718)	(-1.802)
DIV	0.005*	-0.006*	-0.015***	0.005*	-0.006*	-0.015***
	(2.026)	(-1.978)	(-3.861)	(2.003)	(-1.987)	(-3.879)
INV	-0.018	-0.049**	-0.021	-0.018	-0.049**	-0.020
	(-0.845)	(-2.381)	(-1.117)	(-0.855)	(-2.402)	(-1.095)
LEV	0.027**	0.047***	0.024*	0.027**	0.047***	0.024*
	(2.720)	(4.535)	(2.052)	(2.696)	(4.490)	(2.033)
OCF	0.618***	0.426***	0.079***	0.618***	0.426***	0.079***
	(18.421)	(14.129)	(3.448)	(18.381)	(14.104)	(3.457)
Q	0.011***	0.007*	0.005***	0.011***	0.006*	0.005***
	(5.786)	(1.960)	(3.608)	(5.752)	(1.943)	(3.641)
SALECH	0.058***	0.046***	0.009	0.058***	0.046***	0.009
	(13.577)	(7.704)	(1.649)	(13.658)	(7.758)	(1.685)
SIZE	0.030***	0.029***	-0.002	0.030***	0.029***	-0.002
	(14.921)	(14.361)	(-0.599)	(14.773)	(14.222)	(-0.696)
TANG	-0.274***	-0.186***	-0.061***	-0.274***	-0.186***	-0.061***
	(-17.117)	(-9.981)	(-3.574)	(-17.183)	(-9.985)	(-3.568)
Firm and FamaFrench17*Year FE	Yes	Yes	Yes	Yes	Yes	Yes
# Obs.	51,910	46,555	34,397	51,910	46,555	34,397
Adj. R^2	0.770	0.713	0.717	0.770	0.713	0.717

Panel B: Producer Price Index

$$RPPI_{ind,t+q} = \beta_1 PoliticalActivism_{ind,t} * PolicyUncertainty_t + \beta_2 PoliticalActivism_{ind,t} + \beta_3 PolicyUncertainty_t + \sum \delta\, Controls_{ind,t} + \gamma_{ind} + \zeta_t + \varepsilon$$

Estimation: Ordinary least squares with robust standard errors. Statistical significance indicated as follows: * p < 0.10, ** p < 0.05, *** p < 0.01. t-statistics in parentheses. **Dependent Variable:** *RPPI*, the relative producer price index, calculated as the difference between industry-specific producer price index and consumer price index. **Variables of Interest:** *PoliticalActivism* is the natural logarithm of (1 +*GovRelations*), where *GovRelations* is the average number of government relations staff employed by the industry, in columns (1) to (3); the natural logarithm of (1 + *PoliticiansPower*), where *PoliticiansPower* is the sum of elected politicians supported by the firm in year *t*, weighted by the candidates' committee ranking, incumbency status, and voting power, in columns (4) to (6). *PolicyUncertainty* is an indicator set to 1 if the average EPU index developed in Baker et al. (2016) during a quarter-year is in the top quartile of the distribution, and 0 otherwise. **Control Variables:** Defined as in Appendix A.

PoliticalActivism =	**Government Relations Office**			**Power of Supported Politicians**		
	+1 QTR	**+1 YR**	**+2 YR**	**+1 QTR**	**+1 YR**	**+2 YR**
	1	**2**	**3**	**4**	**5**	**6**
PoliticalActivism*PolicyUncertainty	**0.015**	**0.031****	**0.051*****	**0.009****	**0.014*****	**0.016*****
	(0.981)	**(2.229)**	**(3.744)**	**(2.131)**	**(3.856)**	**(5.168)**
PoliticalActivism	0.014	0.005	-0.021	-0.025***	-0.024***	-0.021***
	(0.696)	(0.261)	(-1.192)	(-6.033)	(-5.867)	(-4.780)
IndADV	0.192	-0.292	-0.466*	0.138	-0.340	-0.528**
	(0.590)	(-0.914)	(-1.724)	(0.431)	(-1.086)	(-1.964)
IndPPE	-0.123**	-0.075	-0.041	-0.113**	-0.070	-0.043
	(-2.547)	(-1.516)	(-0.909)	(-2.309)	(-1.385)	(-0.936)
IndRD	1.018	0.733	-0.740	1.052	0.694	-0.732
	(0.714)	(0.516)	(-0.522)	(0.746)	(0.492)	(-0.517)
IndSalesGrowth	-0.002	-0.002	0.002	-0.003	-0.002	0.001
	(-0.189)	(-0.244)	(0.244)	(-0.286)	(-0.307)	(0.144)
Quantity	-0.962***	-0.922***	-0.811***	-0.963***	-0.924***	-0.816***
	(-23.858)	(-19.467)	(-17.068)	(-23.894)	(-19.499)	(-17.329)
Δ Materials ($)	0.346**	0.154	0.071	0.357**	0.163*	0.081
	(2.448)	(1.615)	(0.724)	(2.536)	(1.726)	(0.831)
Δ Wages ($)	0.271	-0.041	-0.116	0.248	-0.057	-0.130
	(0.791)	(-0.296)	(-0.787)	(0.722)	(-0.398)	(-0.866)
Industry and Year*Quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
# Obs.	1,010	941	849	1,010	941	849
Adj. R^2	0.937	0.947	0.961	0.939	0.948	0.962

Table 5: Enactment of Favorable Legislation

$$LI_{i,t,e} = \beta_1 PoliticalActivism_{i,e} * Enactment_{t,e} + \beta_2 Lobbying_{i,e} * Enactment_{t,e} + \beta_3 PoliticalActivism_{i,e} + \beta_4 Lobbying_{i,e} + \beta_5 Enactment_{t,e} + \sum \delta\ Controls_{i,t,e} + \gamma_{i,e} + \zeta_{t,e} + \varepsilon_{i,t,e}$$

Estimation: Ordinary least squares with standard errors adjusted for clustering at the firm level. Statistical significance indicated as follows: * p < 0.10, ** p < 0.05, *** p < 0.01. t-statistics in parentheses. **Dependent Variable:** *LI* is defined as income before extraordinary items, depreciation, and amortization divided by the firm's sales. **Variables of Interest:** *PoliticalActivism* is firm *i*'s average political activism in the pre-enactment period. *Enactment* is an indicator set to 1 during the post-enactment period, 0 during the pre-enactment period. *Lobbying* is an indicator set to 1 if the firm lobbied in favor of the legislation, and 0 otherwise **Control Variables:** Defined as in Appendix A.

	Enactment of Favorable Legislation			
PoliticalActivism =	**Government Relations Office**		**Power of Supported Politicians**	
	1	**2**	**3**	**4**
Activism * Enactment	**0.006****		**0.008*****	
	(2.187)		**(3.164)**	
ActivismOnly * Enactment		**0.008*****		**0.010*****
		(2.883)		**(3.822)**
Activism&Lobbying * Enactment		**0.012*****		**0.013*****
		(4.683)		**(4.594)**
Lobbying * Enactment	**0.009*****	**0.012****	**0.008*****	**0.007**
	(3.315)	**(2.012)**	**(2.896)**	**(1.167)**
Activism	0.023***		-0.029	
	(3.427)		(-1.588)	
ActivismOnly		0.020***		-0.033*
		(2.929)		(-1.763)
Activism&Lobbying		0.027***		-0.023
		(3.899)		(-1.273)
Lobbying	-0.002	-0.010**	0.002	-0.013**
	(-0.657)	(-2.124)	(0.684)	(-2.507)
Enactment	-0.003***	-0.003***	-0.005***	-0.005***
	(-3.022)	(-2.987)	(-4.472)	(-4.456)
Controls	Yes	Yes	Yes	Yes
Firm*Event FE	Yes	Yes	Yes	Yes
Year-Quarter*Event FE	Yes	Yes	Yes	Yes
# Obs.	314,618	314,618	314,618	314,618
Adj. R^2	0.716	0.715	0.715	0.715

Table 6: Macroeconomic Uncertainty

$$LI_{i,t+q} = \alpha + \beta_1 PoliticalActivism_{i,t} * PolicyUncertainty_t + \beta_2 PoliticalActivism_{i,t} * MacroUncertainty_t + \beta_3 PoliticalActivism_{i,t} + \beta_4 PolicyUncertainty_{i,t} + \beta_5 MacroUncertainty_{i,t} + \sum \delta\ Controls_{i,t} + \gamma_i + \tau_{sec} * \zeta_t + \varepsilon$$

Estimation: Ordinary least squares with standard errors adjusted for clustering at the firm and year level. Statistical significance indicated as follows: * p < 0.10, ** p < 0.05, *** p < 0.01. t-statistics in parentheses. **Dependent Variable:** *LI*, defined as income before extraordinary items, depreciation, and amortization cumulated over q quarters divided by the sum of the firm's sales cumulated over the same period. **Variables of Interest:** *PoliticalActivism* is the natural logarithm of (1 + *GovRelations*) in columns (1) through (3), the natural logarithm of (1 + *PoliticiansPower*) in columns (4) through (6). *PolicyUncertainty* is an indicator set to 1 if the average EPU index developed in Baker et al. (2016) during a quarter-year is in the top quartile of the distribution, and 0 otherwise. *MacroUncertainty* is an indicator set to 1 if the average economic uncertainty index developed in Jurado et al. (2015) during a quarter-year is in the top quartile of the distribution, and 0 otherwise. **Control Variables:** Defined as in Appendix A.

PoliticalActivism =	**Government Relations Office**			**Power of Supported Politicians**		
	+1 QTR	**+1 YR**	**+2 YR**	**+1 QTR**	**+1 YR**	**+2 YR**
	1	**2**	**3**	**4**	**5**	**6**
PoliticalActivism*PolicyUncertainty	**0.006*** **	**0.006*** **	**0.004** **	**0.002*** **	**0.002*** **	**0.001*** **
	(2.904)	**(3.101)**	**(2.552)**	**(2.896)**	**(3.207)**	**(3.099)**
PoliticalActivism*MacroUncertainty	**-0.002**	**-0.001**	**0.000**	**-0.000**	**-0.000**	**0.000**
	(-0.729)	**(-0.369)**	**(0.233)**	**(-0.309)**	**(-0.336)**	**(0.499)**
PoliticalActivism	0.003	0.004	0.004	-0.001	-0.001	-0.001
	(0.984)	(1.557)	(1.582)	(-0.916)	(-0.886)	(-1.283)
PolicyUncertainty	-0.005	0.001	0.002*	-0.006	-0.000	0.001
	(-0.902)	(0.571)	(1.891)	(-1.035)	(-0.000)	(0.873)
MacroUncertainty	-0.000	-0.001	-0.001	-0.000	-0.001	-0.001
	(-0.057)	(-0.632)	(-0.715)	(-0.055)	(-0.518)	(-0.783)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm and FamaFrench17*Year FE	Yes	Yes	Yes	Yes	Yes	Yes
# Obs.	219,136	196,331	165,478	219,136	196,331	165,478
Adj. R^2	0.574	0.679	0.725	0.574	0.679	0.725

Table 7: Investment Timing

$$SPIKE_{i,t} = \beta_1 PoliticalActivism_{i,t} * PolicyUncertainty_t + \beta_2\ PoliticalActivism_{i,t} + \beta_3\ PolicyUncertainty_{i,t} + \gamma_1 Q_{i,t} + \gamma_2 CF_{i,t} + \sum \delta\ Controls_{i,t}\ + \gamma_i + \tau_{sec} * \zeta_t + \varepsilon$$

Estimation: Ordinary least squares with standard errors adjusted for clustering at the firm and year level. Statistical significance indicated as follows: * p < 0.10, ** p < 0.05, *** p < 0.01. t-statistics in parentheses. **Dependent Variable:** *SPIKE*, defined as an indicator variable set to 1 if the firm's capex level in the quarter is at least three times the historical median capex level for the firm, and 0 otherwise. **Variables of Interest:** *PoliticalActivism* is the natural logarithm of (1 + *GovRelations*) in columns (1) and (2), the natural logarithm of (1 + *PoliticiansPower*) in columns (3) and (4). *PolicyUncertainty* is an indicator set to 1 if the average EPU index developed in Baker et al. (2016) during a quarter-year is in the top quartile of the distribution, and 0 otherwise. *MacroUncertainty* is an indicator set to 1 if the average economic uncertainty index developed in Jurado et al. (2015) during a quarter-year is in the top quartile of the distribution, and 0 otherwise. **Control Variables:** Defined as in Appendix A.

PoliticalActivism =	**Government Relations Office**		**Power of Supported Politicians**	
	1	**2**	**3**	**4**
PoliticalActivism * PolicyUncertainty	**0.010****	**0.010****	**0.003*****	**0.003*****
	(2.690)	**(2.753)**	**(3.387)**	**(3.341)**
PoliticalActivism	-0.002	-0.002	-0.003**	-0.004**
	(-0.528)	(-0.489)	(-2.210)	(-2.226)
PolicyUncertainty	-0.004**	-0.004**	-0.006***	-0.006***
	(-2.668)	(-2.634)	(-3.688)	(-3.598)
PoliticalActivism * MacroUncertainty		**-0.000**		**0.001**
		(-0.063)		**(0.607)**
MacroUncertainty		0.001		0.001
		(0.343)		(0.157)
Q	0.033***	0.033***	0.033***	0.033***
	(11.104)	(11.114)	(11.152)	(11.178)
OCF	0.073***	0.073***	0.073***	0.073***
	(3.175)	(3.180)	(3.174)	(3.180)
Controls	Yes	Yes	Yes	Yes
Firm & FamaFrench17*Year FE	Yes	Yes	Yes	Yes
# Obs.	219,136	219,136	219,136	219,136
Adj. R^2	0.149	0.149	0.149	0.149

Table 8: Business Dynamics

Panel A: Government Relations Office

$$Y_{i,y+q} = \beta_1 PoliticalActivism_{i,y} * PolicyUncertainty_y + \beta_2 PoliticalActivism_{i,y} + \beta_3 PolicyUncertainty_y + \sum \delta\ Controls_{i,y} + \gamma_i + \tau_{sec} * \zeta_y + \varepsilon$$

Estimation: Poisson estimation with standard errors adjusted for clustering at the year level. Statistical significance indicated as follows: * p < 0.10, ** p < 0.05, *** p < 0.01. t-statistics in parentheses. **Dependent Variable:** *Job Creation*, defined as the number of jobs created by new firms during the year, in columns (1)-(3); *Job Destruction*, defined as the number of jobs lost from firms going out of business during the year, in columns (4)-(6); or *Number of Firms*, defined as the number of firms in the industry during the year, in columns (7)-(9). **Variables of Interest:** *PoliticalActivism* is the industry-year average of *GovRelations*, where *GovRelations* is the number of government relations staff employed by the firm in year *t*. *PolicyUncertainty* is an indicator set to 1 if the average EPU index developed in Baker et al. (2016) during a year is in the top quartile of the distribution and 0 otherwise. **Control Variables:** Defined as in Appendix A.

PoliticalActivism =	**Job Creation**			**Job Destruction**			**Number of Firms**		
	YR	**+1 YR**	**+2 YR**	**YR**	**+1 YR**	**+2 YR**	**YR**	**+1 YR**	**+2 YR**
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
PoliticalActivism*PolicyUncertainty	**-0.153*** **	**-0.243*** **	**-0.189***	**-0.124*** **	**-0.121*** **	**-0.089** **	**-0.024** **	**-0.025** **	**-0.025** **
	(-3.246)	**(-4.503)**	**(-1.833)**	**(-3.452)**	**(-2.887)**	**(-2.058)**	**(-2.368)**	**(-2.327)**	**(-2.300)**
PoliticalActivism	-0.013	0.033	0.011	0.002	0.030	-0.009	0.014	0.010	0.004
	(-0.596)	(1.382)	(0.361)	(0.091)	(1.066)	(-0.290)	(1.418)	(1.120)	(0.434)
IndADV	-7.297***	-10.388***	-10.993***	-5.057***	-6.227***	-5.482***	-2.039***	-2.773***	-3.706***
	(-3.326)	(-5.648)	(-6.043)	(-3.699)	(-3.971)	(-2.885)	(-2.736)	(-3.445)	(-4.020)
IndRD	0.812	0.677	0.659	0.079	-0.292	0.577	-0.943	-0.705	-0.634
	(0.596)	(0.527)	(0.470)	(0.052)	(-0.190)	(0.417)	(-1.602)	(-1.093)	(-0.881)
IndSalesGrowth	-0.006	-0.000	0.012	-0.074***	-0.071***	-0.026	-0.006	0.002	0.004
	(-0.310)	(-0.011)	(0.563)	(-3.559)	(-3.886)	(-1.168)	(-0.480)	(0.121)	(0.327)
Industry and Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
# Obs.	5,598	5,313	5,032	5,598	5,313	5,032	5,598	5,313	5,032
Wald chi^2	53.01	123.21	49.48	38.65	70.79	14.68	12.07	16.40	20.38

Panel B: Power of Supported Politicians

$$Y_{i,y+q} = \beta_1 PoliticalActivism_{i,y} * PolicyUncertainty_y + \beta_2 PoliticalActivism_{i,y} + \beta_3 PolicyUncertainty_y + \sum \delta\ Controls_{i,y} + \gamma_i + \tau_{sec} * \zeta_y + \varepsilon$$

Estimation: Poisson estimation with standard errors adjusted for clustering at the year level. Statistical significance indicated as follows: * p < 0.10, ** p < 0.05, *** p < 0.01. t-statistics in parentheses. **Dependent Variable:** *Job Creation*, defined as the number of jobs created by new firms during the year, in columns (1)-(3); *Job Destruction*, defined as the number of jobs lost from firms going out of business during the year, in columns (4)-(6); or *Number of Firms*, defined as the number of firms in the industry during the year, in columns (7)-(9). **Variables of Interest:** *PoliticalActivism* is the industry-year average of *PoliticiansPower*, where *PoliticiansPower* is the sum of elected politicians supported by the firm in year *t*, weighted by the candidates' committee ranking, incumbency status, and voting power. *PolicyUncertainty* is an indicator set to 1 if the average EPU index developed in Baker et al. (2016) during a year is in the top quartile of the distribution, and 0 otherwise. **Control Variables:** Defined as in Appendix A.

PoliticalActivism =	**Job Creation**			**Job Destruction**			**Number of Firms**		
	YR	**+1 YR**	**+2 YR**	**YR**	**+1 YR**	**+2 YR**	**YR**	**+1 YR**	**+2 YR**
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
PoliticalActivism*PolicyUncertainty	**-0.0003**	**-0.0007****	**-0.0006**	**-0.0004**	**-0.0005*****	**-0.0005****	**-0.0001**	**-0.0001***	**-0.0001***
	(-0.871)	**(-2.268)**	**(-1.332)**	**(-1.295)**	**(-2.791)**	**(-2.518)**	**(-1.071)**	**(-1.692)**	**(-1.907)**
PoliticalActivism	0.0003***	0.0004***	0.0005***	0.0003***	0.0003***	0.0003***	-0.0000*	-0.0000	-0.0000
	(2.993)	(4.233)	(4.613)	(2.822)	(2.577)	(2.593)	(-1.779)	(-1.629)	(-1.594)
IndADV	-7.1612***	-10.1933***	-10.7445***	-4.8816***	-6.0644***	-5.3165***	-2.0467***	-2.7829***	-3.7288***
	(-3.279)	(-5.650)	(-6.140)	(-3.552)	(-3.824)	(-2.834)	(-2.736)	(-3.445)	(-4.046)
IndRD	0.6785	0.5334	0.4560	-0.0130	-0.3723	0.4743	-0.9119	-0.6779	-0.6147
	(0.492)	(0.405)	(0.317)	(-0.009)	(-0.243)	(0.342)	(-1.543)	(-1.045)	(-0.854)
IndSalesGrowth	-0.0047	0.0028	0.0136	-0.0724***	-0.0695***	-0.0259	-0.0061	0.0021	0.0047
	(-0.234)	(0.140)	(0.644)	(-3.586)	(-3.758)	(-1.165)	(-0.456)	(0.147)	(0.355)
Industry and Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
# Obs.	5,598	5,313	5,032	5,598	5,313	5,032	5,598	5,313	5,032
Wald chi^2	26.10	71.82	67.29	33.53	62.36	20.52	19.03	22.81	34.48

Table 9: Trade Policy Uncertainty and Foreign Competition

Panel A: Government Relations Office

$$Y_{i,y+q} = \beta_1 PoliticalActivism_{i,y} * PolicyUncertainty_y + \beta_2 PoliticalActivism_{i,y} + \beta_3 PolicyUncertainty_y + \sum \delta\, Controls_{i,y} + \gamma_i + \tau_{sec} * \zeta_y + \varepsilon$$

Estimation: Ordinary least squares with standard errors adjusted for clustering at the firm-quarter level in columns (1)-(4) and at the industry-quarter level in columns (5)-(7). Statistical significance indicated as follows: * p < 0.10, ** p < 0.05, *** p < 0.01. t-statistics in parentheses. **Dependent Variable:** *LI* is defined as income before extraordinary items, depreciation, and amortization divided by the firm's sales; *SPIKE* is an indicator set to 1 if the firm's capex level in the quarter is at least three times the historical median capex level for the firm, 0 otherwise; *Import Penetration* is the ratio of industry imports over industry production. **Variables of Interest:** *PoliticalActivism* is the natural logarithm of (1 + *GovRelations*) in columns (1) through (4), the average of the natural logarithm of (1 + *GovRelations*) in columns (5) through (7). *TradePolicyUncertainty* is an indicator set to 1 if the average trade uncertainty index from Caldara et al. (2020) is in the top quartile of the distribution, and 0 otherwise. **Control Variables:** Defined as in Appendix A.

Outcome Variable	**LI**			**SPIKE**	**Import Penetration**		
	+1 QTR	**+1 YR**	**+2 YR**	**QTR**	**+1 QTR**	**+1 YR**	**+2 YR**
	1	**2**	**3**	**4**	**5**	**6**	**7**
PoliticalActivism * TradePolicyUncertainty	**0.006****	**0.006*****	**0.005****	**0.007*****	**-0.007*****	**-0.004****	**0.000**
	(2.262)	**(2.603)**	**(2.286)**	**(2.689)**	**(-3.852)**	**(-2.421)**	**(0.029)**
PoliticalActivism	-0.011	-0.011	-0.010	-0.001	0.007	0.011*	0.011
	(-1.085)	(-1.102)	(-1.039)	(-0.142)	(0.787)	(1.823)	(1.466)
TradePolicyUncertainty	-0.001	-0.001	0.000	-0.001	0.002	0.004	0.002
	(-0.483)	(-0.648)	(0.125)	(-0.378)	(0.913)	(1.558)	(0.767)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm and Year FE	Yes	Yes	Yes	Yes	No	No	No
Industry and Year FE	No	No	No	No	Yes	Yes	Yes
Sample unit	Firm-quarter	Firm-quarter	Firm-quarter	Firm-quarter	Industry-quarter	Industry-quarter	Industry-quarter
# Obs.	47,828	44,580	34,847	47,828	414	414	414
Adj. R^2	0.664	0.802	0.863	0.181	0.971	0.982	0.985

Panel B: Power of Supported Politicians

$$Y_{i,y+q} = \beta_1 PoliticalActivism_{i,y} * PolicyUncertainty_y + \beta_2 PoliticalActivism_{i,y} + \beta_3 PolicyUncertainty_y + \sum \delta\ Controls_{i,y} + \gamma_i + \tau_{sec} * \zeta_y + \varepsilon$$

Estimation: Ordinary least squares with standard errors adjusted for clustering at the firm level in columns (1)-(4), year-quarter in columns (5)-(7). Statistical significance indicated as follows: * p < 0.10, ** p < 0.05, *** p < 0.01. t-statistics in parentheses. **Dependent Variable:** *LI* is defined as income before extraordinary items, depreciation, and amortization divided by the firm's sales; *SPIKE* is an indicator set to 1 if the firm's capex level in the quarter is at least three times the historical median capex level for the firm, and 0 otherwise; *Import Penetration* is the ratio of industry imports over industry production. **Variables of Interest:** *PoliticalActivism* is the natural logarithm of (1 + *PoliticiansPower*) in columns (1) through (4), the average of the natural logarithm of (1 + *PoliticiansPower*) in columns (5) through (7). *TradePolicyUncertainty* is an indicator set to 1 if the average trade uncertainty index from Caldara et al. (2020) is in the top quartile of the distribution, and 0 otherwise. **Control Variables:** Defined as in Appendix A.

Outcome Variable	**LI**			**SPIKE**	**Import Penetration**		
	+1 QTR	**+1 YR**	**+2 YR**	**QTR**	**+1 QTR**	**+1 YR**	**+2 YR**
	1	**2**	**3**	**4**	**5**	**6**	**7**
PoliticalActivism * Trade Policy Uncertainty	**0.002****	**0.002*****	**0.002*****	**0.002*****	**-0.003*****	**-0.003*****	**-0.002****
	(2.304)	**(2.667)**	**(2.800)**	**(2.841)**	**(-6.168)**	**(-6.082)**	**(-2.634)**
PoliticalActivism	-0.002	-0.001	-0.001	0.000	-0.002	-0.002**	-0.002*
	(-0.730)	(-0.688)	(-0.320)	(0.335)	(-1.706)	(-2.658)	(-1.886)
Trade Policy Uncertainty	-0.002	-0.002	-0.001	-0.003	0.011***	0.013***	0.009**
	(-0.996)	(-1.565)	(-1.007)	(-0.770)	(4.795)	(3.898)	(2.230)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm and Year FE	Yes	Yes	Yes	Yes	No	No	No
Industry and Year FE	No	No	No	No	Yes	Yes	Yes
Sample unit	Firm-quarter	Firm-quarter	Firm-quarter	Firm-quarter	Industry-quarter	Industry-quarter	Industry-quarter
# Obs.	47,829	44,580	34,847	47,829	414	414	414
Adj. R^2	0.664	0.802	0.863	0.181	0.972	0.982	0.985

Table 10: Interaction between Political Activism and Firm Size

$$LI_{i,t+q} = \alpha + \beta_1 PoliticalActivismLarge_{i,t} * PolicyUncertainty_t + \beta_2 NoActivismLarge_{i,t} * PolicyUncertainty_t + \beta_3 PoliticalActivismSmall_{i,t} * PolicyUncertainty_t + \beta_4 PoliticalActivismLarge_{i,t} + \beta_5 NoActivismLarge_{i,t} + \beta_6 PoliticalActivismSmall_{i,t} + \sum \delta\, Controls_{i,t} + \gamma_i + \tau_{sec} * \zeta_t + \varepsilon$$

Estimation: Ordinary least squares with standard errors adjusted for clustering at the firm and year level. Statistical significance indicated as follows: * p < 0.10, ** p < 0.05, *** p < 0.01. t-statistics in parentheses. **Dependent Variable:** *LI*, defined as income before extraordinary items, depreciation, and amortization cumulated over q quarters divided by the sum of the firm's sales cumulated over the same period. **Variables of Interest:** *PoliticalActivismLarge* is an indicator variable equal to 1 if the firm is politically active and has *SIZE* above the median of the sample distribution, and 0 otherwise. *NoActivismLarge* is an indicator variable equal to 1 if the firm is not politically active and has *SIZE* above the median of the sample distribution, and 0 otherwise. *PoliticalActivismSmall* is an indicator equal to 1 if the firm is politically active and has *SIZE* below the median of the sample distribution, and 0 otherwise. *PolicyUncertainty* is an indicator set to 1 if the average EPU index developed in Baker et al. (2016) during a quarter-year is in the top quartile of the distribution, and 0 otherwise. **Control Variables:** Defined as in Appendix A.

PoliticalActivism =	**Government Relations Office**			**Power of Supported Politicians**		
	+1 QTR	**+1 YR**	**+2 YR**	**+1 QTR**	**+1 YR**	**+2 YR**
	1	**2**	**3**	**4**	**5**	**6**
PoliticalActivismLarge*PolicyUncertainty	**0.012****	**0.012*****	**0.012*****	**0.009****	**0.010****	**0.011*****
	(2.706)	**(2.936)**	**(3.034)**	**(2.121)**	**(2.650)**	**(3.162)**
NoActivismLarge *PolicyUncertainty	**0.001**	**0.004**	**0.005***	**0.001**	**0.003**	**0.004**
	(0.375)	**(1.253)**	**(1.912)**	**(0.249)**	**(1.060)**	**(1.493)**
PoliticalActivismSmall*PolicyUncertainty	0.020	0.008	-0.001	0.010**	0.006*	0.004
	(1.661)	(1.021)	(-0.194)	(2.566)	(1.855)	(1.008)
PoliticalActivismLarge	0.004	0.003	0.001	-0.003	-0.005	-0.009*
	(0.843)	(0.743)	(0.130)	(-0.542)	(-1.143)	(-1.923)
NoActivismLarge	0.002	-0.001	-0.004	0.001	-0.001	-0.005*
	(0.643)	(-0.300)	(-1.540)	(0.441)	(-0.551)	(-1.798)
PoliticalActivismSmall	0.002	0.003	-0.000	-0.006	-0.007*	-0.010**
	(0.254)	(0.551)	(-0.043)	(-1.486)	(-1.754)	(-2.301)
p-value(β_1- β_2)	**0.007**	**0.004**	**0.012**	**0.014**	**0.010**	**0.020**
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm and FamaFrench17*Year FE	Yes	Yes	Yes	Yes	Yes	Yes
# Obs.	219,136	196,331	165,478	219,136	196,331	165,478
Adj. R^2	0.574	0.679	0.725	0.574	0.679	0.725

Figure 1: Dynamics for the Relation between Political Activism and Market Power

The figure documents the yearly relation between political activism and market power, measured using the Lerner index, during the period 2005-2014 (relative to the baseline year 2009), namely around the great recession. Reported coefficients are estimated using the same set of controls and fixed effects reported in Equation (1).

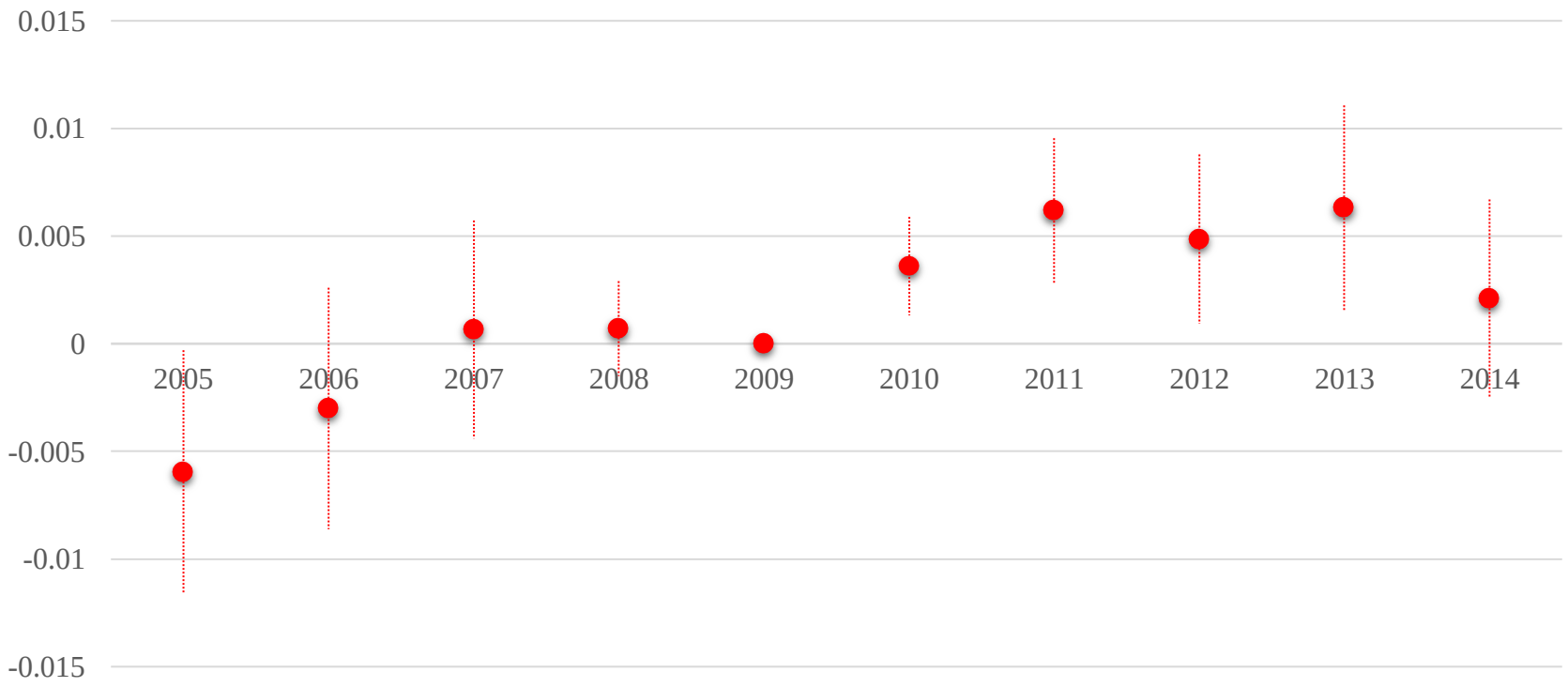
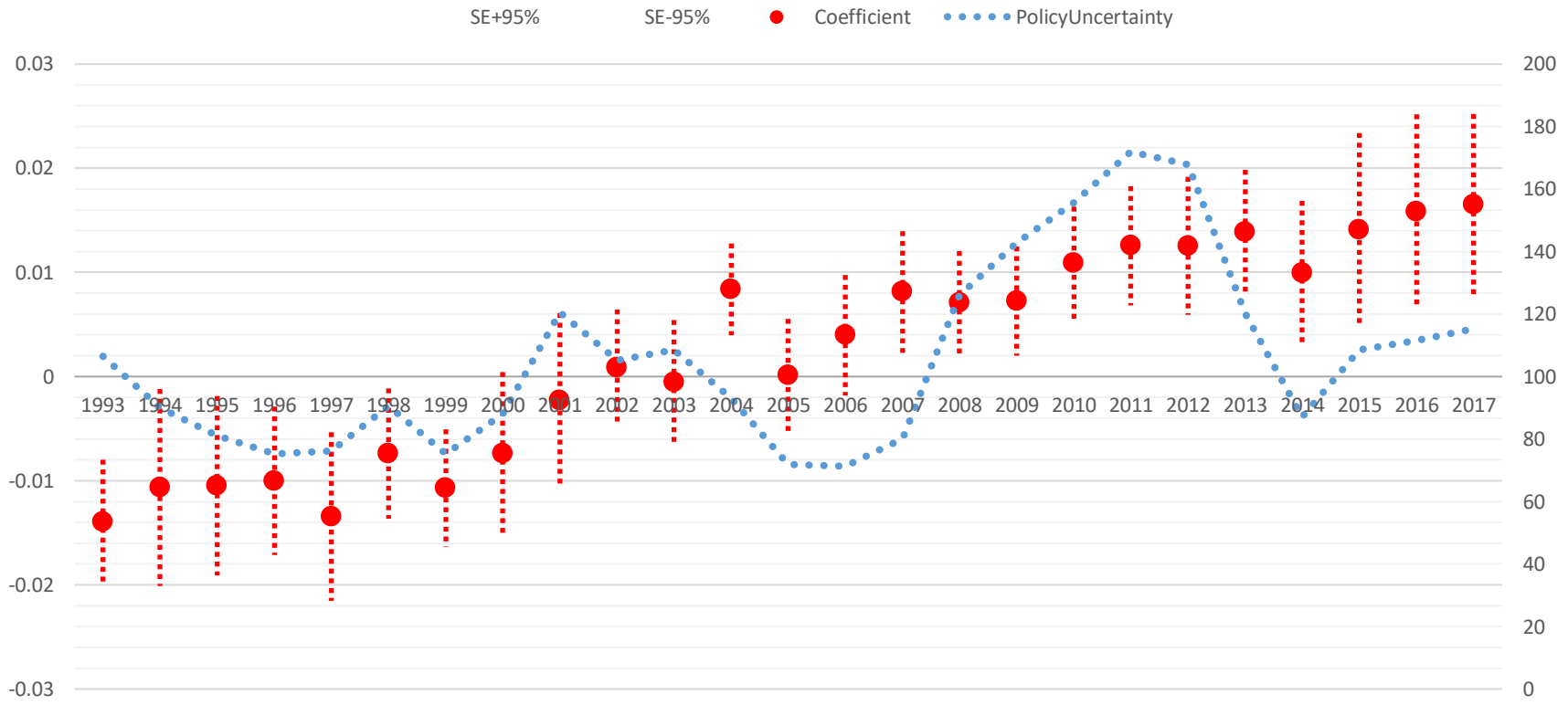


Figure 2: Political Activism and Market Power by Year

The figure documents two trends. (i) The association between political activism and market power, measured using the Lerner index, by year. Reported coefficients are the sum of the coefficient on *PoliticalActivism*, measured as the natural logarithm of (1 + *GovRelations*), and the coefficient on its interaction with year indicators, in addition to the same set of controls and fixed effects reported in Equation (1). (ii) The trend followed by the EPU index developed in Baker et al. (2016) over time. The scales for the two series are reported to the right and left of the figure, respectively.



Appendix A: Variable Definitions

Outcome Variables	Variable Definitions
LI	Lerner index, calculated as a firm's operating income (oiadpq) divided by sales (saleq).
Markup	The price-to-marginal cost ratio, where the marginal cost is estimated using the ratio of sales to cost of goods sold to measure the revenue share of the variable input and nonparametric, industry-year specific cost shares to measure output elasticity of the variable input.
RPPI	The difference between industry-specific producer price index and consumer price index.
SPIKE	An indicator variable equal to 1 if the firm shows investments (capxq / l.atq) three times larger than the median investment over the firm's history, and 0 otherwise.
Job Creation	The number of jobs created in the industry by new firms during the year.
Job Destruction	The number of jobs lost in the industry from firms going out of business during the year.
Number of Firms	The number of firms in the industry during the year.
Import Penetration	The ratio of industry imports over industry production during the quarter.
Variables of Interest	
GovRelations	The number of government relations staff employed by the firm.
PoliticiansPower	The sum of elected politicians supported by the firm in year *t*, weighted by the candidates' committee ranking, incumbency status, and voting power
Uncertainty Variables	
PolicyUncertainty	An indicator variable set to 1 if the average Economic Policy Uncertainty index developed by Baker et al. (2016) during a quarter-year is in the top quartile of the sample distribution, and 0 otherwise.
Enactment	An indicator variable set to 1 in the period during and following the enactment of favorable legislation, and 0 in the period before the enactment of favorable legislation.
MacroUncertainty	An indicator variable set to 1 if the average economic uncertainty index developed in Jurado et al. (2015) during a quarter-year is in the top quartile of the sample distribution, and 0 otherwise.
Other Variables	
CASH	Lagged cash holdings (cheq / atq).
DIV	Lagged indicator identifying dividend-distributing firms.
INV	Lagged investment (capxq / atq).
LEV	Lagged financial leverage ((dlcq + dlttq) / atq).
OCF	Operating cash flow (oancfq / atq).
Q	Lagged Tobin's Q ((atq – ceqq + prccq*cshoq) / atq).
SALECH	Lagged percentage change in sales ((saleq – lagged saleq) / lagged saleq).
SIZE	Lagged natural logarithm of market capitalization (prccq*cshoq).
TANG	Lagged tangibility ratio (ppentq / atq).
indADV	Industry weighted-average ratio of advertisement expenditures over total assets during the period.
indPPE	Industry weighted-average ratio of property, plant and equipment over total assets during the period.
indR&D	Industry weighted-average ratio of property, plant and equipment over total assets.
indSalesGrowth	Industry weighted-average sales growth during the period.
Quantity	Number of units sold by the industry during the year.
ΔMaterials($)	Change in the average industry cost of materials during the year.
ΔWages($)	Change in the average industry wage during the year.

Appendix B: Sample Composition

	# Obs.	# Firms
Compustat Quarterly 1990–2018	1,305,974	32,874
- Drop if 5999 < SIC < 7000	(370,608)	(9,987)
- Drop if assets or sales < $5 mln or price < $5	(424,005)	(5,809)
- Drop if financial variables included in the analysis are missing	(216,659)	(6,735)
- Merge with political activism data	(75,566)	(2,475)
Final Sample 1993-2017	219,136	7,868

Appendix C: Political Activism by Industry

%Active describes the percentage of firms with a government relations office in the industry; *Avg. GovRelations* describes the average number of government relations staff employed by firms in the industry; *%Active Top 4* describes the percentage of firms with a government relations office among the four largest firms in the industry. Industries are defined using the Fama-French 17 industry definition.

Industry (Fama-French 17)	**# Obs**	**%Active**	**Avg. *GovRelations***	**%Active Top 4 Four**
Automobiles	4,420	8.12	0.544	52.24
Chemicals	5,898	16.16	0.511	56.44
Construction and Materials	9,050	7.16	0.183	51.98
Consumer Durables	5,851	2.89	0.044	14.85
Drugs, Soap, Perfumes, Tobacco	8,338	16.67	0.978	61.14
Fabricated Products	2,295	2.35	0.062	3.98
Food	8,412	9.44	0.285	40.8
Machinery and Business Equipment	34,103	7.29	0.299	67.57
Mining and Minerals	3,586	6.39	0.114	18.94
Oil and Petroleum Products	12,429	8.25	0.381	51.25
Retail Stores	16,228	4.03	0.155	30.94
Steel Works Etc	4,084	6.00	0.125	26.55
Textiles, Apparel & Footwear	4,970	3.78	0.054	23.76
Transportation	12,356	14.27	0.948	72.03
Utilities	8,257	19.72	0.584	26.51
Everything Else	78,859	6.66	0.324	50.50

Internet Appendix for:

Political Activism and Market Power*

Elia Ferracuti, Roni Michaely, and Laura A. Wellman

Abstract

We document an increase in market power for politically active firms during times of heightened policy uncertainty, when their information and influence advantage is greater. The effect is long-lasting and stronger for large politically active firms. We show that relatively large investments during high uncertainty periods serve as a potential mechanism for gains in market power. Industries populated with politically active firms experience lower business dynamism and import penetration, consistent with active firms leveraging investment timing to restrict competition. Results suggest that political activism is a likely contributing factor to the dominance of large firms over the last two decades.

Keywords: Market Power, Political Activism, Policy Uncertainty, Competition, Profitability, Profit Margins, Capital Investment.

JEL Codes: D72, G31, G38, P16

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Internet Appendix A: Market Power as Return on Assets

$$ROA_{i,t+q} = \beta_1 PoliticalActivism_{i,t} * PolicyUncertainty_t + \beta_2 PoliticalActivism_{i,t} + \beta_3 PolicyUncertainty_t + \sum \delta\ Controls_{i,t} + \gamma_i + \tau_{sec} * \zeta_t + \varepsilon$$

Estimation: Ordinary least squares with standard errors adjusted for clustering at the firm level. Statistical significance indicated as follows, * p < 0.10, ** p < 0.05, *** p < 0.01. t-statistics in parentheses. **Dependent Variable:** *ROA*, defined as the firm's operating income cumulated over q quarters divided by average total assets. **Variables of interest:** *PoliticalActivism* is the natural logarithm of (1 +*GovRelations*), where *GovRelations* is the number of government relations staff employed by the firm, in columns (1) to (3); the natural logarithm of (1 + *PoliticiansPower*), where *PoliticiansPower* is the sum of elected officials supported by the firm in year *t*, weighted by the candidates' committee ranking, incumbency status, and voting power, in columns (4) to (6). *PolicyUncertainty* is defined as an indicator variable set to 1 if the average EPU index developed in Baker et al. (2016) during a quarter-year is in the top quartile of the distribution, and 0 otherwise. **Control Variables:** Defined as in Appendix A.

PoliticalActivism =	**Government Relations Office**			**Power of Supported Politicians**		
	+1 QTR	**+1 YR**	**+2 YR**	**+1 QTR**	**+1 YR**	**+2 YR**
	1	**2**	**3**	**4**	**5**	**6**
PoliticalActivism*PolicyUncertainty	**0.001*** **	**0.003** **	**0.004** **	**0.000*** **	**0.001** **	**0.001**
	(3.369)	**(2.567)**	**(2.016)**	**(2.774)**	**(2.244)**	**(1.582)**
PoliticalActivism	-0.000	0.000	0.001	-0.000	-0.000	-0.001
	(-0.347)	(0.189)	(0.336)	(-0.831)	(-0.545)	(-0.556)
PolicyUncertainty	-0.001***	-0.000	0.001*	-0.001***	-0.001	0.001
	(-6.828)	(-1.012)	(1.895)	(-6.646)	(-1.370)	(1.074)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm and FamaFrench17*Year FE	Yes	Yes	Yes	Yes	Yes	Yes
# Obs.	219,136	196,155	165,327	219,136	196,155	165,327
Adj. R^2	0.519	0.652	0.687	0.519	0.652	0.687

Internet Appendix B: Alternative Political Activism Definitions

$$LI_{i,t+q} = \beta_1 PoliticalActivism_{i,t} * PolicyUncertainty_t + \beta_2 PoliticalActivism_{i,t} + \beta_3 PolicyUncertainty_t + \sum \delta\ Controls_{i,t} + \varepsilon$$

Estimation: Ordinary least squares with standard errors adjusted for clustering at the firm and year level. Statistical significance indicated as follows: * p < 0.10, ** p < 0.05, *** p < 0.01. t-statistics in parentheses. **Dependent Variable:** *LI*, defined as income before extraordinary items, depreciation, and amortization cumulated over *t* quarters divided by the sum of the firm's sales cumulated over the same period. **Variables of interest:** *PoliticalActivism* is the natural logarithm of (1 + *#Candidates*), where *#Candidates* is the total number of candidates supported by the firm in year *t*, in columns (1) through (3); the natural logarithm of (1 + *TotalLobbying*), where *TotalLobbying* is the sum of firm *i*'s lobbying expenditure in year *t* in columns (4) through (6). *PolicyUncertainty* is defined as an indicator variable set to 1 if the average EPU index developed in Baker et al. (2016) during a quarter-year is in the top quartile of the distribution, and 0 otherwise. **Control Variables:** Defined as in Appendix A.

PoliticalActivism =	**Number of Supported Candidates**			**Lobbying Expenses**		
	+1 QTR	**+1 YR**	**+2 YR**	**+1 QTR**	**+1 YR**	**+2 YR**
	1	**2**	**3**	**4**	**5**	**6**
PoliticalActivism*PolicyUncertainty	**0.002*** **	**0.002*** **	**0.002*** **	**0.001*** **	**0.001*** **	**0.001*** **
	(2.911)	**(3.084)**	**(3.072)**	**(2.972)**	**(3.546)**	**(3.572)**
PoliticalActivism	-0.002	-0.002	-0.003	-0.000	-0.000	-0.000
	(-1.437)	(-1.392)	(-1.616)	(-0.708)	(-0.839)	(-0.812)
PolicyUncertainty	-0.006	0.000	0.001	-0.008	0.001	0.002*
	(-1.018)	(0.067)	(0.911)	(-0.743)	(0.370)	(1.905)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm and FamaFrench17*Year FE	Yes	Yes	Yes	Yes	Yes	Yes
# Obs.	219,136	196,149	165,316	136,743	122,831	108,647
Adj. R^2	0.574	0.679	0.725	0.597	0.699	0.743

Internet Appendix C: Continuous EPU index

$$LI_{i,t+q} = \beta_1 PoliticalActivism_{i,t} * PolicyUncertainty_t + \beta_2 PoliticalActivism_{i,t} + \beta_3 PolicyUncertainty_t + \sum \delta\ Controls_{i,t} + \varepsilon$$

Estimation: Ordinary least squares with standard errors adjusted for clustering at the firm and year level. Statistical significance indicated as follows: * p < 0.10, ** p < 0.05, *** p < 0.01. t-statistics in parentheses. **Dependent Variable:** *LI*, defined as income before extraordinary items, depreciation, and amortization cumulated over q quarters divided by the sum of the firm's sales cumulated over the same period. **Variables of interest:** *PoliticalActivism* is the natural logarithm of (1 + *GovRelations*), where *GovRelations* is the number of government relations staff employed by the firm in columns (1) through (3), the natural logarithm of (1 + *PoliticiansPower*), where *PoliticiansPower* is the sum of elected officials supported by the firm in year *t*, weighted by the candidates' committee ranking, incumbency status, and voting power, in columns (4) to (6). *PolicyUncertainty* is the average EPU index developed in Baker et al. (2016) during a quarter-year. **Control Variables:** Defined as in Appendix A.

PoliticalActivism =	**Government Relations Office**			**Power of Supported Politicians**		
	+1 QTR	**+1 YR**	**+2 YR**	**+1 QTR**	**+1 YR**	**+2 YR**
	1	**2**	**3**	**4**	**5**	**6**
PoliticalActivism * PolicyUncertainty	**0.000*** **	**0.000*** **	**0.000** **	**0.001** **	**0.002*** **	**0.001*** **
	(3.229)	**(3.333)**	**(2.532)**	**(2.402)**	**(3.566)**	**(3.378)**
PoliticalActivism	-0.008*	-0.006	-0.003	-0.001	-0.001	-0.001
	(-1.825)	(-1.497)	(-0.772)	(-0.916)	(-0.966)	(-1.274)
PolicyUncertainty	-0.000	-0.000	0.000	-0.000	-0.000	0.000
	(-1.611)	(-0.172)	(0.968)	(-1.649)	(-0.289)	(0.833)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm and FamaFrench17*Year FE	Yes	Yes	Yes	Yes	Yes	Yes
# Obs.	219,136	196,149	165,316	219,136	196,149	165,316
F-stat	0.574	0.679	0.726	0.574	0.679	0.725

Internet Appendix D: Entropy Balancing

Panel A: Balancing across Politically Active and Inactive Observations

CASH measured as cash and short-term investments over total assets. *DIV* is an indicator variable equal to 1 if the firm distributes dividends over the quarter, and 0 otherwise. *INV* is defined as capex over lagged total assets. *LEV* is defined as short- and long-term debt over total assets. *OCF* is calculated as operating cash flow over total assets. *Q* is given by the ratio of market value of asset over book value of assets, both measured at the beginning of the quarter. *SALECH* is defined as the percentage change in sales with respect to the previous quarter. *SIZE* is measured as the natural logarithm of market capitalization. *TANG* is the ratio of tangible assets over total assets.

	Before Entropy Balancing						**After Entropy Balancing**					
	GovRelations > 0			**GovRelations = 0**			**GovRelations > 0**			**GovRelations = 0**		
	Mean	Variance	Skewness	Mean	Variance	Skewness	Mean	Variance	Skewness	Mean	Variance	Skewness
CASH	0.103	0.014	2.074	0.142	0.029	1.665	0.103	0.014	2.074	0.103	0.014	2.074
DIV	0.782	0.171	-1.366	0.483	0.250	0.070	0.782	0.171	-1.366	0.782	0.171	-1.365
INV	0.014	0.000	2.708	0.018	0.000	2.681	0.014	0.000	2.708	0.014	0.000	2.708
LEV	0.276	0.025	0.499	0.234	0.039	0.741	0.276	0.025	0.499	0.276	0.025	0.499
OCF	0.026	0.001	0.089	0.024	0.002	0.049	0.026	0.001	0.089	0.026	0.001	0.088
Q	1.962	1.569	2.824	2.013	1.791	2.574	1.962	1.569	2.824	1.962	1.569	2.825
SALECH	0.025	0.026	1.484	0.048	0.042	1.450	0.025	0.026	1.484	0.025	0.026	1.484
SIZE	9.215	2.430	-0.566	6.538	2.865	0.240	9.215	2.430	-0.566	9.213	2.436	-0.571
TANG	0.340	0.059	0.568	0.305	0.058	0.876	0.340	0.059	0.568	0.340	0.059	0.568

Internet Appendix D: Entropy Balancing, *continued*

Panel B: Regressions on Balanced Data

$$Y_{\square} = \alpha + \beta_1 PoliticalActivism_{i,t} * PolicyUncertainty_t + \beta_2 PoliticalActivism_{i,t} + \beta_3 PolicyUncertainty_t + \varepsilon$$

Estimation: Estimation: Ordinary least squares with standard errors adjusted for entropy balancing. Statistical significance indicated as follows: * p < 0.10, ** p < 0.05, *** p < 0.01. t-statistics in parentheses. **Dependent Variable:** *SPIKE*, defined as an indicator variable set to 1 if the firm's investment level in the quarter is at least three times the historical median investment level for the firm, and 0 otherwise, in column (1). *LI*, defined as income before extraordinary items, depreciation, and amortization cumulated over *t* quarters divided by the sum of the firm's sales cumulated over the same period, in columns (2) through (4). **Variables of interest:** *PoliticalActivism* is the natural logarithm of (1 + *GovRelations*), where *GovRelations* is the number of government relations staff employed by the firm. *PolicyUncertainty* is defined as an indicator variable set to 1 if the average EPU index developed in Baker et al. (2016) during a quarter-year is in the top quartile of the distribution, and 0 otherwise.

Y =	**SPIKE**	**LI**		
		+1 QTR	**+1 YR**	**+2 YR**
	1	**2**	**3**	**4**
PoliticalActivism*PolicyUncertainty	**0.007*** **	**0.004*** **	**0.004*** **	**0.003*** **
	(5.933)	**(3.914)**	**(5.266)**	**(5.156)**
PoliticalActivism	-0.001	0.001	0.002***	0.003***
	(-1.000)	(1.107)	(3.456)	(4.030)
PolicyUncertainty	-0.008***	-0.010***	-0.003**	-0.001
	(-4.148)	(-4.552)	(-2.077)	(-0.476)
Firm and FamaFrech17*Year FE	Yes	Yes	Yes	Yes
# Obs	219,136	219,136	196,459	165,616
F-test	13.68	11.61	21.44	25.04