

# Political ties boost bottom lines

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## TEXT OF STORY

**KAI RYSSDAL:** Presidential politics hit Wall Street head on this week. Nothing like two candidates and the actual president to throw a wrench in congressional negotiations, as John Dimsdale was telling us up at the top of the broadcast. But whichever party wins the credit-crisis solution war, both of them are going to keep collecting contributions from big business — Wall Street and otherwise. You always here politicians say there's no quid pro quo for the donations they get. But commentator and economist Edward Miguel has some new data about how politics pays off on Wall Street.

**EDWARD MIGUEL:** Critics of our campaign finance system fear growing corruption: are contributions too often the quid pro quo for favorable government regulation or no-bid contracts?

New economics research using stock prices finds that political ties can be quite profitable for U.S. firms. The idea is simple: compare companies that cultivate ties with Democrats (through campaign contributions or board memberships or lobbying) to the firms that give to or hire Republicans. Once election results are in, the stock price movements of these two groups of firms reveal the market value of their political allegiances.

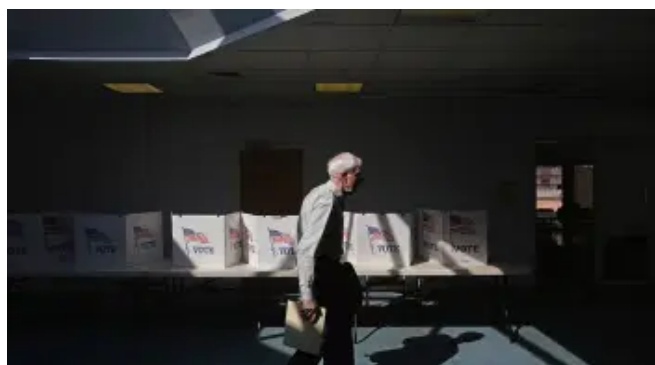
The research shows that the stock market value of companies with former Republican lawmakers on their boards increased an average of 4 percent — not a

small amount — when the Supreme Court handed the 2000 presidential election to George W. Bush. The impact of political connections was even greater for companies involved in government contracting. At the same time, companies with Democrats on their boards saw share prices decline. The same pattern occurred — only in reverse — when Vermont Senator Jim Jeffords left the Republican Party in 2001, handing Senate control to the Democrats.

The United States is not alone in favoring the politically connected. An earlier study found that companies with close ties to Indonesia's former President Suharto gained 25 percent in value on the Jakarta exchange. But the fact that the U.S. is better than Indonesia — a country notorious for its crony capitalism — will do little to reassure Americans concerned about corruption. Whether it's in the U.S. or in developing countries, there is apparently a very good reason for corporations to cultivate political ties — their bottom line.

With the polls still tight in the presidential race, there are bound to be some surprises by Election Day. To figure out what connections to the presidential candidates are worth, keep an eye on the stock market in the days after November 4th.

**KAI RYSSDAL:** Edward Miguel is a professor of economics at the University of California, Berkeley. His new book is called “Economic Gangsters: Corruption, Violence, and the Poverty of Nations.”



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