# Government Contract Transparency and Payoffs from Political Connections

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## Abstract


- I examine how the disclosure of government contract information required by the Federal Funding Accountability and Transparency Act (FFATA) since 2007 affects firm political campaign contributions.
- The public disclosure of details of government contracts after FFATA can be used by firms to identify politicians who can influence government contract allocations in favor of their campaign donors.
- In the post-FFATA period, firms significantly increased donations to politicians who are more influential in government contract allocations. Correspondingly, I find that politicians engage in increased contract allocations in favor of campaign donors after FFATA. These results are more pronounced for politicians in competitive races, for non-competitive government contracts, and for firms that were less strategic campaign donors.
- Overall, the results highlight an unintended consequence of government contract disclosures – that government contract transparency helps firms build more effective political connections and increases rewards for their political contributions.


## Motivation, Research Question and Setting

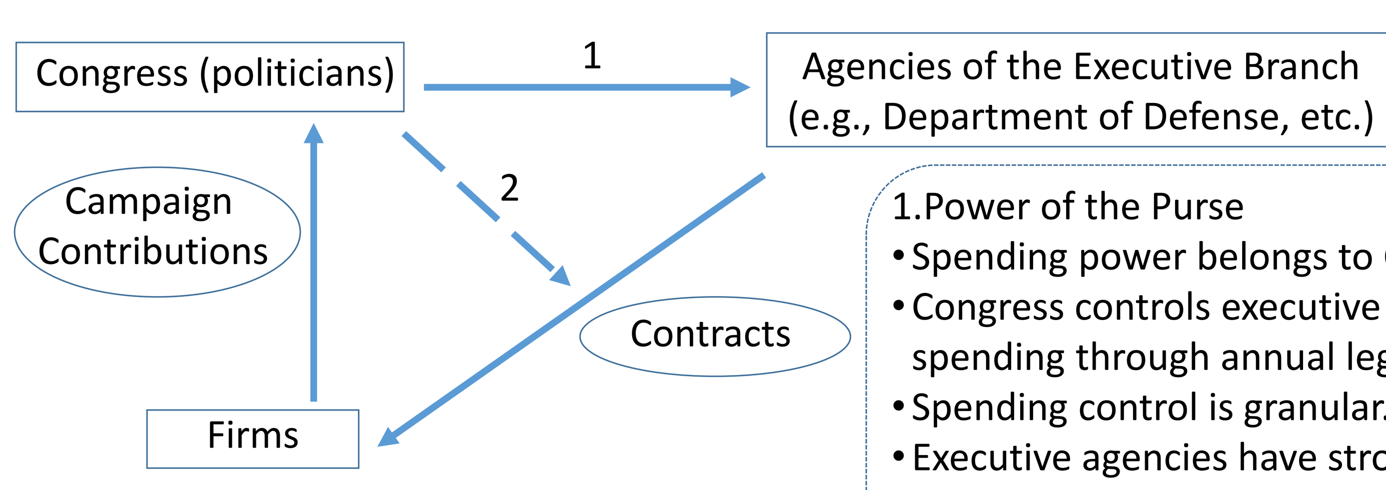
- Countries use transparency to reduce fraud and corruption in government contracts.
- The US Congress passed the **Federal Fund Accountability and Transparency Act (FFATA)** in 2006 to reduce the abuse of government contract funding.
- Many studies focus on how transparency affects contract competition and performance.
- **Research Question: Does increased government contract transparency reduce search costs and help firms identify influenceable politicians in contract allocations and affect firms' political contributions?**

I use FFATA to study the impact of increased transparency on firms' campaign donations and politician behaviors.

FFATA made contract allocation information available in **December 2007** on the website www.usaspending.gov (Figure 1)

Firms **cannot** easily observe contract allocations | Firms **can** easily observe contract allocations

Firms can always observe campaign donation information




1. Power of the Purse
- Spending power belongs to Congress
- Congress controls executive agencies' spending through annual legislation
- Spending control is granular.
- Executive agencies have strong incentives to satisfy lawmakers' requirements to receive desired project funding.

2. Politician influence on specific contracts
- Informal communication between politicians and executive branch officials to convey politician preferences for allocating contracts to specific firms, such as through private meetings, emails, and phone calls.
- Executive branch officials can award contracts to specific firms without a bidding process.
- For contracts open for bidding, the language can be tailored so that only one firm qualifies.
- Career concerns motivate executive branch officials to satisfy politicians needs.
- Many tactics can be applied. For example, if a contract is open for bidding and a lawmaker prefers firm A over firm B, the lawmaker can raise concerns about firm B by emphasizing the weakness of firm B.

## Data and Measurement

Data sources: US federal government contract data is from www.usaspending.gov (established by FFATA); campaign donation data is from the Federal Election Commission. (Figure 2,3,4)

A politician's payoff, $\hat{P}_{C_i,Y}$, is estimated by regressing the government contracts ($) received by firm donors in the politician's district on the campaign donations ($) from firm donors. This measure reflects to which degree politicians are responsive to corporate donors in influencing government contract allocations.

$$\log\left(A_{F_j,C_i,Y+1}\right) = \hat{P}_{C_i,Y} \times \log\left(D_{F_j,C_i,Y}\right) + \epsilon$$

Variable Definition:

$A_{F_j,C_i,Y+1}$: Government contracts ($) received by firm $F_j$ in politician $C_i$ in election $Y+1$

$D_{F_j,C_i,Y}$: Campaign donations ($) from firm $F_j$ to politician $C_i$ in election $Y$

$\hat{P}_{C_i,Y}$: Payoff of politician $C_i$ in election $Y$

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## Results and Discussion

**Campaign donations by firms with and without government contract business**:
- From the 2004/06 election cycles to the 2008/10 election cycles, firms increased donations by an average of 12% to candidates with payoff ratios above the sample median relative to those with below-median payoff ratios (Chart 1).
- No significant change in political campaign donations to high-payoff politicians from firms that do not engage in the business of government contracts.

**Politicians influence government contracts for donor firms and non-donor firms**:
- The positive association between campaign donations and contract awards (i.e., the return on campaign donations) increases by 16% after FFATA.
- Government contracts connected to influential politicians received by firms without a Political Action Committee (PAC) decrease significantly after FFATA.

**The impact on more and less strategic firm donors**:
- I partition firms based on to which degree firms can identify and donate to politicians with higher payoff before FFATA.
- I find larger increase in the return on campaign donations for firms that are less strategic donors, i.e., that more likely donate to low-payoff politicians before FFATA. This suggests that these less strategic firm donors benefit more from the additional government contract allocation disclosure provided by FFATA.

**Election competitiveness and returns on campaign donations**:
- The return on campaign contribution increases most in districts where the races are most competitive. This suggests that politicians who are under greater pressure to raise funds for elections increase their influence over government contract allocations more in their firm donors' favor.

**Politicians influence government contracts with/without competitive bidding**:
- The correlation between contract awards and campaign contributions increases significantly for contract awards without competitive bidding, but not for contract awards with competitive bidding. This suggests that it is more difficult for politicians to influence contracts in favor of certain firms when there is competitive bidding.

**Politician payoffs and election results**:
- I do not find evidence that politicians who favor their firm donors more are punished in the following elections. This could explain why increased transparency does not deter politicians' influence on allocating government contracts in response to campaign donations.

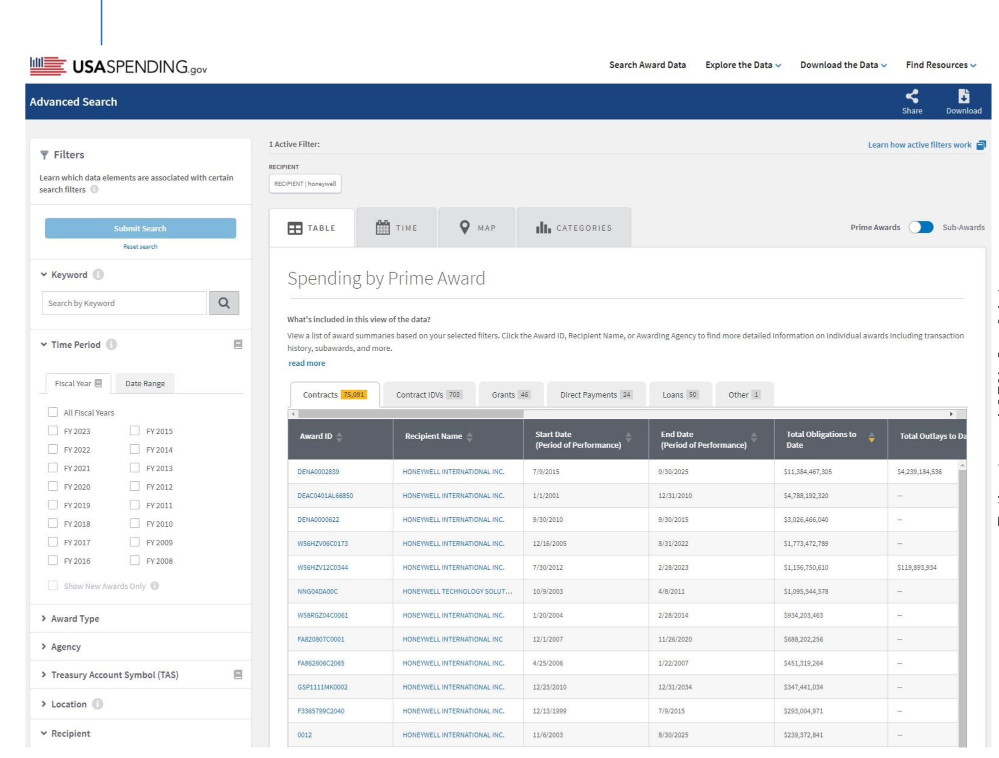

**Figure 1.** www.usaspending.gov website

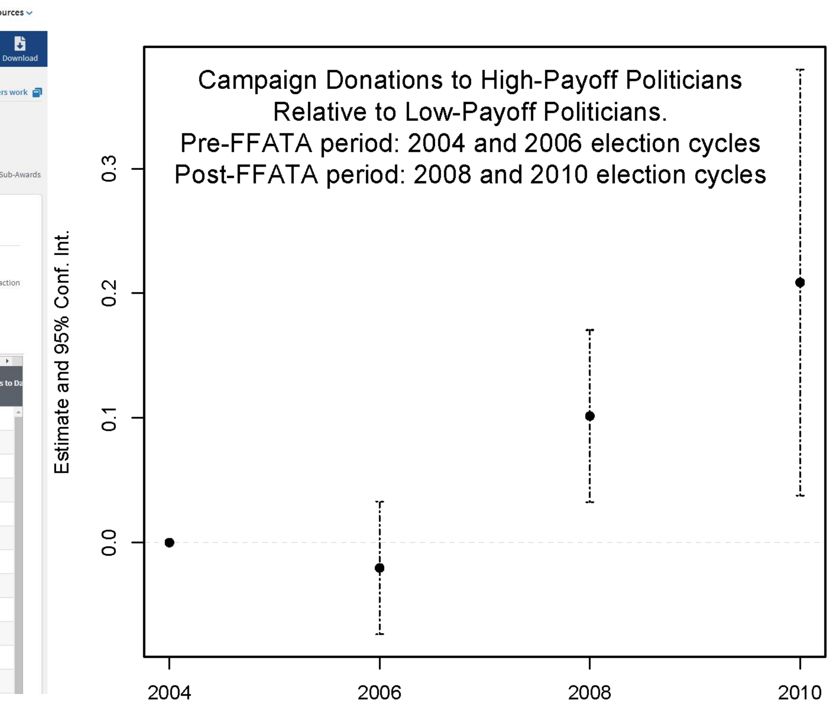


**Chart 1.** Change in Campaign Donations

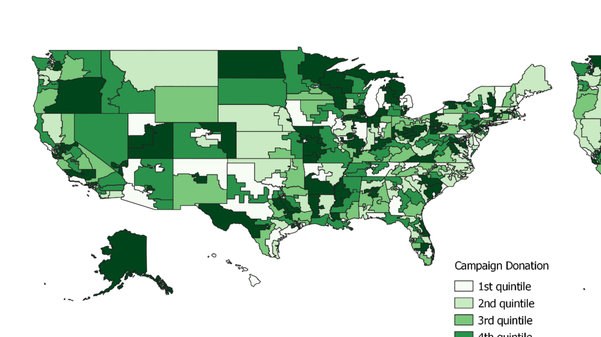

**Figure 2.** Campaign Donations ($)

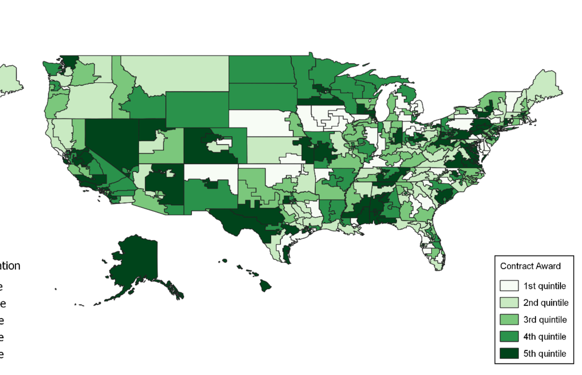

**Figure 3.** Government Contracts ($)

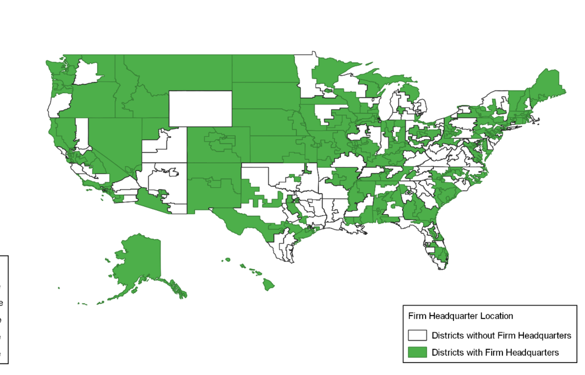

**Figure 4.** Locations of Firm Headquarters

## Conclusions

- Transparency may reflect underlying firm-politician connections, but it will not automatically deter the formation of political connections.
- When public scrutiny is weak, the disclosure of campaign contributions, combined with the disclosure of government contract data, can lead to the unintended and undesirable consequence of increased political favoritism.

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