

Revealing study of “revolving door” between US government and big business

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A recent study by Swiss economists Simon Luechinger and Christoph Moser, *The Value of the Revolving Door: Political Appointees and the Stock Market*, takes a detailed look at the intimate relations between the US government and big business. In particular, Luechinger and Moser track the gain in the stock price of defense firms whose executives shuffle between the private and public sectors.

The authors analyze stock market reactions to the announcements of political appointments in Washington over the course of six Republican and Democratic administrations. As they explain in an abstract of their work, “Using unique data on corporate affiliations and announcements of all Senate-confirmed U.S. Defense Department appointees of six administrations, we find positive abnormal returns for political appointments.”

Luechinger and Moser add, “We also find positive abnormal returns for corporate appointments. Our results suggest that conflicts of interest matter also in a country with strong institutions.”

None of this will come as a surprise to anyone who has the slightest acquaintance with the thoroughly corrupt American political system, nonetheless, the empirical corroboration has a certain value.

In describing the incentive for such corporate-government relations, the study points out that “conflicts of interest indeed matter,” and that “political appointees have both opportunities and motives to act in favor of their former employers.” Luechinger and Moser explain further on that “former political appointees are valuable because of their connections, access and clout ... schmoozing government officials at all stages of the procurement process is essential for landing contracts.”

Focusing on the defense industry, due to its

overwhelming weight in the federal budget, the study found that firms who saw their former executives appointed to government positions experienced an average stock bump of 0.82 percent and 0.84 percent “for the one- and two-day event windows, respectively.” This translates into a great deal of money.

Likewise, when erstwhile government officials took on corporate posts, the firms in question noticed a bump of between 0.79 and 1.05 percent. A corresponding dip in value could be seen upon the denial of a government office to a given firm’s executives. These gains and dips were not due to peripheral factors affecting the defense industry, the report made clear.

“It’s an incestuous business, what’s going on in terms of the defense contractors and the Pentagon,” said Senator Claire McCaskill (Missouri), in regard to one of the Obama administration’s appointments from this sector. Needless to say, this is simply grandstanding. The Bush administrations operated in precisely the same manner.

Apologists for the current system often point to the fact that former corporate executives are forced to divest their assets and recuse themselves from making decisions involving their old firms. However, again to absolutely no one’s surprise, the Swiss economists found that “despite numerous rules on the books, it is less clear to what extent they are actually enforced.” Senators may be tough in the initial hearings, the report says, but “political appointees are often successful in receiving waivers later on.”

Barack Obama’s former Deputy Secretary of Defense William J. Lynn III (2009-2011), now a lobbyist for defense giant Raytheon, provides an excellent example. Under Secretary Defense in the second Clinton

administration (1997-2001), Lynn returned to the corporate sector, including a stint as senior vice president of Government Operations and Strategy for Raytheon, until being tapped by Obama.

At the confirmation hearing for his second cabinet post, Lynn was granted significant concessions from Congress in regard to making decisions on behalf of his former firm. In relation to the decision, Obama's spokespeople were quoted as saying, "Even the toughest rules require reasonable exceptions."

Significantly, the Luechinger-Moser study found that "stock market reactions tend to be higher for nominations ... and for corporate appointments of former political appointees of a Democratic President." So much for the claims about the Democrats as the party of the "little man."

The virtual merger of the private sector with Washington officialdom of course goes far beyond the defense industry, and is glaringly illustrated as well in the case of government appointees associated with the financial sector.

One of the most notorious examples in recent times is former Goldman Sachs executive Henry Paulson, turned treasury secretary under George W. Bush. Goldman Sachs was deeply implicated in the illegal dealings that led to the 2007 collapse of the housing bubble and subsequent financial crash. Paulson, the bank's former CEO, conveniently presided over the banking industry at this time.

In short, firms dependent one way or another on relations with the US government have every reason to expect a financial shot in the arm when one of their own is appointed to a top government post. The marriage of big business and government (collusion is too mild a word) has worked to help generate mega-profits for countless companies, while facilitating at the same time a massive shift in wealth away from the population.

The Luechinger-Moser report's timid claim that the practices are attributable to "industry expertise" or "insider knowledge" hardly does the process justice.

Colossal disasters for the US and global population traceable directly to business-government incest are not simply of the financial variety, the 2010 Deep Horizon oil rig explosion being one of the starkest examples.

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