



Management Science

Publication details, including instructions for authors and subscription information:
<http://pubsonline.informs.org>

Do Politicians “Put Their Money Where Their Mouth Is?” Ideology and Portfolio Choice

Adam L. Aiken, Jesse A. Ellis, Minjeong Kang

To cite this article:

Adam L. Aiken, Jesse A. Ellis, Minjeong Kang (2019) Do Politicians “Put Their Money Where Their Mouth Is?” Ideology and Portfolio Choice. Management Science

Published online in Articles in Advance 30 May 2019

. <https://doi.org/10.1287/mnsc.2018.3175>

Full terms and conditions of use: <https://pubsonline.informs.org/page/terms-and-conditions>

This article may be used only for the purposes of research, teaching, and/or private study. Commercial use or systematic downloading (by robots or other automatic processes) is prohibited without explicit Publisher approval, unless otherwise noted. For more information, contact permissions@informs.org.

The Publisher does not warrant or guarantee the article’s accuracy, completeness, merchantability, fitness for a particular purpose, or non-infringement. Descriptions of, or references to, products or publications, or inclusion of an advertisement in this article, neither constitutes nor implies a guarantee, endorsement, or support of claims made of that product, publication, or service.

Copyright © 2019, INFORMS

Please scroll down for article—it is on subsequent pages

INFORMS is the largest professional society in the world for professionals in the fields of operations research, management science, and analytics.

For more information on INFORMS, its publications, membership, or meetings visit <http://www.informs.org>

Do Politicians “Put Their Money Where Their Mouth Is?” Ideology and Portfolio Choice

Adam L. Aiken,^a Jesse A. Ellis,^b Minjeong Kang^c

^a Department of Finance, Elon University, Elon, North Carolina 27244; ^b North Carolina State University, Raleigh, North Carolina 27695;

^c Heriot-Watt University, Edinburgh, Edinburgh EH14 4AS, United Kingdom

Contact: aaiken2@elon.edu,  <http://orcid.org/0000-0002-2767-7893> (ALA); jaellis5@ncsu.edu (JAE); m.kang@hw.ac.uk (MK)

Received: August 30, 2016

Revised: November 28, 2017

Accepted: April 8, 2018

Published Online in *Articles in Advance*:
May 30, 2019

<https://doi.org/10.1287/mnsc.2018.3175>

Copyright: © 2019 INFORMS

Abstract. We examine the role of political ideology in portfolio formation by studying a unique set of investors whose ideology can be precisely captured by a well-defined, continuous measure and whose personal asset allocation decisions are mandatorily disclosed, namely, the members of the U.S. Congress. As such, we overcome important methodological issues facing previous work in this area. We find that politicians with similar beliefs hold similar portfolios and that more liberal members engage in more socially responsible investing (SRI), even within political parties. Politicians disproportionately favor the SRI categories that reflect their favorite issues, while salience plays an important role in activating their ideologically based preferences for SRI. In addition, more ideological investors are less likely to engage in quid pro quo behavior. We conclude that ideology is a pervasive psychological factor that governs decisions across the domains of politics, investing, and, even, ethics.

History: Accepted by Lauren Cohen, finance.

Funding: This work was undertaken while M. Kang held the Appleby Research Fellowship at the University of Exeter. She is very grateful to Howard Appleby for generous support. J. Ellis acknowledges support from North Carolina State University’s Business Sustainability Collaborative Research Grant Program.

Supplemental Material: The online appendix is available at <https://doi.org/10.1287/mnsc.2018.3175>.

Keywords: political ideology • portfolio choice • socially responsible investing • salience • quid pro quo • behavioral consistency

1. Introduction

Classical finance theory depicts investors as caring only about the expected risks and returns that financial assets, such as stocks and mutual funds, can offer. However, considerable evidence indicates that investors not only are concerned with monetary payoffs but also exhibit a taste for assets as a consumption good. As a prime example, some investors exhibit a preference for corporate social responsibility that can lead them to favor socially conscious firms and even exclude irresponsible firms from their portfolios in a process known as “socially responsible investing” (SRI). The popularity of SRI has grown rapidly, as SRI-dedicated institutional funds have increased from \$639 billion in assets under management in 1994 to \$8.72 trillion in 2015, or \$1 of every \$5 of money managed in the United States.¹ This phenomenon is important to consider, because, as argued by Fama and French (2007), investor tastes can have crucial implications for asset pricing.

A growing literature argues that an important source of investor tastes comes from their political ideology.² Political ideology typically refers to where an individual falls along the traditional conservative-liberal spectrum and seems to be related to cognitive approaches. For example, conservatives often appear to be more deliberate when

making decisions, whereas liberals have a greater tolerance for ambiguity and an openness to new experiences.³ Evidence suggests that political beliefs stem from deeply rooted moral intuitions and that ideological differences can be traced to the different weights people place on moral values (Haidt 2012). For example, liberals have been shown to care relatively more about the moral domain of care/harm (caring for the welfare of others) than do conservatives (Graham et al. 2009). Research has shown that liberals are more concerned about environmental issues because they view them in moral terms through this care/harm frame, whereas conservatives typically do not moralize environmental issues because they are not framed within the moral domains that conservatives find most important (Feinberg and Willer 2013).⁴ Because ideological differences are associated with deep foundational differences in human psychology, political ideology is likely to be related to investor tastes and, therefore, portfolio choice. In this paper, we use the portfolio choices of the members of the U.S. Congress to examine how political beliefs influence investor decisions, with a particular focus on the relation between ideology and SRI.

We study the investment behavior of the members of the U.S. Congress for two important reasons. First, they

provide an ideal laboratory to understand the relationship between ideology and portfolio choice, as we can cleanly identify both their ideology (from their voting records) and their portfolios and trading activity (from their required financial disclosures). Second, it is particularly interesting to understand how the political ideology of elected officials influences their own personal financial decisions, as this can shed light on whether their decisions reflect “behavioral consistency” across personal and political domains. Behavioral consistency, the theory that people tend to exhibit similar behaviors across diverse domains, has been put forth in the corporate finance literature as an explanation for links between CEO and firm traits.⁵ Voters are likely to form their support for a politician based on their perception of the politician’s ideology, perhaps garnered from their political parties, speeches, or prior voting behavior (see, e.g., Bartels 2000, Gerber and Huber 2009). If politicians espouse certain principles in the public realm, but act inconsistently with those principles in their personal lives, then that would indicate a lack of behavioral consistency. This could give voters pause when evaluating candidates, out of fear that politicians may be saying one thing, while believing another. In fact, studying investment behavior is an especially important window into an individual’s true beliefs. Prior literature has demonstrated that individuals may say one thing, but, with money on the line, end up behaving differently and revealing their actual beliefs around political issues.⁶ To put it another way, voters have a compelling interest in knowing if politicians “put their money where their mouth is.”

We find that members who are ideologically more similar to one another have more similar equity portfolios, controlling for other individual characteristics, such as their age, wealth, state, and the source of their campaign contributions. Moreover, the relation holds within parties, suggesting that ideology, and not just party affiliation, affects portfolio formation in a general way.

We then focus our attention on the choice to engage in SRI, as SRI is likely to be highly revealing about how ideology influences investor behavior. Liberals and conservatives hold disparate views about many politically charged and polarizing issues. For example, liberals tend to oppose oil and gas drilling to protect the environment, whereas conservatives tend to support fossil fuel development to promote economic growth. If an individual’s investment decisions are behaviorally consistent with their ideology, then we should find that more liberal members have a greater preference for SRI.

We find robust evidence that more liberal members invest more in socially responsible firms, and in particular, those firms with a strong track record with respect to diversity, employee relations, and environmental protection. Strikingly, we continue to find a positive relation between political liberalism and SRI

within political parties, providing additional support for behavioral consistency in investing, and confirming that a continuous measure of ideology provides information about investor tastes beyond what can be inferred from party affiliation alone.

We also find that this political taste is related to specific industries, as liberals hold a lower percentage of industries commonly screened out in SRI, such as tobacco and oil firms, as well as a lower percentage of industries found to outperform under Republican presidential administrations and underperform under Democratic administrations (Addoum and Kumar 2016). However, our results are not completely driven by industry-level preferences, and are also robust to controlling for many other factors that may influence purchase decisions, such as member characteristics, constituency ideology, local bias, window dressing incentives, and campaign contributions. Our results also hold when we control for risk preferences. However, ideology does play multiple roles in portfolio choice, as the relation between ideological similarity and portfolio similarity is chiefly driven by similarity in SRI and risk preferences.

As a further demonstration of behavioral consistency, we find that members tend to disproportionately favor SRI categories that reflect their favorite political issues, as measured by their committee membership or social issue interest group evaluations. In particular, members that serve on an environmental (labor) committee or have above median scores from environmental (labor) interest groups invest more heavily in firms with a stronger environmental (employee) track record.

Next, we explore the relation between ideology and SRI by investigating the role that salience plays in activating investors’ ideological preferences for SRI. Drawing on theory from both the finance and psychology literatures, we hypothesize that liberals’ personal norms related to SRI will be activated when social issues become more salient, or when the SRI-relevant features of an asset become more pronounced. Using the British Petroleum (BP) Deepwater Horizon oil spill in April 2010 as an exogenous shock to the salience of social issues, we perform a difference-in-differences test and find that more liberal members significantly reduced their purchases of stocks with poor environmental track records in the 3 months immediately after the spill, indicating that liberals’ distaste for these stocks became especially heightened during this period. However, this relative shift in tastes disappears after 3 months, which further suggests that liberal members were affected by the salient nature of the BP oil spill, which dissipated as time passed.

We also find evidence for the role of salience in members’ mutual fund allocations. Specifically, in contrast to their direct equity holdings, we find no relation between SRI and ideology when we examine

the equities that members hold indirectly through their mutual fund portfolios. The SRI characteristics of a mutual fund's portfolio are likely to be less salient than those of an individual stock, which could be why members do not express their beliefs in their aggregate mutual fund holdings. However, we do find that more liberal members are significantly more likely to own mutual funds whose SRI characteristics are especially salient, namely, funds specifically marketed as "socially responsible."

Finally, we depart from SRI and examine behavioral consistency in the domain of financial ethics. Tahoun (2014) finds evidence of a quid pro quo connection between political donations and the equity purchases by members of Congress: members are more likely to own the stocks of firms that have donated to their campaigns in order to signal that they will take actions to benefit the donating companies. We hypothesize that more intensely ideological members (either liberal or conservative) would be less willing to engage in this type of quid pro quo behavior, as doing so would violate their strongly held belief system. Indeed, we find that more ideological members are significantly less influenced by donations when making investment decisions, further supporting the notion of behavioral consistency. That is, because political quid pro quo is antithetical to both liberal and conservative principles, that the most staunch liberals and conservatives are also the least likely to engage in this behavior suggests that their ideology is a pervasive factor governing their decisions across the domains of politics, investing, and even ethics.

Our empirical setting allows us to sidestep various methodological issues facing previous work in this area. As such, our paper makes several contributions to the literature on investor tastes in general and on preferences for SRI in particular.⁷ Our study is related to Hong and Kostovetsky (2012), which finds that mutual fund managers who donate more to Democratic candidates than to Republican candidates invest more in socially responsible firms. The use of campaign contributions may be confounded by the fact that donations are voluntary and could be made for strategic, nonideological reasons (Gordon et al. 2007). For example, a manager might donate money to a politician to increase her political influence or to cater to a particular investor clientele, such as people who prefer SRI. Moreover, campaign contributions cannot measure the intensity of an individual's ideological beliefs along the ideological spectrum and, instead, just allow for the separation of donors along party lines.⁸ For instance, during the primary elections of 2016, the more liberal candidate Bernie Sanders raised less than 1% of his campaign funds from donations larger than \$5,000, compared with 38% for the more moderate Hillary Clinton.

In contrast to Hong and Kostovetsky (2012), we examine investors who are making decisions with their

own money, and use a continuous measure of ideology based on their voting behavior that enables us to quantify the intensity of an investor's ideological beliefs beyond just their party affiliation. Thus, we are able to infer directly the relation between the investor's personal preferences for SRI and their ideology and demonstrate that SRI preferences are driven by ideological intensity, rather than partisanship. Another unique aspect of our study is our ability to identify variation in relative preferences across different social issues. That members disproportionately favor the SRI categories that reflect their favorite political issues provides even more direct evidence of behavioral consistency across the professional and investing domains, further supporting the idea that social preferences are deeply rooted in investor psychology.

Not only do we show that the taste for SRI is driven by investor ideology but we also find that the expression of this taste is highly driven by salience. Specifically, while liberals may have personal norms leading them to generally prefer firms that behave in a socially responsible way, their personal norms are more likely to be activated and thus expressed in their investment decisions when social issues or SRI characteristics are more salient. We know of no other study showing how salience can affect investors' expression of their ideology-based investment tastes. As such, we also contribute to the growing literature on the importance of salience in investor decisions (e.g., Barber and Odean 2008, Bordalo et al. 2012, Hartzmark 2014, Solomon et al. 2014).

Finally, our paper contributes to the large literature examining the relationship between politicians and their donor firms (e.g., Butler et al. 2009, Cooper et al. 2010, Claessens et al. 2008, Correia 2014, Tahoun 2014, Akey 2015). Mian et al. (2010) document how ideology mitigates the relationship between voting during the financial crisis and special interest pressure. Our paper extends their work to show how ideology reduces the influence of campaign contributions on overall portfolio composition. This is an important contribution because political quid pro quo is not only unethical but it can also harm social welfare when politicians make decisions to help their donors rather than their broader constituency. Therefore, it is important to understand the characteristics of politicians that are likely to lead to more ethical behavior. More broadly, our evidence highlights an interesting relation between political ideology and ethical behavior in a financial context, and suggests that people with more strongly held ideological beliefs behave more ethically, at least in this domain.

2. Data

In this paper, we employ a continuous measure of a member's ideological leanings on the conservative-liberal spectrum that is based on the member's Congressional

voting records.⁹ Specifically, the measure is derived from the first dimension of the common space DW-nominate scores, which is used in the political science literature to identify how conservative or liberal a politician is (Poole and Rosenthal 2007). This measure also has been used in the literature on politics and finance to measure the ideology of a member of Congress (see, e.g., van Lent and Tahoun 2018). It is estimated using a member's entire voting history and gives each legislator a single ideological score ranging from -1 to 1 , where 1 is the most conservative, -1 is the most liberal, and 0 represents a politically moderate voting history.¹⁰ Note that we reverse the score so that it is increasing in liberalism. For ease of exposition, we refer to this measure as the conservative-liberal score (*CLS*), where -1 is the most conservative and 1 is the most liberal.

We obtain detailed data on the holdings and trades of U.S. Congress members, which are required to be disclosed by the Ethics in Government Act of 1978.¹¹ We obtain data from 2004 to 2012 on U.S. Congress members' portfolio holdings, trades, as well as their campaign contributions, from the Center for Responsive Politics (CRP). We match stock, mutual fund, and firm donor data to CRSP.¹²

To assess members' socially responsible investments (SRI), we obtain data on firms' socially responsible behaviors from the MSCI Kinder, Lydenberg, Domini, and Co. database (KLD) to construct our measures of firm-level socially responsible behavior. For each firm in our sample, we create measures for firm community involvement, corporate governance, diversity, employee relations, environmental record, human rights, and product quality. Within each of these categories, the KLD database provides indicators for the strengths and weaknesses of each firm in a given year. However, the strengths and weaknesses that KLD measures vary year to year, making raw scores difficult to compare across years, even within the same firm. To address this issue, we first create a firm-year net score by subtracting the number of total weaknesses from the number of total strengths for each category, as well as an aggregate measure that subtracts the sum of a firm's weaknesses from the sum of its strengths across all categories. Within each category, as well as for the aggregate measure, we then rank each stock within a year, creating a percentile score. To create a member-year score for the category and aggregate measures, we calculate the value-weighted average percentile score across firms in a member's portfolio in a given year, weighted by a member's portfolio weights. We refer to our portfolio-level aggregate SRI measure as *SRI ranking*, which is our primary measure of SRI throughout the paper.

Table 1 summarizes the Congressional and SRI data. We only include member observations in which *CLS* is available and where we match at least one stock in

their portfolio to CRSP and KLD. Panel (a) provides summary statistics for the members of Congress in our sample. The average *CLS* is -0.044 (slightly conservative), whereas 49.6% of the sample are members of the Democratic Party. The average member is 59 years old and 85% of members are male. Members of the Senate represent 23.5% of our sample. The mean (median) number of stocks held is 17 (5), indicating a large skewness in the number of holdings across members. In panel (b), we provide summary statistics for the value-weighted average SRI percentile rankings for member portfolios. The average member portfolio is ranked near the median for each respective category. However, some members have extreme scores, which are likely driven by undiversified portfolios.

3. Results

3.1. Is Portfolio Similarity Related to Ideological Similarity?

We begin by testing whether members of Congress with similar ideologies hold similar equity portfolios. We measure portfolio similarity using the Jaccard similarity measure for all member pairs in a given year. Jaccard similarity measures the overlap between two vectors A and B and is defined as the size of the intersection of A and B , divided by the size of the union of A and B :

$$J(A, B) = \frac{|A \cap B|}{|A \cup B|}. \quad (1)$$

That is, for two members, the Jaccard similarity of their equity portfolios is the number of stocks they hold in common divided by the total number of unique stocks they hold.¹³ Henceforth, we refer to this similarity measure as *portfolio similarity*. The average pair has a *portfolio similarity* of 0.0165.

Our variable of interest is the absolute value of the difference in the conservative-liberal score (*CLS*) between the two members in a pair ($|diff\ in\ CLS|$). If ideology influences portfolio choices, then we would expect that members with more similar ideologies would also form more similar portfolios, that is, *portfolio similarity* and $|diff\ in\ CLS|$ should be negatively correlated. The average (median) of $|diff\ in\ CLS|$ is 0.48 (0.44). Other differences between the members also may be related to their portfolio similarity, so we control for several additional measures of member-pair characteristics: differences in age ($|diff\ in\ age|$), differences in the natural logarithm of wealth ($|diff\ in\ wealth|$), being in the same chamber of Congress, that is, House or Senate (*same chamber*), having the same gender (*same gender*), being from the same state (*same state*), and the Jaccard similarity of firm-level campaign contributions (*contribution similarity*). All the continuous variables

Table 1. Summary Statistics for Members and SRI Rankings

	N	Mean	Min	p25	p50	p75	Max	Std
Panel A: Congressional members								
CLS	1,994	−0.044	−0.988	−0.422	−0.085	0.356	0.746	0.423
Democrat	1,994	0.496	0.000	0.000	0.000	1.000	1.000	0.500
No. of stocks	1,994	17	1	2	5	18	417	33
Stocks (\$000)	1,994	1,129	1	33	136	567	23,500	3,430
No. of mutual funds	1,678	8	1	2	5	12	58	9
Mutual funds (\$000)	1,675	692	1	49	171	449	14,000	1,873
Age	1,994	59	30	52	59	65	87	10
Male	1,994	0.848	0	1	1	1	1	0.360
Senate	1,994	0.235	0	0	0	0	1	0.424
Wealth (\$000)	1,994	9,680	0	624	1,968	5,477	209,000	27,000
Panel B: SRI scores								
SRI ranking	1,994	50.0	0.0	37.6	50.2	62.6	99.0	20.1
Community	1,994	51.9	0.0	37.9	51.0	66.5	99.0	20.1
Corporate	1,994	47.4	0.0	36.3	47.8	58.9	98.0	20.5
Diversity	1,994	52.6	0.0	38.0	53.5	66.5	99.0	20.8
Employee	1,994	50.2	0.0	42.3	48.6	62.6	98.0	19.0
Environment	1,994	47.8	0.0	39.0	49.0	58.0	99.0	19.0
Human	1,994	48.2	2.3	41.4	51.0	60.0	99.0	16.6
Product	1,994	45.2	0.0	31.7	46.0	59.0	98.0	19.7
SRI ranking of contributors	1,804	47.1	0.0	35.1	47.0	58.4	99.0	17.7

Notes. This table reports the summary statistics for member-related variables (panel (A)) and net portfolio-level scores for each of the socially responsible investing (SRI) categories and the composite SRI score (SRI ranking) (panel (B)). The observation unit is a member-year. All variable definitions are given in Appendix A. The sample period is 2004–2012.

are winsorized at the 1st and 99th percentiles of the distributions.

Because our similarity measure is bounded below by zero, we use a Tobit model, given in Equation (2):¹⁴

$$\text{Portfolio Similarity}_{i,t} = \beta_0 + \beta_1 |\text{Diff in CLS}|_i + \beta \mathbf{X}_{i,t} + \text{year}_t + \text{Portfolio Size}_i + \epsilon_{i,t}, \quad (2)$$

where $(\mathbf{X}_{i,t})$ is a vector of member-pair characteristic controls. Because we have found that *portfolio similarity* is nonlinearly related to the number of stocks owned by each member in a pair, we include fixed effects for each pairwise combination of portfolio size quintiles. In addition, all models include year fixed effects, and standard errors are clustered by member pairs. The results are reported in Table 2.

The variable of interest is the ideological difference between two members, $(|\text{diff in CLS}|)$. The coefficient estimates for $|\text{diff in CLS}|$ are negative and strongly statistically significant in all models. For example, in model 1 of Table 2, the coefficient estimate for $|\text{diff in CLS}|$ is -0.007 (t -statistic = -5.37). This implies that if the ideological difference between the average pair of members decreases by 1 standard deviation, then their portfolios become 15.2% more similar. Strikingly, $|\text{diff in CLS}|$ remains negative and strongly significant when we restrict the sample either to only members in the same party (model 2) or to only members in different

parties (model 3), suggesting that the continuous ideology measure captures more information than just a binary party membership indicator.

Examining the control variables, we find that members with larger differences in age and wealth have significantly less similar portfolios, whereas those in the same state and in the same chamber have significantly more similar portfolios. The first two relations are consistent with general demographic characteristics affecting portfolio decisions, while the latter two suggest that geographic proximity and information sharing within a group contribute to similar portfolios. Members with more similar campaign contributions also have more similar portfolios, which is consistent with Tahoun (2014), who finds that members are likely to own the stocks of firms that donate to their campaigns.

The fact that ideologically similar members hold similar portfolios suggests that political ideology plays an important role in portfolio formation. In the next section, we examine if members' investment decisions are consistent with their political ideology by studying their decision to engage in socially responsible investing (SRI).

3.2. Ideology and Socially Responsible Investing

We examine the relation between political ideology and SRI in a multivariate ordinary least squares (OLS) regression framework, found in Table 3. Our main dependent variable is a member's value-weighted aggregate portfolio *SRI ranking*. We also examine each of the seven

Table 2. Do Ideologically Similar Members Own Similar Portfolios?

	Portfolio similarity		
	All pairs (1)	Same party (2)	Different party (3)
$ diff\ in\ CLS $	−0.007*** (−5.37)	−0.026*** (−4.90)	−0.022*** (−6.89)
$\ln diff\ in\ age $	−0.004*** (−8.36)	−0.004*** (−5.99)	−0.004*** (−5.57)
$ diff\ in\ wealth $	−0.001*** (−5.57)	−0.001*** (−2.68)	−0.002*** (−5.45)
Same chamber	0.009*** (9.77)	0.009*** (7.26)	0.009*** (7.02)
Same gender	−0.000 (−0.29)	−0.002 (−1.38)	0.002 (1.29)
Same state	0.005* (1.83)	0.003 (0.73)	0.009** (2.17)
Contribution similarity	0.071*** (6.47)	0.071*** (4.74)	0.062*** (3.91)
Constant	−0.178*** (−37.80)	−0.177*** (−27.35)	−0.165*** (−22.05)
Observations	332,252	168,003	164,249

Notes. This table reports the regression results of portfolio similarity on differences in member ideology. The unit of observation is a member pair-year. The dependent variable is *portfolio similarity*, or the Jaccard similarity of holdings in a member pair-year. We employ Tobit regressions censored at 0. The sample period is 2004–2012. *CLS* is our proxy for member ideology and is increasing in political liberalism. All variable definitions are given in Appendix A. We include fixed effects for each year and for each pairwise combination of portfolio size quintiles. We cluster standard errors by member pairs in all specifications. Robust *t*-statistics are in parentheses.

* $p < 0.01$; ** $p < 0.05$; *** $p < 0.001$.

SRI categories individually. The equation for these OLS models is given in Equation (3):

$$SRI\ Ranking_{i,t} = \beta_0 + \beta_1 CLS_i + \beta X_{i,t} + year_t + \epsilon_{i,t}. \quad (3)$$

Our variable of interest is the conservative-liberal score (*CLS*), which is increasing in political liberalism. We control for member characteristics ($X_{i,t}$), such as the natural logarithm of a member's age ($\ln(Age)$) and wealth ($\ln(Wealth\ \$))$, their gender (*male*), Senate membership (*Senate*), and the average SRI percentile ranking of donating firms in a given year (*SRI ranking of contributions*). Gender, age, and wealth have all been shown to affect portfolio decisions (e.g., Barber and Odean 2001). Eggers and Hainmeuller (2014) and Tahoun (2014) show that members of Congress are more likely to invest in the firms or industries from which they have received campaign contributions.¹⁵ All models include year fixed effects, and standard errors are clustered at the member level.

More liberal members are more likely to hold equity portfolios with a higher *SRI ranking*, as coefficient estimates for *CLS* are positive and strongly statistically significant in models 1 (no controls) and 2 (with controls). For robustness, we also collapse the panel to the mean by member in model 3 and find similar results. Examining the individual SRI category scores, we find that more liberal members hold portfolios with higher

diversity, employee, and environment scores. For example, the coefficient estimate for *CLS* in the environment regression is 7.64 (*t*-statistic = 3.48). This indicates that a one standard deviation increase in a member's *CLS* is associated with an increase of 3.2 percentile rankings in the *Environment* score of his or her portfolio. Thus, members of Congress appear to invest in SRI in a way that is consistent with their ideology.

We note that several SRI categories have an insignificant relationship with *CLS*. It is perhaps not very surprising that the corporate governance and product quality categories are insignificant, as both of these categories represent factors that could correspond to underlying firm value (which both liberals and conservatives would care about), rather than social concerns (where the tastes of liberals and conservatives would likely differ). For example, some of the subcategories that comprise the product category are highly related to growth opportunities and intangible assets, such as research and development (R&D) and innovation, product quality, and marketing. In addition, the corporate governance category mainly represents factors related to agency problems and managerial quality. Both liberals and conservatives would likely care about these issues, as they could affect the financial performance of their holdings, rather than just social concerns.¹⁶

Table 3. Is SRI Related to Ideology?

	SRI Ranking									
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
CLS	8.3024*** (4.08)	8.7495*** (3.80)	6.7222*** (2.85)	2.0252 (1.01)	2.5348 (1.31)	4.1756* (1.85)	6.4774*** (3.50)	7.6384*** (3.48)	1.8260 (1.07)	2.3436 (1.19)
<i>ln(age)</i>		-4.5080 (-0.91)	-6.5673 (-1.19)	-1.9742 (-0.39)	2.4501 (0.50)	-1.8605 (-0.33)	-6.3543 (-1.58)	-4.7469 (-0.91)	-0.2166 (-0.05)	-2.1665 (-0.45)
<i>Male</i>		1.2405 (0.55)	1.7821 (0.72)	-1.1706 (-0.56)	2.5007 (1.29)	-2.5419 (-1.00)	0.3200 (0.18)	0.3437 (0.20)	-0.4779 (-0.26)	2.4240 (1.15)
<i>Senate</i>		-1.8334 (-0.96)	-3.2668 (-1.54)	-2.7797 (-1.56)	-0.7156 (-0.42)	-3.2829 (-1.45)	0.1201 (0.08)	-0.6324 (-0.39)	1.6870 (1.07)	2.9485 (1.61)
<i>ln(wealth (\$))</i>		-0.4113 (-0.86)	-0.5142 (-0.89)	-0.5604** (-2.07)	0.3469 (1.05)	-0.1985 (-0.54)	-0.5361 (-1.32)	-0.0727 (-0.17)	0.1877 (0.70)	-0.4595 (-1.36)
<i>ln(no. of stocks)</i>		1.3808** (2.09)	1.7792** (2.38)	0.2882 (0.49)	0.8760 (1.41)	0.2748 (0.41)	1.0150** (2.00)	0.9998* (1.70)	-0.4396 (-0.91)	1.6667*** (2.96)
<i>SRI ranking of contributors</i>		0.0603* (1.69)	0.0764 (1.13)	0.0722* (1.88)	0.0604* (1.80)	-0.0205 (-0.58)	0.0105 (0.33)	0.0370 (0.89)	-0.0074 (-0.20)	-0.0254 (-0.77)
<i>Constant</i>	53.0000*** (41.64)	70.4602*** (3.45)	76.5377*** (3.37)	67.7195*** (3.28)	29.6891 (1.53)	65.2572*** (2.88)	83.2515*** (5.13)	64.6468*** (3.01)	48.0707*** (2.97)	57.0556*** (2.89)
<i>Observations</i>	1,994	1,804	444	1,804	1,804	1,804	1,804	1,804	1,804	1,804
<i>Adjusted R²</i>	0.036	0.050	0.042	0.031	0.019	0.028	0.041	0.040	0.007	0.026

Notes. This table reports the results of regressions that examine how the SRI rankings of member portfolios are related to member ideology. The unit of observation is a member-year. In models 1 and 2, the dependent variable is the value-weighted average percentile ranking of equity SRI scores for a member's portfolio in a given year (*SRI ranking*). In model 3, we collapse the panel to the mean at the member-level, taking averages across all years. The dependent variable is then the average *SRI ranking* for each member in our sample. In models 4–10, the dependent variables are the percentile rankings of individual KLD categories for member portfolios. For all dependent variables, a higher ranking indicates that a member holds stocks with a higher social responsibility score, relative to other stocks held by other members in a given year. *CLS* is a proxy for member ideology and is increasing in political liberalism. All variable definitions are given in Appendix A. We use OLS regression, include year fixed effects, and cluster standard errors by member in all specifications. The sample period is 2004–2012. Robust *t*-statistics are in parentheses.

* $p < 0.01$; ** $p < 0.05$; *** $p < 0.001$.

The insignificant relation for the human rights and community involvement categories is perhaps more puzzling though, as both of these represent prosocial issues that would appear to be consistent with liberal attitudes toward public policy. When we look more closely at the human rights category, it appears that the lack of significance may reflect a lack of variability in KLD human rights scores, rather than a lack of liberal members' interest in human rights. Many of the subcategories that make up the human rights category are related to rare and specialized issues, such as "indigenous peoples' relations," "Burma concerns," and "operations in Sudan." Very few firms have any human rights concerns or strengths as measured by KLD. In fact, 92% of firms in our sample have a combined human rights score of 0, making it by far the least variable of the seven SRI categories. The next least variable category, community involvement, is nonzero 24% of the time, meaning there are three times as many firms with a nonzero community involvement score as there are firms with a nonzero human rights score. Thus, one of the reasons we do not detect a relationship between *CLS* and human rights could be the lack of variation, that is, there are simply not enough firms with nonzero human rights scores to make a meaningful difference on portfolio scores.

Finally, we find a rather nuanced set of results when we look more closely at community involvement. The community involvement strengths mainly represent issues related to charitable giving, both in general and in specific contexts, such as in support of housing or education. The community involvement concerns relate to negative community impacts, such as plant closings or tax disputes. Liberals likely care a great deal about these issues. However, it could be that these issues become more salient to investors when they affect their own local community. As reported in our online appendix, we find that ideology is positively and significantly related to community involvement for members' holdings of locally headquartered firms (coefficient estimate of 7.87 with a *t*-statistic = 2.17), suggesting that liberals do care about a firm's community involvement when it hits close to home (see Section 3.3 for more on the role of salience in SRI).

3.2.1. Robustness. We have performed several robustness checks and alternative specifications to gauge the sensitivity of our results to various assumptions and to rule out alternative explanations. We control for constituency ideology to address the concern that members structure their portfolios to please their constituents, rather than to reflect their true beliefs, and continue to find a significant relation between SRI and *CLS*. We also find no difference in holdings around election years and in years with especially close elections, suggesting that members are not simply window

dress their portfolios in order to gain favor and win an election. Moreover, we find no difference in holdings for members that are voluntarily retiring and are in their last year in office, where any further incentive to window dress would be eliminated. In addition, our result are similar if we drop all local stocks from a member's holdings or if we drop all the stocks of firms that have donated to the politician, meaning that our findings are not driven by local bias or the donations channel. Our results also hold when we drop member accounts that include spousal or dependent holdings and when we drop holdings in politically sensitive industries. We report select robustness checks in Table 4, but all the robustness test details and results are included in the online appendix.

3.2.2. Controlling for Risk Preferences. Previous research has shown that ideology can also affect risk preferences (e.g., DeVault and Sias 2017), which could be driving our results. In this section, we control for risk preferences in both our similarity and holdings analysis, with an aim toward quantifying the degree to which the relation between ideological similarity and portfolio similarity is driven by shared SRI preferences versus other potential channels.

We examine the relative importance of risk and SRI preferences on portfolio similarity in Table 5, panel (a). To account for the importance of risk preferences in our portfolio similarity analysis, we take the following approach. Following Daniel et al. (1997) (henceforth, DGTW), we sort stocks into quintiles based on each of the three DGTW risk characteristics: size, book to market, and momentum (prior year's stock return), to form $5 \times 5 \times 5 = 125$ characteristic-sorted portfolios. We then measure each member's portfolio weights across each of the 125 DGTW portfolios, and define *DGTW similarity* as the Jaccard similarity between each member pair's DGTW portfolio weights.

Note that, by construction, *DGTW similarity* is highly related to a member's stock-level portfolio similarity (*portfolio similarity*), as any time two members hold the same stock, they also hold the same DGTW portfolio. Thus, a member pair with a perfect *portfolio similarity* of 1 will also have a perfect *DGTW similarity* of 1. However, the converse is not true. Two members could have very similar DGTW weights (i.e., have shared risk preferences), but may hold different stocks within the DGTW portfolios if other factors (e.g., differing SRI preferences) drive them to make idiosyncratic choices within each characteristic portfolio. Accordingly, when we control for *DGTW similarity* in a portfolio similarity regression, we argue that we are controlling for the component of *portfolio similarity* that is driven by shared risk preferences.

We measure shared SRI preferences in a similar way. We characterize each stock holding over the three SRI components that were shown to be significant in our

Table 4. Robustness

	Constituent Ideology (1)	Election Year (2)	Close Election (3)	Drop Local Stocks (4)	Drop Donating Firms (5)	Drop Spousal/ Dependent (6)	Drop PSI (7)
<i>CLS</i>	7.7875** (2.23)	8.1501*** (3.67)	8.5625*** (3.68)	8.1396*** (3.46)	7.9874*** (3.45)	10.8547*** (4.47)	6.1086*** (2.66)
<i>D voting (%)</i>	0.6913 0.27						
<i>Election year</i>		0.4829 (0.61)					
<i>Election year × CLS</i>		1.0135 (0.50)					
<i>Close election</i>			1.8086 (0.58)				
<i>Close election × CLS</i>			10.2211 (1.05)				
Observations	1,709	1,804	1,804	1,760	1,736	1,662	1,688
Adjusted R ²	0.038	0.037	0.042	0.038	0.042	0.053	0.037
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes. This table reports robustness checks for our main results from Table 3. The unit of observation is a member-year and *SRI ranking* is the dependent variable in all models. Model 1 includes the % of the vote received by the Democratic candidate in the most recent election as a control variable. In model 2, we include an indicator variable for if that year's reported holdings are the most recently available during an election year. We then interact this indicator with *CLS*. Model 3 includes an indicator for whether a member's holdings are the most recently available during an election year and that member faced a close election in their last election. We again interact this indicator with *CLS*. Model 4 drops firms headquartered in the district of a House member or in the state of a Senate member from member portfolios before calculating *SRI ranking*. Model 5 drops firms that donated to a member in a given year from the member's portfolio. Model 6 drops equity holdings in accounts labeled as spousal or dependent by CRP. Model 7 drops PSI stocks from member portfolios. All models include the same controls used in Table 3. All variable definitions are given in Appendix A. We use OLS regressions, include year fixed effects, and cluster standard errors by member in all specifications. The sample period is 2004–2012. Robust *t*-statistics are in parentheses.

p* < 0.01; *p* < 0.05; ****p* < 0.001.

Table 3 regressions: environment, employee, and diversity. We form 125 SRI portfolios by sorting stocks into quintiles based on each of the three SRI component rankings, and then calculate member portfolio weights for each of the 125 portfolios. We define *SRI similarity* as the Jaccard similarity between each member pair's SRI portfolio weights. As when we control for *DGTW similarity*, controlling for *SRI similarity* allows us to control for the component of *portfolio similarity* that is driven by shared SRI preferences.

In Table 5, panel (a), we report portfolio similarity regressions that control for both *SRI* and *DGTW similarity*. As a benchmark for comparison, in model 1, we report the results of our portfolio similarity regressions for the sample of member pairs that have both *SRI* and *DGTW similarity* data, but without controlling for either measure. The coefficient on *|diff in CLS|* is -0.006 (*t*-statistic = -5.11), which is similar both in magnitude and statistical significance to the coefficient in model 1 of Table 2, where we use the unrestricted sample. In model 2, we include *DGTW similarity* as a control variable. Not surprisingly, *DGTW similarity* is highly related to *portfolio similarity*. However, *DGTW similarity* does not fully explain *portfolio similarity*, as *|diff in CLS|* remains negative and significant, indicating that ideology affects portfolio choice beyond just through its effect on risk preferences. That said,

including *DGTW similarity* as a control cuts the *|diff in CLS|* coefficient in half as compared with model 1, indicating that the relation between ideological similarity and portfolio similarity does in part operate through a shared risk preferences channel.

In model 3, we remove *DGTW similarity* and replace it with *SRI similarity* to compare the relative importance of shared risk versus shared SRI preferences. *SRI similarity* is also highly related to *portfolio similarity*, and its inclusion in the model has an even stronger effect on the *|diff in CLS|* coefficient than does the inclusion of *DGTW similarity*, reducing it by about two-thirds. This suggests that shared preferences for SRI also plays a major role in the overall relation between ideology and portfolio similarity, and is arguably a more important factor than shared risk preferences.

Interestingly, when we include both similarity controls in model 4, *|diff in CLS|* is no longer significant. This does not mean that ideology is not important for portfolio formation, as both risk and SRI preferences are themselves driven by ideology.¹⁷ Rather, it suggests that the relation between ideological similarity and portfolio similarity can be fully explained jointly through the channels of shared preferences for risk and SRI.

Given that the above analysis shows that risk preferences are an important determinant for portfolio similarity, we also check whether our SRI holdings results are

Table 5. Is SRI Related to Risk Preferences?

Panel A: Portfolio similarity with risk preferences								
	Portfolio similarity							
	(1)	(2)	(3)	(4)				
$ diff\ in\ CLS $	−0.006*** (−5.11)	−0.003*** (−3.28)	−0.002** (−2.49)	−0.001 (−1.25)				
DGTW similarity		0.523*** (66.09)		0.385*** (80.27)				
SRI similarity			0.458*** (57.94)	0.302*** (68.51)				
Observations	219,020	219,020	219,020	219,020				
Controls	Yes	Yes	Yes	Yes				

Panel B: SRI regressions with risk controls								
	SRI Ranking (1)	Community (2)	Corporate (3)	Diversity (4)	Employee (5)	Environment (6)	Human (7)	Product (8)
CLS	8.5933*** (3.87)	2.9733 (1.54)	1.2445 (0.70)	5.0260*** (2.95)	6.3306*** (3.53)	7.2498*** (3.34)	1.2720 (0.85)	1.1225 (0.64)
Size	0.2536*** (6.40)	0.3229*** (8.79)	−0.1895*** (−5.45)	0.5870*** (17.66)	0.1718*** (5.77)	0.0493 (1.24)	−0.2507*** (−7.64)	−0.4249*** (−15.10)
B/M	−0.1411*** (−3.91)	0.1213*** (3.09)	−0.2551*** (−5.89)	−0.0044 (−0.14)	−0.0984*** (−2.72)	−0.1201*** (−3.38)	−0.0239 (−0.75)	−0.1643*** (−4.47)
12-month return	−0.1377*** (−5.35)	−0.0254 (−1.03)	−0.0837*** (−2.77)	−0.0582** (−2.57)	−0.0698*** (−2.89)	−0.0727*** (−2.98)	−0.0499** (−2.23)	−0.0060 (−0.23)
Constant	77.2022*** (3.96)	49.0576** (2.55)	58.4676*** (3.02)	44.8440*** (2.71)	86.2020*** (5.19)	74.7192*** (3.54)	61.5858*** (4.18)	84.8544*** (4.84)
Observations	1,804	1,804	1,804	1,804	1,804	1,804	1,804	1,804
Adjusted R ²	0.155	0.147	0.088	0.412	0.088	0.051	0.111	0.246
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes. This table reports the results of regressions that control for risk preferences in both our portfolio similarity and SRI holdings tests. In panel (a), the dependent variable is *portfolio similarity*, or the Jaccard similarity of holdings in a member pair-year. Along with $|diff\ in\ CLS|$, the variables of interest are the *SRI similarity* and *DGTW similarity* of a member-pair portfolio. All models in panel (A) have the same specifications used in Table 2, except for including the two additional variables of interest. In panel (B), we repeat our analysis found in Table 3, but include value-weighted portfolio-level averages of firm size, book to market, and prior year's stock returns as controls. The sample period is 2004–2012. All variable definitions are given in Appendix A. Robust *t*-statistics are in parentheses.

* $p < 0.01$; ** $p < 0.05$; *** $p < 0.001$.

robust to the inclusion of controls for risk characteristics. In panel (b), we rerun our Table 3 regressions and include value-weighted portfolio-level averages of firm size, book to market, and prior year's stock returns as controls. Our results are very similar to those in Table 3 when we include these risk characteristics, again suggesting that our findings are not driven by risk preferences related to ideology.

3.2.3. Variation Within Parties. In Table 6, we explore how ideological differences within parties affects SRI, as well as whether this relationship is linear across the parties. We use the same regression framework used in Table 3. In models 1 and 2, we restrict the sample to just Democrats and Republicans, respectively, in order to estimate how ideology matters within each party. The relationship between ideology and SRI is present in both parties. For example, as Republicans move from being

more conservative to more liberal (i.e., *CLS* increases), their portfolios also have a higher *SRI ranking*.

In model 3, we estimate a model that includes both *CLS* and an indicator for being a member of the Democratic Party. *CLS* remains positive and significant, while the *Democrat* indicator is actually negative and significant. Note that the negative *Democrat* indicator does not mean that Democrats are less likely to invest in SRI, because Democrats tend to have higher *CLS* scores (i.e., are more liberal) and are actually more likely to engage in SRI. Rather, the negative indicator suggests there is a nonlinearity in the relation between *CLS* and SRI, and in particular, that there is a jump in the relation as we move along the ideology spectrum and transition from moderate Democrats to moderate Republicans.

We explore this nonlinear relationship further in model 4 and estimate a regression with four indicator variables: *Liberal Democrat*, *Moderate Democrat*, *Moderate*

Table 6. How Does SRI Vary Within a Party?

	SRI ranking			
	(1)	(2)	(3)	(4) ^{a,b,c}
<i>CLS</i>	22.5405** (2.52)	16.1443* (1.91)	19.8411*** (3.20)	
<i>Democrat</i>			−9.9191** (−2.07)	
<i>Conservative Republican</i>				73.2031*** (3.56)
<i>Moderate Republican</i>				79.3379*** (3.70)
<i>Moderate Democrat</i>				78.2878*** (3.73)
<i>Liberal Democrat</i>				85.9067*** (3.98)
<i>ln(age)</i>	−2.9068 (−0.38)	−9.6744 (−1.48)	−6.3535 (−1.26)	−6.6059 (−1.31)
<i>Male</i>	−0.3685 (−0.13)	3.4055 (0.99)	1.6747 (0.76)	1.4435 (0.65)
<i>Senate</i>	−2.7399 (−1.01)	0.4280 (0.16)	−1.6261 (−0.86)	−1.1214 (−0.59)
<i>ln(wealth (\$))</i>	−0.5965 (−1.22)	−0.2045 (−0.28)	−0.3909 (−0.82)	−0.4379 (−0.93)
<i>ln(no. of stocks)</i>	0.8362 (0.92)	1.6300* (1.72)	1.3275** (2.03)	1.2609* (1.95)
<i>SRI ranking of contributors</i>	0.0752** (2.00)	0.0275 (0.45)	0.0580 (1.63)	0.0508 (1.47)
<i>Constant</i>	63.1644** (2.09)	90.1282*** (3.17)	82.5248*** (3.83)	
Observations	901	903	1,804	1,804
Adjusted R ²	0.046	0.023	0.049	0.87
Sample restriction	Dem only	Repub only	Full sample	Full sample

Notes. This table reports the results of regressions that examine whether SRI by members of Congress varies within a party. The dependent variable is the value-weighted average percentile ranking of equity SRI scores for a member's portfolio in a given year (*SRI Ranking*). The unit of observation is a member-year. In models 1 and 2, we restrict the sample to either Democrats or Republicans only, respectively. In model 3, we include an indicator for membership in the Democratic Party, along with *CLS*. In model 4, we include four indicators, which span all members, and drop the constant term. The four indicators are based on being above or below the median of *CLS* within each party. All variable definitions are given in Appendix A. At the bottom of the table, we report the F-test results for the difference in coefficient estimates within model 4. We employ OLS regressions, include year fixed effects, and cluster standard errors by member in all specifications. The sample period is 2004–2012. Robust *t*-statistics are in parentheses.

^a*Liberal Democrat = Moderate Democrat?* Rejected*** ($F = 10.72$).

^b*Conservative Republican = Moderate Republican?* Rejected** ($F = 6.15$).

^c*Moderate Democrat = Moderate Republican?* Not Rejected ($F = 0.23$).

* $p < 0.01$; ** $p < 0.05$; *** $p < 0.001$.

Republican, and *Conservative Republican*. That is, we split each party into two groups based on the median *CLS* within each party. To avoid multicollinearity, we drop the intercept term. Using an F-test, we find a significant difference between the coefficient estimates for *Liberal Democrat* and *Moderate Democrat* (F -statistic = 10.72), as well as between those for *Conservative Republican* and *Moderate Republican* (F -statistic = 6.15). We find no significant difference between the coefficient estimates for *Moderate Democrat* and *Moderate Republican*, even though the average *CLS*

for moderate Democrats (0.25) is significantly higher than the average *CLS* for moderate Republicans (−0.32). This suggests that the relation between ideology and SRI flattens out in the moderate range, and that the differences in SRI are coming from the more ideologically extreme members of the political parties.

Taken together, these findings demonstrate that a continuous measure of ideology is superior to party indicators, as there is significant ideological variation and investment differences within each party. Also, by using a continuous measure we are able to detect the nonlinear

Table 7. Does Ideology Relate to Investments in Politically Sensitive Industries?

	PSI weight (1)	R – D ind (2)	PSI weight (3)	R – D ind (4)
<i>CLS</i>	–0.0735** (–2.08)	–0.1539*** (–3.78)	–0.0614* (–1.86)	–0.1122*** (–2.99)
<i>SRI ranking</i>			–0.0014* (–1.77)	–0.0047*** (–7.06)
<i>ln(age)</i>	0.1936** (2.57)	0.1454* (1.67)	0.1877** (2.55)	0.1219 (1.47)
<i>Male</i>	0.0338 (1.10)	0.0349 (1.08)	0.0355 (1.12)	0.0408 (1.34)
<i>Senate</i>	–0.0357 (–1.19)	0.0293 (1.01)	–0.0380 (–1.29)	0.0208 (0.76)
<i>ln(wealth (\$))</i>	–0.0086 (–1.54)	0.0175*** (2.76)	–0.0092 (–1.63)	0.0157*** (3.02)
<i>ln(no. of stocks)</i>	0.0260*** (2.71)	–0.0415*** (–5.19)	0.0279*** (3.09)	–0.0351*** (–4.42)
<i>SRI ranking of contributors</i>	–0.0383 (–0.90)	0.0467 (1.23)	–0.0434 (–1.01)	0.0301 (0.84)
<i>Constant</i>	–0.5654* (–1.90)	–1.0754*** (–3.06)	–0.4651 (–1.65)	–0.7241** (–2.17)
Observations	1,804	1,804	1,804	1,804
Adjusted R ²	0.060	0.081	0.068	0.168

Notes. This table reports the results of regressions that examine how investment in politically sensitive industries is related to member ideology. The unit of observation is a member-year. In models 1 and 3, our dependent variable is *PSI weight*, which is defined as the portfolio weight in industries that are commonly shown to be excluded from SRI investing screens: guns and defense, mining, tobacco, alcohol, gaming, and oil and coal. In models 2 and 4, our dependent variable is the weight of equity investment in Republican industries less Democratic industries for a member's portfolio in a given year (*R – D ind*). We use the definitions of Republican and Democratic industries found in Addoum and Kumar (2016). All variable definitions are given in Appendix A. We use OLS regressions, include year fixed effects, and cluster standard errors by member in all specifications. The sample period is 2004–2012. Robust *t*-statistics are in parentheses.

* $p < 0.01$; ** $p < 0.05$; *** $p < 0.001$.

relationship between ideology and SRI, as moderate members of both parties behave in a similar manner, while members with strongly held beliefs are influenced more. That ideology is not related to SRI in the moderate range is an interesting finding, because it suggests that ideology has threshold effects on investing behavior.

3.2.4. Politically Sensitive Industries. Our measures so far have relied on KLD data to create *SRI rankings* across different categories. In Table 7, we examine SRI from the perspective of investments in certain politically sensitive industries (PSI). In model 1, our dependent variable is *PSI weight*, which is defined as the portfolio weight in industries commonly shown to be excluded from SRI investing screens: guns and defense, mining, tobacco, alcohol, gaming, and oil and coal.¹⁸ We include the same controls used in Table 3, and donations are calculated at the PSI industry level. The coefficient of *CLS* is negative and significant, indicating that liberals invest less in PSI than do conservatives.

In model 2, we use a different measure of political sensitivity to measure a member's industry allocations. Addoum and Kumar (2016) show that certain industries have higher stock returns when the President is

a Democrat (Democratic industries), while others benefit more when the President is a Republican (Republican industries). Their logic is that investors perceive that parties will favor certain industries (perhaps because of ideological reasons) and thus are more likely to enact favorable policies for those industries when they are in power. For example, during our sample period, the computer industry benefited the most when the president was a Democrat, whereas tobacco benefited the most when the president was a Republican. If parties favor certain industries in their policies, do they also favor them in their portfolios?

To answer this question, we follow Addoum and Kumar (2016) and construct a measure (*R – D ind*), which is the member's portfolio weight in the top-five Republican industries, minus their weight in the top-five Democratic industries.¹⁹ In model 2, we find a significant negative relation between *CLS* and *R – D ind*, suggesting liberals are more likely to tilt away from Republican industries and toward Democrat industries, and vice versa for conservatives.

One concern is that our industry analysis is just picking up the *SRI ranking* effect that we have already found in Table 3. That is, it could be that the PSI or

Table 8. Do “Pet Issues” Influence SRI?

	Environment (1)	Employee (2)	Relative environment (3)	Relative employee (4)
<i>Pet issue environment</i>	4.7297*** (2.80)		2.6026* (1.81)	
<i>Pet issue employee</i>		5.3665*** (3.58)		3.1553** (2.31)
Observations	1,804	1,804	1,804	1,804
Adjusted R^2	0.020	0.032	0.008	0.014
Controls	Yes	Yes	Yes	Yes

Notes. This table reports the results of regressions that examine whether a member’s “pet issue” is related to their SRI choices. In particular, we study environmental and employee-related concerns. We define pet issue using committee membership and interest group scores (see the online and variable appendices for details). The unit of observation is a member-year. Models 1 and 2 test if having a pet issue is related to a member’s environment and employee portfolio ranking, respectively. The dependent variable in models 3 and 4 is a member’s environment (employee) score, minus the mean of their other SRI category rankings in a given year. We define these as *relative environment* and *relative employee*. We include the same controls found in Table 3, as well as issue-specific firm donation rankings. All variable definitions are given in Appendix A. We use OLS regressions, include year fixed effects, and cluster standard errors by member in all specifications. The sample period is 2004–2012. Robust t -statistics are in parentheses.

* $p < 0.01$; ** $p < 0.05$; *** $p < 0.001$.

Republican industries represent firms with low SRI scores, or, perhaps, Democrat industries have high SRI scores. To address this, we repeat our analysis for both industry measures and include the member’s portfolio *SRI ranking* as a control variable in models 3 and 4. *SRI ranking* is negative and significant in both models, consistent with firms in PSI having low SRI scores, as well as firms in Republican industries having relatively lower SRI scores than firms in Democrat industries. However, even when we control for *SRI ranking*, *CLS* remains negative and significant, meaning that we are not just picking up an SRI ratings effect in our industry analysis. Taken together, the results in Table 7 show that members also express their ideological beliefs in their portfolio allocations at the industry level, which supports our main finding of behavioral consistency in investing.

3.2.5. Pet Issues. An additional factor driving equity selection by members of Congress could be their interest in certain “pet issues.” For example, while liberal members may generally favor firms with positive environmental characteristics, some members may be especially interested in these issues. These specific preferences might then be reflected in their equity portfolios. To test for this effect, we use Congressional committee membership and interest group scores to identify whether a member has either environmental or labor concerns as a pet issue. Members have some choice over their committee assignments, so it is possible that these choices reflect their personal interests. Furthermore, specific interest group scores allow us to infer a member’s beliefs about environmental and labor concerns.²⁰ We define two indicator variables for environmental and employee concerns as equal to 1 if the member either sits on a related committee, or if the member has an above median interest group score, and as 0 otherwise.

We present these results in Table 8. We use a similar setup used in our Table 3 regressions and include the same control variables. Models 1 and 2 test for a relationship between portfolio environmental and employee SRI rankings and our pet issue indicators. We find positive and statistically significant relationships in each model. We then test for a relative preference for environment- and employee-based SRI in models 3 and 4, respectively. The dependent variable in these models is a member’s environment (employee) score, minus the mean of their other SRI rankings. We define these as *relative environment* and *relative employee*. The pet issues indicators remain positive and significant, meaning that these members disproportionately favor investments in their pet issues relative to their investments in other SRI categories.²¹ By directly linking issues to investments, these results provide strong evidence of behavioral consistency in members’ investment behavior, and help to further illustrate the complex and multidimensional nature of political ideology that cannot be fully captured by party affiliation.

3.2.6. SRI Taste and Performance. In our online appendix, we also explore how ideological tastes for SRI affects the returns of member portfolios. We collect member transaction data from CRP and measure the performance of their stock purchases compared with DGTW characteristic benchmarks for both 6- and 12-month windows following the purchase date. We then split equity purchases based on their *SRI ranking* into high SRI (top quintile) and low SRI (bottom quintile) groups. We regress 6- and 12-month DGTW-adjusted returns on indicators for high and low SRI stocks, as well as interactions of the SRI indicators with a *liberal* indicator, defined as a member having above

median *CLS*. The *high SRI* indicator is negative and significant in all models, meaning that high SRI stock purchases have abnormally low returns for all members of Congress, consistent with the literature on SRI performance (see, e.g., Geczy et al. 2005, Renneboog et al. 2008, Hong and Kacperczyk 2009). However, we find no evidence of a performance differential for liberals as compared with conservatives. In other words, liberals do just as poorly with their high SRI investments as conservatives do. Thus, in some cases, liberals' preference for owning high SRI stocks may come at a financial cost.

3.3. Salience and SRI

A great deal of evidence in the finance literature shows that investor decisions, and especially those of retail investors, are influenced by salience, that is, factors that are particularly noticeable or that draw their attention (e.g., Barber and Odean 2008, Bordalo et al. 2012, Hartzmark 2014). Also, evidence in the psychology literature shows that salience can play an important role in people's prosocial behavior. Specifically, the norm activation model (NAM) predicts that personal norms are "activated" by increased problem salience, making people more likely to adopt prosocial behaviors that fit their moral beliefs when they are more aware of the social issue or are more aware of their ability to combat the problem through their behavior (Schwartz 1977). The NAM has found empirical support in many

domains of prosocial behavior, including blood donation, volunteering, and proenvironmental behavior (see, e.g., De Groot and Steg 2009 for a review of these studies).

We combine the insights related to salience from both the finance and psychology literatures and hypothesize that liberals will increase SRI in contexts where the social issues are more salient, or the SRI decisions are framed in a more salient way. We test this hypothesis in the next two sections where we examine an exogenous shock to environmental salience (Section 3.3.1) and the salient SRI characteristics of mutual funds (Section 3.3.2).

3.3.1. Shock to Salience of SRI. Environmental issues are likely to be more at the front of one's mind following a major disaster. This should activate a liberal's personal norms related to environmental issues and influence the degree to which those norms affect their investing decisions. In this section, we use an exogenous shock to the salience of environmental issues, namely the BP Deepwater Horizon oil spill in April of 2010, to test the role of salience in the relation between ideology and SRI.

Specifically, we examine members' decisions to buy or avoid environmentally sensitive stocks around the BP oil spill. We use transactions data from CRP and create a member-month panel of trades from 2004 to 2012 and define net purchases at the monthly level.

Table 9. Salience and SRI: Evidence from the BP Oil Spill

	(1)	(2)	(3)	(4)
<i>CLS</i>	−0.0061** (−2.22)	−0.0058** (−2.12)		
<i>One to three months after BP × CLS</i>	−0.0176** (−2.26)	−0.0189** (−2.48)	−0.0179** (−2.44)	−0.0193*** (−2.75)
<i>Four to six months after BP × CLS</i>	−0.0022 (−0.44)	−0.0045 (−0.91)	−0.0024 (−0.51)	−0.0048 (−1.02)
<i>One to three months before BP × CLS</i>	0.0027 (0.61)	0.0033 (0.79)	0.0025 (0.56)	0.0030 (0.70)
<i>Four to six months before BP × CLS</i>	−0.0038 (−0.60)	−0.0026 (−0.42)	−0.0052 (−0.84)	−0.0041 (−0.69)
Observations	43,020	43,020	43,020	43,020
Adjusted R^2	0.014	0.014	0.117	0.122
Fixed effects	Period	Period	Member and period	Member and period
Controls	Yes	Yes	Yes	Yes

Notes. This table reports the results of regressions that test whether ideology is related to how member equity purchases respond to the British Petroleum Deepwater Horizon oil spill in April of 2010. Our sample is a member-month panel of net purchases. In models 1 and 3, our dependent variable is the dollar value of purchases of stocks in the bottom environment quintile scaled by the total dollar value of stock purchases, while in models 2 and 4, our dependent variable is the number of bottom environment quintile stocks purchased scaled by the total number of stocks purchased. We include three-month time period indicators around the BP spill: one to three months and four to six months, both before and after the spill. We interact *CLS* with each of these time period indicators. All models include these time period indicators (not displayed). Models 1 and 2 use the same member controls found in Table 3, and models 3 and 4 include member fixed effects and drop time-invariant member characteristics. All variable definitions are given in Appendix A. We use OLS regression and cluster standard errors by member in all specifications. The sample period is 2004–2012. Robust *t*-statistics are in parentheses.

* $p < 0.01$; ** $p < 0.05$; *** $p < 0.001$.

We fill in member-months with zero trades if the member served in a given year, but did not have any trades during the month. We focus on the decision to purchase, because stocks sold need to have been previously purchased and, if the decision to purchase is related to ideology, including them would create a biased sample. Furthermore, Barber and Odean (2008) find that “attention-grabbing” news is related to the buying, rather than the selling behavior of individual investors.

We focus on two different dependent variables: (1) the dollar value of purchases of stocks in the bottom environment quintile scaled by the total dollar value of stock purchases and (2) the number of bottom environment quintile stocks purchased scaled by the total number of stocks purchased. We are primarily interested in whether the average buying behavior of members shifted in the periods immediately after the spill, and if this shift is related to ideology. To test this, we use a difference-in-differences framework, and measure how the relationship between *CLS* and the purchases of environmentally sensitive stocks changed from before to after the oil spill. We include four 3-month time period indicators around the BP spill: 1 to 3 months and 4 to 6 months, both before and after the spill. We then interact *CLS* with each of these indicators to see if changing buying patterns are related to ideology. We include our standard set of member controls along with *CLS*, as well as the total dollar amount of stocks bought in a given month for each member. We display the coefficients for *CLS* and the

time period interactions in Table 9 (time period indicators and other controls are not displayed for brevity). We also exploit our panel data by including member fixed effects in models 3 and 4 of Table 9, dropping time-invariant member characteristics. This allows us to focus on changes in buying behavior relative to each individual member’s general desire to purchase these stocks during our sample.

Like in our main results using the year-end holdings data, the main effect of *CLS* is negative and significant, indicating that on average liberals are less likely to purchase stocks with low environmental rankings than conservatives during our sample. Strikingly, we find that during the three months immediately following the BP oil spill, more liberal members significantly reduced their purchases of low ranked environmental stocks as compared with more conservative members both in terms of the number and dollar value of their purchases. This is true across all four models. In contrast, we find no differential buying behavior between ideologies in the months leading up to the spill, suggesting the spill changed the way liberals looked at these stocks, perhaps by activating their relative distaste for environmental harm. Interestingly, we also find this differential effect dissipates after the first 3 months, as the interaction becomes insignificant in the (4- to 6-month) window following the spill. The fact that the buying behavior exhibits a downward spike in the months immediately following the spill and subsequently dissipates afterward provides strong evidence that liberal members were temporarily affected by the salient nature of the BP event.

Table 10. Does Ideology Influence SRI Mutual Fund Choice?

	SRI ranking of MF holdings (1)	Invest in SRI fund? (2)	SRI fund weight (3)
<i>CLS</i>	−0.4624 (−0.51)	2.8005*** (3.41)	0.0217*** (2.80)
<i>ln(age)</i>	0.8732 (0.40)	2.6305* (1.95)	0.0230 (1.36)
<i>Male</i>	−0.1046 (−0.11)	−0.4604 (−0.96)	−0.0032 (−0.35)
<i>Senate</i>	0.1170 (0.15)	−0.5049 (−0.83)	−0.0009 (−0.15)
<i>ln(wealth (\$))</i>	−0.4488** (−2.01)	−0.2521 (−1.57)	−0.0024 (−1.63)
<i>ln(no. of MFs)</i>	−0.9238** (−2.29)	1.0335*** (3.24)	0.0022 (1.16)
<i>Constant</i>	57.2513*** (6.70)	−11.3911** (−2.02)	−0.0478 (−0.84)
Observations	1,463	1,463	1,463
Pseudo/adjusted <i>R</i> ²	0.202	0.248	0.040

Notes. This table reports the results of regressions that examine how mutual fund choices reflect both a member’s ideology and the salience of a fund’s SRI characteristics. The unit of observation is a member-year. In model 1, we use indirect stock holdings from mutual fund investments to calculate *SRI ranking* for each member-year portfolio. Model 2 uses a logistic regression, where the dependent variable is an indicator for if a member owns an SRI fund in a given year. In model 3, the dependent variable is a member’s mutual fund portfolio weight in SRI funds. All variable definitions are given in Appendix A. We use OLS regression in models 1 and 3, include year fixed effects, and cluster standard errors by member in all specifications. The sample period is 2004–2012. Robust *t*-statistics are in parentheses.

p* < 0.01; *p* < 0.05; ****p* < 0.001.

3.3.2. SRI in Mutual Funds. We also predict that the relationship between ideology and SRI should be stronger for assets whose SRI-relevant features are themselves more salient. For example, the SRI features of an individual stock are likely to be more attention-grabbing than those of a portfolio of stocks indirectly held by a mutual fund, suggesting that liberals should be more likely to express their preference for SRI in their direct individual equity holdings, rather than indirectly through their mutual fund investments.

We test this proposition in model 1 of Table 10 by examining the relation between *CLS* and SRI in members' indirect equity holdings. The dependent variable is the value-weighted average *SRI ranking* of members' indirect equity holdings. We find that *CLS* is not related to the *SRI ranking* of equities held via mutual funds. The results for indirect equity holdings contrast sharply with those for direct equity holdings (Table 3), consistent with the idea that the SRI characteristics of the former are less salient than those of the latter.

However, the way that a mutual fund markets itself is likely more salient than the underlying equities that it owns. In particular, some funds are known to be a "socially responsible fund" (SRI fund). In model 2, we estimate a logit model predicting the likelihood that a member owns an SRI fund. There is no exact definition of an SRI fund, so we match the mutual funds held by members to three different list snapshots of socially responsible mutual funds: (1) SocialFunds.com, (2) U.S. Social Investment Forum, and (3) Morningstar. We also use keywords, such as "social," "responsible," and "ethic," to capture CRSP funds that may not be on the lists. Appearing on a list of SRI funds or having certain keywords in a fund name could make the fund appear more salient to investors with a taste for SRI. The sample in model 2 is a panel of member-year mutual fund holdings, and the dependent variable is equal to one if the member owns an SRI fund in a given year. The set of controls used are the same as our main results, except that we include the natural logarithm of the number of mutual funds owned. The coefficient on *CLS* is positive and significant, indicating that more liberal members are more likely to own an SRI fund. We find similar results in model 3, where we change the dependent variable to the member's total portfolio weight in SRI funds and use an OLS regression. Taken together, the results of this section suggest that more liberal members are more likely to express their taste for SRI in the mutual fund context when the funds have salient SRI characteristics.

3.4. Ideology and the Effect of Donations on Portfolio Choice

Thus far, we have shown evidence of behavioral consistency in members of Congress, as more liberal members are more likely to engage in SRI than conservative

members. We now examine behavioral consistency in the domain of financial ethics.

Tahoun (2014) demonstrates that members of Congress are more likely to own the stocks of firms that have donated to their campaigns, and finds evidence suggesting they do so for an unethical reason, namely to serve as a signal to firms that they will take actions to benefit the donating firm. In other words, Tahoun's findings suggests that a positive relation between donations and stock ownership serves as evidence of quid pro quo between members of Congress and their donors. In this section, we test whether this quid pro quo behavior is related to the member's political ideology.

Political quid pro quo is an unethical form of corruption that is antithetical to both liberal and conservative principles. For example, there is language in both the Democratic and Republican platforms against special interest favoritism and "crony capitalism" that result from campaign finance abuses. Moreover, evidence in the psychology literature indicates that both liberals and conservatives care about the moral value of fairness versus cheating, a value that political corruption would clearly violate (Haidt 2012). Therefore, behavioral consistency theory would predict that members with strongly held ideological beliefs (either liberal or conservative) should be less likely to engage in quid pro quo with their donors, and thus their investment decisions should be less sensitive to campaign contributions.

To test this proposition, we exploit the structure of our data and create a member-firm-year panel that includes donation and ownership data for each member-firm-year. Specifically, for each year, we calculate a member's portfolio weight across the union of all of the stocks owned by any members of Congress plus all the firms that have donated to any members of Congress in a given year. This union represents the opportunity set of firms for members in a given year. This results in a panel with 6,464,936 possible member-firm-years. Our dependent variable is the member's portfolio weight for a firm in a given year (*portfolio weight*), while the variable of interest is the proportion of the total donations the member has received during the year from the firm (*% donations*). We include member-year and firm-year fixed effects to control for all characteristics of the member and the firm in a given year. Thus, we gain identification through differential ownership-donation patterns across the member-firm pairs in each year. Standard errors are clustered at the member-year level. The results are presented in Table 11. We begin by replicating the basic result from Tahoun (2014) in model 1. Like in Tahoun (2014), a member's portfolio weight in a given firm is significantly and positively related to the donations the member received from that firm.

In the subsequent models of Table 11, we include interactions of *% donations* with various measures of ideology to test whether this ownership-donation relation

Table 11. Does Ideology Alter the Influence of Donations on Portfolio Choice?

	Portfolio weight				
	(1)	(2)	(3)	(4)	(5)
% donations	0.0331*** (7.29)	0.0609*** (4.80)	0.0375*** (6.76)	0.0332*** (7.22)	0.0443*** (5.98)
CLS × % donations		−0.0671*** (−2.81)			
Strong ideology × % donations			−0.0204*** (−2.62)		
CLS × % donations				0.0021 (0.24)	
Very liberal × % donations					−0.0221** (−2.31)
Very conservative × % donations					−0.0287*** (−3.23)
Observations	6,464,936	6,464,936	6,464,936	6,464,936	6,464,936
Adjusted R ²	0.017	0.017	0.017	0.017	0.017
Fixed effects	Member-year and firm-year				

Notes. This table reports the results of regressions that examine how member ideology affects the relationship between firm donations and member equity ownership. Our sample is a member-year-firm panel created from the cross product of all member-years with an investable set of firms, defined as the full set of firms collectively owned in member portfolios combined with the full set of firms that have donated to any member in a given year in our sample. For each member-year-firm, we calculate a member's portfolio weight in the firm in that year, setting the weight to 0 if the member does not own any stock in the firm in that year. *Portfolio weight* is the dependent variable in all models. We include both member-year and firm-year fixed-effects and standard errors are clustered by member-year. The sample period is 2004–2012. Robust *t*-statistics are in parentheses.

p* < 0.01; *p* < 0.05; ****p* < 0.001.

changes with ideological extremism. Because *CLS* is measured on a scale from −1 (most conservative) to 1 (most liberal), we take the absolute value of *CLS* (*|CLS|*) as our first measure of ideological extremism in model 2. In model 3, we use an indicator for *strong ideology*, defined as being in the top quintile of the absolute value of *CLS*. The interaction between our measures of ideological intensity and firm donations is negative and significant in both models, indicating that more ideologically extreme members are less sensitive to donations when choosing to invest in a given firm.²² These results are economically meaningful. For example, the results in model 2 mean that the effect of donations is completely offset by the effect of ideology for somebody that is ideologically extreme (i.e., perfectly liberal or perfectly conservative). As a practical matter, the results in model 3 indicate that the highly ideological members of our sample have an ownership-donation relation that is less than half the size of the relation for political moderates.

Although our hypothesis is based on political extremism, we also consider whether the direction of ideology affects the ownership-donation relation. In model 4, we include the signed measure of *CLS* interacted with % donations and find the interaction to be insignificant (*t*-statistic = 0.24). In model 5, we include interactions with separate indicators for both *very liberal*

and *very conservative* members, defined as being in the top and bottom quintile of *CLS*, respectively. The indicators are both negative and significant, yet the coefficients are not statistically different from one another. Thus, the effect does not depend on whether the member is liberal or conservative; rather, the intensity of the member's ideology counts. This finding is connected to our broader research topic because, along with the relation between SRI and ideology, it also supports the idea of behavioral consistency.

4. Conclusion

In this paper, we examine the role of political ideology in portfolio formation. We overcome many of the methodological issues facing previous work in this area by examining a unique set of investors whose political ideology can be precisely captured by a well-defined, continuous measure and whose personal asset allocation decisions are mandatorily disclosed. Not only do the members of the U.S. Congress offer an ideal setting to understand the relation between ideology and investing but they are also a particularly important category of investors whose status as elected officials makes their behavior of great interest to voters. Thus, it is especially important to understand if their financial decisions reflect behavioral consistency across their personal and professional domains.

We find robust evidence that members of Congress “put their money where their mouth is” and invest in a manner consistent with their political beliefs. Specifically, ideologically similar members hold similar portfolios, and this is largely driven by a strong positive relation between political liberalism and a preference for SRI. These effects are present even within political parties, indicating that member preferences are driven by their ideology, rather than partisanship. Indeed, we even find that members disproportionately favor the SRI categories that reflect their favorite political issues. Interestingly, we find that salience plays an important role in activating investors’ ideologically based preferences for SRI, indicating that the degree to which agents behave consistently with their ideology depends on how choices are framed and what issues are most noticeable. Thus, our results suggest economy-wide SRI may not be driven by trends in investor liberalism only but also by how much social issues grab liberals’ attention.

Finally, we also find evidence of behavioral consistency in the realm of financial ethics, as more ideological investors are less likely to engage in the quid pro quo behavior documented in Tahoun (2014). As such, our findings also call into question the intentions of politicians who are viewed as moderate because they tend to vote against party lines. Of course, a moderate may vote against party lines because he or she has a strong core belief that goes against their party. On the other hand, perhaps moderate politicians are simply more malleable than ideological politicians and thus are more willing to make unethical choices that result in personal gain.

Acknowledgments

The authors thank the editor, Lauren Cohen, and three anonymous referees for many helpful comments. They are also grateful for the suggestions made by discussants and participants of the 2016 Financial Management Association meetings and the 2016 Southern Financial Association meetings and seminar participants at North Carolina State University. All remaining errors are the authors.

Appendix A. Variable Definitions

<i>CLS</i>	The conservative-liberal score, which ranges from −1 to 1. Liberalism increases in <i>CLS</i> . For expositional ease, we take the first dimension of the DW-common space and multiply it by −1 to create our measure. <i>Source</i> : voteview.com
<i>Age</i>	Member’s age in years. <i>Source</i> : Wikipedia
<i>Male</i>	An indicator variable for whether a member of Congress is male. <i>Source</i> : Wikipedia
<i>Senate</i>	An indicator variable for whether a member of Congress is a Senator in a given year. <i>Source</i> : Wikipedia
<i>Stocks (#)</i>	The total number of CRSP-matched equity positions held by a member in a given year. We also report the total dollar amount of CRSP-matched stocks held in Table 1. Both are winsorized at the 1st and 99th percentiles of the distribution. <i>Source</i> : CRP
<i>Wealth (\$000)</i>	Reported CRP net worth if net worth is greater than \$0 in a given year and \$0 otherwise. <i>Wealth (\$000)</i> is winsorized at the 1st and 99th percentiles of the distribution. <i>Source</i> : CRP
<i>SRI ranking</i>	The value-weighted average of percentile rankings for net SRI scores across a member-year’s holdings. A net SRI score is defined as the total number of strengths less the total number of weaknesses across the SRI categories. We rank stocks into percentiles after matching to member holdings. The higher the rank, the higher the SRI score. <i>Sources</i> : CRP and MSCI KLD
<i>SRI category ranking</i>	The value-weighted average of percentile rankings for net community (corporate, diversity, employee, environment, human, or product) score rankings across a member-year’s holdings. For example, a net community score is defined as the total number of strengths less the total number of weaknesses across the community category in a year. We rank stocks into percentiles after matching to member holdings. The higher the rank, the higher the SRI score. <i>Sources</i> : CRP and MSCI KLD
<i>SRI ranking of contributors</i>	The value-weighted average of percentile rankings for the aggregate SRI score, as well as net community (corporate, diversity, employee, environment, human, or product) score rankings, across the contributing firms of a member in a given year. For example, a net community score of a contributor is defined as the total number of strengths less the total number of weaknesses across the community category in a year. We rank stocks into percentiles after matching to member contributors. The higher the rank, the higher the SRI score. <i>Sources</i> : CRP and MSCI KLD
<i>Election year</i>	An indicator variable for if that year’s reported holdings are the most recently available during an election year. <i>Source</i> : FEC
<i>Close election</i>	An indicator variable for whether a member’s holdings are the most recently available during an election year and that member faced a close election in their last election. We define close election as the Democrat receiving between 47% and 53% of the vote. <i>Source</i> : FEC

Appendix A. (Continued)

<i>PSI weight</i>	Member portfolio weight in politically sensitive industries (PSI). PSI includes the following industries: (1) Fama-French 48 industry classifications of 4 (alcohol), 5 (tobacco), and 26 (guns and defense); SIC codes of 800–899 (all forestry), 1000–1119, and 1400–1499 (mining); and Fama-French 48 classifications of 29 (Coal) and 30 (Oil); (2) firms having value of 1 for KLD alcohol involvement, tobacco involvement, gaming involvement, military involvement, or firearms involvement; and (3) having “casino” in the company name.
<i>D voting (%)</i>	The percentage of the vote received by the Democratic candidate in the most recent election. Scaled to be between –1 and 1. <i>Source:</i> FEC
<i>Democrat</i>	An indicator variable for if a member is a Democrat in a given year. <i>Source:</i> CRP
<i>Liberal Democrat</i>	An indicator variable for if a member is a Democrat in a given year and above the median <i>CLS</i> among Democrats
<i>Moderate Democrat</i>	An indicator variable for if a member is a Democrat in a given year and below the median <i>CLS</i> among Democrats
<i>Conservative Republican</i>	An indicator variable for if a member is a Republican in a given year and below the median <i>CLS</i> among Republicans
<i>Moderate Republican</i>	An indicator variable for if a member is a Republican in a given year and above the median <i>CLS</i> among Republicans
<i>R – D ind</i>	The member’s portfolio weight in the top-five Republican industries minus their weight in the top-five Democratic industries in a given year. <i>Sources:</i> CRSP and Addoum and Kumar 2016
<i>Pet issue</i>	Indicator variables for environmental and employee concerns set equal to 1 if the member either sits on a related committee, or if the member has an above median issue group score, and 0 otherwise. <i>Sources:</i> Charles Stewart and Jonathan Dunn
<i>Relative environment (employee)</i>	A member’s environment (employee) score, minus the mean of their other SRI rankings
<i>SRI fund</i>	An indicator variable for whether a CRSP-matched mutual fund held by a member matches to our combined list of socially responsible funds or if that fund’s name contains a keyword associated with socially responsible funds. <i>Sources:</i> SocialFunds.com, U.S. Social Investment Forum, and Morningstar
<i>Mutual funds (#)</i>	The total number of CRSP-matched mutual fund positions held by a member in a given year. We also report the total dollar amount of CRSP-matched mutual funds held in Table 1. Both are winsorized at the 1st and 99th percentiles of the distribution. <i>Source:</i> CRP
<i>% donations</i>	The proportion of the total donations the member has received during the year from a firm. <i>Source:</i> CRP
<i>Strong ideology</i>	An indicator variable for if a member is in either the top or the bottom quintile of <i>CLS</i>
<i>Very liberal</i>	An indicator variable for if a member is in the top quintile of <i>CLS</i>
<i>Very conservative</i>	An indicator variable for if a member is in the bottom quintile of <i>CLS</i>

Endnotes

¹ U.S. Forum for Sustainable and Responsible Investment. See <http://www.ussif.org/sribasics>.

² For example, Kaustia and Torstila (2011), Hong and Kostovetsky (2012), Bonaparte and Kumar (2013), and Bonaparte et al. (2017).

³ For example, Jost et al. (2003) and Amodio et al. (2007).

⁴ Moral foundations theory (Haidt and Joseph 2004) posits five primary moral domains that people care about: care/harm, fairness/cheating, loyalty/betrayal, authority/subversion, and sanctity/degradation. Liberals tend to care most about care/harm and fairness/cheating, whereas conservatives care about all five, but relatively more than liberals about loyalty/betrayal, authority/subversion, and sanctity/degradation. For a detailed treatment of moral foundations theory, see Haidt (2012).

⁵ For instance, CEOs who avoid debt in their personal lives manage firms with lower leverage, and CEOs who are more personally tax aggressive manage firms with more aggressive tax policy (e.g., Cronqvist et al. 2012, Chyz 2013).

⁶ For example, Bullock et al. (2015) and Prior (2015). Also, see Irwin (2016).

⁷ Some examples include Statman (2000), Bollen (2007), Hong and Kacperczyk (2009), Hong and Kostovetsky (2012), Bonaparte and Kumar (2013), Giuli and Kostovetsky (2014), Bonaparte et al. (2017), and Riedl and Smeets (2017).

⁸ As Luigi Zingales notes, “when donations start to exceed \$5,000, donors are not just expressing a political preference, they are trying to

influence future policies” (University of Chicago Booth School of Business 2016).

⁹ To rule out strategic factors that might affect congressional voting, Poole (2007) shows that legislators’ ideological voting patterns are remarkably consistent over time. Levitt (1996) finds that ideology is the primary determinant of U.S. politician voting behavior, with voter preferences and party platform playing secondary roles.

¹⁰ The common space measure allows members to be compared across chambers and across years. The common space DW-nominate models are discussed in detail in Poole and Rosenthal (1985, 1991, 1997, 2007) and Poole (2005). See <https://voteview.com/data> for more on the construction of this measure.

¹¹ See <http://www.opensecrets.org/pfds/disclosure.php>. Investment assets greater than \$1,000 must be reported. These assets include securities, such as equity and debt positions, mutual funds, hedge funds, real estate, bank accounts, and business ownership.

¹² Please see our online appendix for more details on our data sources, merging procedures, and descriptive statistics.

¹³ We have also run our analysis by incorporating portfolio weights using the cosine similarity measure, and our results are very similar.

¹⁴ Our results are robust to using OLS instead of a Tobit model.

¹⁵ We control for different donor SRI percentile rankings for different dependent variables. For example, for the aggregate measure, *SRI ranking* (model 2), we control for the aggregate SRI percentile ranking of the contributors, whereas, for environment (model 8), we

control for the environment percentile ranking of contributing firms. For expositional ease, we report them in a single row (SRI ranking of contributors).

¹⁶ Consistent with our findings, Hong and Kostovetsky (2012) find no relation between mutual fund managers' party affiliation and the corporate governance and product quality category ratings of their holdings.

¹⁷ In unreported regressions, we note that both DGTW similarity and SRI similarity are negatively and significantly related to $|diff\ in\ CLS|$.

¹⁸ See Hong and Kostovetsky (2012) and the list of exclusions for MSCI ESG indices (<https://www.msci.com/esg-indexes>).

¹⁹ We thank Addoum and Kumar (2016) for making these top-five industry classifications available in their paper.

²⁰ For environmental interest groups scores, we take the average score across a set of environmental groups. For our employee interest group measure, we take the average labor group interest score and subtract the average business group interest score. Like our SRI ranking variable, interest groups scores range from 0 to 100, with 100 being the most "pro" score. See our online appendix for more details regarding the data and measures.

²¹ We also repeat this analysis with CLS included and the results are qualitatively similar. However, we omit these models because of concerns about multicollinearity between CLS and the pet issues measures.

²² Note that, we include member-year fixed effects, so the main effect of the ideology measure drops out of the model, because CLS is constant for a member throughout the sample. However, our results are not sensitive to this specification, and we continue to find a negative and significant interaction without including member-year fixed effects.

References

- Addoum J, Kumar A, (2016) Political sentiment and predictable returns. *Rev. Financial Stud.* 29(12):3471–3518.
- Akey P (2015) Valuing changes in political networks: Evidence from campaign contributions to close congressional elections. *Rev. Financial Stud.* 28(11):3188–3223.
- Amodio D, Jost J, Master S, Yee C (2007) Neurocognitive correlates of liberalism and conservatism. *Nat. Neurosci.* 10(10):1246–1247.
- Barber B, Odean T (2001) Boys will be boys: Gender, overconfidence, and common stock investment. *Quart. J. Econom.* 116(1):261–292.
- Barber B, Odean T (2008) All that glitters: The effect of attention and news on the buying behavior of individual and institutional investors. *Rev. Financial Stud.* 21(2):785–818.
- Bartels L (2000) Partisanship and voting behavior, 1952–1996. *Amer. J. Political Sci.* 44(1):35–50.
- Bollen N (2007) Mutual fund attributes and investor behavior. *J. Financial Quant. Anal.* 42(3):683–708.
- Bonaparte Y, Kumar A (2013) Political activism, information costs, and stock market participation. *J. Financial Econom.* 107(3):760–786.
- Bonaparte Y, Kumar A, Page J (2017) Political climate, optimism, and investment decisions. *J. Financial Markets* 34:69–94.
- Bordalo P, Gennaioli N, Shleifer A (2012) Salience theory of choice under risk. *Quart. J. Econom.* 127(3):1243–1285.
- Bullock J, Gerber S, Hill S, Huber A (2015) Partisan bias in factual beliefs about politics. *Quart. J. Political Sci.* 10(4):519–578.
- Butler A, Fauver L, Mortal S (2009) Corruption, political connections, and municipal finance. *Rev. Financial Stud.* 22(7):2873–2905.
- Chyz J (2013) Personally tax aggressive executives and corporate tax sheltering. *J. Accounting Econom.* 56(2–3):311–328.
- Claessens S, Feijen E, Laeven L (2008) Political connections and preferential access to finance: The role of campaign contributions. *J. Financial Econom.* 88(3):554–580.
- Cooper M, Gulen H, Ovtchinnikov A (2010) Corporate political contributions and stock returns. *J. Finance* 65(2):687–724.
- Correia M (2014) Political connections and SEC enforcement. *J. Accounting Econom.* 57(2–3):241–262.
- Cronqvist H, Makhija A, Yonker S (2012) Behavioral consistency in corporate finance: CEO personal and corporate leverage. *J. Financial Econom.* 103(1):20–40.
- Daniel K, Grinblatt M, Titman S, Wermers R (1997) Measuring mutual fund performance with characteristic-based benchmarks. *J. Finance* 52(3):1035–1058.
- De Groot J, Steg L (2009) Morality and prosocial behavior: The role of awareness, responsibility, and norms in the norm activation model. *J. Soc. Psych.* 149(4):425–449.
- DeVault L, Sias R (2017) Hedge fund politics and portfolios. *J. Banking Finance* 75:80–97.
- Eggers A, Hainmueller J (2014) Political capital: Corporate connections and stock investments in the U.S. Congress, 2004–2008. *Quart. J. Political Sci.* 9(2):169–202.
- Fama F, French K (2007) Disagreement, tastes, and asset prices. *J. Financial Econom.* 83(3):667–689.
- Feinberg M, Willer R (2013) The moral roots of environmental attitudes. *Psych. Sci.* 24(1):56–62.
- Geczy C, Stambaugh R, Levin D (2005) Investing in socially responsible mutual funds. Working paper, University of Pennsylvania, Philadelphia.
- Gerber A, Huber G (2009) Partisanship and economic behavior: Do partisan differences in economic forecasts predict real economic behavior? *Amer. Political Sci. Rev.* 103(3):407–426.
- Giuli A, Kostovetsky L (2014) Are red or blue companies more likely to go green? Politics and corporate social responsibility. *J. Financial Econom.* 111(1):158–180.
- Gordon S, Hafer C, Landa D (2007) Consumption or investment? On motivations for political giving. *J. Politics* 69(4):1057–1072.
- Graham J, Haidt J, Nosek B (2009) Liberals and conservatives use different sets of moral foundations. *J. Personality Soc. Psych.* 96(5):1029–1046.
- Haidt J (2012) *The Righteous Mind: Why Good People Are Divided by Politics and Religion* (Pantheon, New York), 1024–1059.
- Haidt J, Joseph C (2004) Intuitive ethics: How innately prepared intuitions generate culturally variable virtues. *Daedalus* 133(4):55–66.
- Hartzmark S (2014) The worst, the best, ignoring all the rest: The rank effect and trading behavior. *Rev. Financial Stud.* 28(4):1024–1059.
- Hong H, Kacperczyk M (2009) The price of sin: The effects of social norms on markets. *J. Financial Econom.* 93(1):15–36.
- Hong H, Kostovetsky L (2012) Red and blue investing: Values and finance. *J. Financial Econom.* 103(1):1–19.
- Irwin N (2016) How is the economy doing? It may depend on your party, and \$1. *New York Times* (January 1), https://www.nytimes.com/2016/01/03/upshot/how-is-the-economy-doing-politics-may-decide-your-answer.html?_r=2.
- Jost J, Glaser J, Kruglanski A, Sulloway F (2003) Political conservatism as motivated social cognition. *Psych. Bull.* 129(3):339–375.
- Kaustia M, Torstila S (2011) Stock market aversion? Political preferences and stock market participation. *J. Financial Econom.* 100(1):98–112.
- Levitt SD (1996) How do senators vote? Disentangling the role of voter preferences, party affiliation, and senator ideology. *Amer. Econom. Rev.* 86(3):425–441.
- Mian A, Sufi A, Trebbi F (2010) The political economy of the U.S. Mortgage default crisis. *Amer. Econom. Rev.* 100(5):1967–1998.
- Poole K (2005) *Spatial Models of Parliamentary Voting* (Cambridge University Press, Cambridge, UK).
- Poole K (2007) Changing minds? Not in congress! *Public Choice* 131(3–4):435–451.
- Poole K, Rosenthal H (1985) A spatial model for legislative roll call analysis. *Amer. J. Political Sci.* 29(2):357–384.
- Poole K, Rosenthal H (1991) Patterns of congressional voting. *Amer. J. Political Sci.* 35(1):228–278.

- Poole K, Rosenthal H (1997) *Congress: A Political-Economic History of Roll Call Voting* (Oxford University Press, New York).
- Poole K, Rosenthal H (2007) *Ideology and Congress* (Transaction Publishers, New Brunswick, NJ).
- Prior M, Sood G, Khanna K (2015) You cannot be serious: The impact of accuracy incentives on partisan bias in reports of economic perceptions. *Quart. J. Political Sci.* 10(4):489–518.
- Renneboog L, Ter Horst J, Zhang C (2008) Socially responsible investments: Institutional aspects, performance, and investor behavior. *J. Banking Finance* 32(9):1723–1742.
- Riedl A, Smeets P (2017) Why do investors hold socially responsible mutual funds? *J. Finance* 72(6):2505–2550.
- Schwartz S (1977) Normative influences on altruism. Berkowitz L, ed. *Advances in Experimental Social Psychology* (Elsevier, Amsterdam), 221–279.
- Solomon D, Soltes E, Sosyura D (2014) Winners in the spotlight: Media coverage of fund holdings as a driver of flows. *J. Financial Econom.* 113(1):53–72.
- Statman M (2000) Socially responsible mutual funds. *Financial Analysts J.* 56(3):30–39.
- Tahoun A (2014) The role of stock ownership by U.S. members of Congress on the market for political favors. *J. Financial Econom.* 111(1):86–110.
- University of Chicago Booth School of Business (2016) Money and influence in 2016 Presidential Campaign tracked by New Index at Chicago Booth. Accessed July 2016, <https://newschicagobooth.uchicago.edu/about/newsroom/press-releases/2016/2016-02-04>.
- van Lent L, Tahoun A (2018) The personal wealth interests of politicians and government intervention in the economy. *Rev. Finance* 23(1): 37–74.