Political Polarization in Financial News
by Eitan Goldman, Nandini Gupta, and Ryan Israelsen
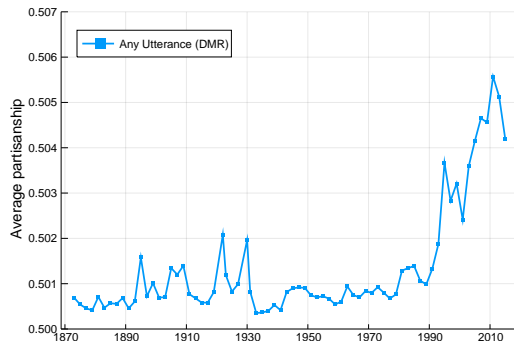
Discussant: Asaf Manela

Reichman University and Washington University in St. Louis

June 2022

Partisanship of congressional speech

Defined as ease of guessing speaker's party by reading only their speech

- ▶ Gentzkow-Shapiro-Taddy (2019 ECTA)
  - ▶ Partisanship of congressional speech rose sharply since 1990s
 - ▶ Use DMR (Poisson per phrase)

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  - Use DMR (Poisson per phrase)
- Kelly-Manela-Moreira (2021 JBES)
  - Text Selection model (HDMR) gives a more nuanced answer
  - Partisanship was as high in 1920s
    - Manifested in *repetition*
  - Since 1990s parties *select* entirely distinct language
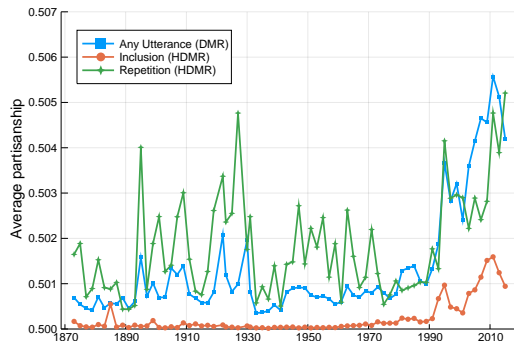
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Most partisan congressional phrases

US Congress, Session 114 (2015-2016)

Inclusion (HDMR)

Republican	#R	#D	Democratic	#R	#D
taxpay dollar	39	27	background check	39	65
american taxpay	20	14	depart homeland	43	60
sponsor terror	12	7	fund bill	21	33
death america	6	1	civil right	19	30
tax dollar	10	6	gun violenc	37	47
radic islam	5	1	african american	13	22
state sponsor	9	4	moment silenc	13	21
job creator	7	3	middl class	22	28
ballist missil	10	6	vote right	7	13
trillion debt	5	1	mass shoot	9	14

Repetition (HDMR)

Republican	#R	#D	Democratic	#R	#D
american peopl	7100	5451	postal servic	966	1870
men women	2714	2097	year ago	2840	3130
privat properti	475	221	public servic	611	791
intern revenu	452	211	year old	770	925
state depart	1006	776	citizen unit	329	476
support bill	1318	1121	million peopl	910	1039
san francisco	535	384	take away	592	694
author act	609	472	take action	644	741
great state	672	536	honor repres	198	295
bill right	341	210	find way	453	541

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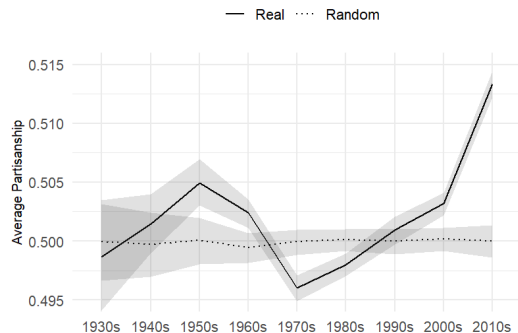# Partisanship of financial regulators

The Fed is fairly independent, but SEC is increasingly partisan
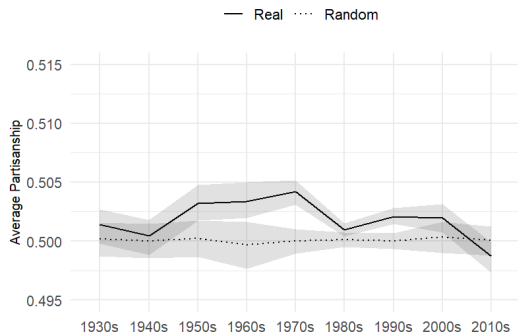
Source: Engelberg-Henriksson-Manela-Williams (2021), *The Partisanship of Financial Regulators*

Question

Does political polarization affect financial news coverage?

▶ *CNN* and *Fox* both reported on Fed policy after a presidential tweet Oct 1, 2019

"Jerome Powell is in charge. The Fed chair won't say what's next for rate cuts but that's not spooking Wall Street"

"Trump rips Fed, Powell: 'They are their own worst enemies'"

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▶ *NYTimes* and *WSJ* both reported on Blackrock's CEO annual letter in Jan 2022

"Few private citizens wield more power in America today than Larry Fink, the chief executive of Black-Rock Inc. In pushing companies to embrace climate-friendly policies, that has made him a lightning rod ..."

"Laurence D. Fink, the founder and chief executive of the investment giant BlackRock, has become one of the most influential voices in business over the past decade in pushing corporate leaders to think beyond profits, to their social purpose ..."

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- New York Times

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What this paper does

▶ Compares *New York Times* to *Wall Street Journal* coverage of the largest 100 publicly traded firms

▶ Classifies firm/stock partisanship by political contributions

▶ Finds that from 1990–2016
  1. Newspapers are more likely to publish good news about politically aligned firms
  2. Tone of coverage depends on political alignment of firm with the newspaper
  3. Partisanship in financial news leads to an increase in trading volume
  4. Individual investors respond to the news they read

▶ Concludes political polarization leads to information segregation among investors

Contribution

- One of few papers on media and finance to study bias/slant
  - Dyck-Zingales (2003 WP): stocks respond to type of earnings emphasized by press
  - Solomon (2012 JF): IR firms' spin affects both media coverage and returns
  - Luo, Manconi, and Massa (2020 WP): Perception of partisanship in news coverage affects stock price reaction to news
  - Finding of partisnaship in the coverage of corporate financial news is novel

Suggestion 1: Beef up your motivation

- ► *"Standard explanations for political polarization of the news do not apply to financial news."*
- ► *"financial news is read not to confirm political beliefs but to inform financial decisions."*
- ► I don't think there is a clear dichotomy between political and financial news

Importance of finance makes it political

The New York Times

How an Organized Republican Effort Punishes Companies for Climate Action

Legislators and their allies are running an aggressive campaign that uses public money and the law to pressure businesses they say are pushing "woke" causes.

Protesters at the Glasgow climate summit last year. A number of banks, investors and companies pledged at the talks to cut their greenhouse gas emissions. Kieran Dodds for The New York Times

THE WALL STREET JOURNAL.

MARKETS | FINANCIAL REGULATION

Lawmakers Seek to Curb Voting Power of BlackRock, Vanguard and Other Big Asset Managers

Expected GOP bill would require large money managers to give passive-fund investors a way to vote proxies

Republican Sen. Dan Sullivan of Alaska says leaders in his state's energy sector told him shareholder resolutions from climate activists had put pressure on their businesses.
PHOTO: BECKY BOHRER/ASSOCIATED PRESS

Suggestion 2: Political affiliation is endogenous

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  - ▶ e.g. Page-Jones (1979), Gerber-Huber-Washington (2010)
- ▶ But firms especially may strategically allocate donations
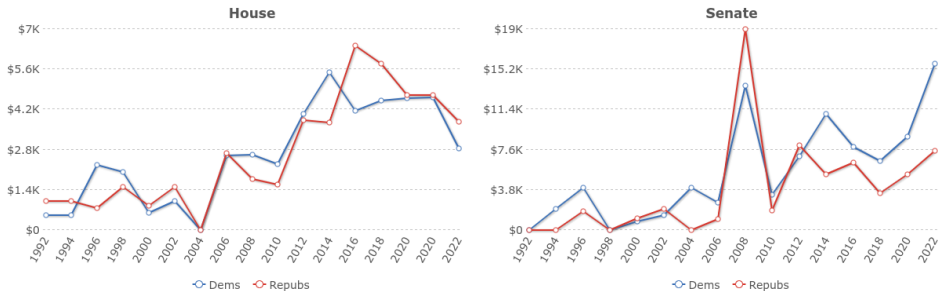
Source: opensecrets.org, Blackrock Inc. average contributions to members of congress

- ▶ Instrument or at least acknowledge

Suggestion 3: Sentiment measurement

▶ Dictionary-based sentiment scores are simple, but can easily miss context and are far inferior to ML-based approaches (Manela-Moreira, 2017 JFE; Jha-Liu-Manela, 2020)

▶ García-Hu-Rohrer (2021) provide a sentiment measure I expect will be better

▶ Given you already determined the party affiliation of newspapers, you could use the Gentzkow-Shapiro-Taddy (2019) approach and measure the divergence of word/phrase use between them, conditional on firm×time fixed effects

My Take

- ▶ Paper documents political bias in financial news
- ▶ Major improvement over existing work that treats news media like a judgment-free ice cream producer
  - ▶ Neat data
  - ▶ Careful and creative analysis
  - ▶ Firm×time and Newspaper×time FEs help a lot

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  - Neat data
  - Careful and creative analysis
  - Firm×time and Newspaper×time FEs help a lot
- From now on remember: financial news is political!

Appendix / Minor Comments

- ▶ Your extensive margin specification is not actually estimating the probability of coverage. All the observations you have are of coverage. The question is more like conditional on coverage, what is the likelihood its the WSJ and not the NYT?
- ▶ One way to get to the coverage question is to look at all days when you know there is news (e.g. earnings days) and see if the WSJ or NYT covers the news.