Corporate political contributions and stock returns

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Q-Group Fall 2007 Seminar
Main question

Do firms benefit (in some measurable way) by their involvement in the US political system?
Summary of the Political Science Research

- Firms that contribute money to politicians appear to enjoy more frequent and better-quality access to politicians

- Funds raised by candidates help them win elections.
  - Snyder (1990)

- However, contributing firms and firms with other types of political connectedness do not appear to change the outcome of votes on issues critical to connected firms.

- So, firms do not measurably benefit, but instead participate in the political system from the standpoint of consuming a “patriotic consumption good.”
Anecdotal examples of firms helping politicians

“It is not who votes that counts, it is who counts the votes.”

Joseph Stalin, 1923

…According to papers filed with the IRS on July 15 (2002), nearly $14 million magically poured into the Bush/Cheney Florida recount effort - four times the amount raised by the Gore/Lieberman camp.

…From the Center for Responsive Politics: "Eighteen months after the election, we find that the (Bush) administration literally flew into office on the Enron corporate jet," said Jennifer Palmieri, press secretary for the Democratic National Committee.
More examples of firms helping politicians

- The *New York Times* (see McIntire (2006)) reports that large insurance companies in New York State skirted around legal contribution limits to candidates by routing contributions through dozens of obscure subsidiaries.

- *The Salt Lake Tribune* (see Drinkard (2006)) reports that FedEx, U.S. Tobacco, Union Pacific, the Texas plaintiff’s law firm of Baron & Budd, Burlington Northern Santa Fe, R.J. Reynolds, and Barr Laboratories are among those companies that most frequently fly members of Congress around the country on their company jets, upon request of the politician.

- *The Wall Street Journal* (see Mullins (2007)) reports on the increased practice of “bundling,” which effectively allows a firm to donate much more to a candidate than the legal PAC contribution limits.
Anecdotal examples of politicians helping firms

- *The Washington Post* (see Abrams (2006)) reports that House members routinely insert special “earmark” funding requests (narrowly tailored spending that helps a specific company in their district) into bills.

- *The Salt Lake Tribune* (2006) reports that former congressman Randy Cunningham pressured staff members of the House Intelligence Committee into steering more than $70 million in classified federal business to favored military contractors.

- The *New York Times* (see Barta (2006)) reports two senators from coal producing states introduced a bill to offer loan guarantees and tax incentives for U.S coal-to-liquid plants.

- Historically, Benmelech and Moskowitz (2006) discuss that Senate initiated usury laws were used by the “elite” to control entry, hamper competition, and lower their cost of capital.

- And many more examples…
What we do

- We examine whether firms are rewarded in terms of increased shareholder wealth for their involvement in the U.S. political system.

- To answer this question, we develop a new and comprehensive database of firm-level “connectedness” to politicians.

- We find that the firm connectedness variables are positively correlated with the cross-section of future stock returns.
What do we use for our firm-to-politician connectedness measures?
The possible paths of firm-politician “connectedness”

**Firm**
- Hard money contributions
- Firm PAC
- Employee contributions
- Other firm PACs
- Other PACs

**Other forms of support:**
- Soft money contributions
- 527 Organizations
- Independent expenditures
- “Non-money favors”; legal and illegal
- Illegal contributions
- Firm lobbyists
- Industry lobbyists

**Politician**
- Both State and National level politicians; less regulation of contributions at the state level

Politicians may sit on boards

Large shareholders may be politicians
Firm-politician "connectedness"

Firm

Hard money PAC contributions

- Employee contributions
- Other firm PACs
- Other PACs

Other forms of support:
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- 527 Organizations
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Politician
Both State and National level politicians; less regulation of contributions at the state level

Politicians may sit on boards
Large shareholders may be politicians
Data

- We use an extensive dataset on hard-money contributions from the U.S. Federal Election Commission (FEC).
  - Contains all hard money contributions over $200
  - 13 election cycles over 1979 – 2004 period
    - Presidential, Senate and House races

- We intersect the FEC data with the CRSP/COMPUSTAT databases
  - We manually map the PAC identity to firms in CRSP/COMPUSTAT
  - 770,000 contributions by 1522 public firms’ PACs from 1979-2004
"We always prefer to give the money directly to the guy, or the woman, that you're going to support. You like to walk in, you like to give them the check, you like to look in their eye and say 'I'm here to help you.' You always do."
Some background on contributions

- How systematic and wide-spread is corporate involvement in the political process?
Figure 1 Panel A

Contributions to House Democrats

[Graph showing contributions to House Democrats over time, categorized by type such as Corporate, Labor, Individuals, etc.]

$ millions


Corporate w/o stock  Party committees  T/M/H committees  Non-party committees  Labor  Individuals
Figure 1 Panel A

Contributions to House Republicans

- Corporate
- Coops
- Corporate w/o stock
- Party committees
- Non-party committees
- T/M/H committees
- Labor
- Individuals

$ millions
Contributions to Senate Democrats

Figure 1 Panel B
Figure 1 Panel B

Contributions to Senate Republicans

$millions
Figure 2 Panel A

Corporate Contributions as a Percentage of House Candidates' Total Campaign Financing

Number of candidates

Percent of campaign financing raised from corporations

Democrats

Republicans
Figure 2 Panel B

Corporate Contributions as a Percentage of Senate Candidates’ Total Campaign Financing

- Democrats
- Republicans

Number of candidates

Percent of campaign financing raised from corporations
Contribution patterns

- Individuals constitute the largest group of contributors; the average contribution is about $115.
- Corporate contributions constitute a lower fraction of candidates’ total campaign financing; but their dollar amounts are much larger than those of individuals; the average corporate PAC contribution is about $2000.
- Significant heterogeneity across candidates in the ratio of corporate contributions to total contributions.
- Firms give on average 56 contributions to 31 candidates over a two-year period.
- Greater amount of contributions to Republicans and House members.
- Contributing firms are few and large.
- \((\text{Amount of contributions}) / (\# \text{ of candidates})\) about constant.
- Contribution limits not binding.
Contributions Data

- **Variables**
  - contribution
    - date
    - amount
    - contributing PAC identity (we manually map this to CRSP/COMPSTAT)
  - candidate
    - sought after office
    - state and district
    - party affiliation
    - election outcome
    - committee assignments and rankings
We create four political contribution indexes

- Number of supported candidates index

\[
P I_{it}^{candidates} = \sum_{j=1}^{J} \text{Cand}_{jt,t-5}
\]
Political contribution indexes

Strength index

- Kroszner and Stratmann (1998)
  - specialized committees facilitate long-term relationships with politicians and repeat interactions

- Stratmann (1998)
  - timing of contributions is related to politician’s reputation

\[
PI_{it}^{strength} = \sum_{j=1}^{J} Cand_{jt,t-5} \times I_{jt} \times \frac{NCV_{jt}}{NOV_{jt}} \times relength_{jt,t-5}
\]
Political contribution indexes

- **Ability index**
  - Kroszner and Stratmann (1998)
    - Firms decrease contributions to retiring politicians or politicians who change jurisdiction
  - Faccio and Parsley (2006)
    - Politicians favor “local” enterprises

\[
PI_{it}^{\text{ability}} = \sum_{j=1}^{J} \text{HomeCandidate}_{jt,t-5} \times I_{jt} \times \frac{NCV_{jt}}{NOV_{jt}}
\]
Political contribution indexes

- Power index
  - powerful politicians raise more money and appear to have the ability to more easily create earmark funding

\[
PI_{it}^{power} = \sum_{j=1}^{J} Cand_{jt,t-5} \times I_{jt} \times \frac{NCV_{jt}}{NOV_{jt}} \times \left[ \frac{\sum_{m=1}^{M} Committee rank_{mt}}{Median committeerank_{mt}} \right]_j
\]
Descriptive statistics

Table II
Political Indexes Descriptive Statistics

<table>
<thead>
<tr>
<th>Political index</th>
<th>Units</th>
<th>Mean</th>
<th>St Dev</th>
<th>Min</th>
<th>25th Per</th>
<th>Median</th>
<th>75th Per</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>$PI_{candidates}$</td>
<td>candidates</td>
<td>72.48</td>
<td>95.89</td>
<td>1</td>
<td>10</td>
<td>31</td>
<td>98</td>
<td>818</td>
</tr>
<tr>
<td>$PI_{strength}$</td>
<td>candidate-months</td>
<td>1,690.98</td>
<td>3,394.43</td>
<td>0</td>
<td>64.62</td>
<td>373.70</td>
<td>1,614.12</td>
<td>49,816.64</td>
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<tr>
<td>$PI_{ability}$</td>
<td>home candidates</td>
<td>6.86</td>
<td>7.27</td>
<td>0</td>
<td>1.46</td>
<td>4.93</td>
<td>9.73</td>
<td>60.17</td>
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<tr>
<td>$PI_{power}$</td>
<td>candidate-committee rank</td>
<td>256.18</td>
<td>337.39</td>
<td>0</td>
<td>33.09</td>
<td>111.00</td>
<td>351.79</td>
<td>2,619.88</td>
</tr>
</tbody>
</table>
Sample firms (Table III)

- relative to non-contributors, contributors are larger
- worse stock price performers
- more profitable
- more levered

- patterns generally true within contributing firms as well
Table III
Characteristics of Contributing and Non-Contributing Firms

<table>
<thead>
<tr>
<th></th>
<th>BHRET36</th>
<th>BHRET6</th>
<th>ASSETS</th>
<th>SIZE</th>
<th>SIZE-AVG</th>
<th>BM</th>
<th>LEVERAGE</th>
<th>CF</th>
<th>EMP</th>
<th>PROFIT</th>
<th>ROE</th>
<th>Number of Supported Candidates</th>
<th>Number of firms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Panel A: Comparison of non-contributing and contributing firms</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Non-contributors</td>
<td>30.28%</td>
<td>8.82%</td>
<td>107</td>
<td>72</td>
<td>483</td>
<td>0.6662</td>
<td>0.1506</td>
<td>0.0562</td>
<td>0.64</td>
<td>10.93%</td>
<td>8.34%</td>
<td>N/A</td>
<td>4,076.74</td>
</tr>
<tr>
<td>All contributors</td>
<td>26.33%</td>
<td>8.67%</td>
<td>3,088</td>
<td>1,552</td>
<td>6,122</td>
<td>0.7319</td>
<td>0.2553</td>
<td>0.0603</td>
<td>9.39</td>
<td>12.77%</td>
<td>13.19%</td>
<td>42.91</td>
<td>691.61</td>
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<tr>
<td>t-test (difference)</td>
<td>-1.88</td>
<td>-0.04</td>
<td>14.65</td>
<td>8.54</td>
<td>5.53</td>
<td>1.26</td>
<td>14.82</td>
<td>1.94</td>
<td>45.87</td>
<td>4.49</td>
<td>13.32</td>
<td>N/A</td>
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<tr>
<td><strong>Panel B: Comparison of contributing firms partitioned by the number of supported candidates index</strong></td>
<td></td>
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</tr>
<tr>
<td>Low Number of Supported Candidates</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decile 2</td>
<td>30.83%</td>
<td>9.87%</td>
<td>1,025</td>
<td>424</td>
<td>1,149</td>
<td>0.7435</td>
<td>0.2700</td>
<td>0.0568</td>
<td>2.83</td>
<td>11.61%</td>
<td>12.37%</td>
<td>6.23</td>
<td></td>
</tr>
<tr>
<td>Decile 3</td>
<td>27.87%</td>
<td>8.58%</td>
<td>1,349</td>
<td>563</td>
<td>1,130</td>
<td>0.8172</td>
<td>0.2675</td>
<td>0.0587</td>
<td>3.11</td>
<td>11.85%</td>
<td>12.75%</td>
<td>11.00</td>
<td></td>
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<tr>
<td>Decile 4</td>
<td>25.18%</td>
<td>8.56%</td>
<td>1,579</td>
<td>678</td>
<td>1,350</td>
<td>0.8103</td>
<td>0.2845</td>
<td>0.0541</td>
<td>3.75</td>
<td>11.86%</td>
<td>12.91%</td>
<td>17.16</td>
<td></td>
</tr>
<tr>
<td>Decile 5</td>
<td>24.06%</td>
<td>8.83%</td>
<td>1,563</td>
<td>888</td>
<td>1,938</td>
<td>0.7643</td>
<td>0.2620</td>
<td>0.0549</td>
<td>5.21</td>
<td>11.77%</td>
<td>12.68%</td>
<td>25.77</td>
<td></td>
</tr>
<tr>
<td>Decile 6</td>
<td>25.97%</td>
<td>8.24%</td>
<td>2,227</td>
<td>1,192</td>
<td>2,387</td>
<td>0.7564</td>
<td>0.2787</td>
<td>0.0558</td>
<td>7.29</td>
<td>12.17%</td>
<td>12.59%</td>
<td>39.41</td>
<td></td>
</tr>
<tr>
<td>Decile 7</td>
<td>28.56%</td>
<td>8.52%</td>
<td>2,925</td>
<td>1,885</td>
<td>4,032</td>
<td>0.6833</td>
<td>0.2427</td>
<td>0.0639</td>
<td>11.51</td>
<td>13.70%</td>
<td>13.43%</td>
<td>62.02</td>
<td></td>
</tr>
<tr>
<td>Decile 8</td>
<td>24.93%</td>
<td>8.75%</td>
<td>4,866</td>
<td>2,874</td>
<td>5,696</td>
<td>0.6825</td>
<td>0.2481</td>
<td>0.0640</td>
<td>16.60</td>
<td>13.53%</td>
<td>13.42%</td>
<td>98.45</td>
<td></td>
</tr>
<tr>
<td>Decile 9</td>
<td>25.44%</td>
<td>7.83%</td>
<td>8,204</td>
<td>4,925</td>
<td>9,403</td>
<td>0.7014</td>
<td>0.2556</td>
<td>0.0632</td>
<td>25.39</td>
<td>13.47%</td>
<td>13.40%</td>
<td>158.00</td>
<td></td>
</tr>
<tr>
<td>High Number of Supported Candidates</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>t-test (high – low)</td>
<td>-2.14</td>
<td>0.38</td>
<td>7.89</td>
<td>6.30</td>
<td>5.21</td>
<td>-1.23</td>
<td>-1.59</td>
<td>-0.27</td>
<td>32.22</td>
<td>2.37</td>
<td>4.82</td>
<td>62.33</td>
<td></td>
</tr>
</tbody>
</table>
Descriptive statistics

- Predicting which firms contribute
  - Probit model with all firms
  - Firms are more likely to contribute as:
    - size increases
    - leverage increases
    - market share increases
    - geographic concentration increases
    - regulation increases
    - government purchases increase
    - cash-flow decreases
Cross-sectional regressions

- FM (1973) monthly regressions of firm returns on
  - variable of interest
    - Ln(political contribution indexes (PIs))
  - controls
    - Ln(BM) - book-to-market ratio
    - Ln(SIZE) - market cap
    - BHRET6 - 6-month buy-and-hold raw return
  - all RHS variables are lagged
  - timing
    - PIs updated at the end of October
    - as convention, other controls updated at the end of June
  - SE adjusted for autocorrelation in beta estimates
Cross-sectional regression results

Political contribution indexes help explain the cross-section of future returns (Table IV)

<table>
<thead>
<tr>
<th>Political index</th>
<th>Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td>( PI^{candidates} )</td>
<td>0.0011 (2.07)</td>
</tr>
<tr>
<td>( PI^{strength} )</td>
<td>0.0011 (2.45)</td>
</tr>
<tr>
<td>( PI^{ability} )</td>
<td>0.0010 (3.12)</td>
</tr>
<tr>
<td>( PI^{power} )</td>
<td>0.0010 (1.95)</td>
</tr>
</tbody>
</table>
Table IV
Fama-MacBeth Return Regressions for Firms Participating in the Political Process

<table>
<thead>
<tr>
<th>Specification</th>
<th>Intercept</th>
<th>Ln(BM)</th>
<th>Ln(SIZE)</th>
<th>BHRET6</th>
<th>Ln($P_{\text{candidate}}$)</th>
<th>Ln($P_{\text{strength}}$)</th>
<th>Ln($P_{\text{ability}}$)</th>
<th>Ln($P_{\text{power}}$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.0134</td>
<td>0.0005</td>
<td>-0.0009</td>
<td>0.0076</td>
<td>0.0011</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(3.99)</td>
<td>(0.44)</td>
<td>(-1.57)</td>
<td>(2.35)</td>
<td>(2.07)</td>
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<tr>
<td>2</td>
<td>0.0133</td>
<td>0.0004</td>
<td>-0.0008</td>
<td>0.0077</td>
<td></td>
<td>0.0011</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(4.00)</td>
<td>(0.39)</td>
<td>(-1.72)</td>
<td>(2.35)</td>
<td>(2.45)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>0.0134</td>
<td>0.0004</td>
<td>-0.0007</td>
<td>0.0077</td>
<td></td>
<td></td>
<td></td>
<td>0.0010</td>
</tr>
<tr>
<td></td>
<td>(4.01)</td>
<td>(0.41)</td>
<td>(-1.62)</td>
<td>(2.33)</td>
<td></td>
<td></td>
<td></td>
<td>(3.12)</td>
</tr>
<tr>
<td>4</td>
<td>0.0133</td>
<td>0.0005</td>
<td>-0.0008</td>
<td>0.0076</td>
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<td></td>
<td>0.0010</td>
</tr>
<tr>
<td></td>
<td>(3.98)</td>
<td>(0.48)</td>
<td>(-1.51)</td>
<td>(2.33)</td>
<td></td>
<td></td>
<td></td>
<td>(1.95)</td>
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</tbody>
</table>
Results for Democrats and Republicans

- Effects are positive for both parties but appear stronger for Democrats

<table>
<thead>
<tr>
<th>Political index</th>
<th>Beta</th>
</tr>
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<tbody>
<tr>
<td>$PI_{\text{candidates}}^{\text{Demres}}$</td>
<td>0.0009</td>
</tr>
<tr>
<td></td>
<td>(3.01)</td>
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<tr>
<td>$PI_{\text{strength}}^{\text{Demres}}$</td>
<td>0.0011</td>
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<tr>
<td></td>
<td>(4.77)</td>
</tr>
<tr>
<td>$PI_{\text{ability}}^{\text{Demres}}$</td>
<td>0.0010</td>
</tr>
<tr>
<td></td>
<td>(3.20)</td>
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<tr>
<td>$PI_{\text{power}}^{\text{Demres}}$</td>
<td>0.0009</td>
</tr>
<tr>
<td></td>
<td>(3.54)</td>
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<tr>
<th>Political index</th>
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<tbody>
<tr>
<td>$PI_{candidates}^{Rep}$</td>
<td>0.0009</td>
</tr>
<tr>
<td></td>
<td>(1.76)</td>
</tr>
<tr>
<td>$PI_{strength}^{Rep}$</td>
<td>0.0008</td>
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<tr>
<td></td>
<td>(1.79)</td>
</tr>
<tr>
<td>$PI_{ability}^{Rep}$</td>
<td>0.0007</td>
</tr>
<tr>
<td></td>
<td>(2.34)</td>
</tr>
<tr>
<td>$PI_{power}^{Rep}$</td>
<td>0.0007</td>
</tr>
<tr>
<td></td>
<td>(1.40)</td>
</tr>
</tbody>
</table>
"Business always covers its bets, and that makes sense. If anything I thought labor didn't do enough of what business did, that we needed to be cultivating and working with Republican members a lot more. They're human beings. The worst they can tell you is no, get the hell out of my office."
Results for House and Senate

- Effects are positive for both Chambers but appear stronger for House

<table>
<thead>
<tr>
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<th>Beta</th>
</tr>
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<tr>
<td>$PI_{candidates}$</td>
<td>0.0009</td>
</tr>
<tr>
<td>$PI_{strength}$</td>
<td>0.0007</td>
</tr>
<tr>
<td>$PI_{ability}$</td>
<td>0.0004</td>
</tr>
<tr>
<td>$PI_{power}$</td>
<td>0.0007</td>
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Results for House and Senate

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<tr>
<td>$PI_{candidates}$</td>
<td>0.0010</td>
</tr>
<tr>
<td>$PI_{strength}$</td>
<td>0.0010</td>
</tr>
<tr>
<td>$PI_{ability}$</td>
<td>0.0010</td>
</tr>
<tr>
<td>$PI_{power}$</td>
<td>0.0010</td>
</tr>
</tbody>
</table>

(2.99) (3.88) (3.52) (3.69)
Other tests

- Periods of Democrat / Republican control and other subperiods
  - no consistent differences

- Abnormal return FM regressions
  - results robust

- Timing convention changes
  - results robust

- Winsorizing data
  - results robust

- Peterson standard errors
  - results robust
Other tests

- Rescale PIs by giving amounts
  - positive effect of giving on returns
  - t-statistics range from 1.43 (power) to 2.31 (ability)
  - Statistical and economic significance slightly lower

- Cross-products of strength, power, and ability
  - t-statistic (strength x power) = 2.18
  - t-statistic (strength x ability) = 2.35
  - t-statistic (ability x power) = 3.14
Are contributing firms just better firms?

- The political science literature tends to look at the effects of political connectedness on voting outcomes.
  - Thus, there is a cause-and-effect link:
    - contributions $\rightarrow$ legislation $\rightarrow$ favorable outcomes for a firm

- In contrast, our study looks at the effects of political connectedness on shareholder wealth for contributing firms.
  - Thus, no direct cause-and-effect link
    - New project: time series examination of contributions/legislation/returns: Microsoft example

- To address potential sample selection and endogeneity problems, we estimate 2-stage Heckman and IV models
  - Results hold up well to the inclusion of the IMR and predicted contributions in second stage regressions
Abnormal returns for contribution portfolios

- Contribution-weighted portfolios

\[ w_{it}^p = \frac{PI_{it}^p}{\sum_{i=1}^{N} PI_{it}^p} \]

- FFC 4-factor alpha
  - positive and significant alpha (ranges from 16 BP to 24BP)
  - implied increase in shareholder value – $154 million / firm
Table VI
Monthly Abnormal Returns for Firms Participating in the Political Process

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>( PI_{\text{candidates}} )</th>
<th>( PI_{\text{strength}} )</th>
<th>( PI_{\text{ability}} )</th>
<th>( PI_{\text{power}} )</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>weighted</td>
<td>weighted</td>
<td>weighted</td>
<td>weighted</td>
</tr>
<tr>
<td>All candidates portfolio</td>
<td>0.0021 (2.82)</td>
<td>0.0017 (2.32)</td>
<td>0.0022 (3.18)</td>
<td>0.0021 (2.86)</td>
</tr>
<tr>
<td>Democrat portfolio</td>
<td>0.0021 (2.97)</td>
<td>0.0018 (2.55)</td>
<td>0.0024 (3.41)</td>
<td>0.0022 (3.10)</td>
</tr>
<tr>
<td>Republican portfolio</td>
<td>0.0020 (2.67)</td>
<td>0.0017 (2.16)</td>
<td>0.0021 (2.94)</td>
<td>0.0021 (2.76)</td>
</tr>
<tr>
<td>House portfolio</td>
<td>0.0021 (2.84)</td>
<td>0.0018 (2.39)</td>
<td>0.0022 (3.16)</td>
<td>0.0021 (2.86)</td>
</tr>
<tr>
<td>Senate portfolio</td>
<td>0.0020 (2.71)</td>
<td>0.0016 (2.08)</td>
<td>0.0023 (3.09)</td>
<td>0.0021 (2.84)</td>
</tr>
</tbody>
</table>
Quintile contribution sorted portfolios

### Panel A: Portfolios formed on PI candidates quintile rankings

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>( R_i )</th>
<th>( R_i - R_{BM} )</th>
<th>4-factor alpha</th>
<th>3-factor alpha</th>
<th>4-factor alpha</th>
<th>3-factor alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quintile 1</td>
<td>0.0123</td>
<td>0.0004</td>
<td>0.0009</td>
<td>-0.0009</td>
<td>-0.0008</td>
<td>-0.0006</td>
</tr>
<tr>
<td></td>
<td>(4.35)</td>
<td>(0.33)</td>
<td>(1.04)</td>
<td>(-0.93)</td>
<td>(-0.95)</td>
<td>(-0.69)</td>
</tr>
<tr>
<td>Quintile 2</td>
<td>0.0138</td>
<td>0.0011</td>
<td>0.0021</td>
<td>0.0009</td>
<td>0.0001</td>
<td>0.0008</td>
</tr>
<tr>
<td></td>
<td>(5.12)</td>
<td>(0.97)</td>
<td>(2.48)</td>
<td>(1.02)</td>
<td>(0.19)</td>
<td>(1.10)</td>
</tr>
<tr>
<td>Quintile 3</td>
<td>0.0139</td>
<td>0.0014</td>
<td>0.0017</td>
<td>0.0006</td>
<td>-0.0002</td>
<td>0.0006</td>
</tr>
<tr>
<td></td>
<td>(5.30)</td>
<td>(1.22)</td>
<td>(2.04)</td>
<td>(0.72)</td>
<td>(-0.22)</td>
<td>(0.84)</td>
</tr>
<tr>
<td>Quintile 4</td>
<td>0.0151</td>
<td>0.0025</td>
<td>0.0025</td>
<td>0.0016</td>
<td>0.0009</td>
<td>0.0016</td>
</tr>
<tr>
<td></td>
<td>(5.38)</td>
<td>(2.53)</td>
<td>(2.62)</td>
<td>(1.61)</td>
<td>(1.17)</td>
<td>(2.07)</td>
</tr>
<tr>
<td>Quintile 5</td>
<td>0.0178</td>
<td>0.0052</td>
<td>0.0057</td>
<td>0.0043</td>
<td>0.0043</td>
<td>0.0045</td>
</tr>
<tr>
<td></td>
<td>(6.09)</td>
<td>(4.87)</td>
<td>(4.94)</td>
<td>(3.54)</td>
<td>(4.50)</td>
<td>(4.89)</td>
</tr>
</tbody>
</table>
Contributions and fundamentals

- FM annual regressions of ΔROE on
  - variable of interest
    - Ln(PIs)
  - controls
    - Ln(Q) - market-to-book ratio
    - Ln(SIZE) - market cap
    - ΔROE
  - SE adjusted for autocorrelation in beta estimates
  - timing
    - PIs updated at the end of October
    - as convention, other controls updated at the end of June
ROE regression results

- PIs are positively and significantly related to future performance changes

<table>
<thead>
<tr>
<th>Political index</th>
<th>Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td>$PI_{candidates}$</td>
<td>0.0036</td>
</tr>
<tr>
<td></td>
<td>(2.42)</td>
</tr>
<tr>
<td>$PI_{strength}$</td>
<td>0.0053</td>
</tr>
<tr>
<td></td>
<td>(4.05)</td>
</tr>
<tr>
<td>$PI_{ability}$</td>
<td>0.0035</td>
</tr>
<tr>
<td></td>
<td>(2.29)</td>
</tr>
<tr>
<td>$PI_{power}$</td>
<td>0.0031</td>
</tr>
<tr>
<td></td>
<td>(2.18)</td>
</tr>
</tbody>
</table>
Degree of participation varies considerably across industries
Industry analysis

- Andres (1985) and Masters and Keim (1985)
  - participation effects and industry characteristics
  - predictions:
    - As number of firms ↓ effect should ↑
    - As industry concentration ↑ effect should ↑
    - As degree of employee unionization ↑ effect should ↑
    - As sales to the government ↑ effect should ↑
    - As industry regulation ↑ effect should ↑
Industry analysis

- Results from industry level regressions of average PI loading on industry characteristics
  - As number of firms ↓ effect should ↑
    - t-statistic = -2.41
  - As industry concentration ↑ effect should ↑
    - t-statistic = 2.12
  - As degree of employee unionization ↑ effect should ↑
    - t-statistic = 2.41
  - As sales to the government ↑ effect should ↑
    - t-statistic = -0.83
  - As industry regulation ↑ effect should ↑
    - t-statistic = -0.74
Conclusions

- Positive value of political connections

- No value of political connections
  - Ansolabehere, Snyder, Ueda (2004)
Conclusions

- We find:
  - Firm political contributions *appear* to cause long-run cross-sectional shareholder wealth effects.
    - But maybe contributing firms are just better firms?
  - However, the contributions also affect firm fundamentals, and the value of contributions varies across
    - Political parties
    - Congress chambers
    - Industries

- Thus, we may have documented more than a chance correlation between contributions and returns.
- If you believe our results, then it suggests that firms do not contribute in order to consume “patriotic consumption goods” but rather to increase firm value.
- Future research: uncovering potential links among contributions/legislation/returns