Personal Financial Incentives and Corporate Campaign Contributions

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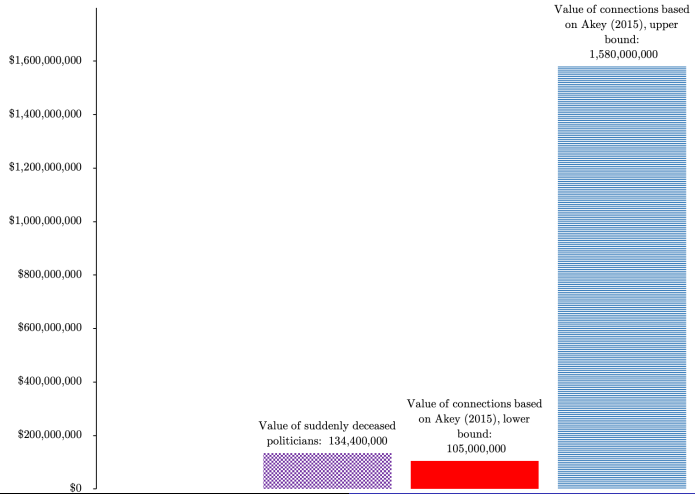
The Tullock Paradox

- Given the large potential benefits from political participation, there is so little money in politics that it is hard to reconcile with a rational theory of rent-seeking (Tullock, 1972; Ansolabehere, De Figueiredo, and Snyder, 2003).


Value of connections based on Akey (2015), upper bound: 1,580,000,000
$1,600,000,000
$1,400,000,000
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$800,000,000
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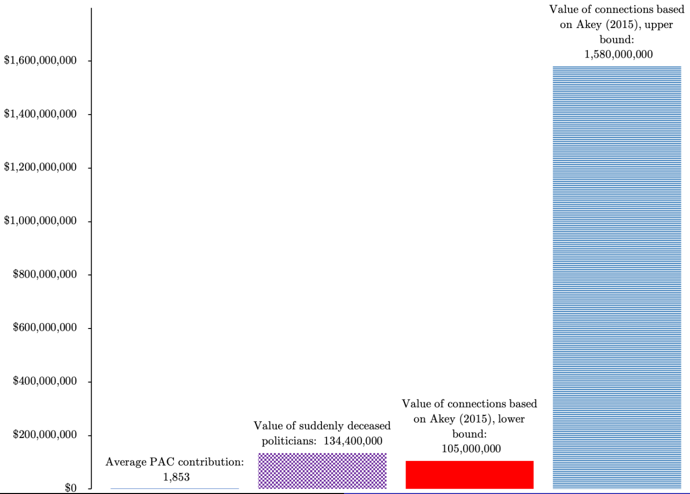
Value of suddenly deceased politicians: 134,400,000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$400,000,000
$200,000,000
$0
Value of connections based on Akey (2015), lower bound: 105,000,000
Value of suddenly deceased politicians: 134,400,000
Average PAC contribution: 1,853

(Incomplete) Literature

- Firms participate in the political process in various ways:
  - Direct connections with politicians (Faccio, 2006; Goldman, Rocholl, and So, 2009; Duchin and Sosyura, 2012; Akcigit, Baslandze, and Lotti, 2018);
  - Campaign contributions to candidates by the firms' PACs (Cooper, Gulen, and Ovtchinnikov, 2010; Akey, 2015);
  - Lobbying (Bertrand, Bombardini, and Trebbi, 2014; Borisov, Goldman, and Gupta, 2015);
  - Charitable contributions (Bertrand, Bombardini, Fisman, and Trebbi, 2018);
  - Political participation by employees (Babenko, Fedaseyeu, and Zhang, 2020).

The Puzzle: There Is Too Little Money in Politics

- *"If all 2,300 active corporate, labor and trade PACs gave the maximum amount to all incumbents running for re-election to the House or Senate (about 420 candidates), then total PAC contributions would be roughly \$10 billion—40 times more than what these PACs actually gave in the 2000 election."* (Ansolabehere, De Figueiredo, and Snyder, 2003, p. 109)

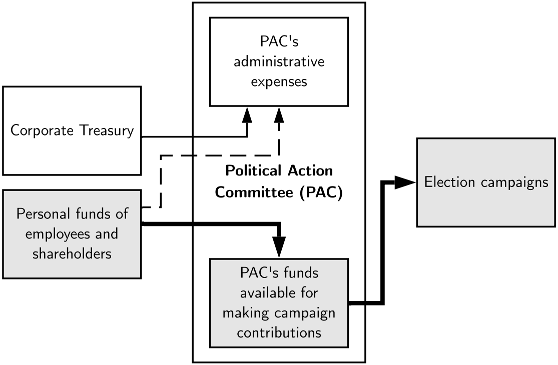
The Puzzle: There Is Too Little Money in Politics

- Firm-level benefits from political connections are very large.
- Even under the existing limits on campaign contributions, corporate PACs could donate much more money to political candidates than they currently do.
- Why, then, do corporate PACs donate so little?

This Paper

- We explore the role of **individual incentives** in campaign finance.
- Due to disperse ownership, firm-level benefits from political participation are insignificant for most individual shareholders.
- We use “novel” sudden deaths for identification to evaluate expected benefits of participation
- Contributions made by shareholders with sufficiently large equity stakes/ their expected benefits are almost 200 times larger, than contributions made by corporate PACs.
- Financial incentives of individual contributors are a strong determinant of their political contributions.

Political Action Committees: Sources of Funds



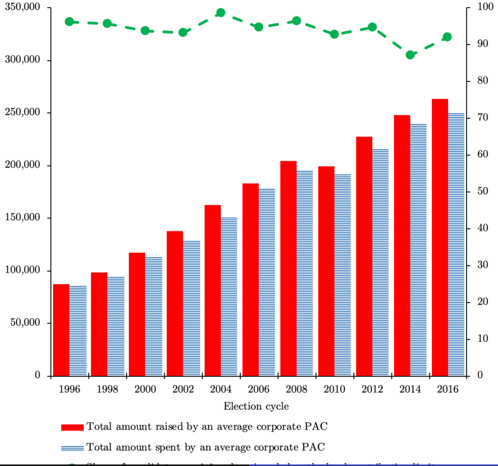
Basic Intuition

- The ultimate source of PAC funds are not corporate treasuries but rather the firm's employees and shareholders.
- A typical individual holds such a small stake in the firm that even large firm-level benefits from campaign contributions are likely to be rather trivial for a typical shareholder.

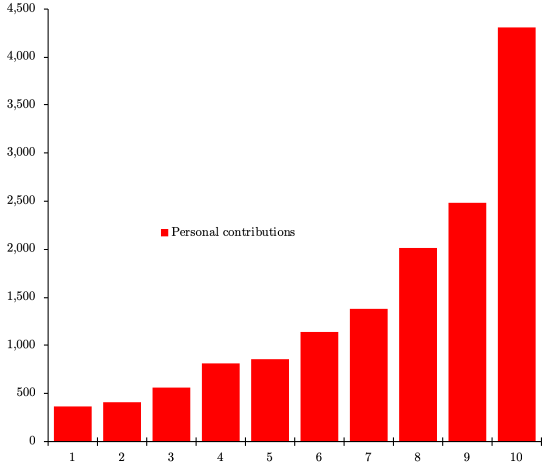
Data

- Data on individual and PAC campaign contributions come from the Federal Election Commission (FEC).
- We merge the FEC data with the names of executives and directors from Execucomp, which we in turn match with Compustat.
- Out final sample contains 55,443 person-firm-cycle observations for 17,160 unique individuals.

PACs Are Financially Constrained



Individual Contributions and Ownership



Empirical Specification

- In our core set of results, we estimate the following model:

$$Y_{ijt} = \alpha + \beta \text{Ownership}_{ijt} + \eta' \text{Controls}_{jt} + \rho_{it} + \mu_j + \varepsilon_{ijt},$$

where i indexes the person, j indexes the firm, and t indexes the election cycle when a contribution is made. Y_{ijt} is the amount that person i contributes to firm j's PAC in election cycle t, while Ownership_{ijt} is the corresponding value of this person's ownership stake in firm j in election cycle t.

Stock Ownership and Campaign Contributions

	Contributions to the firm's PAC		
	(1)	(2)	(3)
Value of ownership stake in the firm	22.624***	22.635***	21.228***
	(3.309)	(3.309)	(2.722)
Firm size		-3.879	-28.659
		(19.530)	(82.378)
Tobin's q		68.339*	26.878
		(38.847)	(43.070)
ROA		-307.947	-149.136
		(336.856)	(363.872)
Capital expenditures		-129.852	-2595.019**
		(927.996)	(1,116.130)
R&D		492.766	747.748
		(715.475)	(1,736.728)
Observations	55,443	55,443	55,443
R-squared	0.913	0.913	0.932
Person-cycle fixed effects	Yes	Yes	Yes
Firm fixed effects	No	No	Yes

Stock Ownership and Campaign Contributions

	Direct contributions to PAC candidates		
	(1)	(2)	(3)
Value of ownership stake in the firm	33.614**	33.291**	29.662**
	(16.551)	(16.244)	(14.217)
Firm size		442.219	372.648
		(322.611)	(372.864)
Tobin's q		-12.988	112.903
		(150.493)	(405.871)
ROA		-1971.540	-1961.083
		(2,965.562)	(5,495.982)
Capital expenditures		-2836.498	-13444.169
		(5,990.358)	(13,534.524)
R&D		3668.381*	41770.814
		(2,107.615)	(41,860.549)
Observations	55,443	55,443	55,443
R-squared	0.435	0.435	0.540
Person-cycle fixed effects	Yes	Yes	Yes
Firm fixed effects	No	No	Yes

Sudden Deaths

Name of legislator	Office	Cause of death	Date of death
Panel A: Legislators whose death was sudden			
John M. Slack	House	Heart attack	17/03/1980
Tennyson Guyer	House	Aunerism	12/04/1981
John M. Ashbrook	House	Gastric hemorrhage	24/04/1982
Adam Benjamin, Jr.	House	Heart attack	07/09/1982
Henry M. Jackson	Senate	Aortic aneurysm	01/09/1983
Lawrence P. McDonald	House	Plane crash	01/09/1983
Clement J. Zablocki	House	Heart attack	03/12/1983
Carl D. Perkins	House	Heart attack	03/08/1984
Gillis Long	House	Heart attack	20/01/1985
John P. East	Senate	Suicide	29/06/1986
Dan Daniel	House	Heart attack	23/01/1988
James J. Howard	House	Heart attack	25/03/1988
Bill Nichols	House	Heart attack	13/12/1988
Mickey Leland	House	Plane crash	07/08/1989
Larkin I. Smith	House	Plane crash	13/08/1989
H. John Heinz, III	Senate	Plane crash	04/04/1991
Walter Capps	House	Heart attack	28/10/1997
Sonny Bono	House	Injuries from skiing accident	05/01/1998
Paul Coverdell	Senate	Cerebral hemorrhage	18/07/2000
Julian Dixon	House	Heart attack	08/12/2000
Paul Wellstone	Senate	Plane crash	25/10/2002
Paul E. Gillmor	House	Head/neck trauma due to fall down the stairs	05/09/2007

Sudden Deaths

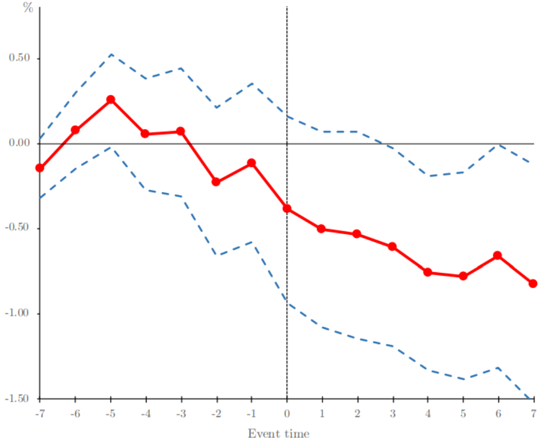
Panel A: Firms-value benefits of political contributions: Evidence from sudden deaths

	N (1)	Mean (2)	*t*-stat (3)	*p*-value (4)
CAR $(-1, +1)$	481	-0.28	-1.495	0.135
CAR $(-1, +3)$	481	-0.38**	-1.995	0.047
CAR $(-1, +5)$	481	-0.55**	-2.349	0.019
CAR $(-1, +7)$	481	-0.60**	-2.073	0.039

Panel B: Comparison of cost-benefit ratios for PAC and individual political contributions

	PACs (1)	*N* (2)	Individuals (3)	*N* (4)	*t*-stat
Excl. direct contributions by individuals	481	-0.28	-1.495	0.135	
Incl. direct contributions by individuals	481	-0.38**	-1.995	0.047	

Sudden Deaths



Cost-benefit ratio

$$\text{Cost-benefit ratio for PAC } i = \frac{\sum_j \sum_t \text{Contributions}_{ijt}}{\sum_j \text{Market cap}_{t_{ij}} \times 0.60\%},$$

- Conditional on having a PAC, CBR=0.013 %

$$\text{Cost-benefit ratio for person } n \text{ donating to PAC } i =$$
$$= \frac{\sum_i \sum_t \text{Contributions}_{nit}}{\sum_j \text{Market cap}_{t_{nij}} \times \text{Equity stake}_{t_{nij}} \times 0.60\%},$$

- Conditional on having PAC and equity stake, CBR=16,7 %
- Conditional on having PAC and equity stake, and including by-pass and family* bypass contributions CBR=57,9 %

Other Results

- Executives' family members are also more likely to contribute to the firm's PAC and to its preferred candidates if the executive's ownership stake is larger.
- Firms are more likely to establish PACs if their executives, collectively, have a larger ownership stake.

Putting Our Estimates into Perspective

- Our interest is in estimating individual-level benefits from contributing (vis-a-vis not contributing).
- When a U.S. legislator dies suddenly, an average contributing firm loses 0.6% of its value around such events.
- Our estimates imply that contributing individuals donate 17% of the expected value gains they would personally receive.

Conclusion

- Even large firm-level benefits from political participation can be trivial for individual shareholders.
- Therefore, few individuals have sufficiently large incentives to make political contributions.
- As a result, corporate PACs are financially constrained.
- This logic explains why corporate PACs donate little and why firms attempt to access the political system in alternative ways.