THREE ESSAYS ON POLITICAL CONTRIBUTIONS AND FIRM PERFORMANCE

by

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DEDICATION

To my brother: Manish Damani (Bhaiya) who is my biggest support and my one-stop solution for everything.

To my parents: Ghanshyam Das Damani (Papa) and Shanta Damani (Mummy) who have unconditionally loved and supported me and had my back in every step of my life.

To my sister-in-law: Komal Khokher Damani (Bhabhi) who has put up with all my tantrums and loved me.

To my niece: Viyona Damani (my SKY) who has been a blessing in my life by her sheer presence.

To my partner for life: Akshay Arora without whose continued support, patience, and love this day would not have been possible.

To God, thanks for always being there with me!

ABSTRACT

THREE ESSAYS ON POLITICAL CONTRIBUTIONS AND FIRM PERFORMANCE

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The interaction of politics with financial markets and the macroeconomy has received increasing attention in recent years. Extant literature identifies the significant impact of political connections on firm value. However, several questions in this area remain unanswered.

My dissertation consists of three essays. In the first essay, I examine the impact of economic policy uncertainty (EPU) on total campaign contributions and the relative contributions to Republicans and Democrats. I find that the total Political Action Committee (PAC) contributions by firms increase following an increase in EPU. This is also true for the contributions to each major political party, i.e., Republicans and Democrats. I also find that the contribution to Republicans relative to Democrats, as measured by the proportion of contribution to Republicans and the gap between Republican and Democratic contributions, increases after heightened EPU. Thus, while contributions to both parties increase, the increase is more for Republicans. I find that PAC contributions help mitigate the negative impact of EPU on firm performance, proxied by return on assets. I also investigate the relationship between contributions and EPU for sub-samples such as conservative and liberal firms, etc.

The second essay examines the mechanism behind the impact of Real Estate Investment Trusts (REIT) political contributions on firm value. I find that REITs that politically contribute have better operational performance in the following year. Contributing REITs experience lower

systematic and idiosyncratic risk in the following year. I also find that REITs with a large pipeline of properties under development contribute more to political candidates through the National Association of Real Estate Investment Trusts Inc. (NAREIT) PAC. In addition, contributing REITs with a large pipeline of undeveloped properties experience higher fund flow from operations (FFOs) and lower risk in the following year.

In the third essay, I analyze the difference between campaign contributions by highly regulated firms and less regulated firms. I find that highly regulated firms contribute more than less regulated firms. Both highly regulated and less regulated firms donate more to Republicans than Democrats. The contributions to Republicans relative to Democrats are much greater when Republicans have a majority. For both chambers of Congress, contributions by heavily regulated firms to Republicans and Democrats increase when their party has a majority. I also find a positive relation between contributions by heavily regulated firms and future returns, which shows that the connections built through contributions are economically valuable.

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CHAPTER 1

Economic Policy Uncertainty, Corporate Political Contributions, and Firm Performance

Abstract

This study examines the impact of economic policy uncertainty (EPU) on total campaign contributions and the relative contributions to Republicans and Democrats. I find that the total Political Action Committee (PAC) contributions by firms increase following an increase in EPU. This is also true for the contributions to each major political party, i.e., Republicans and Democrats. I also find that the contribution to Republicans relative to Democrats, as measured by the proportion of contribution to Republicans and the gap between Republican and Democratic contributions, increases after heightened EPU. Thus, while contributions to both parties increase, the increase is more for Republicans. I find that PAC contributions help mitigate the negative impact of EPU on firm performance, proxied by return on assets. I also investigate the relationship between contributions and EPU for sub-samples such as conservative and liberal firms, etc. My results suggest that when there is high policy uncertainty, conservative firms contribute more to both political parties, whereas liberal firms contribute more only to Democrats. I also find that during heightened EPU, firms contribute less in total as well as to both political parties when Republicans occupy the presidential office and have a majority in both chambers of Congress. On the other hand, firms contribute more in total as well as to both political parties when Democrats occupy the presidential office along with a majority in both chambers of Congress during heightened policy uncertainty.

1. **Introduction**

"Marrying Washington and Wall Street Adds Value for Shareholders."

- **Merrill Lynch television advertisement (2002)**

Governments shape the environment in which financial market participants operate. Government policy, regulation, and enforcement are major forces in the external environment of business (Mahon and Murray, 1981). They affect firms in many ways: for instance, by levying taxes, enforcing laws, providing subsidies, and defining public policy. In short, governments set the game rules for the financial market participants.

Governments are constantly faced with policy decisions – whether to adopt a new policy or enforce the current policy. The extent to which political influences alter the policy outcomes brings a significant source of uncertainty for firms and financial market participants (e.g., Pastor and Veronesi, 2012). Policy uncertainty entails not only what the new policy will bring but also how current policies will be interpreted, implemented, and changed. Firms are impacted by government policy, so the desire to establish connections with politicians may seem logical.

According to PricewaterhouseCoopers' (PwC) 24th Annual Global CEO Survey, CEOs have collectively expressed increasing concern over policy uncertainty. It is one of the top five threats faced by firms in 2021.[1] Firms implement various strategies to manage such policy risk. One of the strategies adopted by firms is making political connections. A firm can have different kinds of connections with the politicians ranging from active connections like lobbying or campaign contributions to passive ties such as common voting districts. Corporate political strategies include making significant contributions to political campaigns (Cooper, Gulen, and Ovtchinnikov, 2010;

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[1] https://www.pwc.com/gx/en/ceo-agenda/ceosurvey/2021/report.html

Ovtchinnikov and Pantaleoni, 2012), lobbying activities (Shang, Lin, and Saffar, 2021; Drutman, 2015), and having politicians as a part of the board of directors (Goldman, Rocholl, and So, 2009).

In this study, I examine the impact of economic policy uncertainty (EPU) on the Political Action Committee (PAC) Contributions by firms. In addition to this, I investigate the economic value of these contributions during heightened policy uncertainty. I also study the impact of EPU on Contributions for different sub-samples: Conservative/Liberal firms, and Republican/Democratic Presidency and Majority in Congress.

Overall, I conclude that PAC donations are beneficial during heightened policy uncertainty. Firms' PAC contributions increase with an increase in economic policy uncertainty. PAC contributions to each major political party, i.e., Republicans and Democrats, also increase with an increase in the economic policy uncertainty. The proportion of dollar contributions to Republicans (Democrats) increase (decrease) due to an increase in the EPU. Therefore, the gap between PAC contributions to Republicans and Democrats increases due to an increase in the EPU. The FEC data shows that Republican candidates generally receive higher total dollar contributions than Democrats. Also, Republicans are more pro-business than Democrats.

Firms' PAC contributions increase with an increase in contemporaneous EPU. However, the gap between PAC contributions to Republicans and Democrats does not change due to an increase in contemporaneous EPU.

My study contributes in several ways. First, firms are always concerned about how to manage risk and uncertainties. Prior literature also suggests that economic policy uncertainty adversely affects firm performance and other corporate activities (Colak, Durnev, and Qian, 2017). Contributing firms have differential access to political information (Wellman, 2017) and can

influence policy outcomes during heightened policy uncertainty. My study suggests that corporate political spending (campaign contributions) is a way in which firms can (partly) manage policy uncertainty.

Second, I contribute to political connections literature by showing that firms contribute more during heightened policy uncertainty. Politicians, once elected, have the power to influence public policy. Therefore, firms have the incentive to identify the politicians with aligned interests so that they can build a network with them to earn their favor. I find that firms contribute more to both major political parties when EPU is high.

Third, I examine the relationship between economic policy uncertainty and PAC contributions for different sub-samples. My results suggest that when there is high policy uncertainty, conservative firms (Republican-leaning) contribute more to both political parties, whereas liberal firms (Democratic-leaning) contribute more only to Democrats.

I also find that during heightened policy uncertainty, firms contribute less in total as well as to both political parties when Republicans occupy the presidential office and have a majority in both chambers of Congress. On the other hand, firms contribute more in total as well as to both political parties when Democrats occupy the presidential office along with a majority in both chambers of Congress during heightened policy uncertainty.

The remainder of the paper is organized as follows. Section 2 provides literature review and constructs hypotheses. Section 3 describes the data selection process and variable construction, section 4 provides research methodology and empirical results, and section 5 provides major findings.

2. Literature Review and Hypotheses Development

This study is related to three strands of literature. The first strand of literature relates to the negative impact of economic policy uncertainty on financial markets. Prior literature studies this negative impact of policy uncertainty on corporate policies, asset prices, and the economy. Pastor and Veronesi (2012, 2013) analyze the asset pricing implications of political uncertainty in a theoretical setting. They use the policy uncertainty index constructed by Baker, Bloom, and Davis (2016) as a proxy for political uncertainty. Brogaard and Detzel (2015) suggest that policy uncertainty is an economically important risk factor in the pricing of assets. A recent US-based study by Duong et al. (2018a) documents a negative impact of economic policy uncertainty on stock liquidity. Gulen and Ion (2016) suggest that high policy uncertainty adversely affects corporate investment. Colak, Durnev, and Qian (2017) find fewer IPOs in a state when the state is scheduled to have an election than during the non-election period. Bonaime, Gulen, and Ion (2018) find a negative association between policy uncertainty and merger and acquisition activities. All these studies suggest that heightened economic policy uncertainty has adverse effects on firms and financial markets.

The second related strand of literature documents the value relevance of political connections. This strand of literature has focused on why firms incorporate various political strategies. One stream of literature in this strand supports the quid pro quo hypothesis. It simply means that firms benefit from political connections through increased political rent-seeking behavior. Akey and Lewellen, 2017; Cooper, Gulen, and Ovtchinnikov, 2010; Do, Lee, and Nguyen, 2013; Faccio, 2006; Faccio and Parsley, 2009; Ferguson and Voth, 2008; Goldman, Rocholl, and So, 2009; Jayachandran, 2006; and Sabherwal, Sarkar, and Uddin, 2017 find that political connections enhance firm value. Another stream of literature suggests that political connections can be

associated with other benefits such as government bailouts (Faccio, Masulis, and McConnel, 2006), increased credit availability (Classens, Feijen, and Laeven, 2008), reduced cost of equity (Boubakri, Omrane, Dev, and Walid, 2012), reduced cost of bank loans (Houston, Jiang, Lin, and Ma, 2014), and access to public debt (Bliss and Gul, 2012), etc. Overall, these studies suggest the value relevance of political connections through different corporate political strategies because firms are affected by government policy.

On the contrary, some studies reveal the dark side of political connections. They suggest that these PAC contributions either have a negative impact or are insignificant to firm value. Taking a contrarian stance to the short-term view of some event studies, Aggarwal, Meschke, and Wang (2012) consider the long-term view and test the investment *versus* agency hypothesis. The study results strongly support the agency problem hypothesis where managers use the firm's dollars to promote their personal agenda and not that of the firm. This behavior destroys shareholder value. Chen et al. (2017) find an interesting result of an inverted U-shape relationship between political connections and firm value. Initially, at a lower level of political connections, the firm value increases as the number of connections increases, but the firm value then decreases at a higher level of political connections. Some other studies (Chaney, Faccio, and Parsley, 2011; Kim and Zhang, 2016) show that political connections can be associated with riskier corporate behavior.

The third strand of literature documents how firms use campaign contributions to deal with the uncertainty surrounding potential policy changes. Recent empirical studies in economics and finance highlight the sensitivity of corporate outcomes to uncertainty about future macroeconomic growth, government regulation, and monetary policy. Julio and Yook (2012) show that firms delay investing decisions in the face of uncertainty. Hassett and Metalf (1999) find that the impact of political uncertainty on investment depends on the difficulties surrounding the legislative process.

These studies suggest that managers have an incentive to reduce uncertainty as it impacts various corporate decisions and outcomes. Campaign support is one type of corporate strategy implemented by firms. It not only increases the ability of firms to communicate with legislators but also influences the quality of communication. Contributing firms have a greater understanding of the legislator's policy preferences and to what extent those preferences are aligned with the firm's goals and strategies (Austen-Smith, 1995). The legislative process not only provides an informational advantage to the contributing firms but also helps them to predict legislative outcomes with greater precision. Therefore, contributing firms enjoy differential access to information and a better understanding of policymaker's reaction to information, ultimately reducing uncertainty from the firm's perspective.

The campaign contribution benefit argument also suggests that it is more valuable for firms to contribute during uncertain times. This argument is based on three different perspectives. First, there is an adverse impact of economic policy uncertainty on stock liquidity (Duong et al., 2018a), corporate investment (Gulen and Ion, 2016), and initial public offering (Colak et al., 2017). As discussed previously, firms use campaign contributions as one of the corporate strategies to deal with the negative impact of heightened policy uncertainty. Political contributions provide access to policy information and thus, help to understand the potential implications of policymaking. Second, the proposed policies are not yet settled during heightened policy uncertainty (Pastor and Veronesi, 2012). Therefore, firms have an incentive to make campaign contributions to influence policy outcomes in their favor. Third, Hassan et al. (2019) find that high levels of policy uncertainty result in increased political risk. Consequently, firms have a strong incentive to donate to manage such political risk.

Taken together, these studies and other anecdotal evidence suggest that firms are concerned about policy uncertainty and use campaign support as an opportunity to hedge against those policy shocks. Thus, contributing firms have an incentive to increase their campaign contributions during heightened economic policy uncertainty. Based on these arguments, my first research question is whether firms increase the total corporate political contributions during heightened economic policy uncertainty.

Next, I explore whether firms increase the campaign contributions to each major political party, i.e., Republicans and Democrats, during heightened uncertainty. It is an extension of the first research question. The FEC data shows that, on average, Republican party/candidate PACs typically receive higher total dollar contributions than Democratic PACs. It also shows that republican contributions come from more contributing firms than democratic contributions. In addition to this, there are some partisan industries. For example, natural resources extraction and raw materials manufacturing industries favor Republicans. On the other hand, water distribution systems and alternative energy production sectors favor Democrats. A company that mainly contributes to Republicans (Democrats) in less uncertain times might also contribute to Democrats (Republicans) when there is policy uncertainty. Therefore, my second research question is whether the difference between the PAC contributions to Republicans and Democrats by each firm decreases when there is an increase in economic policy uncertainty. In other words, does the gap between campaign contributions to Republicans and Democrats decrease during heightened policy uncertainty.

Several studies show that high policy uncertainty adversely affects corporate activities and performance (Gulen and Ion, 2016; Pastor and Veronesi, 2012, 2013). A recent study by Shang et al. (2021) find that corporate lobbying, as a proxy for political connections, mitigates the adverse

effects of policy uncertainty on lobbying firms' business activities and suggest that corporate lobbying has economic value. Wellman (2016) finds that political connections, proxied by corporate PAC contributions, offset the negative relationship between investment and political uncertainty (proxied by Baker's EPU measure). These studies suggest that political connections have a significant role in mitigating the negative impact of policy uncertainty on firm value and various corporate outcomes. I use corporate PAC contributions as a proxy for political connections to explore whether firms can mitigate the negative effects of policy uncertainty through political connections. Therefore, my third research question is whether corporate campaign contributions have an economic value in mitigating the negative impact of policy uncertainty on firm performance.

Prior literature suggests that some industries are strongly committed to one party. Gimpel, Lee, and Parrott (2014) analyze U.S. campaign contributions for different industries and find a wide variation in how economic sectors relate to the political parties. Therefore, I examine whether there is a difference across industries in how firms alter their PAC contributions during heightened economic policy uncertainty.

Additionally, I examine the impact of EPU on campaign contributions for different sub-samples: conservative/liberal firms, and when Republican presidency and majority in Congress/ Democratic presidency and majority in Congress. Specifically, I investigate several additional research questions as follows. Whether the impact of EPU on total contributions and contributions gap are different (a) for Republican-leaning (conservative) firms and Democratic-leaning (liberal) firms, and (b) when there is a Republican majority in Congress along with Republican presidency as compared to when there is Democratic majority in Congress along with Democratic presidency?

3. Data and Sample Construction

3.1. Economic Policy Uncertainty data

I use the economic policy uncertainty index developed by Baker et al. (2016) to measure policy uncertainty. The index consists of three components. The first component is based on the frequency of articles in 10 large U.S. newspapers containing words related to economic and policy-related uncertainty. Specifically, the BBD EPU index covers articles containing the terms 'economic' or 'economy,' the terms 'uncertainty' or 'uncertain,' and one or more of the following terms: 'congress,' 'legislation,' 'white house,' 'regulation,' 'federal reserve,' or 'deficit.' The second component is based on the number of federal tax code provisions. The third component is based on the dispersion in analysts' forecasts regarding policy-relevant macroeconomic variables. The overall Economic policy uncertainty index is a weighted average of the three components. The EPU index is available starting in 1985.

3.2. Corporate Campaign Contributions Data

I obtain corporate political contributions data from the U.S. Federal Election Commission (FEC) from November 1984 to October 2020. I use an October cutoff to match the timing of political contributions to the timing of elections, thus, taking the election-based year starting from November of calendar year 1 until October of calendar year 2.

The political contributions dataset includes the name of the contributor (PAC's name associated with the company), state, transaction date, transaction amount, the recipient's name, the recipient's political affiliation, and cycle. I manually match the names of companies in FEC records with Compustat information.

Firms contribute money to political parties or/and candidates in the United States through political committees known as Corporate Political Action Committees (PACs). PACs pool

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campaign contributions from employees of the associated firm and donate these contributions to one or more political parties or/and candidates. In addition, firms may spend their treasury funds to create incentives for their employees to contribute to the PAC. The firms themselves cannot contribute anything directly to the PAC. However, the firms can cover almost all the expenses incurred by their affiliated PACs, including salaries, office space, supplies, etc. Corporate PACs typically donate money to another PAC set up by a political candidate running for elected office. Corporate PACs can give $5,000 to a candidate committee per election. They can also give up to $15,000 annually to any national party committee and $5,000 annually to any other PAC. Only specific individuals (known as the restricted class that includes salaried employees with decision-making authority, shareholders, and these groups' families) can give to the corporate PACs, and each individual can give up to $5,000 per year.

Firms use different vehicles, such as lobbying, PAC contributions, etc., to funnel the funds toward political parties and candidates. With the given restrictions on corporate PACs, it is reasonable to question what a firm can expect in return for such small donations. The key reason to use the corporate PAC contributions data instead of any other medium of political connections is that the PAC data helps to identify the specific politicians that a firm is attempting to influence through its contributions. Policy uncertainty arises due to unobservable political forces that direct policymakers' decisions (Pastor and Veronesi, 2012). Therefore, building direct relationships with decision-makers helps firms influence them through these PAC contributions. It gives an added advantage to the firms to achieve greater access to legislators with aligned policy preferences (Austen-Smith, 1995). Using the campaign contributions data from FEC also helps to distinguish between contributing (connected) and non-contributing (non-connected) firms for a large sample of firms over a long sample period (Schuller et al., 2002).

3.3. Control Variables

I obtain my firm-level annual data from Compustat and CRSP databases. The definitions of all variables used in my study are in Appendix Table A. All firm control variables are winsorized at the 1% and 99% levels. Following the literature, I also include some macroeconomic variables, U.S. GDP growth from WDI Indicators of the World Bank, and the U.S. sentiment measure provided by the University of Michigan for the economic value analysis.

I control for the majority in both chambers of Congress and for the presidency.

3.4. Variable Construction

My main research question relates to the impact of economic policy uncertainty on campaign contributions by firms. This section outlines my primary variables of interest, including the measures I use to capture economic policy uncertainty and political contributions. I follow the finance and political economy literature that has developed and tested these measures.

I examine the impact of contemporaneous as well as lagged EPU on the PAC contributions by firms. *EPU Index$_t$* is the natural log of the average value of the overall EPU index from the beginning of year t to the end of year t. *EPU Index$_{t-1}$* is the natural log of the average value of the overall EPU index from the beginning of year t-1 to the end of year t-1.

Gulen and Ion (2016) suggest that most of the explanatory power of Baker et al. (2016) EPU Index is attributable to the news-based component. Therefore, I also examine the separate effect of the news-based uncertainty component of the index on PAC contributions. *EPU News$_t$* is the natural log of the average value of the news component of the EPU index from the beginning of year t to the end of year t. *EPU News$_{t-1}$* is the natural log of the average value of the news component of the EPU index from the beginning of year t-1 to the end of year t-1.

I use PAC contributions data from FEC. Total campaign PAC contributions refer to the dollar amount contributed by each firm per year to candidates running for House, Senate, and Presidential elections. It includes contributions to both political parties, i.e., Republicans and Democrats. *Total($)$_{i,t}$* is the natural log of total campaign PAC contributions by firm i in year t.[2]

Total PAC Republican contributions refer to the dollar amount contributed to Republican candidates running for House, Senate, and Presidential elections by each firm per year. *Rep($)$_{i,t}$* is the natural log of total campaign PAC contributions to Republicans by firm i in year t. Total PAC Democratic contributions refer to the dollar amount contributed to democratic candidates running for House, Senate, and Presidential elections by each firm per year. *Dem($)$_{i,t}$* is the natural log of total campaign PAC contributions to Democrats by firm i in year t. *Difference$_{i,t}$* is the difference between PAC contributions to Republicans and Democrats scaled by the total PAC contributions by firm i in year t. *[Rep($)/Total($)]$_{i,t}$* is the total campaign PAC contributions to Republicans for firm i in year t scaled by total contributions for firm i in year t. *[Dem($)/Total($)]$_{i,t}$* is the total campaign PAC contributions to Democrats for firm i in year t scaled by total contributions for firm i in year t.

Majority in House is a binary variable that equals one if Republicans have a majority in the House of Representatives in year t-1 and zero otherwise. *Majority in Senate* is a binary variable that equals one if Republicans have a majority in Senate in year t-1 and zero otherwise. *Presidency* is a binary variable that equals one if there is a Republican presidency in year t-1 and zero otherwise.

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[2] There are less than 6000 contributions to the presidential candidates during the whole sample period. After removing the presidential contributions (and keeping only congressional contributions), I find similar results.

Following Hong & Kostovetsky (2012) and Chin, Hambrick & Trevino (2013), I calculate a binary variable representing whether a firm is Conservative/Republican-leaning or Liberal/Democratic-leaning. Specifically, I compute a variable termed *Conservative Index* by taking a simple average of four ratios that reflect a firm's behavioral commitment, financial commitment, persistence, and scope of commitment to the Republican party. The four ratios, respectively, are the following: 1. The number of contributions to Republicans over total contributions to both Republicans and Democrats; 2. The dollar amount of contributions to Republicans over total dollar contributions to both Republicans and Democrats; 3. The number of years the firm made contributions to Republicans divided by the number of years contributions were made to either party; and 4. The number of distinct Republican recipients to which the firm made contributions is divided by the total number of distinct recipients of both parties. The inclusion of all four indicators, measured over the complete sample period, minimizes the risk of assigning orientation scores on the basis of incidental behaviors.

Conservative Index ranges from 0 to 1. Scores below 0.50 indicate liberal firms (Democratic-leaning), and scores above 0.50 represent Conservative firms (Republican-leaning). A score equal to 0.50 indicates politically neutral firms. Non-contributing firms also belong to the politically neutral category.

Republican is a binary variable that equals one if Republicans occupy the presidential office and also have a majority in Congress (i.e., Republicans have a majority in both chambers of Congress- House of Representatives and Senate) and zero otherwise. *Democratic* is a binary variable that equals one if Democrats occupy the presidential office and also have a majority in Congress (i.e., Democrats have a majority in both chambers of Congress- House of Representatives and Senate) and zero otherwise.

3.5. Summary Statistics

Table 1 reports the descriptive statistics for my sample. Panel A includes the descriptive statistics separately for contributing and non-contributing firms. The panel shows that contributing firms tend to be larger and have a higher return on assets and cash flows than non-contributing firms.

4. Empirical Results

4.1. Economic policy uncertainty and PAC contributions

In this section, I explore whether firms increase the PAC contributions during heightened economic policy uncertainty. I use the following panel regression model to answer my first research question:

$$Total(\$)_{i,t} = \alpha + \beta\ EPU\_Index_t + \lambda\ EPU\ Index_{t-1} + \gamma\ FirmControls_{i,t-1} + \epsilon_{i,t} \quad (1)$$

$Total(\$)i,t$ is the natural log of total campaign PAC contributions by firm i in year t. I analyze whether the PAC contributions increase due to the contemporaneous as well as lagged economic policy uncertainty. EPU_Index_t is the natural log of the average value of the overall EPU index from the beginning of year t to the end of year t. $FirmControls_{i,t}$ represents various firm characteristics such as size, leverage, firm profitability, and the market-book ratio. I also control for the majority in both chambers of Congress as well as for the presidency throughout the analysis.[3]

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[3] The results are consistent even after controlling for interactions between EPU and political office majority (Majority in both chambers of Congress and Presidency).

I use two proxies for economic policy uncertainty. In the first proxy, I use the overall EPU index. In the second proxy, I use the news component of the EPU index.[4] Table 2 reports the results of ordinary least square regression in Columns (1) through (5) and Columns (9) through (12). I use firm fixed effects. The standard errors are clustered at the firm level.

In Column (1) of Table 2 Panel A, I find that the total dollar amount of PAC contributions significantly goes up due to an increase in lagged economic policy uncertainty. It shows that a 1% increase in lagged EPU is associated with a 0.41% increase in the total dollar contributions. The results also suggest that the total dollar PAC contributions increase during heightened policy uncertainty (contemporaneous EPU). It shows that a 1% increase in contemporaneous EPU increases the total dollar contributions by 0.08%.

Next, I explore whether PAC contributions to each major political party increase due to an increase in economic policy uncertainty. I use the following panel regression models:

$$Rep(\$)_{i,t} = \alpha + \beta \ EPU\_Index_t + \lambda \ EPU \ Index_{t-1} + \gamma \ FirmControls_{i,t-1} + \epsilon_{i,t} \quad (2)$$

$$Dem(\$)_{i,t} = \alpha + \beta \ EPU\_Index_t + \lambda \ EPU \ Index_{t-1} + \gamma \ FirmControls_{i,t-1} + \epsilon_{i,t} \quad (3)$$

$Rep(\$)_{i,t}$ is the natural log of total campaign PAC contributions to Republicans for firm i in year t. $Dem(\$)_{i,t}$ is the natural log of total campaign PAC contributions to Democrats for firm i in year t.

In Columns (2) and (3), I find that the total dollar amounts of PAC contributions to each major political party, i.e., Republicans and Democrats, go up due to the previous year's high policy uncertainty. Column (2) shows that a 1% increase in lagged EPU is associated with a 0.42%

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[4] I find qualitatively similar results for both proxies. To conserve space, I report the results for both proxies for only the first research question. For subsequent analysis, I report the results for only the first proxy. The results for the second proxy, i.e., the EPU News component, are available upon request from me.

increase in the dollar contributions to Republicans. Column (3) shows that a 1% increase in lagged EPU increases the dollar contributions to Democrats by 0.32%. The results also suggest that the total dollar amount of PAC contributions to Democrats increase during heightened contemporaneous policy uncertainty. It shows that a 1% increase in contemporaneous EPU increases the dollar contributions to Democrats by 0.08%. However, the dollar amount of PAC contributions does not change for Republicans due to a change in contemporaneous policy uncertainty.

Next, I explore whether the proportion of PAC contributions to each major political party change due to an increase in economic policy uncertainty. I use the following regression models:

$$[Rep(\$)/Total(\$)]_{i,t} = \alpha + \beta \, EPU\_Index_t + \lambda \, EPU \, Index_{t-1} + \gamma \, FirmControls_{i,t-1} + \epsilon_{i,t} \quad (4)$$

$$[Dem(\$)/Total(\$)]_{i,t} = \alpha + \beta \, EPU\_Index_t + \lambda \, EPU \, Index_{t-1} + \gamma \, FirmControls_{i,t-1} + \epsilon_{i,t} \quad (5)$$

$[Rep(\$)/Total(\$)]_{i,t}$ is the total PAC contributions to Republicans for firm i in year t scaled by total contributions for firm i in year t. $[Dem(\$)/Total(\$)]_{i,t}$ is the total PAC contributions to Democrats for firm i in year t scaled by total contributions for firm i in year t.

In Column (4), I find that the proportion of PAC contributions to Republicans significantly goes up due to the previous year's high policy uncertainty. It shows that a 1% increase in lagged EPU is associated with a 0.007 percentage point increase in the proportion of contributions to Republicans. In Column (5), I find that the proportion of PAC contributions to Democrats significantly goes down due to the previous year's high policy uncertainty. It shows that a 1% increase in lagged EPU is associated with a 0.007 percentage point decrease in the proportion of contributions to Democrats. However, the proportion of PAC contributions does not change for Republicans due to a change in contemporaneous policy uncertainty.

Next, I investigate whether the gap between contributions (dollar amount) to Republicans and Democrats changes as economic policy uncertainty changes. To answer this question, I use the following regression model:

$$Difference_{i,t} = \alpha + \beta\ EPU\_Index_t + \lambda\ EPU\ Index_{t-1} + \gamma\ FirmControls_{i,t-1} + \epsilon_{i,t} \qquad (6)$$

$Difference_{i,t}$ is the difference between PAC contributions to Republicans and to Democrats scaled by total PAC contributions for firm i in year t.

In Column (6), I find that the contribution gap increases due to an increase in economic policy uncertainty during the previous year. It shows that a 1% increase in lagged EPU is associated with a 0.014 percentage point increase in the contribution gap. The results are consistent with the findings from Columns (4) and (5). The proportion of dollar amount contributions to Republicans (Democrats) significantly goes up (down) when EPU increases in the previous year. It means that firms contribute even more to Republicans than Democrats due to the previous year's high policy uncertainty. Therefore, the contribution gap increases due to an increase in EPU. In general, Republicans are more pro-business than Democrats. It is well known that corporate groups are interested in electing Republicans. Brunell (2005) also reports that corporate PACs give nearly 10 times as many donations to Republicans as to Democrats. However, there is no change in the gap between contributions to republicans and democrats when there is high policy uncertainty in the same year.

I find qualitatively similar results in Table 2 Panel B when I use Baker et al. (2016) 's EPU News component to measure economic policy uncertainty.

4.2. Sub-sample Analysis

4.2.1. Conservative and Liberal firms

Next, I analyze whether the relationship between economic policy uncertainty and PAC contributions differ for conservative and liberal firms. It is well known that there are some partisan industries. For example, raw materials manufacturing and natural resources extraction industries favor Republicans (Conservative). On the other hand, water distribution systems and alternative energy production sectors favor Democrats (Liberal). It is interesting to examine whether the impact of EPU on campaign contributions is different for firms with different political ideologies-Conservative, Liberal, or politically neutral. In general, corporate PACs contribute more to Republicans. Thus, conservative firms might contribute more to Democrats, and Liberal firms might contribute more to Republicans during uncertain times (EPU is high).

To categorize firms based on their political ideologies, I follow Hong & Kostovetsky (2012) and Chin, Hambrick & Trevino (2013). I calculate an indicator variable (whether a firm is conservative, liberal, or politically neutral). I take a simple average of four ratios explained in the data section. This indicator variable (*Conservative Index*) ranges from 0 to 1. Scores below 0.50 indicate liberal firms (Democratic-leaning), and scores above 0.50 represent conservative firms (Republican-leaning). A score equal to 0.50 indicates politically neutral firms. Non-contributing firms also belong to the politically neutral category. I use the following model for the above analysis:

$Total(\$)_{i,t} = \alpha + \beta_1 EPU\_Index_t + \beta_2 EPU Index_{t-1} + \beta_3 Conservative_i + \beta_4 Liberal_i + \beta_5 EPU Index_t*Conservative_i + \beta_6 EPU Index_t*Liberal_i + \beta_7 EPU Index_{t-1}*Conservative_i + \beta_8 EPU Index_{t-1}*Liberal_i + FirmControls_{i,t-1} + \epsilon_{i,t}$ (7)

In Table 3 Column (1), I find that conservative firms make significantly higher total PAC contributions as compared to other firms. In Column (3), I find that conservative firms make less dollar contributions to Democrats than other firms.

In Columns (1), (2), and (3), the coefficient of the interaction between lagged EPU index and the conservative firm is positive and statistically significant at 1%. This result implies that when there is high policy uncertainty in the previous year, conservative firms contribute more in total as well as to both political parties. In Columns (1) and (3), the coefficient of the interaction between lagged EPU index and the liberal firm is also positive and statistically significant at 5% and 1%, respectively. This result implies that when there is high policy uncertainty in the previous year, liberal firms contribute more in total and to Democrats.

In Column (6), the coefficients of *EPU Index$_{t-1}$*Conservative$_i$* and *EPU Index$_{t-1}$*Liberal$_i$* are significantly negative. It means that the contribution gap for both conservative and liberal firms decreases as the previous year's EPU decreases. I run a sub-sample analysis for conservative and liberal firms separately to examine the reduced contribution gap due to high policy uncertainty in the previous year. The results (unreported) show that conservative firms contribute more to both Republicans and Democrats, whereas liberal firms contribute more only to Democrats when there is high policy uncertainty in the previous year. In general, corporate PACs give higher donations to Republicans as compared to Democrats. For conservative firms, Republican contributions increase but Democratic contributions increase more due to an increased lagged EPU. Therefore, the contribution gap decreases for conservative firms. For liberal firms, only Democratic contributions increase due to an increased lagged EPU. Thus, the contribution gap decreases for liberal firms. The coefficients of *EPU Index$_t$*Conservative$_i$* and *EPU Index$_t$*Liberal$_i$* are also significantly negative. I find similar results from the sub-sample analysis.

In Column (4), the coefficient of *EPU Index$_{t-1}$*Conservative$_i$* is significantly negative and in Column (5), the coefficient of *EPU Index$_{t-1}$*Conservative$_i$* is significantly positive. These results are in line with the results from Column (6). The results show that the proportion of PAC contributions to Republicans (Democrats) significantly goes down (up) for conservative firms when there is high policy uncertainty in the previous year.

In Column (4), the coefficient of *EPU Index$_{t-1}$*Liberal$_i$* is significantly negative and in Column (5), the coefficient of *EPU Index$_{t-1}$* Liberal$_i$* is significantly positive. These results are in line with the results from Column (6). The results show that the proportion of PAC contributions to Republicans (Democrats) significantly goes down (up) for liberal firms when there is high policy uncertainty in the previous year.

In Columns (4) and (5), I find similar results for both conservative and liberal firms when there is an increase in contemporaneous EPU.

4.2.2. EPU and PAC Contributions Relationship: Presidency and Majority in Congress

Lastly, I study the relationship between economic policy uncertainty and PAC contributions when one of the political parties has a majority in Congress and also occupy the presidential office. The threat of enacting new regulations to restrain the corporate sector is higher in Democratic regimes than in Republican regimes. In general, Republicans are more pro-business than Democrats. Blomberg and Hess (2003) observe that there is an ideological difference between Republican and Democratic presidents. Republican administrations reserve resources for the private sector, whereas Democratic administrations wish to increase government services. Corporate PACs are generally interested in electing Republicans. The FEC data also show that Republican candidates typically receive higher total corporate PAC dollar contributions than do

Democrats. Republican candidates' contributions come from a larger number of contributing firms than do Democrat candidates' contributions. As a result, it raises a natural question. Whether the impact of EPU on PAC contributions differ when one of the political parties has a majority in Congress and also occupies presidential office?

Based on the above arguments, firms might contribute more to Republicans when there is a Republican presidency and Republican majority in Congress along with heightened policy uncertainty. Firms might contribute more to Democrats when there is a Democratic presidency and Democratic majority in Congress along with heightened policy uncertainty.

I use the following regression model to answer this question:

$$Total(\$)_{i,t} = \alpha + + \beta_1\ EPU\_Index_t + \beta_2\ EPU\ Index_{t-1} + \beta_3\ Republican_{t-1} + \beta_4\ Democratic_{t-1} + \beta_5$$

$$EPU\ Index_t * Republican_{t-1} + \beta_6\ EPU\ Index_t * Democratic_{t-1} + \gamma\ FirmControls_{i,t-1} + \epsilon_{i,t} \qquad (8)$$

$Republican_{t-1}$ is a binary variable that equals one if Republicans occupy presidential office and also have a majority in Congress (i.e., Republicans have a majority in both chambers of Congress-House of Representatives and Senate) and zero otherwise. $Democratic_{t-1}$ is a binary variable that equals one if Democrats occupy presidential office and also have a majority in Congress (i.e., Democrats have a majority in both chambers of Congress) and zero otherwise.

In Table 4 Columns (1), (2), and (3), the coefficients of $Republican_{t-1}$ are positive and significant at 1%. I find that firms contribute more in total as well as to both political parties when Republicans occupy the presidential office and have a majority in both chambers of Congress. However, the coefficient of $Democratic_{t-1}$ is negative and significant at 1% in Columns (1), (2), and (3). It suggests that firms contribute less in total as well as to both political parties when Democrats occupy the presidential office and have a majority in both chambers of Congress. It might be due to the difference in ideologies of Republicans and Democrats. Republicans are

generally pro-business. Therefore, political contributions might be more beneficial during Republican regimes. On the contrary, political contributions might not help during Democratic regimes.

To understand the impact of EPU on PAC contributions during different political regimes, I use an interaction term between EPU and Political party regime dummy. In Columns (1), (2) and (3), I find that the coefficient of *EPU Index$_t$* Republican$_{t-1}$* is significantly negative, suggesting that firms contribute less in total as well as to both political parties when Republicans occupy the presidential office and have a majority in both chambers of Congress during heightened policy uncertainty. On the other hand, the coefficient of *EPU Index$_t$* Democratic$_{t-1}$* is significantly positive, suggesting that firms contribute more in total as well as to both political parties when Democrats occupy the presidential office and have a majority in both chambers of Congress during heightened policy uncertainty. These results suggest that PAC contributions might be more valuable when policy uncertainty increases and Democrats occupy presidential office along with a majority in Congress. The uncertainty with respect to the enactment of new policies restraining the corporate sector is higher in Democratic regimes. If policy uncertainty is high and Democrats occupy both executive and legislative branches, firms have a higher incentive to make PAC donations.

The results are insignificant for the proportion of Republican and Democratic contributions. The results are also insignificant for the contribution gap.

4.3. Economic value of PAC contributions

Several studies show that high policy uncertainty adversely affects the firm performance and various corporate activities (Baker et al., 2016; Gulen and Ion, 2016; Borghesi and Chang, 2020).

In this study, I explore whether firms can mitigate the adverse effects of policy uncertainty on firm performance through PAC contributions. I use the following model to answer this question:

$Return\ on\ Assets_{i,t+1} = \alpha + \beta\ EPU\_Index_t + \mu\ Contribution_{i,t} + \delta\ EPU\_Index_t * Contribution_{i,t} + \gamma\ FirmControls_{i,t} + \lambda\ Macroeconomic\ Controls_t + \epsilon_{i,t}$ (9)

$Return\ on\ Assets_{i,t+1}$ is the ratio of operating income before depreciation to the book value of a firm's total assets at the end of year $t+1$ for firm i. $Contribution_{i,t}$ is a binary variable that equals one if i firm makes PAC donations in year t and zero otherwise. $EPU\_Index_t * Contribution_{i,t}$ is the interaction between EPU_Index and Contribution dummy.

To examine the economic value of these PAC contributions, I run model 7. In Table 5 Column (1), I find that $Contribution_{i,t}$ is positive, suggesting that contribution has a positive impact on future profitability. The coefficient of EPU_Index_t is significantly negative, which confirms the previous studies' findings of EPU's adverse impact on firm performance. The coefficient of $EPU\_Index_t * Contribution_{i,t}$ is significantly positive. It suggests that PAC contributions help to mitigate the adverse impact of economic policy uncertainty on firm performance, proxied by return on assets (ROA).

In addition to the previous model, I also run the following regression model:

$Return\ on\ Assets_{i,t+1} = \alpha + \beta\ EPU\_Index_t + \mu\ Total(\$)_{i,t} + \delta\ EPU\_Index_t * Total(\$)_{i,t} + \gamma\ FirmControls_{i,t} + \lambda\ Macroeconomic\ Controls_t + \epsilon_{i,t}$ (10)

$Total(\$)i,t$ is the natural log of total campaign PAC contributions by firm i in year t. $EPU\_Index_t * Total(\$)_{i,t}$ is the interaction between EPU_Index and total PAC contributions. The coefficient of the interaction term is significantly positive, suggesting that making higher PAC contributions help to mitigate the negative impact of EPU on firm performance.

4.4. Robustness Check

One of the potential concerns with using Baker's EPU index as a measure of economic policy uncertainty is that it might capture the uncertainty arising due to other macroeconomic forces. To address this concern, I use two additional controls at the macro level. Following Gulen and Ion (2016), I use GDP Growth (annual %) and Inflation as additional controls. In Table 6, I find consistent results even after controlling for additional macro controls.

5. Conclusions

The interaction of politics with financial markets and the macroeconomy has received increasing attention in recent years. There is extant literature that identifies the significant impact of political connections on firm performance and other corporate outcomes. However, several questions in this area remain unanswered. This study addresses the empirical question of whether economic policy uncertainty affects the corporate political contributions. Using campaign contributions data from the Federal Election Commission, I first investigate the impact of policy uncertainty on total corporate contributions and the gap between corporate contributions to Republicans and Democrats.

I find that the total dollar amount of PAC donations increases with an increase in economic policy uncertainty. PAC contributions to both political parties also increase with an increase in the economic policy uncertainty. The proportion of dollar contributions to Republicans (Democrats) increase (decrease) due to an increase in the EPU. Therefore, the gap between PAC contributions to Republicans and Democrats increases due to an increase in the EPU. The FEC data shows that Republican candidates generally receive higher total dollar contributions than Democrats. Also, Republicans are more pro-business than Democrats.

Second, I analyze the impact of policy uncertainty on contributions for different sub-samples such as conservative/liberal firms, etc. My results suggest that when there is high policy uncertainty, conservative firms (Republican-leaning) contribute more to both political parties, whereas liberal firms (Democratic-leaning) contribute more only to Democrats.

I also find that during heightened policy uncertainty, firms contribute less in total as well as to both political parties when Republicans occupy the presidential office and have a majority in both chambers of Congress. On the other hand, firms contribute more in total as well as to both political parties when Democrats occupy the presidential office along with a majority in both chambers of Congress during heightened policy uncertainty.

Lastly, I examine the economic benefit of these corporate contributions in times of heightened policy uncertainty. I find that the negative impact of economic policy uncertainty on firm performance, proxied by return on assets, is reduced (in part) by contributing firms.

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Table 1 Summary Statistics

This table reports the summary statistics of the sample. Panel A reports the summary statistics (univariate differences) of contributing and non-contributing firms.

Panel A: Contributing versus Non-Contributing firms

	N (Firm-year observations)	Ln(Size)	Leverage	Market/Book ratio	ROA	R&D	PPE	Cash Flows
Contributing Firms	18,041	7.826	0.350	1.009	0.141	0.019	0.417	626.900
		(0.0143)	(0.0091)	(0.0023)	(0.0018)	(0.000)	(0.002)	(17.800)
Non-Contributing Firms	204,068	4.444	3.127	1.271	-1.142	0.235	1.635	68.143
		(0.0054)	(1.3317)	(0.0598)	(0.2826)	(0.047)	(0.463)	(1.954)
Difference		3.382***	-2.776	-0.262	1.283*	-0.216	-1.219	558.800***
		(0.019)	(4.479)	(0.201)	(1.787)	(0.158)	(1.556)	(8.437)

Table 2 Economic Policy Uncertainty and Corporate Political Contributions (Panel A)

This table reports the impact of economic policy uncertainty on PAC contributions. The dependent variables in columns (1) - (3) are the natural logarithm of the total corporate political contributions, contributions to Republicans, contributions to Democrats by each firm in each year, respectively. In columns (4) and (5), the dependent variable is the dollar contributions to Republicans and Democrats by each firm in each year scaled by total contributions, respectively. In Column (6), the dependent variable is the difference between dollar contributions to Republicans and Democrats by each firm in each year scaled by total contributions. The primary independent variable of interest is economic policy uncertainty index developed by Baker et al. (2016). Control variables are defined in the Appendix. All firm control variables are winsorized at the 1% and 99% levels. The numbers in parentheses represent t-stat. *, **, and *** indicate significance at 10%, 5%, and 1%, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
EPU Index	0.082**	0.047	0.088**	-0.000	0.000	-0.001
	(0.039)	(0.039)	(0.038)	(0.001)	(0.001)	(0.002)
lag_EPU Index	0.415***	0.422***	0.324***	0.007***	-0.007***	0.014***
	(0.055)	(0.054)	(0.052)	(0.001)	(0.001)	(0.003)
Size	0.193***	0.186***	0.171***	0.001***	-0.001***	0.003***
	(0.016)	(0.015)	(0.014)	(0.001)	(0.000)	(0.001)
Leverage	-2.75e-06*	-2.46e-06*	-2.02e-06	-3.58e-08	3.58e-08	-7.15e-08
	(1.54e-06)	(1.36e-06)	(1.28e-06)	(2.33e-08)	(2.33e-08)	(4.66e-08)
M/B ratio	-1.59e-05	-1.81e-05	-6.58e-06	-7.27e-07**	7.27e-07**	-1.45e-06**
	(2.87e-05)	(2.68e-05)	(2.66e-05)	(3.62e-07)	(3.62e-07)	(7.25e-07)
ROA	4.51e-05*	4.03e-05*	3.64e-05*	3.37e-07	-3.37e-07	6.75e-07
	(2.37e-05)	(2.17e-05)	(1.92e-05)	(3.50e-07)	(3.50e-07)	(7.00e-07)
R&D Intensity	-3.41e-05	-3.54e-05	-3.47e-05	-1.85e-07	1.85e-07	-3.69e-07
	(5.34e-05)	(5.16e-05)	(4.46e-05)	(7.25e-07)	(7.25e-07)	(1.45e-06)
Tangibility	-3.41e-05*	-3.28e-05*	-2.89e-05**	-2.49e-07	2.49e-07	-4.99e-07
	(1.83e-05)	(1.75e-05)	(1.43e-05)	(2.19e-07)	(2.19e-07)	(4.38e-07)
Cash Flows	7.59e-05***	8.18e-05***	7.86e-05***	3.22e-07	-3.22e-07	6.45e-07
	(2.34e-05)	(2.37e-05)	(2.26e-05)	(3.31e-07)	(3.31e-07)	(6.62e-07)
Majority in House	0.128***	0.159***	0.036	0.00958***	-0.009***	0.019***
	(0.027)	(0.027)	(0.026)	(0.001)	(0.001)	(0.002)
Majority in Senate	0.077***	0.108***	-0.017	0.009***	-0.009***	0.019***
	(0.024)	(0.024)	(0.024)	(0.001)	(0.001)	(0.002)
Presidency	0.009	0.007	0.048***	-0.002***	0.002***	-0.005***
	(0.018)	(0.017)	(0.017)	(0.000)	(0.001)	(0.001)
Constant	-11.040***	-11.020***	-10.690***	0.461***	0.539***	-0.077***
	(0.425)	(0.410)	(0.387)	(0.009)	(0.009)	(0.019)
Firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
# Observations	222,005	222,014	222,007	222,109	222,109	222,109
R-squared	0.825	0.809	0.789	0.301	0.301	0.301

Table 2 Economic Policy Uncertainty and Corporate Political Contributions (Panel B)

This table reports the impact of economic policy uncertainty on PAC contributions. The dependent variables in columns (1) - (3) are the natural logarithm of the total corporate political contributions, contributions to Republicans, contributions to Democrats by each firm in each year, respectively. In columns (4) and (5), the dependent variable is the dollar contributions to Republicans and Democrats by each firm in each year scaled by total contributions, respectively. In Column (6), the dependent variable is the difference between dollar contributions to Republicans and Democrats by each firm in each year scaled by total contributions. The primary independent variable of interest is economic policy uncertainty news component developed by Baker et al. (2016). Control variables are defined in the Appendix. All firm control variables are winsorized at the 1% and 99% levels. The numbers in parentheses represent t-stat. *, **, and *** indicate significance at 10%, 5%, and 1%, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
EPU News	0.067**	0.062*	0.066**	0.002	-0.002	0.003
	(0.033)	(0.032)	(0.031)	(0.001)	(0.001)	(0.002)
lag_EPU News	0.276***	0.247***	0.212***	0.001	-0.001	0.002
	(0.043)	(0.043)	(0.042)	(0.001)	(0.00112)	(0.002)
Size	0.192***	0.186***	0.171***	0.002***	-0.001***	0.003***
	(0.016)	(0.015)	(0.014)	(0.000)	(0.000)	(0.001)
Leverage	-2.67e-06*	-2.41e-06*	-1.95e-06	-3.66e-08	3.66e-08	-7.32e-08
	(1.51e-06)	(1.33e-06)	(1.25e-06)	(2.37e-08)	(2.37e-08)	(4.74e-08)
M/B ratio	-1.80e-05	-2.06e-05	-8.18e-06	-8.00e-07**	8.00e-07**	-1.60e-06**
	(3.00e-05)	(2.87e-05)	(2.77e-05)	(3.67e-07)	(3.67e-07)	(7.34e-07)
ROA	4.45e-05*	3.94e-05*	3.59e-05*	3.10e-07	-3.10e-07	6.19e-07
	(2.36e-05)	(2.18e-05)	(1.91e-05)	(3.57e-07)	(3.57e-07)	(7.14e-07)
R&D Intensity	-2.94e-05	-3.15e-05	-3.06e-05	-1.55e-07	1.55e-07	-3.10e-07
	(5.46e-05)	(5.27e-05)	(4.57e-05)	(7.40e-07)	(7.40e-07)	(1.48e-06)
Tangibility	-3.40e-05*	-3.26e-05*	-2.88e-05**	-2.46e-07	2.46e-07	-4.92e-07
	(1.83e-05)	(1.75e-05)	(1.42e-05)	(2.23e-07)	(2.23e-07)	(4.45e-07)
Cash Flows	7.59e-05***	8.19e-05***	7.87e-05***	3.33e-07	-3.33e-07	6.65e-07
	(2.33e-05)	(2.37e-05)	(2.26e-05)	(3.30e-07)	(3.30e-07)	(6.61e-07)
Majority in House	0.132***	0.169***	0.038	0.010***	-0.010***	0.020***
	(0.026)	(0.026)	(0.024)	(0.001)	(0.001)	(0.002)
Majority in Senate	-0.013	0.0137	-0.092***	0.008***	-0.008***	0.015***
	(0.021)	(0.022)	(0.021)	(0.001)	(0.001)	(0.002)
Presidency	0.008	0.007	0.046**	-0.002***	0.002***	-0.004***
	(0.019)	(0.018)	(0.018)	(0.000)	(0.000)	(0.001)
Constant	-10.280***	-10.240***	-10.030***	0.481***	0.519***	-0.038**
	(0.366)	(0.352)	(0.335)	(0.008)	(0.008)	(0.017)
Firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
# Observations	222,005	222,014	222,007	222,109	222,109	222,109
R-squared	0.825	0.809	0.789	0.301	0.301	0.301

Table 3 Economic Policy Uncertainty and Corporate Political Contributions for Conservative, Liberal, and Politically Neutral Firms

This table reports the impact of economic policy uncertainty on PAC contributions for conservative, liberal, and politically neutral firms. The dependent variables in columns (1) - (3) are the natural logarithm of the total corporate political contributions, contributions to Republicans, contributions to Democrats by each firm in each year, respectively. In columns (4) and (5), the dependent variable is the dollar contributions to Republicans and Democrats by each firm in each year scaled by total contributions, respectively. In Column (6), the dependent variable is the difference between dollar contributions to Republicans and Democrats by each firm in each year scaled by total contributions. The primary independent variable of interest is economic policy uncertainty index developed by Baker et al. (2016). Control variables are defined in the Appendix. All firm control variables are winsorized at the 1% and 99% levels. The numbers in parentheses represent t-stat. *, **, and *** indicate significance at 10%, 5%, and 1%, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
EPU Index	0.005**	0.020	0.058***	0.004***	-0.004***	0.007***
	(0.017)	(0.016)	(0.016)	(0.001)	(0.001)	(0.001)
lag_EPU Index	0.157***	0.197***	0.025	0.012***	-0.012***	0.024***
	(0.031)	(0.030)	(0.031)	(0.001)	(0.001)	(0.003)
Conservative	3.435**	5.305***	-3.172**	0.562***	-0.562***	1.124***
	(1.694)	(1.677)	(1.519)	(0.041)	(0.041)	(0.082)
Liberal	0.247	9.286*	-2.833	0.531***	-0.531***	1.063***
	(5.988)	(4.945)	(5.785)	(0.142)	(0.142)	(0.284)
EPU Index*Conservative	0.358	0.013	0.956***	-0.045***	0.045***	-0.091***
	(0.233)	(0.237)	(0.231)	(0.011)	(0.011)	(0.023)
EPU Index*Liberal	-0.587	-2.055**	-0.371	-0.061*	0.061*	-0.121*
	(1.013)	(0.852)	(0.983)	(0.031)	(0.031)	(0.062)
Lag_EPU Index*Conservative	1.548***	1.344***	1.894***	-0.054***	0.054***	-0.108***
	(0.283)	(0.291)	(0.268)	(0.010)	(0.010)	(0.021)
Lag_EPU Index*Liberal	2.071**	1.061	2.378***	-0.072**	0.072**	-0.144**
	(0.926)	(0.850)	(0.917)	(0.032)	(0.032)	(0.064)
Size	0.129***	0.125***	0.127***	0.000***	-0.000***	0.001***
	(0.007)	(0.007)	(0.007)	(0.000)	(0.000)	(0.000)
Leverage	-4.68e-07	6.67e-08	-4.12e-08	-1.26e-08	1.26e-08	-2.51e-08
	(8.79e-07)	(6.17e-07)	(8.21e-07)	(3.11e-08)	(3.11e-08)	(6.22e-08)
M/B ratio	1.03e-05	1.08e-05	1.37e-05	-2.13e-07	2.13e-07	-4.26e-07
	(1.53e-05)	(1.44e-05)	(1.63e-05)	(2.71e-07)	(2.71e-07)	(5.41e-07)
ROA	6.95e-06	-3.61e-07	2.50e-06	-5.55e-08	5.55e-08	-1.11e-07
	(1.33e-05)	(1.05e-05)	(1.19e-05)	(3.92e-07)	(3.92e-07)	(7.84e-07)
R&D Intensity	-1.78e-05	-2.52e-05	-1.39e-05	-1.34e-06*	1.34e-06*	-2.68e-06*
	(2.40e-05)	(2.10e-05)	(2.11e-05)	(7.88e-07)	(7.88e-07)	(1.58e-06)
Tangibility	-2.25e-05*	-2.08e-05*	-1.99e-05**	-1.51e-07	1.51e-07	-3.01e-07
	(1.15e-05)	(1.07e-05)	(9.15e-06)	(1.60e-07)	(1.60e-07)	(3.20e-07)
Cash Flows	0.000***	0.000114***	0.000109***	1.03e-06	-1.03e-06	2.05e-06
	(2.27e-05)	(2.37e-05)	(2.25e-05)	(7.03e-07)	(7.03e-07)	(1.41e-06)
Majority in House	0.094***	0.118***	0.018	0.006***	-0.007***	0.013***
	(0.023)	(0.023)	(0.022)	(0.001)	(0.001)	(0.002)
Majority in Senate	0.061***	0.086***	-0.027	0.008***	-0.008***	0.016***
	(0.021)	(0.021)	(0.021)	(0.001)	(0.001)	(0.002)
Presidency	0.016	0.018	0.047***	-0.001***	0.001***	-0.002***
	(0.0154)	(0.015)	(0.015)	(0.000)	(0.000)	(0.001)
Constant	-10.610***	-10.890***	-9.601***	0.416***	0.584***	-0.169***
	(0.214)	(0.206)	(0.205)	(0.006)	(0.006)	(0.012)
Firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
# Observations	222,005	222,014	222,007	222,109	222,109	222,109

Table 4 Economic Policy Uncertainty and Corporate Political Contributions: Presidency and Majority in Congress

This table reports the impact of economic policy uncertainty on PAC contributions during republican presidency along with majority in Congress and democratic presidency along with majority in Congress. The dependent variables in columns (1) - (3) are the natural logarithm of the total corporate political contributions, contributions to Republicans, contributions to Democrats by each firm in each year, respectively. In columns (4) and (5), the dependent variable is the dollar contributions to Republicans and Democrats by each firm in each year scaled by total contributions, respectively. In Column (6), the dependent variable is the difference between dollar contributions to Republicans and Democrats by each firm in each year scaled by total contributions. The primary independent variable of interest is economic policy uncertainty index developed by Baker et al. (2016). Control variables are defined in the Appendix. All firm control variables are winsorized at the 1% and 99% levels. The numbers in parentheses represent t-stat. *, **, and *** indicate significance at 10%, 5%, and 1%, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
EPU Index	0.079***	0.032	0.170***	-0.008***	0.008***	-0.015***
	(0.029)	(0.029)	(0.029)	(0.001)	(0.001)	(0.002)
lag_EPU Index	0.156***	0.166***	0.104***	0.003***	-0.003***	0.006***
	(0.029)	(0.029)	(0.029)	(0.001)	(0.001)	(0.002)
Size	0.195***	0.189***	0.168***	0.002***	-0.002***	0.003***
	(0.006)	(0.006)	(0.006)	(0.000)	(0.001)	(0.000)
Leverage	-2.14e-06*	-1.85e-06*	-1.72e-06*	-1.10e-08	1.10e-08	-2.21e-08
	(1.24e-06)	(1.08e-06)	(1.03e-06)	(2.16e-08)	(2.16e-08)	(4.32e-08)
M/B ratio	-2.45e-05	-2.49e-05	-1.74e-05	-5.15e-07**	5.15e-07**	-1.03e-06**
	(2.90e-05)	(2.75e-05)	(2.52e-05)	(2.05e-07)	(2.05e-07)	(4.11e-07)
ROA	4.16e-05**	3.71e-05**	3.34e-05**	2.76e-07	-2.76e-07	5.52e-07
	(1.70e-05)	(1.53e-05)	(1.37e-05)	(2.94e-07)	(2.94e-07)	(5.88e-07)
R&D Intensity	-5.50e-05	-5.52e-05	-5.38e-05	-2.99e-07	2.99e-07	-5.99e-07
	(5.50e-05)	(5.28e-05)	(4.70e-05)	(6.51e-07)	(6.51e-07)	(1.30e-06)
Tangibility	-3.52e-05**	-3.37e-05**	-2.97e-05***	-2.07e-07	2.07e-07	-4.14e-07
	(1.40e-05)	(1.33e-05)	(1.05e-05)	(1.76e-07)	(1.76e-07)	(3.53e-07)
Cash Flows	7.93e-05***	8.49e-05***	8.17e-05***	1.43e-07	-1.43e-07	2.85e-07
	(1.38e-05)	(1.35e-05)	(1.37e-05)	(2.57e-07)	(2.57e-07)	(5.14e-07)
Republican	1.941***	1.828***	2.185***	0.005	-0.005	0.009
	(0.260)	(0.259)	(0.255)	(0.009)	(0.009)	(0.017)
Democratic	-1.770***	-1.345***	-1.373***	-0.020	0.020	-0.041
	(0.377)	(0.376)	(0.377)	(0.013)	(0.013)	(0.026)
EPU Index*Republican	-0.398***	-0.371***	-0.458***	-0.000	0.000	-0.000
	(0.056)	(0.056)	(0.055)	(0.002)	(0.002)	(0.004)
EPU Index*Democratic	0.368***	0.270***	0.300***	0.002	-0.002	0.004
	(0.078)	(0.077)	(0.078)	(0.003)	(0.003)	(0.005)
Constant	-9.746***	-9.647***	-10.040***	0.523***	0.477***	0.046***
	(0.133)	(0.132)	(0.132)	(0.004)	(0.004)	(0.009)
Firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	244,090	244,103	244,093	244,206	244,206	244,206
R-squared	0.824	0.809	0.788	0.289	0.289	0.289

Table 5 Economic Value of PAC Contributions

This table reports the economic value of PAC Contributions. The results in Columns (1) and (2) indicate how political contributions mitigate the adverse effects of economic policy uncertainty on firm performance. Firm performance is measured by Return on Assets (profitability) at end of t+1 year. Firm controls include size, leverage, and investment. Following Gulen and Ion (2016), additional controls are also included. Log_gpd is the natural logarithm of the annual real U.S. GDP. HHI Index is the Herfindahl index of industry concentration computed with sales. All firm control variables are winsorized at the 1% and 99% levels. The numbers in parentheses represent t-stat. *, **, and *** indicate significance at 10%, 5%, and 1%, respectively.

	(1)	(2)
Contribution dummy	2.807**	
	(1.282)	
EPU Index	-0.807**	-0.516*
	(0.389)	(0.274)
EPU Index*Contribution	0.608**	
	(0.276)	
Size	0.272***	0.272***
	(0.093)	(0.093)
Leverage	-0.033	-0.033
	(0.032)	(0.032)
Tangibility	-2.667*	-2.667*
	(1.513)	(1.513)
Majority in Senate	-0.064	-0.064
	(0.203)	(0.203)
Majority in House	-0.345	-0.345
	(0.257)	(0.257)
Presidency	-0.055	-0.055
	(0.122)	(0.122)
log_gdp	-0.745**	-0.745**
	(0.311)	(0.311)
HHI Index	0.408	0.408
	(0.424)	(0.424)
Total Contributions ($)		0.146
		(0.067)
EPU Index*Total Contributions ($)		0.032**
		(0.014)
Constant	24.850***	23.500***
	(8.640)	(8.635)
# Observations	218,565	218,484
R-squared	0.861	0.861

Table 6 Robustness Check

This table reports the impact of EPU on PAC contributions for robustness check. The dependent variables in columns (1) - (3) are the natural logarithm of the total corporate political contributions, contributions to Republicans, contributions to Democrats by each firm in each year, respectively. In columns (4) and (5), the dependent variable is the dollar contributions to Republicans and Democrats by each firm in each year scaled by total contributions, respectively. In Column (6), the dependent variable is the difference between dollar contributions to Republicans and Democrats by each firm in each year scaled by total contributions. The primary independent variable of interest is economic policy uncertainty index developed by Baker et al. (2016). GDP Growth and Inflation are used as additional controls. Control variables are defined in the Appendix. All firm control variables are winsorized at the 1% and 99% levels. The numbers in parentheses represent t-stat. *, **, and *** indicate significance at 10%, 5%, and 1%, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
EPU Index	0.181***	0.157***	0.179***	0.002	-0.002	0.003
	(0.044)	(0.042)	(0.041)	(0.001)	(0.001)	(0.002)
Size	0.190***	0.184***	0.169***	0.001***	-0.001***	0.003***
	(0.016)	(0.015)	(0.014)	(0.000)	(0.000)	(0.001)
Leverage	-2.79e-06*	-2.51e-06*	-2.06e-06	-3.64e-08	3.64e-08	-7.28e-08
	(1.53e-06)	(1.34e-06)	(1.26e-06)	(2.37e-08)	(2.37e-08)	(4.73e-08)
M/B ratio	-2.25e-05	-2.46e-05	-1.14e-05	-8.21e-07**	8.21e-07**	-1.64e-06**
	(3.18e-05)	(3.04e-05)	(2.95e-05)	(3.89e-07)	(3.89e-07)	(7.79e-07)
ROA	4.25e-05*	3.78e-05*	3.46e-05*	3.06e-07	-3.06e-07	6.12e-07
	(2.42e-05)	(2.22e-05)	(1.95e-05)	(3.56e-07)	(3.56e-07)	(7.12e-07)
R&D Intensity	-3.24e-05	-3.45e-05	-3.46e-05	-1.94e-07	1.94e-07	-3.88e-07
	(5.34e-05)	(5.12e-05)	(4.40e-05)	(6.96e-07)	(6.96e-07)	(1.39e-06)
Tangibility	-3.33e-05*	-3.20e-05*	-2.84e-05*	-2.41e-07	2.41e-07	-4.82e-07
	(1.86e-05)	(1.78e-05)	(1.45e-05)	(2.24e-07)	(2.24e-07)	(4.47e-07)
Cash Flows	7.65e-05***	8.24e-05***	7.91e-05***	3.31e-07	-3.31e-07	6.63e-07
	(2.34e-05)	(2.38e-05)	(2.27e-05)	(3.31e-07)	(3.31e-07)	(6.62e-07)
Majority in House	0.114***	0.146***	0.026	0.009***	-0.009***	0.018***
	(0.024)	(0.023)	(0.023)	(0.001)	(0.001)	(0.003)
Majority in Senate	-0.019	0.002	-0.104***	0.008***	-0.008***	0.015***
	(0.019)	(0.019)	(0.020)	(0.001)	(0.001)	(0.002)
Presidency	0.046***	0.041**	0.072***	-0.002***	0.002***	-0.004***
	(0.017)	(0.017)	(0.016)	(0.000)	(0.000)	(0.001)
Inflation	-0.042***	-0.047***	-0.039***	-0.001***	0.001***	-0.002***
	(0.011)	(0.010)	(0.011)	(0.000)	(0.001)	(0.001)
GDP Growth	-0.021***	-0.016***	-0.008	-3.93e-05	3.93e-05	-7.86e-05
	(0.005)	(0.005)	(0.005)	(0.000)	(0.000)	(0.000)
Constant	-9.363***	-9.359***	-9.445***	0.488***	0.512***	-0.023**
	(0.241)	(0.233)	(0.225)	(0.006)	(0.006)	(0.012)
Firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
# Observations	222,005	222,014	222,007	222,109	222,109	222,109
R-squared	0.825	0.809	0.789	0.301	0.301	0.301

APPENDICES

Appendix Table A: Variable Description

VARIABLES	DESCRIPTION
EPU Index	Log of Annual average of Aggregate Overall EPU Index by Baker, Bloom, and Davis (2016)
EPU News	Log of Annual average of News based EPU Index by Baker, Bloom, and Davis (2016)
Size	Log(Market value of Equity)
Leverage	Debt in current liabilities plus long-term debt divided by assets
Market to Book Ratio	Market value of equity divided by book value of equity
Return on Assets	Ratio of operating income before depreciation to the book value of a firm's total assets
R&D Intensity	R&D scaled by lagged total assets; Following prior literature, 0 for missing values.
Tangibility	PPENT scaled by lagged total assets.
Cash Flows	Cash Flows scaled by lagged total assets.
Total $	Log of Total dollar amount of Contributions to both parties during an year
Difference ($)	(Cont to Republicans- Cont to Democrats)/Total Contributions
Rep $	Log of total contributions to Republicans
Dem $	Log of total contributions to Democrats
Rep$/Total$	Cont to Republicans/Total Contributions
Dem$/Total$	Cont to Democrats/Total Contributions
Cons Score/Index	[(No. of cont to Rep/Total no. of Cont)+(Total $ amount to Rep)/(Total $ amount Cont)+(Number of years the firm made contributions to Republicans /number of years contributions were made to either party)+(Number of distinct Republican recipients to which the firm made contributions /total number of distinct recipients of both parties)]/4
Republican	It is a binary variable that equals one if Republicans occupy presidential office and also have majority in Congress (i.e., Republicans have majority in both chambers of Congress- House of Representatives and Senate) and zero otherwise.
Democratic	It is a binary variable that equals one if Democrats occupy presidential office and also have majority in Congress (i.e., Democrats have majority in both chambers of Congress- House of Representatives and Senate) and zero otherwise.
Majority in House	Binary variable equals one if Republican majority in House and zero otherwise.
Majority in Senate	Binary variable equals one if Republican majority in Senate and zero otherwise.
Presidency	Binary variable equals one if Republican Presidency and zero otherwise.
GDP Growth	GDP growth (annual %) retrieved from WDI Indicators of World Bank
Inflation	Inflation, GDP deflator (annual %) retrieved from WDI Indicators of World Bank
Contribution	It is a binary variable that equals one if i firm makes PAC donations in year t and zero therwise.

Appendix Table B: Sample firms and their Contributions by year

Columns 1, 2, and 3 report the number of firms, the number of contributing firms, and the proportion of firms that contribute in a given year. Columns 4, 5, and 6 report the dollar amount, mean, and median annual total contributions of contributing firms in a given year.

	(1)	(2)	(3)	(4)	(5)	(6)
Year	Total firms	Contributing firms	% Contributing firms	Total Contributions	$ Contributions (Mean)	$ Contributions (Median)
1984-1985	8,190	790	9.65	12,428,560	15,732	5,500
1985-1986	8,483	924	10.89	29,065,275	31,456	12,550
1986-1987	8,791	815	9.27	14,709,251	18,048	5,500
1987-1988	9,138	929	10.17	34,284,500	36,905	13,900
1988-1989	9,290	816	8.78	17,631,680	21,607	6,200
1989-1990	9,369	914	9.76	33,315,078	36,450	12,175
1990-1991	9,411	815	8.66	18,720,964	22,971	6,750
1991-1992	9,793	923	9.43	41,600,721	45,071	16,700
1992-1993	10,295	801	7.78	17,616,453	21,993	7,000
1993-1994	10,979	915	8.33	41,631,749	45,499	15,500
1994-1995	11,639	821	7.05	21,423,130	26,094	9,600
1995-1996	12,094	934	7.72	45,672,205	48,900	16,910
1996-1997	12,486	816	6.54	21,709,419	26,605	9,500
1997-1998	12,579	894	7.11	42,372,513	47,397	17,500
1998-1999	12,412	807	6.50	27,028,966	33,493	11,500
1999-2000	12,525	884	7.06	50,433,620	57,052	19,000
2000-2001	12,402	795	6.41	28,542,100	35,902	11,000
2001-2002	11,977	850	7.10	55,680,642	65,507	22,094
2002-2003	11,487	793	6.90	33,972,083	42,840	16,000
2003-2004	11,261	884	7.85	60,757,937	68,731	22,750
2004-2005	11,059	813	7.35	40,309,070	49,581	16,200
2005-2006	10,937	850	7.77	66,302,414	78,003	25,500
2006-2007	10,913	795	7.28	48,781,479	61,360	22,500
2007-2008	10,944	838	7.66	72,955,698	87,059	31,000
2008-2009	10,920	765	7.01	48,641,043	63,583	22,400
2009-2010	10,825	825	7.62	76,561,446	92,802	33,500
2010-2011	10,764	767	7.13	51,552,544	67,213	23,500
2011-2012	11,176	803	7.19	80,820,446	100,648	38,500
2012-2013	11,749	721	6.14	56,907,490	78,929	25,700
2013-2014	11,897	758	6.37	83,448,586	110,090	42,000
2014-2015	11,797	718	6.09	58,633,340	81,662	29,100
2015-2016	11,616	722	6.22	82,640,165	114,460	45,750
2016-2017	11,435	648	5.67	59,637,225	92,033	31,950
2017-2018	11,347	682	6.01	78,869,731	115,645	41,750
2018-2019	11,265	610	5.42	55,654,879	91,238	29,750
2019-2020	11,235	579	5.15	48,577,748	83,899	30,500
Average	10,958	806	7.47	46,080,282	58,790	20,756

Appendix Table C: Top 10 and Bottom 10 industries with the contributions during the sample period

Panel A: Top 10 Industries with the highest contributions during the sample period (1984-2020)

48 FF-Code	Industry	Total Firms	Contributing firms	Total Contributions	% Contributing firms
31	Utilities	6,064	2,756	118,065,068	45.45
32	Communication	6,439	793	93,976,596	12.32
40	Transportation	5,279	1,005	92,803,554	19.04
13	Pharmaceutical products	9,230	792	82,630,421	8.58
44	Banking	17,815	1,739	77,104,380	9.76
45	Insurance	5,887	1,117	74,743,076	18.97
30	Petroleum and Natural Gas	9,554	942	72,207,614	9.86
47	Trading	33,038	2,027	69,689,907	6.14
24	Aircraft	826	293	66,841,185	35.47
36	Computer Software	10,219	672	60,166,034	6.58

Panel B: Bottom 10 Industries with the lowest contributions during the sample period (1984-2020)

48 FF-Code	Industry	Total Firms	Contributing firms	Total Contributions	% Contributing firms
48	Others	928	76	3,586,171	8.19
6	Recreation	1,766	82	3,394,034	4.64
27	Precious Metals	2,745	134	3,041,555	4.88
37	Electronic Equipment	3,656	121	2,906,028	3.31
10	Apparel	2,090	85	1,493,741	4.07
15	Rubber and Plastic products	1,495	80	1,171,817	5.35
46	Real Estate	2,264	81	1,131,793	3.58
1	Agriculture	689	17	1,026,053	2.47
16	Textiles	1,016	64	1,016,761	6.30
20	Fabricated products	638	46	493,591	7.21

Appendix Table D: Contributions for all FF-48 Industries during the sample period

Industry	48 FF-Code	Total Firms	Total Contributions	Contributing firms	% Contributing firms
Agriculture	1	689	1,026,053	17	2.47
Recreation	6	1,766	3,392,534	82	4.64
Apparel	10	2,090	1,493,741	85	4.07
Rubber and Plastic products	15	1,495	1,171,317	80	5.35
Textiles	16	1,016	1,016,261	64	6.30
Construction	18	2,483	4,553,687	192	7.73
Steel Works	19	2,640	14,934,814	502	19.02
Fabricated Products	20	638	493,591	46	7.21
Electrical Equipment	22	5,138	8,529,880	157	3.06
Aircraft	24	826	66,837,185	293	35.47
Precious Metals	27	2,745	3,041,155	134	4.88
Coal	29	469	8,747,701	182	38.81
Petroleum and Natural Gas	30	9,554	72,203,114	942	9.86
Communication	32	6,439	93,969,068	793	12.32
Personal Services	33	2,352	6,278,356	256	10.88
Computers	35	6,326	16,982,193	386	6.10
Computer Software	36	10,219	60,166,034	672	6.58
Electronic Equipment	37	3,656	2,906,028	121	3.31
Measuring and Control Equipment	38	1,887	14,140,574	240	12.72
Business Supplies	39	706	4,732,072	154	21.81
Transportation	40	5,279	92,802,554	1005	19.04
Retail	42	9,127	54,515,072	771	8.45
Banking	44	17,815	77,085,200	1739	9.76
Trading	47	33,038	69,682,047	2027	6.14
Food Products	2	3,386	30,207,716	519	15.33
Candy and Soda	3	600	11,860,586	157	26.17
Beer and Liquor	4	743	12,760,157	167	22.48
Tobacco Products	5	313	18,127,898	110	35.14
Entertainment	7	2,859	8,165,034	185	6.47
Printing and Publishing	8	1,954	4,209,599	95	4.86
Consumer Goods	9	3,292	18,054,790	431	13.09
Healthcare	11	4,118	23,675,819	633	15.37
Medical Equipment	12	5,867	14,985,812	427	7.28
Pharmaceutical products	13	9,230	82,628,021	792	8.58
Chemicals	14	3,501	22,338,708	699	19.97
Construction Materials	17	3,781	10,804,820	381	10.08
Machinery	21	5,836	43,428,837	562	9.63
Automobiles and Trucks	23	2,568	42,356,715	508	19.78
Ship Building and Railroad Equipment	25	320	12,391,789	95	29.69
Defense	26	333	23,698,958	99	29.73
Mining	28	1,669	7,450,447	201	12.04
Utilities	31	6,064	118,060,643	2756	45.45
Business Services	34	24,255	53,964,945	1231	5.08
Wholesale	41	7,904	22,805,923	401	5.07
Restaurants, Hotels, and Motels	43	4,216	20,911,668	399	9.46
Insurance	45	5,887	74,730,576	1117	18.97
Real Estate	46	2,264	1,131,793	81	3.58
Others	48	928	3,583,871	76	8.19

CHAPTER 2

Political Contributions and REIT Value Mechanism

Abstract

I examine the mechanism behind the impact of political contributions by Real Estate Investment Trusts (REITs) on firm value. I find that REITs that politically contribute have better operational performance in the following year. Contributing REITs experience lower systematic and idiosyncratic risks in the following year. I also find that REITs with a large pipeline of properties under development contribute more to political candidates through the National Association of Real Estate Investment Trusts Inc. Political Action Committee (NAREIT PAC). In addition, contributing REITs with a large pipeline of undeveloped properties experience higher fund flow from operations (FFOs) and lower risk in the following year.

Keywords: Politics, Political PAC Contributions, REITs, Democrat-leaning, Operational performance, risk.

1. Introduction

Research on business and politics has primarily developed along disciplinary lines. The focus of the research by political scientists is on the impact of political contribution on the probability of a candidate's winning or vote share (Jacobson, 1978; Coate, 2004a, b)) or the role of campaign contributions in the policy-making process. Economists are interested in the rent-seeking behavior of firms in a competitive market and its impact on the efficiency of firms and the economy (Grossman and Helpman, 2001; Faccio, 2006; Duchin and Sosyura, 2012). The accounting literature primarily focuses on corporate governance, agency issues, and contracting issues in juxtaposition with political connections (Aslan and Grinstein, 2011; Gupta and Adam, 2017). Financial economists are interested in firm value as the end result of political contributions and other political connections (Acker, Orujov, and Simpson, 2018; Aggarwal, Meschke, and Wang, 2012; Cooper, Gulen, and Ovtchinnikov, 2010; Coulomb and Sangnier, 2014; Fowler, Garro and Spenkuch, 2019; Piotroski and Zhang, 2014).

Despite ample literature supporting the value relevance of these political strategies, there is not enough direct evidence on how these strategies add value from a discounted cash flow valuation framework. Kim et al. (2019) examine how corporate political strategies affect the firm's systematic risk and enhance the value relevance of the firm's real options. Deng et al. (2021) examine how the political leanings of Real Estate Investment Trusts (REIT) CEOs affect business decisions. However, the importance of REIT political contributions has not been explicitly addressed in the prior literature. I fill this gap by examining the mechanism behind the impact of REIT political contributions on firm value. To accomplish this, I decompose value into the discount rate and fund flow from operations (the equivalent of cash flows for REITs). I then examine the impact of contributions on both components separately. The discount rate is directly

proportional to the systematic risk or the CAPM beta of a REIT. Therefore, I examine the impact of contribution on the discount rate by examining the impact on systematic risk. I find that following political contributions, a REIT's systematic risk (as well as unsystematic risk) decreases. In addition, the fund flow from operations (FFOs) also increases following political contributions by REITs. Therefore, political contributions (a) decrease systematic risk and thus the equity discount rate and (b) increase fund flow from operations, and, therefore, have a positive impact on firm value.

This study aims to investigate the political contributions of publicly traded equity REITs and the channels through which connections can affect REIT value. Unlike the previous literature on political contributions that ignore finance and related industries, this study focuses on political contributions by REITs due to several reasons. First, REITs were created in 1960 by Congress to allow all investors to invest in large-scale, professionally managed portfolios of income-producing real estate. Since their introduction, the number of REITs has grown from 34 in 1971 to more than 200 by the end of 2020, and REITs have become a trillion-dollar part of the U.S. equity market. Beginning on August 31, 2016, real estate was assigned to a new Global Industry Classification Standard (GICS) (NAREIT 2016). This has further increased interest and, therefore, demand for this asset class from managers looking to diversify their portfolios. Second, prior literature suggests that REITs are influenced by the political environment (Ramchander, Simpson, and Webb, 2009). This influence could be attributed to the concern about changes to the tax code or other legislative issues affecting the REIT industry. Also, they find that the Republican presidency offers higher excess returns under an expansionary monetary policy.

A recent study by Deng et al. (2021) examines the REIT CEO contributions to both political parties and finds that the total amount of CEO contribution to Democrats dramatically increased

in the 2008 and 2010 election cycles. They also show a noticeable shift in REIT CEO contributions following the Citizen's United decision by the U.S. Supreme Court. Their findings also suggest that more REITs chose to locate their headquarters in Democratic states after 2000. They define a state as Democratic if the Democratic candidate wins at the state level for the presidential election in a given election year. Gimpel, Lee, and Parrott (2014) analyze U.S. campaign contributions for different industries and find a wide variation in how economic sectors relate to the political parties. Therefore, it is important to understand the effects of the political economy and its impact on REITs.

The real estate industry has become a significant source of campaign contributions to politicians.[5] Based on the data available from the Center for Responsive Politics, REITs make political contributions through the National Association of Real Estate Investment Trusts Inc. Political Action Committee (NAREIT PAC). REITs are typically classified as small- to mid-cap stocks. Given their size, they might find it advantageous to politically represent themselves as an industry rather than as individual firms. As a result, they tend to funnel their contributions to the NAREIT PAC. NAREIT PAC further channels the aggregate contributions from individual REITs to the political candidates and parties. It donates to a mix of Democratic and Republican politicians, many of whom are in positions to influence legislation on issues affecting the REIT industry. In other words, the NAREIT PAC contributes to House and Senate politicians, collectively known as the Congress.[6] The contributions could be attributed to the concern about changes to the tax code or other legislation-related issues affecting REITs.

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[5] https://www.opensecrets.org/industries/totals.php?cycle=2022&ind=F10

[6] NAREIT PAC does not contribute to the Presidential candidates. During our sample period, there is only one Presidential contribution.

The above arguments suggest that REITs use political contributions to establish connections with politicians. I use Federal Election Commission political contributions data to extract and examine the political contributions of publicly traded equity Real Estate Investment Trusts (REITs). I find that, on average, the number of donations made per cycle to the House Republicans is higher than that made to the House Democrats. But the total dollar amount per cycle, on average, made to House Democrats is higher than that to House Republicans. The latter contrasts with the historical trend in other industries wherein the contributions to Republicans have been outsizing that of the Democrats. For the Senate, I observe no significant difference in the number of contributions or the total dollar amount of contributions made to Republicans and Democrats. The insignificant difference for the Senate is consistent with the Cooper et al. (2010) argument that firms may find it more beneficial to support House candidates, as constitutional provisions specify that revenue-generating legislation and appropriation bills must be initiated in the House. Also, REITs are specifically interested in local politics due to location-specific political benefits. I break down the contributions to House and Senate candidates based on the majority in the respective chamber. I also examine political contributions to political action committees (PACs) by the NAREIT PAC and find that it contributes more per cycle to Democratic PACs compared to the Republican PACs. I find that REITs chose a majority of their properties in Democrat-senator-controlled states.

Some REITs hold land for future development. This land holding leads to costs in the form of taxes and missed opportunities. The regulatory risk for REITs can be from a local or a national level. For example, the local city council may object to developing that land for its financially optimal use. On the other hand, new regulations regarding new building codes can affect new developments at both the local and national levels, increasing the risk of future cash flows. I find

that REITs with a large pipeline of properties under development donate more to the NAREIT PAC, both in terms of number and dollar amounts of donations. I also find that the NAREIT PAC contributes to candidates in states where the REITs have a large number of properties under development. This could imply that the indirect contribution from the NAREIT PAC is made on behalf of the REIT that has properties under development in that state. These results apply to both House and Senate candidates from both parties. Political contributions by REITs seem to partially mitigate the negative impact of regulations on real estate developments by REITs. This mitigation is evident from increased cash flows (in the form of better FFO) for REITs which could result from the conversion of land to developed properties yielding positive cash flows. I also find that a contributing REIT having a large pipeline of properties under development can partially alleviate its systematic and idiosyncratic risks in the following year.

The remainder of the essay is organized as follows: Section 2 discusses the recent literature and offers my hypotheses. Section 3 describes the sample and data. Section 4 presents the empirical results, and Section 5 concludes.

2. Literature Review and Motivation

A firm can have different kinds of connections with politicians, ranging from active connections like campaign contributions or lobbying to passive ties such as common voting districts. Politicians, once elected, have the power to influence public policy. Therefore, firms have the incentive to identify the politicians with aligned interests so that they can build a network with them to earn their favor. These networks can increase the value of a firm through various channels. One, the firm could get a grant or a favorable roll-call vote for some legislation or other favors. Two, political connections might provide an informational advantage to the contributing firms. For example, Wellman (2017) documents that politically connected firms have differential access

to information throughout the legislative process. The reduced information asymmetry mitigates the adverse effects of political uncertainty on investment. Overall, political participation could positively impact the firm's value. Firms use political contributions strategically given their economic interest. Thus, political contributions should be treated as an investment in political capital (Ovtchinnikov and Pantaleoni, 2012).

In the United States, political contribution represents a significant proportion of political finance. Extant literature identifies the substantial impact of political contribution on firm value. Cooper et al. (2010) find that firm contribution affects the firm's stock returns and future profitability. They use firm-level Political Action Committee (PAC) donations from 1976 to 2004. They then estimate a panel regression of annual abnormal stock returns on the number of supported candidates and other controls. They provide evidence of a significant positive relationship between the number of supported candidates and the contributing firm's future abnormal stock returns. Further, in their analysis, they establish that the results are stronger for Democrats than for Republicans. Sabherwal, Sarkar, and Uddin (2017) substantiate the positive relationship between political contribution and stock returns for "sin" stocks.[7] Their results hold for the whole sample of contributions and separately for House and Senate contributions. They further analyze the pattern of contributions by the "sin" firms to Republicans and Democrats. They find that the Republican party receives more contributions than the Democratic party, irrespective of whether they are in power.

The literature on the value relevance of political connections has focused on why firms incorporate various political strategies. One stream of literature supports the quid pro quo hypothesis. This hypothesis suggests firms benefit from political connections through increased

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[7] Sin sector refers to firms in the business of tobacco, alcohol, and gaming.

political rent-seeking behavior. Akey and Lewellen, 2017; Cooper, Gulen, and Ovtchinnikov, 2010; Do, Lee, and Nguyen, 2013; Faccio, 2006; Faccio and Parsley, 2009; Ferguson and Voth, 2008; Goldman, Rocholl, and So, 2009; and Jayachandran, 2006 find that political connections established through contributions are economically valuable to firms. Another stream of literature suggests that political connections can be associated with other benefits such as government bailouts (Faccio, Masulis, and McConnel, 2006), increased credit availability (Classens, Feijen, and Laeven, 2008), reduced cost of equity (Boubakri, Omrane, Dev, and Walid, 2012), reduced cost of bank loans (Houston, Jiang, Lin, and Ma, 2014), and access to public debt (Bliss and Gul, 2012), etc. Overall, these studies suggest the value relevance of political connections through different corporate political strategies because firms are affected by government policy.

On the contrary, some studies suggest that these PAC contributions either negatively impact or are insignificant to firm value. Taking a contrarian stance to the short-term view of some event studies, Aggarwal, Meschke, and Wang (2012) consider the long-term view and test the investment *versus* agency hypothesis. The study results strongly support the agency problem hypothesis where managers use the firm's dollars to promote their agenda, not the firm's. This behavior destroys shareholder value. Johnson (1983) examines the effectiveness of 1977-78 Real Estate Political Action Committee (REPAC) contributions in influencing voting patterns on real estate legislation. The results suggest that REPAC was only minimally successful in influencing favorable real estate legislation. Chen et al. (2017) find an inverted U-shape relationship between political connections and firm value. Initially, at a lower level of political connections, the firm value increases as the number of connections increases, but the firm value decreases at a higher level of political connections. Other studies (Chaney, Faccio, and Parsley, 2011; Kim and Zhang, 2016) show that political connections can be associated with riskier corporate behavior.

Overall, the extant literature on the value relevance of political connections has still not provided exhaustive evidence regarding how political contributions add value to REITs. Since the value addition due to political contributions can either enhance future growth opportunities or reduce the risk, or both, I examine these possibilities. Deng et al. (2021) show that political connections, established through CEO donations, have various implications based on the political preference of REIT's CEO. They find that REITs with Democratic-leaning CEOs tend to involve more risk and invest less. They also find that REITs with Democratic-leaning CEOs are more active in ESG activities. In this study, I analyze how contributing REITs have an advantage compared to non-contributing REITs. I intend to contribute to the literature by providing evidence that helps reveal specific channels through which political connections are expected to affect REIT valuation.

If political contributions add value, they may either reduce the cost of capital (risk hypothesis), increase future cash flows (growth opportunity hypothesis), or both. The value of a firm can be assessed based on its future cash flows and risk (Myers, 1977; Kraft, Schwartz, and Weiss, 2018). For REITs, political contributions might help lower the regulation risk at both local and national levels. REIT risk can be decomposed into systematic and unsystematic risk. And when regulation risk goes down, real estate development increases. It increases growth opportunities. For REITs, fund flow from operations is equivalent to cash flows. Therefore, the two testable hypotheses are as follows:

H_1: Risk hypothesis -- Politically connected REITs experience a decrease in both systematic and unsystematic (idiosyncratic) risk in the following year.

H_2: Growth opportunity hypothesis -- Politically connected REITs experience an increase in FFO in the following year.

Real estate development is a source of risk for REITs. Therefore, I study whether REITs donate more when they have a large pipeline of properties under development. This argument is reasonable because of the local nature of the real estate industry. The real estate industry gets affected by various legislative bills and approvals at the local level. For example, every development is subject to planning permission from local authorities. There is always uncertainty surrounding the acceptance of real estate development applications. In other words, the local authorities can reject or delay the application. Such delays directly impact the cash flows of REITs. Therefore, I examine if there is any association between contributions by REITs to NAREIT PAC and their properties under development.

If REITs with a large pipeline of properties under development donate more to political causes, there might be growth opportunities or/and risk implications of these political contributions. A large pipeline of properties under development results in higher uncertainty. These undeveloped properties do not generate any cash flows. Moreover, properties under development result in cash outflows (e.g., paying property taxes, etc.). There are also opportunity costs that arise from undeveloped properties that could be detrimental to shareholder value. A large pipeline of undeveloped properties means higher systematic as well as idiosyncratic risks for REITs as they might not get developed. So, it raises a natural question. If political contributions add value, then contributing REITs having a large pipeline of undeveloped properties might be able to generate better FFOs and at least partially mitigate systematic as well as unsystematic risk in the following year. Therefore, the third testable hypothesis is as follows:

H$_3$: Politically connected REITs having a large pipeline of undeveloped properties experience a decrease in both systematic and unsystematic (idiosyncratic) risk and an increase in fund flows from operations in the following year.

3. Data

This study uses a panel of publicly traded U.S. equity REITs from 2001 to 2020.[8] I restrict the sample to REITs listed on the NYSE, Nasdaq, or Amex, with non-missing values on CRSP and Compustat. I collect data on political contributions to the candidates and the political action committees (PACs) during Congressional elections from the Federal Election Commission (FEC) files.

In figure 1, I show how REITs channelize their political contributions. REITs make their political contributions through direct as well as indirect channels. REITs directly contribute to political campaigns in two ways. First, REITs directly contribute to the political party and candidate PACs through their established independent PACs.[9] Second, REIT CEOs and other employees contribute directly to political candidates and party PACs.

Along with these direct channels, REITs use an indirect channel to donate to political PACs through the NAREIT PAC. First, REITs donate to the NAREIT PAC. Both REIT PACs and REIT employees (including the CEO) contribute to the NAREIT PAC. Then, the NAREIT PAC further channels the aggregate contributions from individual REIT PACs and employees to the political candidate and party PACs. This way, REITs indirectly contribute to political candidates and parties through the NAREIT PAC. In this study, I focus on the indirect channel. REIT contributions through the NAREIT PAC (indirect channel) account for almost four times the contributions made by REIT CEOs and REIT PACs (direct channel).

I first gather the political donations made by the National Association of Real Estate Investment Trusts' Political Action Committee (NAREIT PAC) from the Center for Responsive

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[8] The results are robust to the exclusion of the 2020 cycle (as it includes the pandemic year).
[9] During the sample period, only 16 REITs make political donations through their established individual PACs.

Politics (CRP OpenSecrets). NAREIT establishes a NAREIT PAC to provide financial support to political candidates supportive of the REIT and publicly traded real estate industry. The NAREIT PAC contributes to individual candidates and various political party PACs.[10] The political contributions dataset includes the candidate's name/PAC's name, party affiliation, state, election cycle, and the dollar contribution amount, among other things. I focus on donations that go to either the Republican or Democratic parties. My sample for NAREIT PAC contributions extends from 2000 to 2020.[11]

I then proceed to identify the individual political contributions to the NAREIT PAC from the FEC files. The Committee ID for NAREIT PAC is 'C00303339'. The political contributions dataset includes the name of the contributor/PAC's name, state, employer (company name), occupation, transaction date, transaction amount, and cycle. I manually match the names of REITs in FEC records with CRSP and Compustat. In my sample, there are 86 REITs that contribute to the NAREIT PAC. REIT employees, as well as established independent REIT PACs, donate to the NAREIT PAC. The sample period extends from 2001 to 2020. There are 134 REITs in my sample, including 48 non-contributing REITs.

I obtain fundamental information about REITs from Compustat to analyze the relationship between REIT contributions and performance. Operational performance is measured as FFO scaled by total assets. I retrieve returns data from the Center for Research in Security Prices (CRSP) to analyze the relationship between REIT contributions and risk. Beta is the systematic risk computed from the market model using monthly returns over a year. Volatility is measured as the yearly standard deviation of the stock return for a particular REIT.

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[10] The donations by NAREIT PAC go to either House or Senate candidates with the exception of one donation to a Presidential candidate during the whole sample period.

[11] I start from 2000 election cycle because the contributions are available from 1999 year.

I use various control variables, including size, measured as the natural logarithm of total assets; age, measured as the difference between the sample year and the year that a REIT was incorporated; and self-managed, an indicator variable that takes a value of one if a REIT is self-managed and zero otherwise. Hsieh and Sirmans (1991) and others document an association between REIT performance and external advising. I include seven indicator variables for property types – self-storage, residential, retail, hotel, healthcare, diversified and industrial–that take a value of one if a REIT belongs to that specific property type and zero otherwise. Fisher et al. (2021) and other studies document the association between REIT property location and its risk and performance. I also include majority in Senate, a dummy variable with a value of one if Republicans have a majority in Senate and zero otherwise; majority in House, a dummy variable with a value of one if Republicans have a majority in House and zero otherwise; and Presidency, a dummy variable with a value of one for a Republican presidency and zero otherwise. To remove outliers, all variables are winsorized at the 5% and 95% levels.

In addition to the above databases, I obtain development pipeline data for contributing REITs from S&P Global Market Intelligence. This pipeline of properties under development data includes company name, property name, property type, property address, acquisition date, estimated completion date, and acquisition price. The acquisition date is available for almost 60% of the properties under development.[12] There are nearly 385 properties under development by various REITs for 2001-2020.

Corporations contribute money to political parties or/and candidates in the United States through political committees known as Political Action Committees (PACs). PACs pool campaign contributions from employees of the associated corporation and donate these contributions to one

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[12] S&P Global Market Intelligence does not keep track of the completion date of the properties that transfer from development pipeline to current portfolio.

or more political parties or/and candidates. In addition, firms may spend their treasury funds to create incentives for their employees to contribute to the PAC. The corporations themselves cannot contribute anything directly to the PAC. These PACs typically donate money to another PAC set up by a political candidate running for elected office. REIT employees also make individual contributions to NAREIT PAC. And then NAREIT PAC makes donations either to political candidates or to different political PACs.[13]

Figure 2 shows the political preference for the location of REITs' headquarters over time. I collect the headquarter location information for REITs from Compustat. The figure shows that more REITs chose to locate their headquarters in Democratic states over time. A state is Democratic (Republican) if both the senators from that state are Democratic (Republican) in a given election cycle. It is consistent with Deng et al. (2021).

Figure 3 shows the political preference for the location of REITs' current properties over time. I obtain current pipeline data for contributing REITs from S&P Global Market Intelligence. This current pipeline of property data includes company name, property name, property address, state, acquisition date, property size (in square footage), and acquisition price. The acquisition date is available for almost 75% of the properties.[14] There are nearly 10,500 completed properties by various publicly-traded REITs for 2000-2020. The figure shows that the properties held by REITs are more concentrated in Democratic-controlled states over time.

Table 1 reports summary statistics for the dependent and independent variables. The average total contribution by REITs is $6,853.31 across the sample period, with a minimum value of zero and a maximum of $89,600. The average size of a publicly-traded REIT in the sample is around

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[13] Therefore, it is impossible to associate each REITs contribution towards each political party.
[14] S&P Global Market Intelligence does not keep track of the completion date of the properties that transfer from development pipeline to current portfolio.

$5.23 billion. The average age of REITs in my sample is about 17.5 years. About 83% of the sample consists of self-managed REITs. The average beta (systematic risk) is 0.31, and the average volatility is 0.18. The average FFO ratio (a proxy for operational performance) is 5.2%. Unclassified REITs are used as the base for the analyses.

4. Empirical Results

4.1. NAREIT Contributions to Political Candidate/Party PACs

In this section, I use CRP political contributions data, which are available from 2000 to 2020, to examine whether 1) REITs contribute more to a specific political party and 2) whether contributions by REITs are greater during a particular political regime.

Table 2 Panel A1 reports the total number of contributions by the NAREIT PAC to all (House and Senate) individual candidates of each party. In the full sample, the NAREIT PAC makes about 101 contributions to Republican Candidates and 84 to Democratic candidates per cycle. Panel A2 reports the dollar amount of Contributions by the NAREIT PAC to all individual candidates of each party. In the full sample, the NAREIT PAC contributes a total of $4,356 per cycle to Republican Candidates and $4,745 per cycle to Democratic candidates. The results show that NAREIT PAC contributes more to Democratic candidates. The NAREIT PAC makes a greater number of contributions to the Republican candidates. However, they contribute more to the Democratic Candidates, and the results are statistically significant.

Table 2 Panel B1 reports the total number of contributions by NAREIT PAC to House candidates of each party. In the full sample, NAREIT PAC makes about 83 contributions to House Republicans and 68 to House Democrats per cycle. Panel B2 reports the dollar amount of contributions by NAREIT PAC to House candidates of each party. In the full sample, NAREIT PAC contributes a total of $4,292 per cycle to House Republicans and $4,676 per cycle to House

Democrats. The results show that the NAREIT PAC contributes more to House Democrats. The NAREIT PAC makes a greater number of contributions to House Republicans. However, they contribute more to House Democrats.

Table 2 Panel C1 reports the total number of contributions by NAREIT PAC to Senate candidates of each party. In the full sample, NAREIT PAC makes about 17 contributions to Senate Republicans and 16 to Senate Democrats per cycle. Panel B2 reports the dollar amount of Contributions by NAREIT PAC to Senate Candidates of each party. In the full sample, NAREIT PAC contributes a total of $4,665 per cycle to Senate Republicans and $5,000 per cycle to Senate Democrats. The results show that NAREIT PAC contributes more to Senate Democrats. However, the results are statistically insignificant for Senate contributions.

I further examine the NAREIT PAC contributions to House and Senate candidates according to the party that controls the House and Senate, respectively. Table 3 Panel A1 reports the number of contributions by NAREIT PAC to House candidates according to the party that controls the House. I find that when Republicans have the majority in the House, NAREIT PAC makes about 89 contributions to House Republicans and only about 61 contributions to the House Democrats per cycle. Conversely, NAREIT PAC makes only about 68 contributions to House Republicans and about 86 contributions to House Democrats when Democrats have the majority in the House per cycle. The difference in the number of contributions to Republicans and Democrats is significant when Republicans have the majority in the House. Panel A2 reports the dollar amount of contributions by NAREIT PAC to House cCandidates according to the party that controls the House. I find that when Republicans have the majority in the House, NAREIT PAC contributes a total of $4,364 to House Republicans and around $4,582 to the House Democrats per cycle. NAREIT PAC contributes a total of $4,039 to House Republicans and around $4,855 to House

Democrats when Democrats have the majority in the House per cycle. The results show that NAREIT PAC contributes more to the House Democrats, regardless of which party has a majority in the House. Also, contributions to House Democrats increase, and contributions to House Republicans decrease when Democrats have a House majority. The difference in the dollar amount of contributions to Republicans and Democrats is statistically significant when Democrats have the majority in the House. This could be because most of the REITs chose to locate their headquarters in Democrat-controlled Senate states (Figure 2). Deng et al. (2021) also find that more REITs chose to locate their headquarters to Democratic states. In addition to this, most of the properties held by REITs are located in Democrat-controlled Senate states (Figure 3). Moreover, majority of the REIT properties are located in large cities and most of the large cities are dominated by Democrats. The results from Table 3 suggest that majority in the House matters.

Table 3 Panel B1 reports the number of Contributions by NAREIT PAC to Senate Candidates according to the party that controls the Senate. I find that when Republicans have the majority in the Senate, NAREIT PAC makes about 16 contributions to Republican Senate Candidates and only about 15 contributions to the Democratic Senate Candidates per cycle. When Democrats have the majority in the Senate, NAREIT PAC makes about 20 contributions to Republican Senate Candidates and about 18 contributions to Democratic Senate Candidates per cycle. Panel B2 reports the dollar amount of Contributions by NAREIT PAC to Senate Candidates according to the party that controls the Senate. The results show that NAREIT PAC contributes more to the Democratic Candidates, regardless of which party has a majority in the Senate. The results are insignificant for Senate contributions.

In addition to individual contributions, NAREIT PAC also contributes to different Political PACs. Table 4 Panel A1 reports the total number of Contributions by NAREIT PAC to other PACs

of each party. In the full sample, NAREIT PAC makes about 53 contributions to Republican PACs and 37 to Democratic PACs per cycle. Panel A2 reports the dollar amount of Contributions by NAREIT PAC to different PACs of each party. In the full sample, NAREIT PAC contributes a total of $6,801 per cycle to Republican PACs and $7,715 per cycle to Democratic PACs. The results show that NAREIT PAC contributes more to Democratic PACs. NAREIT PAC contributes more to the Democratic PACs. The results are consistent with what I find for individual contributions by NAREIT PAC in Tables 2 and 3.

I conclude the following from Tables 2, 3, and 4. First, the total contributions made by the NAREIT PAC to candidates are greater for Democrats. Second, REITs contribute more to House candidates of the Democratic Party, irrespective of which party has a majority in the House. Also, contributions to House Democrats increase, and contributions to House Republicans decrease when Democrats have a House majority. It shows that majority in House matters. Third, REITs contribute more to Senate candidates of the Democratic Party, but the results are not statistically significant.

4.2. Political Contributions and REIT Properties under Development

I now examine whether REITs donate more when they have a large pipeline of properties under development. This is a reasonable argument because of the local nature of the real estate industry. The real estate industry gets affected by various legislative bills and approvals. Therefore, I study if there is any association between contributions by REITs to NAREIT PAC and their properties under development. Using the data from S&P Global Market Intelligence, I calculate the number of properties under development each year for each REIT. Table 5 Panel A reports the results for the same. I use Tobit regression. I find that REITs with a large pipeline of properties under

development donate more to NAREIT PAC, both in terms of the number of contributions and dollar amount of contributions. The control variables included here are defined in Appendix.

I then proceed to investigate whether there is an association between contributions made by NAREIT PAC to political candidates representing a particular state and REIT properties under development in that state. I use Tobit regression. In Panel B, I find that NAREIT PAC makes a higher number of contributions to political candidates representing a particular state during the election cycle when REITs have a large pipeline of properties under development in that state. NAREIT also donates more (dollar amount) to political candidates representing a particular state during the election cycle when REITs have a large pipeline of properties under development in that state. I find similar results for House candidates representing a specific state. These results along with the results from Panel A, indicate that these indirect connections (through NAREIT PAC) with the political candidates have some value for the contributing REITs. There might be a partial direct connection between the contributing REITs and the political candidates, given the pattern of contributions by the NAREIT PAC.

4.3. REIT Contributions and Operational Performance

Next, I examine whether political contributions by REITs result in better operational performance. There is extant literature on the economic value of campaign contributions. In view of the argument that these campaign contributions are beneficial for REITs, I test the growth opportunity hypothesis (H_2). I perform regressions of annual operational performance, proxied by FFO, on the natural log of lagged political contributions by REITs while controlling for REITs characteristics. Using the FEC data, I calculate the total contributions by REITs to NAREIT PAC per year and take a natural log of it[15]. Following the literature on political contributions, I calculate

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[15] Following the prior literature, I add 0.001 to all zero contributions.

the total contributions starting November of year 1 to the end of October of year 2. I use the following regression model:

$$FFO_{i,t+1} = \alpha + \beta_1\, Total(\$)_{i,t} + \beta_2\, Firm\ Size_{i,t} + \beta_3\, Age_{i,t} + \beta_4\, Self\ managed_i + \beta_5$$

$$Property\ Type_i + \beta_6\, Majority\ in\ Senate_t + \beta_7\, Majority\ in\ House_t + \beta_8\, Presidency_t$$

$$+ \epsilon_{i,t} \tag{1}$$

In the above model, $Total(\$)_{i,t}$ is the natural log of total campaign contributions by REIT i in year t. I use FFO scaled by total assets to measure the operational performance of REIT i in year $t+1$. The control variables included here are defined in Appendix. In Table 6 Column (1), I find that the dollar amount of REIT contributions has an economic value. The coefficient of Total Contributions (β_1) is positive and statistically significant at a 1% level. In other words, I find that REIT contributions result in better REIT operational performance in the following year ($t+1$). The results also suggest that smaller and older firms have better future operational performance.

I next examine whether political contributions by REITs result in better REIT performance when they have a large pipeline of properties under development. The results from Table 5 Panel A suggest that REITs with a large pipeline of undeveloped properties donate more to NAREIT PAC, both in terms of the number of contributions and dollar amount of contributions. Therefore, it is interesting to test whether contributing REITs having a large pipeline of undeveloped properties are associated with better operational performance. I use the following regression model:

$$FFO_{i,t+1} = \alpha + \beta_1\, Total(\$)_{i,t} + \beta_2\, Properties\ under\ Development_{i,t} + \beta_3$$

$$Total(\$)_{i,t}*Properties\ under\ Development_{i,t} + \beta_4\, Firm\ Size_{i,t} + \beta_5\, Age_{i,t} + \beta_6\, Self$$

$$managed_i + \beta_7\, Property\ Type_i + \beta_8\, Majority\ in\ Senate_t + \beta_9\, Majority\ in\ House_t +$$

$$\beta_{10}\, Presidency_t + \epsilon_{i,t} \tag{2}$$

In the above model, *Total($)*$_{i,t}$ is the natural log of total campaign contributions by REIT *i* in year *t*. *Properties under Development*$_{i,t}$ is the natural log of the total number of properties under development for REIT *i* in year *t*. The control variables included here are defined in Appendix. In Column (2), I find that contributing REITs experience better operational performance in the following year. The coefficient (β_3) of the interaction term (between Total dollar contributions and number of properties under development) is positive and statistically significant at a 1% level. It means that contributing REITs having a large pipeline of properties under development are associated with better future operational performance. In other words, contributions help to (partially) mitigate the negative impact of having a large number of developmental properties on the future operational performance as part of the pipeline might be getting developed.

Overall results suggest that contributing REITs are associated with better operational performance. Since REITs contribute to NAREIT PAC and NAREIT PAC allocates the donations further to political candidates and PACs, it is not feasible to track how much of each REIT's contributions go to each political party.

4.4. REIT Contributions and Systematic Risk

I now study whether campaign contributions by REITs result in lower risk. In view of the argument that these campaign contributions are beneficial for REITs, I test the risk hypothesis (H$_1$). I perform regressions of systematic risk, measured as the yearly beta for a certain REIT from CAPM, on the natural log of lagged political contributions by REITs while controlling for REITs characteristics. Following the literature on political contributions, I calculate the total contributions starting November of year 1 to the end of October of year 2.[16] The control variables included here are defined in Appendix. I use the following regression model:

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[16] Following the prior literature, I add 0.001 to all zero contributions.

$$Beta_{i,t+1} = \alpha + \beta_1\ Total(\$)_{i,t} + \beta_2\ Firm\ Size_{i,t} + \beta_3\ Age_{i,t} + \beta_4\ Self\ managed_i + \beta_5$$

$$Property\ Type_i + \beta_6\ Majority\ in\ Senate_t + \beta_7\ Majority\ in\ House_t + \beta_8\ Presidency_t$$

$$+ \epsilon_{i,t} \hspace{6cm} (3)$$

In the above model, $Total(\$)_{i,t}$ is the natural log of total campaign contributions by REIT i in year t. I compute beta from the market model using monthly returns over the year (November of year 2 to the end of October of year 3). The control variables included here are defined in Appendix. In Table 7 Column (1), the coefficient of Total contributions (β_1) is negative and statistically significant at a 5% level. The evidence suggests that contributing REITs experience lower systematic risk in the following year ($t+1$).

Next, I examine whether campaign contributions by REITs help to reduce systematic risk in the following year when they have a large pipeline of properties under development. The findings from Table 5 Panel A also suggest that REITs with a large pipeline of undeveloped donate more NAREIT PAC. Therefore, I estimate the following regression model to test whether contributing REITs having a large pipeline of properties under development are associated with lower exposure to systematic risk:

$$Beta_{i,t+1} = \alpha + \beta_1\ Total(\$)_{i,t} + \beta_2\ Properties\ under\ Development_{i,t} + \beta_3$$

$$Total(\$)_{i,t}*Properties\ under\ Development_{i,t} + \beta_4\ Firm\ Size_{i,t} + \beta_5\ Age_{i,t} + \beta_6\ Self$$

$$managed_i + \beta_7\ Property\ Type_i + \beta_8\ Majority\ in\ Senate_t + \beta_9\ Majority\ in\ House_t +$$

$$\beta_{10}\ Presidency_t + \epsilon_{i,t} \hspace{4cm} (4)$$

In Column (2), I find that contributing REITs have lower systematic risk. The coefficient (β_3) of the interaction term (between Total dollar contributions and number of properties under development) is negative and statistically significant at a 10% level. It means that a contributing REIT having a large pipeline of properties under development can partially alleviate its systematic

risk in the following year. In other words, contributions help to lower a REIT's systematic risk. These results are in line with Kim et al. (2019). They find that a firm's systematic risk can be hedged away by employing various corporate political strategies, including political contributions.

4.5. REIT Contributions and Volatility

Next, I examine whether a REIT's volatility is associated with its campaign contributions (H_1). I perform regressions of volatility, measured as the yearly standard deviation of the monthly returns for a certain REIT, on the natural log of lagged political contributions by REITs while controlling for REITs characteristics. Following the literature on political contributions, I calculate the total contributions starting November of year 1 to the end of October of year 2. I compute volatility as the yearly standard deviation of monthly returns over the year (November of year 2 to the end of October of year 3). The control variables included here are defined in Appendix. I estimate the following regression model:

$$Volatility_{i,\,t+1} = \alpha + \beta_1\ Total(\$)_{i,t} + \beta_2\ Firm\ Size_{i,t} + \beta_3\ Age_{i,t} + \beta_4\ Self\ managed_i +$$

$$\beta_5\ Property\ Type_i + \beta_6\ Majority\ in\ Senate_t + \beta_7\ Majority\ in\ House_t + \beta_8\ Presidency_t$$

$$+\ \epsilon_{i,t} \hspace{8cm} (5)$$

In Table 8 Column (1), the coefficient of Total contributions (β_1) is negative and statistically significant at a 10% level. The evidence suggests that contributing REITs experience lower unsystematic risk (volatility) in the following year ($t+1$).

Next, I examine whether contributing REITs having a large pipeline of properties under development are associated with lower volatility in the following year. The risk of development is high for REITs. Therefore, I estimate the following regression model:

$$Volatility_{i,t+1} = \alpha + \beta_1\ Total(\$)_{i,t} + \beta_2\ Properties\ under\ Development_{i,t} + \beta_3$$

$$Total(\$)_{i,t}*Properties\ under\ Development_{i,t} + \beta_4\ Firm\ Size_{i,t} + \beta_5\ Age_{i,t} + \beta_6\ Self$$

managed$_i$ + β$_7$ Property Type$_i$ + β$_8$ Majority in Senate$_t$ + β$_9$ Majority in House$_t$ +

β$_{10}$ Presidency$_t$ + ε$_{i,t}$ (6)

In Column (2), I find that contributing REITs have lower volatility risk. The coefficient (β$_3$) of the interaction term (between Total dollar contributions and number of properties under development) is negative and statistically significant at a 10% level. It means that a contributing REIT having a large pipeline of properties under development can partially lower future volatility risk. In other words, contributions help to lower a REIT's idiosyncratic risk.

5. Conclusions

There is extant literature that documents the value relevance of political contributions. However, there is very little direct evidence about the mechanism through which political contributions add value. In this study, I examine the growth opportunity and risk implications of political contributions by REITs. I find that REITs that politically contribute have better operational performance (FFOs) in the following year. In addition, political contributions help REITs mitigate the negative impact of development risk on future operational performance. The results suggest that campaign contributions by REITs are negatively associated with its systematic risk. Contributing REITs experience lower volatility risk. Overall results indicate that corporate contributions by REITs have a dual role. These REIT contributions can potentially increase future cash flows (better operational performance) and be considered hedging tools that can lower the cost of capital (reduced risk). I also find that REITs with a large pipeline of undeveloped properties donate more to the NAREIT PAC.

REITs channelize their campaign contributions to political candidates and parties through the NAREIT PAC. Even though the contributing REITs use this indirect channel, there seems to be a partial direct connection with the political parties and candidates. I find that the NAREIT PAC

contributes more to politicians representing a specific state if their REIT members have a large pipeline of properties under development in that state. These results apply to both House and Senate candidates from both parties.

Next, I compare the political contributions of REITs to the two parties. I find that, on average, the number of contributions made per cycle to Republican candidates is higher than that made to the Democratic candidates. But the total dollar amount per cycle on average made to Democratic candidates is higher than that to Republican candidates. I find that, on average, the number of contributions made per cycle to the House Republicans is higher than that made to the House Democrats. But the total dollar amount per cycle, on average, made to House Democrats is higher than that to House Republicans. I observe no significant difference either in the number of contributions or the total dollar amount of contributions made to Senate Republicans and Democrats. It might be due to the local nature of REITs. REITs are very active in city politics, especially in order to get more attention from local politicians representing their localities.

I also examine political contributions to political action committees (PACs) by NAREIT PAC and find that REITs contribute more per cycle to Democratic PACs than Republican PACs. REITs donate more on average to Democrats. This could be because most REITs chose to locate their headquarters in Democratic-controlled Senate states. In addition, most of the properties held by REITs are located in Democratic-controlled Senate states.

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FIGURES

Figure 1: Political Contributions by REITs

A) Direct Channel

```
┌──────────────┐
│     REIT     │ ──────────┐
│  Employees   │            │        ┌──────────────┐
└──────────────┘            └──────▶ │  Political    │
                                     │  Candidate/   │
┌──────────────┐            ┌──────▶ │  Party PACs   │
│  REIT PACs   │ ──────────┘         └──────────────┘
└──────────────┘
```

B) Indirect Channel

```
┌──────────────┐                              ┌──────────────┐
│     REIT     │ ──────┐                       │  Political    │
│  Employees   │        │                 ┌──▶ │  Candidate    │
└──────────────┘        │  ┌───────────┐  │    │    PACs       │
                        └─▶│           │──┘    └──────────────┘
                           │ NAREIT PAC│
┌──────────────┐        ┌─▶│           │──┐    ┌──────────────┐
│  REIT PACs   │ ──────┘   └───────────┘  │    │  Political    │
└──────────────┘                          └──▶ │  Party PACs   │
                                               └──────────────┘
```
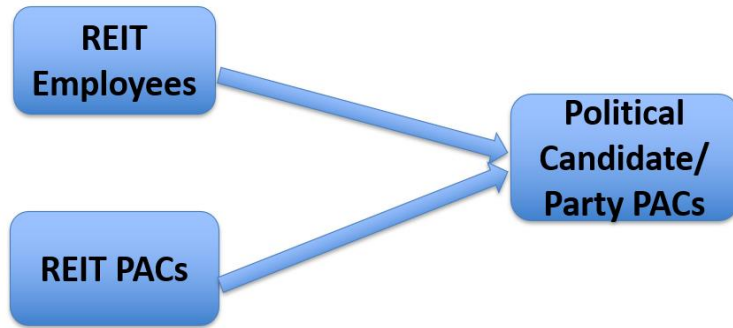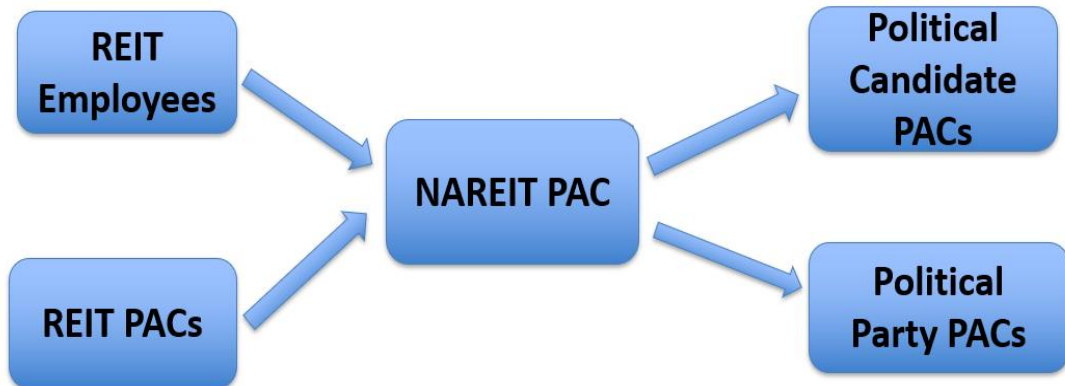
Figure 2: Political Preference for REIT Headquarter Distribution

REIT Headquater Distribution
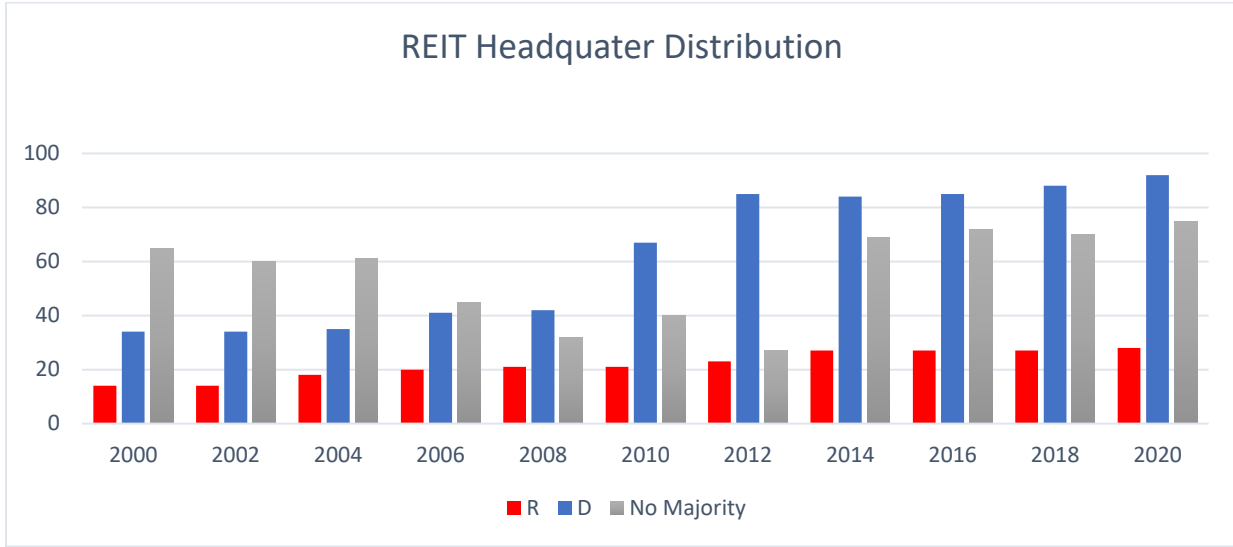
R: Number of REIT headquarters located in Republican Senate majority states; D: Number of REIT headquarters located in Democratic Senate majority states; No Majority: Number of REIT headquarters located in states with one Republican Senator and one Democratic Senator.

Figure 3: Political Preference for REIT Properties Distribution

REIT Current Properties Distribution
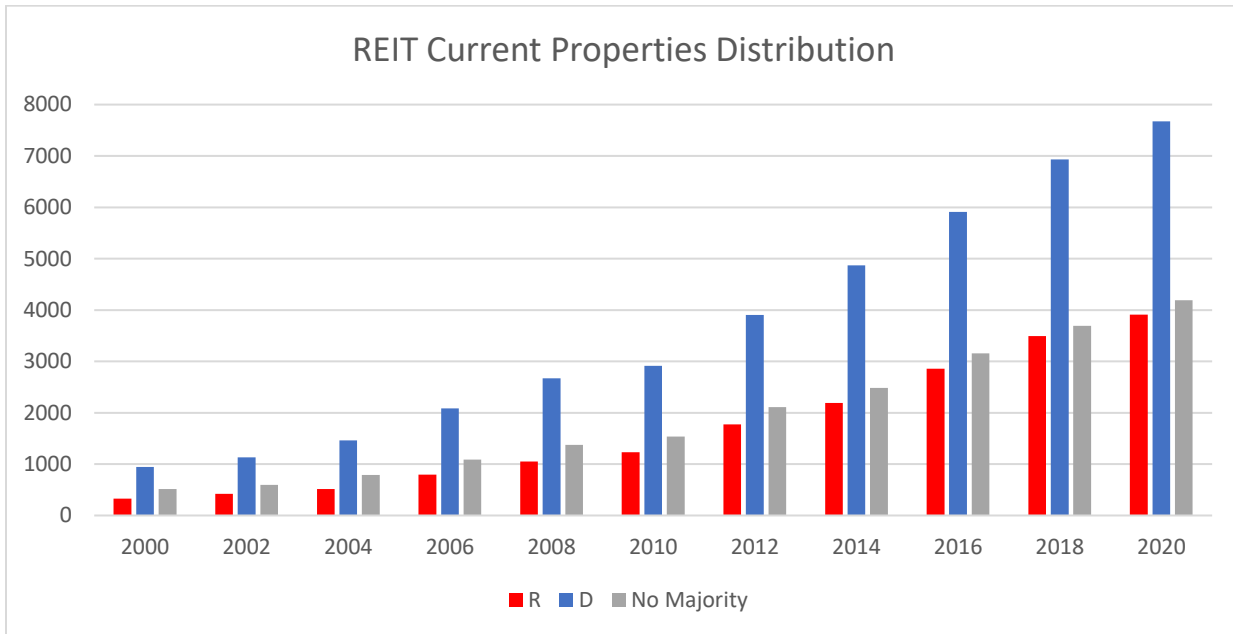
R: Number of REIT properties located in Republican Senate majority states; D: Number of REIT properties located in Democratic Senate majority states; No Majority: Number of REIT properties located in states with one Republican Senator and one Democratic Senator.

TABLES

Table 1 Summary Statistics

This table presents the summary statistics of the dependent and independent variables. The sample period is from 2001-2020. Variable descriptions are provided in the appendix.

Variables	Observations	Mean	Std Dev	Minimum	Maximum
FFO	1271	5.20	2.62	-7.08	18.95
Volatility	1271	0.18	0.06	0.02	0.78
Beta	1271	0.31	0.21	-0.02	1.06
Total Contributions ($ in thousands)	1271	6.85	11.04	0.00	89.60
Total Contributions (#)	1271	5.81	10.54	0.00	76.00
Properties under development	1271	0.82	2.57	0.00	24.00
Size	1271	5.23	5.98	0.05	38.41
Age	1271	17.45	13.12	1.00	63.00
Self-managed	1271	0.83	0.38	0.00	1.00
Self-storage	1271	0.05	0.21	0.00	1.00
Retail	1271	0.24	0.42	0.00	1.00
Residential	1271	0.13	0.34	0.00	1.00
Hotel	1271	0.10	0.30	0.00	1.00
Industrial	1271	0.21	0.41	0.00	1.00
Healthcare	1271	0.12	0.32	0.00	1.00
Diversified	1271	0.10	0.30	0.00	1.00
Unclassified	1271	0.05	0.22	0.00	1.00

Table 2 Number and Dollar amount of Contributions by NAREIT PAC to Candidates

Panel A1 reports the total number of contributions per cycle to House and Senate candidates of each party. Panel A2 reports the total dollar amount of contributions per cycle to House and Senate candidates of each party. Panel B1 reports the total number of contributions per cycle to each party's House candidates. Panel B2 reports the total dollar amount of contributions per cycle to each party's House candidates. Panel C1 reports the total number of contributions per cycle to each party's Senate candidates. Panel C2 reports the total dollar amount of contributions per cycle to each party's Senate candidates. The data used in this table are obtained from the Center for Responsive Politics (CRP OpenSecrets) on political contributions by NAREIT PAC for 2000-2020.

Panel A1: Number of NAREIT Contributions per Cycle to All Republican and Democratic Candidates

	Republican	Democratic	Difference	*t*-Stat
NAREIT	100.70	84.18	16.54*	1.92

Panel A2: Dollar Amount of NAREIT Contributions per Cycle to All Republican and Democratic Candidates

	Republican	Democratic	Difference	*t*-Stat
NAREIT	$ 4,356.40	$ 4,744.80	$(388.40)***	-2.68

Panel B1: Number of NAREIT Contributions per Cycle to House Republican and Democratic Candidates

	Republican	Democratic	Difference	*t*-Stat
NAREIT	83.27	67.82	15.45*	1.91

Panel B2: Dollar Amount of NAREIT Contributions per Cycle to House Republican and Democratic Candidates

	Republican	Democratic	Difference	*t*-Stat
NAREIT	$ 4,291.80	$ 4,676.50	$(384.70)**	-2.43

Panel C1: Number of NAREIT Contributions per Cycle to Senate Republican and Democratic Candidates

	Republican	**Democratic**	**Difference**	*t*-**Stat**
NAREIT	17.45	16.27	1.18	0.52

Panel C2: Dollar Amount of NAREIT Contributions per Cycle to Senate Republican and Democratic Candidates

	Republican	**Democratic**	**Difference**	*t*-**Stat**
NAREIT	$ 4,664.60	$ 5,000.00	$(335.40)	-0.34

∗∗∗Significant at the 0.01 level.
∗∗Significant at the 0.05 level.
∗Significant at the 0.10 level.

Table 3. Political Contributions to House and Senate during Majority in Congress

Panel A1 reports the total number of contributions per cycle to House candidates of each party according to the party that controls the House. Panel A2 reports the total dollar amount of contributions per cycle to House candidates of each party according to the party that controls the House. Panel A1 reports the total number of contributions per cycle to Senate candidates of each party according to the party that controls the Senate. Panel A2 reports the total dollar amount of contributions per cycle to Senate candidates of each party according to the party that controls the Senate. The data used in this table are obtained from the Center for Responsive Politics (CRP OpenSecrets) on political contributions by NAREIT PAC for 2000-2020.

Panel A1: Number of NAREIT Contributions per Cycle to Candidates for the House

Majority in House	Republican	Democratic	Difference	t-Stat
Republican	89.13	61.13	28.00***	3.41
Democratic	67.67	85.67	-18.00	-1.32
Difference	21.46*	(24.54)*		
t-Stat	2.07	-2.07		

Panel A2: Dollar Amount of NAREIT Contributions per Cycle to Candidates for the House

Majority in House	Republican	Democratic	Difference	t-Stat
Republican	$4,363.80	$4,582.40	$(218.60)	-1.13
Democratic	$4,038.70	$4,855.50	$(816.80)***	-2.90
Difference	$ 325.10	$ (273.10)		
t-Stat	1.29	-1.09		

Panel B1: Number of NAREIT Contributions per Cycle to Candidates for the Senate

Majority in Senate	Republican	Democratic	Difference	t-Stat
Republican	16.29	14.86	1.43	0.66
Democratic	19.67	18.33	1.33	0.32
Difference	-3.38	-3.48		
t-Stat	-1.01	-1.36		

Panel B2: Dollar Amount of NAREIT Contributions per Cycle to Candidates for the Senate

Majority in Senate	Republican	Democratic	Difference	t-Stat
Republican	$ 4,658.80	$ 4,807.70	$ (148.90)	-0.32
Democratic	$ 4,906.80	$ 5,627.30	$(720.50)	-1.08
Difference	$ (248.00)	$ (819.60)		
t-Stat	-0.44	-1.45		

∗∗∗Significant at the 0.01 level.
∗∗Significant at the 0.05 level.
∗Significant at the 0.10 level.

Table 4. Number and Dollar amount of Contributions by NAREIT PAC to PACs

Panel A1 reports the total number of contributions per cycle to PACs of each party. Panel A2 reports the total dollar amount of contributions per cycle to PACs of each party.

Panel A1: Number of NAREIT Contributions per Cycle to Other PACs

	Republican	**Democratic**	**Difference**	*t*-**Stat**
NAREIT	52.64	37.00	15.64	1.54

Panel A2: Dollar Amount of NAREIT Contributions per Cycle to Other PACs

	Republican	**Democratic**	**Difference**	*t*-**Stat**
NAREIT	$6,801.50	$7,715.00	$(913.50)**	-2.49

∗∗∗Significant at the 0.01 level.
∗∗Significant at the 0.05 level.
∗Significant at the 0.10 level.

Table 5. REIT Properties under Development and Political Contributions

This table examines the association between REIT contributions and its projects under development. Panel A reports the results for any association between contributions by REITs to NAREIT PAC and their projects under development per year. Variable descriptions are provided in the appendix. Panel B reports the results for any association between the contributions made by NAREIT PAC to political candidates representing a particular state and the number of projects under development in that state. The *t*-statistics are in parentheses below the coefficients.

Panel A: Contributions by REITs and REIT properties under development

VARIABLES	REIT Contributions	
	(1) Number of Contributions	(2) Dollar amount of Contributions
Number of projects	0.783***	666.5***
	(0.237)	(242.7)
Size	10.65***	12,146***
	(0.912)	(937.9)
Age	0.424***	377.3***
	(0.0595)	(60.36)
Self-managed	-3.107	-5,124
	(3.685)	(3,756)
Self-storage	19.87***	21,088***
	(5.677)	(5,744)
Retail	12.52**	15,181***
	(5.014)	(5,053)
Residential	19.84***	18,914***
	(5.028)	(5,075)
Hotel	5.702	6,091
	(6.560)	(6,578)
Industrial	14.67***	14,175***
	(4.921)	(4,959)
Healthcare	11.17**	10,324*
	(5.207)	(5,269)
Diversified	0.825	738.9
	(5.410)	(5,457)
Majority in Senate	-0.690	-92.11
	(1.799)	(1,835)
Majority in House	1.081	1,191
	(1.748)	(1,785)
Presidency	-4.175**	-4,561**
	(1.806)	(1,844)
Intercept	-108.2***	-117,524***
	(9.149)	(9,372)

Panel B: Location based Analysis for Contributions to Candidates and REIT properties under development

	NAREIT Contributions (Full Sample)		NAREIT House Contributions	
	Number of Contributions	Dollar amount of Contributions	Number of Contributions	Dollar amount of Contributions
Number of projects	0.28***	1502.64***	0.24***	1256.97***
	(7.90)	(10.41)	(7.83)	(10.20)
Intercept	3.32***	16743.04***	2.93***	15131.25***
	(13.32)	(16.89)	(13.00)	(17.45)

∗∗∗Significant at the 0.01 level.
∗∗Significant at the 0.05 level.
∗Significant at the 0.10 level.

Table 6. REIT Contributions and Operational Performance

This table reports regressions of annual operational performance, proxied by FFO, on the natural log of lagged political contributions by REITs while controlling for REITs characteristics. Variable descriptions are provided in the appendix. The *t*-statistics are in parentheses below the coefficients.

VARIABLES	(1) FFO	(2) FFO
Total ($)	0.0002**	0.0005***
	(2.53)	(3.67)
Properties under Development		-0.0001
		(-0.47)
Total ($)*Properties under Development		0.0001***
		(2.67)
Size	-0.0033***	-0.0031***
	(-3.08)	(-2.88)
Age	0.0007***	0.0007***
	(4.76)	(4.66)
Majority in Senate	0.0038	0.0038
	(1.20)	(1.23)
Majority in House	0.0039	0.0037
	(1.31)	(1.26)
Presidency	0.0062**	0.0061**
	(2.06)	(2.02)
Self-managed	-0.0034	-0.0033
	(-0.49)	(-0.47)
Self-storage	0.0158	0.0162
	(1.24)	(1.28)
Retail	-0.0058	-0.0056
	(-0.66)	(-0.65)
Residential	-0.0154*	-0.0155*
	(-1.68)	(-1.70)
Hotel	-0.0009	-0.0009
	(-0.08)	(-0.09)
Industrial	-0.0097	-0.0096
	(-1.14)	(-1.14)
Healthcare	0.0023	0.0022
	(0.24)	(0.23)
Diversified	-0.022**	-0.022**
	(-2.32)	(-2.31)
Constant	0.068***	0.0658***
	(5.74)	(5.74)
Observations	1271	1271
R-squared	0.05	0.06

Table 7. REIT Political Contributions and Systematic Risk

This table reports regressions of systematic risk, measured as the yearly beta for a certain REIT from CAPM, on the natural log of lagged political contributions by REITs while controlling for REITs characteristics. Variable descriptions are provided in the appendix. The *t*-statistics are in parentheses below the coefficients.

VARIABLES	(1) Beta	(2) Beta
Total ($)	-0.0001**	-0.0001**
	(-2.02)	(-2.52)
Properties under Development		0.000003
		(0.05)
Total ($)*Properties under Development		-0.00001*
		(-1.62)
Size	-0.0001	-0.00006
	(-0.8773)	(-0.22)
Age	0.0002	0.00005
	(0.12)	(0.24)
Majority in Senate	0.0028	0.0028
	(1.03)	(1.04)
Majority in House	-0.0039	-0.0039
	(1.51)	(1.5)
Presidency	0.0022	0.0022
	(0.86)	(0.88)
Self-managed	0.0003	0.0002
	(0.25)	(0.22)
Self-storage	-0.0014	-0.0016
	(-0.77)	(-0.82)
Retail	0.0018	0.0017
	(1.36)	(1.33)
Residential	-0.0008	-0.0008
	(-0.57)	(-0.54)
Hotel	0.0058***	0.0058***
	(3.52)	(3.5)
Industrial	0.002	0.002
	(1.54)	(1.54)
Healthcare	-0.0019	-0.0019
	(-1.31)	(-1.3)
Diversified	0.0016	0.0016
	(1.09)	(1.06)
Constant	0.0104***	0.0105***
	(3.29)	(3.25)
Observations	1271	1271
R-squared	0.04	0.04

Table 8. REIT Political Contributions and Volatility Risk

This table reports regressions of volatility, measured as yearly standard deviation of the monthly returns for a certain REIT, on the natural log of lagged political contributions by REITs while controlling for REITs characteristics. Variable descriptions are provided in the appendix. The *t*-statistics are in parentheses below the coefficients.

VARIABLES	(1) Volatility	(2) Volatility
Total ($)	-0.0002*	-0.0005**
	(-1.82)	(-2.45)
Properties under Development		-0.0005
		(-1.63)
Total ($)*Properties under Development		-0.00006*
		(-1.72)
Size	-0.0009	-0.0009
	(-0.72)	(-0.71)
Age	-0.0001	-0.00006
	(-0.8)	(-0.49)
Majority in Senate	-0.0125	-0.0118
	(-0.57)	(-0.58)
Majority in House	-0.0418**	-0.0417**
	(-2.05)	(-2.04)
Presidency	0.0289	0.0291
	(1.46)	(1.46)
Self-managed	-0.0025	-0.0022
	(-0.45)	(-0.4)
Self-storage	-0.0036	-0.0043
	(-0.37)	(-0.45)
Retail	0.0108	0.0112*
	(1.58)	(1.65)
Residential	-0.0009	0.0002
	(-0.12)	(0.03)
Hotel	0.0153*	0.0153*
	(1.77)	(1.8)
Industrial	0.0053	0.0070
	(0.79)	(1.04)
Healthcare	-0.0014	-0.0013
	(-0.18)	(-0.17)
Diversified	0.0054	0.0065
	(0.72)	(0.87)
Constant	0.1032***	0.0982***
	(4.96)	(4.67)
Observations	1271	1271
R-squared	0.03	0.03

Appendix

Variable description

Variable	Description
Total($)	Natural log of total contributions by a REIT in a certain year
Properties under Development	Natural log of the total number of properties under development by a REIT in a certain year
Systematic Risk	Yearly market beta for a certain REIT from CAPM
Volatility	Yearly standard deviation of the stock return for a certain REIT
FFO	This variable measures operational performance computed as FFO payout scaled by total assets
Firm Size	Natural log of total assets
Age	This variable is computed as the number of years since an REIT's incorporation until the year of observation
Self-Managed	This indicator variable takes a value of 1 if an REIT is self-managed and 0 otherwise
Property Type	These are seven indicator variables–self-storage, residential, retail, hotel, healthcare, diversified and industrial–that take a value of 1 if a REIT belongs to that specific property type and 0 otherwise
Majority in Senate	This indicator variable takes a value of one if Republicans have a majority in Senate and zero otherwise
Majority in House	This indicator variable takes a value of one if Republicans have a majority in House and zero otherwise
Presidency	This indicator variable takes a value of one if the presidency is Republican and zero otherwise

CHAPTER 3

Political Contributions by Highly Regulated Industries and Less Regulated Industries

Abstract

I examine the impact of regulations across different industries on their campaign contributions. There is extant literature on the effects of regulations on corporate political spending in specific industries. However, the effects of regulations within an industry are generally homogeneous. Using a common Regulatory Index, I find that, on average, heavily regulated firms contribute more than less regulated firms, both in terms of the number of contributions and the dollar amounts. I also find that both highly regulated and less regulated firms contribute more to Republicans than Democrats. The majority in Congress matters, and the gap between contributions to Republicans and Democrats is larger when Republicans have a majority. I find this for both the chambers of Congress and heavily regulated and less regulated firms. Next, I examine whether campaign contributions are more valuable for regulated firms. I find a positive relationship between contributions and future returns, which shows that the connections built through contributions are economically valuable. The relationship is stronger for heavily regulated firms, suggesting that contributions are more valuable for heavily regulated firms. The relationship is also stronger for contributions to Republicans.

1. Introduction

The Paris Agreement on climate change is a landmark as it has united almost the whole world. It aims to combat climate change and its negative impact. Following the climate change commitment, the U.S. government has enacted various major policy changes with significant implications for several industries (for example, the automotive industry). Over the last decades, business regulation has attracted significant attention among economists and policymakers, becoming one of the main issues on the political agenda. According to Bessen (2016), over the last 15 years, political campaign contributions by corporate PACs have increased more than thirtyfold, and the regulations (Regulation Index developed by Al-Ubaydli and McLaughlin, 2015) have also increased by nearly 50% for public firms. The operations of highly regulated firms are either closely connected with the government or severely affected by the change in government policies and regulations. Therefore, these heavily regulated firms may have a strong incentive to establish political connections to have better access to information about any potential change in government regulations.

Business regulations vary for different industries. For example, technology companies like Google and Facebook could be heavily regulated by government legislation concerning data privacy, internet neutrality, censorship, etc. Companies in the oil and gas industry face regulations regarding environmental issues such as water and air quality, chemical management, etc. Oil and gas companies generally donate more to the members of Congress who do less for the climate. The pharmaceutical industry experiences several restrictions in areas such as post-marketing drug safety, government drug price reporting, patient information privacy, etc. The pharmaceutical industry is heavily regulated, and consequently, it generally outpaces all other industries in

political spending, including lobbying and campaign contributions (Wouters, 2020). Thus, the type and number of regulations differ across industries, and the response to these regulations also varies.

There is extant literature on the effects of regulations on corporate political spending for a particular industry (Faccio and Zingales, 2022; Sutton et al., 2021). However, the effects of regulations within an industry are generally homogeneous. Therefore, examining the relationship between regulations and campaign contributions across several industries is important. I accomplish this by using a Regulatory Index that uses common parameters to assign a score for each industry. The index also varies by time across each industry, enabling me to observe the time-series dynamics of the relationship between political contributions and regulation levels across various industries. To the best of my knowledge, my study is the first that uses this standardized framework to examine this relationship.

In this study, I examine the difference between campaign contributions by heavily regulated firms and less regulated firms. In other words, I explore whether firms with a higher number of restrictions contribute more to political causes in the following year. Next, I examine whether campaign contributions are more valuable for highly regulated firms.

First, I find that, on average, heavily regulated firms contribute more than less regulated firms, both in terms of the number of contributions and dollar amounts of contributions. I also find that the average contributions by both highly regulated and less regulated firms to candidates for the presidency, House, and Senate are larger for Republican candidates than for Democratic candidates.

Second, I study the contributions separately for House and Senate and according to the party that controls each chamber. I find that both highly regulated and less regulated firms contribute more to House candidates of the Republican Party when they control the House. However, both

highly regulated and less regulated firms contribute more to Republican Senate candidates, irrespective of which party has a majority in the Senate. Overall, the House and Senate majorities matter, and the gap between contributions to Republicans and Democrats is larger when Republicans have a majority. This pattern is true for both the chambers of Congress and for both heavily regulated and less regulated firms.

Finally, following Cooper, Gulen, and Ovtchinnikov (2010) approach, I examine whether campaign contributions are economically valuable and more valuable for heavily regulated firms. I find a positive relationship between contributions and future returns, which shows that the connections built through political contributions are economically valuable. This relationship is stronger for heavily regulated firms, implying that contributions are more beneficial to those firms than less regulated firms. I also find there is an incremental Republican effect beyond the Democrat effect. However, there is no incremental effect for contributions to Democrat candidates beyond the effect for contributions to Republican candidates for highly regulated firms. This finding suggests that it is more beneficial for heavily regulated firms to support Republicans.

The remainder of the essay is organized as follows: Section 2 discusses the recent literature and presents the research questions. Section 3 describes the sample and data. Section 4 presents the empirical methodology and results, and Section 5 concludes.

2. Literature and Hypotheses Development

This study is related to three strands of literature. The first strand of literature relates to how government regulations have an enormous impact on firm operations and performance. The operations of the firms in the highly regulated industries are either closely connected with the government or severely affected by any changes in the regulations set by the government. Thus, establishing a political connection to communicate with the public regulators may be critical for

these highly regulated firms. For example, if a politically connected firm can get information in advance about any potential changes in policies and regulations, it could adjust business operations in an efficient manner. Therefore, the political connections built through campaign contributions should be more beneficial for heavily regulated firms than less regulated firms.

Regulation is often believed to be detrimental to corporate performance and outcomes. Pizzola (2018) documents a negative impact of increased business regulations on business investment. Pang and Wang (2020) document a negative relationship between highly regulated firms and their future operating performance and firm value. Consequently, firms in heavily regulated industries are more likely to establish a political connection. Geiger and Hoffman (1998) find that firms in the electric utility industry facing the least constraining regulation outperformed firms facing the most constraining regulations. There can be other reasons to establish a political connection. For example, Stigler (1971) suggests that regulated industries might be willing to collaborate in their own regulation in order to protect their private interests. Bessen (2016) suggests that firms influence the legislative and regulatory process, and they engage in different political activities to profit from regulatory changes. Political campaign contributions and lobbying can result in favorable regulatory changes, and several studies find the returns on these investments are economically valuable (Do et al., 2013; Cooper et al., 2010; and others).

Another view about regulation is that it might be created for the benefit of politicians and policymakers in the form of rents such as political contributions (Shleifer and Vishny, 1998).

The second related strand of literature documents the value relevance of political connections. This strand of literature has focused on why firms incorporate various political strategies. One stream of literature in this strand supports the quid pro quo hypothesis. It simply means that firms benefit from political connections through increased political rent-seeking behavior. Akey and

Lewellen, 2017; Cooper et al., 2010; Do, Lee, and Nguyen, 2013; Faccio, 2006; Faccio and Parsley, 2009; Ferguson and Voth, 2008; Goldman, Rocholl, and So, 2009; Jayachandran, 2006; and Sabherwal, Sarkar, and Uddin, 2017 find that political connections enhance firm value. Another stream of literature suggests that political connections can be associated with other benefits such as government bailouts (Faccio, Masulis, and McConnel, 2006), increased credit availability (Classens, Feijen, and Laeven, 2008), reduced cost of equity (Boubakri et al., 2012), reduced cost of bank loans (Houston et al., 2014), and access to public debt (Bliss and Gul, 2012), etc. Overall, these studies suggest the value relevance of political connections through different corporate political strategies because firms are affected by government policy.

On the contrary, some studies reveal the dark side of political connections. They suggest that these PAC contributions either have a negative impact or are insignificant to firm value. Taking a contrarian stance to the short-term view of some event studies, Aggarwal, Meschke, and Wang (2012) consider the long-term view and test the investment *versus* agency hypothesis. The study results strongly support the agency problem hypothesis where managers use the firm's dollars to promote their personal agenda and not that of the firm. This behavior destroys shareholder value. Chen et al. (2017) find an interesting result of an inverted U-shape relationship between political connections and firm value. Initially, at a lower level of political connections, the firm value increases as the number of connections increases, but the firm value then decreases at a higher level of political connections. Some other studies (Chaney, Faccio, and Parsley, 2011; Kim and Zhang, 2016) show that political connections can be associated with riskier corporate behavior.

The third strand of literature documents how firms use political connections to deal with the constraints created by regulations. McKay (2011) suggests firm-level political action is often a response to legislative lawmaking and/ or regulatory rulemaking. Faccio and Zingales (2022)

specifically studies the political connections of the mobile telecommunication industry, which is known to be heavily regulated. They show that when incumbents are politically connected, the regulation does not favor competition, and prices are higher. They do not find any evidence that politically connected regulation leads to better quality, higher wages, or more investments. Therefore, all the evidence points to political connections being a form of rent-seeking. Brown and Huang (2020) document that firms are more likely to receive regulatory relief (measured by the tone of regulatory news) following meetings by top corporate executives with federal government officials. Duso (2005) documents that firms in U.S. mobile telecommunications industry avoided regulations due to successful lobbying activities. Sabherwal et al. (2017) document that contributions by sin firms to candidates for the presidency, Senate, and House are larger for Republicans than for Democrats. Sin firms face more scrutiny from regulators and the threat of new regulations that may restrain their business (Fabozzi, Ma, and Oliphant, 2008), and they are believed to be more favored by Republicans. Thus, contributions to Republicans are more beneficial for sin firms.

A recent study by Sutton et al. (2021) examined political contributions by firms that operate in environmentally intensive industries such as oil and gas, chemical, energy and manufacturing industries across the 50 U.S. states. The industrial manufacturing processes used by these firms create toxic releases. Since the threat of litigation risk and enactment of stringent regulations is high for these firms, they use campaign contributions to state gubernatorial and legislative candidates to alleviate the uncertainty by influencing what regulation may be imposed. According to a Bloomberg article (2020), large U.S.-based companies contributed nearly twice to obstructionist Congress members as compared to climate-friendly members of Congress during the 2018 election cycle. For most companies in the sample, a greater proportion of their net

political donations went to lawmakers with low climate voting scores. For example, Oil and Gas companies donate the most to climate legislation obstructionists than any other industry. This pattern of contributing more to candidates that have lower climate voting scores show that highly regulated industries are concerned about the regulation and, therefore, support politicians with similar ideological positions.

Taken together, these studies and other anecdotal evidence suggest that heavily regulated firms are more concerned about a higher number of restrictions and have an incentive to make higher campaign contributions. Based on these arguments, my first research question is whether highly regulated firms contribute more than less regulated firms. My second research question is whether these political contributions are more valuable for heavily regulated firms than less regulated firms.

The FEC data shows that, on average, Republican party/candidate PACs typically receive higher total dollar contributions than Democratic PACs. It also shows that republican contributions come from more contributing firms than democratic contributions. Republicans are more pro-business, and Republican administrations wish to reserve more resources for the corporate sector (Blomberg and Hess, 2003). Therefore, my third research question is whether highly regulated firms contribute more to Republicans than Democrats.

The testable hypotheses are as follows:

H_1: Heavily regulated firms contribute more than less regulated firms.

H_2: Political connections built through contributions are more valuable for heavily regulated firms than less regulated firms.

H_3: Heavily regulated firms contribute more to Republicans than Democrats.

3. Data and Sample

3.1. Corporate Political Contributions

I obtain corporate political contributions data from the U.S. Federal Election Commission (FEC) from January 1980 to December 2020.

The political contributions dataset includes the name of the contributor (PAC's name associated with the company), state, transaction date, transaction amount, the recipient's name and political affiliation, and cycle. I manually match the names of companies in FEC records with Compustat information.

Firms contribute money to political parties and/or candidates in the United States through political committees known as Corporate Political Action Committees (PACs). PACs pool campaign contributions from employees of the associated firm and donate these contributions to one or more political parties and/or candidates. In addition, firms may spend their treasury funds to create incentives for their employees to contribute to the PAC. The firms themselves cannot contribute anything directly to the PAC. However, the firms can cover almost all the expenses incurred by their affiliated PACs, including salaries, office space, supplies, etc. Corporate PACs typically donate money to another PAC set up by a political candidate running for elected office. Corporate PACs can give $5,000 to a candidate committee per election. They can also give up to $15,000 annually to any national party committee and $5,000 annually to any other PAC. Only specific individuals (known as the restricted class that includes salaried employees with decision-making authority, shareholders, and these groups' families) can give to the corporate PACs, and each individual can give up to $5,000 per year.

Firms use different vehicles, such as lobbying, PAC contributions, etc., to funnel the funds toward political parties and candidates. The key reason to use the corporate PAC contributions

data instead of any other medium of political connections is that the PAC data helps to identify the specific politicians that a firm is attempting to influence through its contributions. Therefore, building direct relationships with decision-makers helps firms influence them through these PAC contributions. It gives an added advantage to the firms to achieve greater access to legislators with aligned policy preferences (Austen-Smith, 1995). Using the campaign contributions data from FEC also helps distinguish between contributing (connected) and non-contributing (non-connected) firms for a large sample of firms over a long sample period (Schuller et al., 2002).

I use FEC data to construct political contribution indexes, which are used as independent variables in regressions of returns. These indexes are constructed for a five-year rolling window. Therefore, the regressions using these indexes are for 1985–2020.

3.2. Regulation Index

I get the regulation data from RegData (a sub-project of QuantGov) by Al-Ubaydli and McLaughlin (2015). It quantifies federal regulations for all industries in the United States. It analyzes the text of federal regulations to create novel and objective scores by accumulating regulations across different industries in a particular year. The RegData measures how regulated an industry was in each year.

The RegData dataset is unique because of two reasons. First, despite being a comprehensive measure of federal regulations, it is more accurate and targeted than previous measures of regulatory burden (for example, pages of regulation, etc.). Second, it relies on a machine-learning algorithm that estimates the probability that these binding constraints apply to each industry, thus allowing variation in both time-series (yearly) and cross-sectional (industries) dimensions.

I classify the firms into highly regulated and less regulated based on the RegData. Firms above the median regulation index are classified as highly regulated firms. Firms below the median regulation index are classified as less regulated firms.

3.3. Control Variables

I obtain my firm-level annual data from Compustat and CRSP databases. For return analysis, I use standard controls established in the literature. I include the lagged 12-month buy-and-hold return on the stock, the firm's market cap in December (size), and the lagged book-to-market ratio as control variables. The definitions of all control variables used in my study are in the appendix.

4. Empirical Design and Results

4.1. Contributions by Heavily Regulated and Less Regulated Firms

I use the FEC political contributions data to examine whether heavily regulated firms contribute more than less regulated firms. Heavily regulated firms have a stronger incentive to donate more to political candidates for the presidency, House, and Senate. Next, I examine whether heavily regulated and less regulated firms contribute more to Republican candidates than Democratic candidates. The threat of enacting new regulations to restrain the corporate sector is higher during Democratic regimes than in Republican regimes. In general, Republicans are more pro-business than Democrats. Also, the FEC data shows that Republican candidates typically receive higher dollar contributions than Democratic candidates from corporate PACs. Therefore, it is reasonable to suggest that heavily regulated firms donate more to Republicans than Democrats.

Table 1 reports contributions by heavily regulated and less regulated firms. Panel A is based on the number of contributions, and Panel B is based on the dollar amounts. Panel A reports the total number of contributions per firm per year to House, Senate, and presidential candidates of both major political parties by heavily regulated and less regulated firms. It also reports the total

number of contributions per firm per year to each party's House, Senate, and presidential candidates by heavily regulated and less regulated firms. A typical heavily regulated firm makes about 54 contributions in total, 31 to Republican candidates and 22 to Democratic candidates. A less regulated firm, on average, makes about 45 contributions in total, 28 to Republican candidates and 17 to Democratic candidates. Highly regulated firms contribute more, in total as well as to each major political party, than less regulated firms. Both heavily regulated and less regulated firms, on average, make a higher number of contributions to Republican candidates as compared to Democratic candidates.

Panel B reports the dollar amounts of contributions per firm per year to House, Senate, and presidential candidates of both major political parties by heavily regulated and less regulated firms. It also reports the dollar amounts of contributions per firm per year to House, Senate, and presidential candidates of each party by heavily regulated and less regulated firms. A typical heavily regulated firm contributes $66,422 per year in total, $39,871 per year to Republican candidates, and $26,261 per year to candidates of the Democratic Party. A less regulated firm, on average, contributes $44,502 per year in total, $28,082 per year to Republican candidates, and $16,255 per year to Democratic candidates. Highly regulated firms contribute more, in total as well as to each major political party, than less regulated firms. Both heavily regulated and less regulated firms, on average, donate more to Republican candidates as compared to Democratic candidates. The results in Panel B are consistent with those in Panel A.

I conclude the following from Table 1. First, heavily regulated firms contribute more as compared to less regulated firms, both in terms of the number of contributions and dollar amounts of contributions. Second, both highly regulated and less regulated firms contribute more to

Republican candidates as compared to Democratic candidates, both in terms of number and dollar amounts of contributions.

4.2. Contributions and House Majority

Next, I examine whether the candidates of both the parties for the House receive greater support from heavily regulated and less regulated firms when their party has a majority in the House. In Table 2 Panel A, I break down the contributions to House candidates according to the party that controls the House for heavily regulated and less regulated firms separately. I find that when Republicans control the House, a typical highly regulated firm makes about 31 contributions to House candidates of the Republican Party and only about 18 contributions to House candidates of the Democratic Party. In contrast, when there is a Democrat majority in the House, the number of contributions declines to about 19 for Republicans and increases to about 21 for Democrats for highly regulated firms. Both changes are statistically significant. I also find that when Republicans control the House, less regulated firms, on average, make about 24 contributions to Republican House candidates and only about 11 contributions to House candidates of the Democratic Party. In contrast, when there is a Democratic majority in the House, the number of contributions declines to about 20 for Republicans and increases to about 17 for Democrats for less regulated firms. Both changes are statistically significant. In general, heavily regulated firms make a higher number of contributions than less regulated firms.

Panel B reports the dollar contributions to House candidates based on the majority in the House. I find that when Republicans control the House, a typical highly regulated firm contributes $41,508 to Republican House candidates and only $22,649 to House candidates of the Democratic Party. In contrast, when there is a Democratic majority in the House, the Democrats receive more contributions ($20,631) than the Republicans ($19,035). I also find that when Republicans control

the House, less regulated firms, on average, contribute $29,746 to Republican House candidates and only $13,252 to House candidates of the Democratic Party. In contrast, when there is a Democratic majority in the House, the dollar amounts of contributions decline to $13,537 for Republicans and $12,714 for Democrats for less regulated firms. Moreover, contributions by both highly regulated and less regulated firms to Republican House candidates increase when Republicans have a majority in the House. In general, the results in Panel B are consistent with those in Panel A.

The findings from Table 2 suggest that both highly regulated and less regulated firms contribute more to House candidates of the Republican Party when they control the House. Also, candidates of both parties for the House receive greater support than the other party when their party has a majority in the House.

4.3. Contributions and Senate Majority

In this section, I examine whether the candidates of both parties for the Senate receive greater support from heavily regulated and less regulated firms when their party has a majority in the Senate. In Table 3 Panel A, I break down the contributions to Senate candidates according to the party that controls the Senate for heavily regulated and less regulated firms separately. I find that when Republicans control the Senate, a typical highly regulated firm makes about 7 contributions to Republican Senate candidates and only about 4 contributions to Democratic Senate candidates. In contrast, when Democrats control the Senate, the number of contributions declines to about 6 for Republicans and increases to about 5 for Democrats for highly regulated firms. Both changes are statistically significant. I also find that when Republicans control the Senate, less regulated firms, on average, make about 7 contributions to Republican Senate candidates and only about 3 contributions to Democratic Senate candidates. For less regulated firms, the number of

contributions remains the same for Republicans but increases to about 4 for Democrats when Democrats control the Senate.

Panel B reports the dollar contributions to Senate candidates based on the majority in the Senate. I find that when Republicans control the Senate, a typical highly regulated firm contributes $10,935 to Republican Senate candidates and only $5,380 to Democratic Senate candidates. In contrast, when Democrats control the Senate, the dollar amounts of contribution decline to $9,771 for Republicans and increases to $7,174 for Democrats for highly regulated firms. I also find that when Republicans control the Senate, less regulated firms, on average, contribute $9,373 to Republican Senate candidates and only $3,447 to Democratic Senate candidates. For less regulated firms, the dollar amounts of contribution increase for both Republicans and Democrats to $10,127 and $5,593, respectively when Democrats control the Senate. In general, the results in Panel B are consistent with those in Panel A.

The findings from Table 3 suggest that both highly regulated and less regulated firms contribute more to Senate candidates of the Republican Party, irrespective of which party has a majority in the Senate. Furthermore, the candidates of both parties for the Senate receive greater support when their party has a majority in the Senate by highly regulated firms.

4.4. Political Contributions by Heavily Regulated and Less Regulated Firms and Returns

I now investigate the relationship between firm contributions, regulation, and contributing firm returns. I perform separate analyses of the contribution effect for House and Senate candidates. The findings from Tables 1, 2, and 3 suggest that both highly regulated and less regulated firms contribute more to Republican candidates as compared to Democratic candidates, both in terms of number and dollar amounts of contributions. These firms might find it more beneficial to support

Republicans. Therefore, I examine whether the contribution effect is greater for contributions to Republican candidates. The results from Tables 1, 2, and 3 also suggest that heavily regulated firms, on average, contribute more than less regulated firms. Given the higher number of restrictions on highly regulated firms, they may find it more beneficial to support both Republican and Democratic candidates. Thus, I examine whether the contribution effect is greater for contributions by heavily regulated firms.

Using the FEC data, I create measures that capture regulated firms' relationships with political candidates. I follow the Cooper et al. (2010) method to create these measures. I construct my initial measure as the sum of the number of candidates running for the House, Senate, and presidential elections to which a firm made a contribution over a rolling five-year window. Specifically, at the end of December of each year, I compute the total number of candidates supported by each firm over the previous five years. The political contribution index (P.I.) for the number of supported candidates (P.I. #) running for the House, Senate, and presidential elections for firm i in year t is computed as:

$$PI\#_{it} = \sum_{j=1}^{J} Candidate_{jt,t-5},$$

where Candidate $_{jt,t-5}$ is a dummy variable equal to one if a firm donates to candidate j over years t-5 to t. The sample period starts from 1980, and I use a five-year rolling window thus, the above index is computed yearly from 1985 to 2020. I denote the above index as *P.I. All Races#(R&D)*.

I also compute the above political contribution index separately for Republicans and Democrats. To construct it, I multiply candidate variables by a party indicator variable. For each Republican (Democratic) candidate, the party indicator variable equals one if the candidate belongs to the Republican (Democratic) party and zero otherwise. I denote these indexes as *P.I. All races#(R)* and *P.I. All races#(D)*.

Next, I compute the contribution index separately for combinations of party and chamber of Congress. I multiply candidate variables by the party indicator variable and a chamber indicator variable. For each House (Senate) candidate, the chamber indicator variable equals one if the candidate belongs to the House (Senate) and zero otherwise. I denote these indexes as *P.I. House#(R), P.I. House#(D), P.I. Senate#(R),* and *P.I. Senate#(D).*

I perform panel regressions of annual market-adjusted abnormal returns of year $t+1$ on the lagged political contribution indexes and other firm characteristics. Firms choose whether to participate in the political contribution process. Thus, there is a possible self-selection bias in my sample. To address this concern, I follow the two-stage approach in Cooper et al. (2010). In the first stage, I estimate a probit regression of a firm's likelihood of participating in the political contribution process. The explanatory variables include firm size, total sales, number of employees, book-to-market ratio, cash flow, leverage, market share, number of geographic segments, number of business segments, and a regulated industry dummy. I compute the Heckman (1979) inverse mills ratio (*IMR*) each year from the first-stage regression. In the second-stage regression, I include the *IMR* as an independent variable. In addition to *IMR*, I include the lagged 12-month buy-and-hold return on the stock, the firm's market cap in December, and the lagged book-to-market ratio as control variables.

Since many firms contribute to candidates in both parties and chambers, there may be a multicollinearity issue in specifications that include political contribution indexes of both parties or both chambers. I conduct two-stage regressions, similar to Cooper et al. (2010) and Sabherwal et al. (2017), to address this concern. In the first stage, I regress each respective Democratic index on the respective Republican index and create a Democratic residual series using the errors from the regression. In the second stage, I regress the annual abnormal returns on the Republican index

and the residual Democratic index. For robustness, I reverse the orthogonalization procedure and include the Democratic index and the residual Republican index in the regression. I follow the same two-stage procedure for the House and Senate indexes.

To examine whether the contribution effect is greater for contributions by heavily regulated firms, I include an interaction of political contribution indexes with a dummy variable that classifies firms into highly regulated and less regulated. Firms above the median regulation index are classified as highly regulated firms. Firms below the median regulation index are classified as less regulated firms. *Regulated* is a dummy variable that takes a value of one if a firm is highly regulated and zero otherwise. I include the interaction term in all the specifications.

I present the results of second-stage regressions in Table 4.[17] The coefficient on *Regulated* is negative and statistically significant in most of the specifications, suggesting that highly regulated firms earn lower future returns as compared to less regulated firms. Specification (1) includes a single index based on the total number of candidates supported by each firm. The coefficient of this index is positive and statistically significant. It shows that firms that support a greater number of candidates earn higher future returns. This result is consistent with the finding in Cooper et al. (2010). The coefficient on the interaction term between *P.I. Index* and *Regulated* dummy variable is also statistically significant, showing that supporting a greater number of candidates is even more beneficial for highly regulated firms. In other words, the contribution effect is greater for heavily regulated firms.

Specifications (2) and (3) are based on political contribution indexes split along party lines for all races combined. In Specification (2), the coefficient for the Republican index is positive and significant. However, the coefficient for the residual Democrat index is not significant. The

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[17] I do not include the results of the first-stage regressions here. The results are available upon request from me.

coefficient for the interaction term between the Republican index and *Regulated* dummy variable is also significant, but the coefficient for the interaction term between the residual Democrat index and *Regulated* dummy variable is not significant. It suggests that the Republican effect is greater for heavily regulated firms as compared to less regulated firms. In contrast, in specification (3), both interaction terms are significant. These results show that there is no incremental Democrat effect beyond the Republican effect for heavily regulated firms, but there is an incremental Republican effect beyond the Democrat effect for heavily regulated firms. These findings suggest that heavily regulated firms find it more beneficial to support Republicans because of the incremental effect, and thus contribute more to Republican candidates (reported in Tables 1, 2, and 3).

Specifications (4) to (7) are based on indexes split along party lines separately for the House and Senate. The results for both chambers are similar to the overall results. In specifications (4) and (6) for the House and Senate, respectively, the Republican index interaction coefficients are significant, but the residual Democrat index interaction coefficients are not significant for heavily regulated firms. However, in specifications (5) and (7) for the House and Senate, respectively, the coefficients for both interaction terms are significant. These results show that there is no incremental Democrat effect beyond the Republican effect, but there is an incremental Republican effect beyond the Democrat effect for heavily regulated firms for both chambers. Thus, although highly regulated firm contributions to both parties and both chambers are associated with higher returns, contributions to Republican candidates provide information for stock returns above and beyond the information provided in contributions to Democrats. Overall, the results in Table 4, along with my findings in Tables 1, 2, and 3 that heavily regulated firms provide substantially

more support to Republicans, both in terms of the number and dollar amounts of contributions. Also, highly regulated firms build stronger relationships with Republicans and benefit from them.

For robustness, I construct a variation of the basic measure of political contribution. Specifically, I construct an index based on the dollar amount contributed instead of the number of supported candidates. I compute the political contribution index for the dollar amount contributed to candidates (PI$) for all races (House, Senate, and presidential) for firm i in year t is computed as:

$$PI\$_{it} = \sum_{j=1}^{J} (Candidate_{jt,t-5} \times Contribution_{jt,t-5}),$$

where *Candidate* $_{jt,t-5}$ is a dummy variable equal to one if a firm contributes money to candidate j over years t-5 to t, and *Contribution* $_{jt,t-5}$ is the dollar amount contributed to candidate j. I also compute indexes split along party lines for all races combined, and indexes split along party lines separately for the House and Senate. I use orthogonalization procedures to compute residual Republican and Democrat indexes. I run two-stage regressions based on Heckman (1979) of the indexes computed using the amounts of contributions. I report the results of the second stage in Table 5. The coefficient on *Regulated* is negative and statistically significant in most of the specifications, suggesting that highly regulated firms earn lower future returns as compared to less regulated firms.

The results of the dollar-based indexes are mostly consistent with the results for the number of supported candidates-based indexes. Specifically, the overall contribution indexes for both parties and all three races combined, the overall contribution indexes split along party lines, and the residual Republican indexes for all three races combined and for both chambers separately are positive and significant, whereas the residual Democrat indexes are not significant for the heavily regulated firms. The only result that is different is that indexes split along both chambers are not

significant for heavily regulated firms. It suggests that there is no significant contribution effect (based on the House and Senate) difference between highly regulated and less regulated firms.

5. Conclusions

The operations of highly regulated firms are either closely connected with the government or severely affected by the change in government policies and regulations. Therefore, these firms may have a strong incentive to establish political connections in order to have better access to information about any potential change in government regulations. There is extant literature on the effects of regulations on corporate political spending for a particular industry. However, the effects of regulations within an industry are generally homogeneous. Therefore, it is important to examine the relationship between regulations and campaign contributions across several industries. I accomplish this by using a Regulatory Index that uses common parameters to assign a score for each industry. The index also varies by time across each industry which enables me to observe time-series dynamics of the relationship between contributions and regulation levels across various industries.

In this study, I examine whether firms with a higher number of restrictions contribute more to political causes in the following year. I find that heavily regulated firms, on average, contribute more as compared to less regulated firms, both in terms of the number of contributions and dollar amounts of contributions. I also find that the average contributions by both highly regulated and less regulated firms to candidates for the presidency, House, and Senate are larger for Republican candidates than for Democratic candidates.

I find that both highly regulated and less regulated firms contribute more to House candidates of the Republican Party when they control the House. However, both highly regulated and less regulated firms contribute more to Senate candidates of the Republican Party, irrespective of which

party has a majority in the Senate. I also find that for both chambers, contributions, in general, by heavily regulated firms to both Republicans and Democrats increase when their party has a majority. Therefore, the contributions to Republicans relative to Democrats are much greater when Republicans have a majority.

Next, I examine whether campaign contributions are more valuable for regulated firms. I find a positive relationship between contributions by heavily regulated firms and future returns, which shows that the connections built through contributions are economically valuable. I also find there is no incremental effect for contributions to Democrats beyond the effect for contributions to Republicans, but there is an incremental Republican effect beyond the Democrat effect for highly regulated firms. This finding suggests that it is more beneficial for heavily regulated firms to support Republicans.

I intend to examine whether heavily regulated firms contribute more to environment obstructionists (political candidates who do less for the environment). The League of Conservation Voters (LCV) tracks the voting records on critical environment-related bills for congressional candidates. Candidates with a lower LCV score (also known as environment obstructionists) have not voted a lot in favor of environment-related causes. On the other hand, candidates with a higher LCV score (also known as environment supporters) have primarily voted in favor of environment-related causes.

I will also investigate whether the campaign contributions by heavily regulated firms are detrimental to consumers. Faccio and Zingales (2022) document how the regulatory regime in the mobile telecommunication industry has an impact on prices and competition and, consequently, on consumers. I intend to analyze the impact of contributions by all regulated industries on end-users.

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TABLES

Table 1 Contributions by Heavily Regulated and Less Regulated Firms

Table 1 reports the contributions per firm per year to House, Senate, and presidential candidates of each party by heavily regulated and less regulated firms. Panel A reports the total number of annual contributions per firm per year to House, Senate, and presidential candidates of each party. Panel B reports the total dollar amount of contributions per firm per year to House, Senate, and presidential candidates of each party. The data used in the table are obtained from the Federal Election Commission detailed files on political contributions by firms for 1980–2020. *, **, and *** indicate significance at 10%, 5%, and 1%, respectively.

	Total	Candidates		Difference	t-Stat
		Republican	Democratic		
Panel A Number of Firm Contributions per Year to All Republican and Democratic Candidates					
Heavily regulated	53.7	31.1	22.3	8.8***	32.6
Less regulated	44.9	27.5	17.3	10.2***	39.4
Difference	8.8***	3.7***	5.0***		
t-Stat	7.6	5.4	9.6		

	Total	Candidates		Difference	t-Stat
		Republican	Democratic		
Panel B Dollar Amount of Firm Contributions per Year to All Republican and Democratic Candidates					
Heavily regulated	66422	39871	26261	13610***	32.7
Less regulated	44502	28082	16255	11827***	37.5
Difference	21919***	11788***	10006***		
t-Stat	14.6	12.8	15.7		

Table 2 Contributions and House Majority

Table 2 reports the contributions per firm to each party's House candidates by heavily regulated and less regulated firms. Panel A report the annual number of contributions per firm to each party's House candidates. Panels B report the annual dollar amount of contributions per firm to each party's House candidates. The data used in the table are obtained from the Federal Election Commission detailed files on political contributions by firms for 1980–2020. *, **, and *** indicate significance at 10%, 5%, and 1%, respectively.

		Candidates			
	Majority	**Republican**	**Democratic**	**Difference**	*t*-**Stat**
Panel A Number of Firm Contributions per Year to House Republican and Democratic Candidates					
	Majority in House				
	Republican	31.40	18.20	13.10***	36.50
Heavily regulated	Democratic	19.20	20.90	-1.60***	-6.10
	Difference	12.10***	-2.60**		
	t-**Stat**	11.90	-3.09		
	Majority in House				
	Republican	24.00	11.20	12.77***	37.40
Less regulated	Democratic	20.20	17.30	2.94***	11.30
	Difference	3.70***	-6.10***		
	t-**Stat**	5.90	13.60		

		Candidates			
	Majority	**Republican**	**Democratic**	**Difference**	*t*-**Stat**
Panel B Dollar amount of Firm Contributions per Year to House Republican and Democratic Candidates					
	Majority in House				
	Republican	41508.00	22649.00	18859.00***	34.20
Heavily regulated	Democratic	19035.00	20631.00	-1596.00***	-5.00
	Difference	22472.00***	2018.00**		
	t-**Stat**	16.30	2.00		
	Majority in House				
	Republican	29746.00	13151.00	16595.00***	33.20
Less regulated	Democratic	13537.00	12714.00	823.00***	4.00
	Difference	16208.00***	436.50		
	t-**Stat**	21.20	0.90		

Table 3 Contributions and Senate Majority

Table 2 reports the contributions per firm to each party's Senate candidates by heavily regulated and less regulated firms. Panel A report the annual number of contributions per firm to each party's Senate candidates. Panels B report the annual dollar amount of contributions per firm to each party's Senate candidates. The data used in the table are obtained from the Federal Election Commission detailed files on political contributions by firms for 1980–2020. *, **, and *** indicate significance at 10%, 5%, and 1%, respectively.

| | | Candidates | | | |
	Majority	Republican	Democratic	Difference	t-Stat
Panel A Number of Firm Contributions per Year to Senate Republican and Democratic Candidates					
	Majority in Senate				
	Republican	7.20	3.80	3.40***	32.90
Heavily regulated	Democratic	6.20	5.10	1.10***	9.50
	Difference	1.00***	-1.30***		
	t-**Stat**	4.90	8.80		
	Majority in Senate				
	Republican	7.40	2.80	4.60***	41.70
Less regulated	Democratic	7.40	4.40	4.00***	35.00
	Difference	0.00	-1.60***		
	t-**Stat**	0.10	15.70		

| | | Candidates | | | |
	Majority	Republican	Democratic	Difference	t-Stat
Panel B Dollar amount of Firm Contributions per Year to Senate Republican and Democratic Candidates					
	Majority in Senate				
	Republican	10935.00	5380.00	5555.00***	29.80
Heavily regulated	Democratic	9771.00	7174.00	2597.00***	10.90
	Difference	1164.00**	-1794.00***		
	t-**Stat**	3.20	8.10		
	Majority in Senate				
	Republican	9373.00	3447.00	5926.00***	36.60
Less regulated	Democratic	10127.00	5593.00	5023.00***	31.00
	Difference	-754.00**	-2146.00***		
	t-**Stat**	2.40	14.90		

Table 4 Panel Return Regressions based on Regulation and Political Contribution Indexes as per the Number of Supported Candidates

This table reports regressions of annual abnormal returns on the natural log of political contribution index (*P.I.*), regulated dummy, control variables, and the inverse Mills ratio (*IMR*). It presents regressions for *P.I.*s computed based on the number of supported candidates. The *P.I. All races* refers to all races including presidential, Senate, and House. The *P.I. R* and *D* refer to the party affiliation of the candidate, and *R res* and *D res* refer to residual *P.I.*s obtained from regressing a *P.I.* on its counterpart *P.I. B.H. past returns* is the lagged 12-month buy-and-hold return on a stock, *Size* is the firm's market cap, and *B.M.* is the lagged book-to-market ratio. The *t*-statistics are in parentheses below the coefficients. Standard errors are clustered by firm. *, **, and *** indicate significance at 10%, 5%, and 1%, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Regulated	-3.79***	-2.57***	-2.59***	-2.29***	-2.50***	-3.34***	-0.49
	(0.37)	(0.80)	(0.86)	(0.77)	(0.78)	(1.06)	(0.86)
P.I. All races#(R&D)	0.19***						
	(0.07)						
P.I. All races#(R&D)*Regulated	0.71***						
	(0.09)						
P.I. All races#(R)		0.44**					
		(0.17)					
P.I. All races(R)*Regulated		0.48**					
		(0.23)					
P.I. All races#(D res)		0.12					
		(0.12)					
P.I. All races#(D res)*Regulated		-0.05					
		(0.17)					
P.I. All races#(D)			-0.09				
			(0.15)				
P.I. All races#(D)*Regulated			0.38*				
			(0.22)				
P.I. All races#(R res)			-0.03				
			(0.10)				
P.I. All races#(R res)*Regulated			0.44***				
			(0.16)				
P.I. House#(R)				0.46**			
				(0.18)			
P.I. House#(R)*Regulated				0.42*			
				(0.23)			
P.I. House#(D res)				0.04			
				(0.12)			
P.I. House#(D res)*Regulated				-0.02			
				(0.18)			
P.I. House#(D)					-0.13		
					(0.17)		
P.I. House#(D)*Regulated					0.38*		
					(0.23)		
P.I. House#(R res)					0.05		
					(0.11)		
P.I. House#(R res)*Regulated					0.48***		
					(0.15)		

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
P.I. Senate#(R)						0.65**	
						(0.27)	
P.I. Senate#(R)*Regulated						1.14***	
						(0.36)	
P.I. Senate#(D res)						0.16	
						(0.16)	
P.I. Senate#(D res)*Regulated						-0.38	
						(0.24)	
P.I. Senate#(D)							0.03
							(0.19)
P.I. Senate#(D)*Regulated							-0.15
							(0.28)
P.I. Senate#(R res)							-0.06
							(0.14)
P.I. Senate#(R res)*Regulated							0.57***
							(0.20)
Size	-0.72***	-0.77***	-0.56***	-0.85***	-0.57***	-0.79***	-0.57***
	(0.06)	(0.11)	(0.11)	(0.12)	(0.11)	(0.14)	(0.12)
B/M ratio	-1.57**	-2.43***	-3.38***	-2.56***	-4.49***	-2.97**	-3.20**
	(0.68)	(0.63)	(1.16)	(0.66)	(1.25)	(1.28)	(1.58)
B.H. Past returns	-0.38**	-0.27	-0.81**	-0.56	-0.62	-0.38	-0.55
	(0.17)	(0.40)	(0.39)	(0.45)	(0.42)	(0.58)	(0.56)
IMR	-5.22***	-4.50***	-5.41***	-4.65***	-6.26***	-4.82***	-4.11***
	(0.37)	(0.72)	(0.86)	(0.77)	(0.95)	(1.00)	(0.95)
Intercept	24.33***	24.33***	19.43***	24.41***	21.64***	26.91***	16.35***
	(1.58)	(3.39)	(3.18)	(3.14)	(3.17)	(4.29)	(3.74)
R-squared	0.43	0.42	0.53	0.43	0.51	0.42	0.55

Table 5 Panel Return Regressions based on Regulation and Political Contribution Indexes as per the Dollar Amount of Contributions

This table reports regressions of annual abnormal returns on the natural log of political contribution index (*P.I.*), regulated dummy, control variables, and the inverse Mills ratio (*IMR*). It presents regressions for *P.I.*s computed based on the dollar amount of contributions. The *P.I. All races* refers to all races including presidential, Senate, and House. The *P.I. R* and *D* refer to the party affiliation of the candidate, and *R res* and *D res* refer to residual *P.I.*s obtained from regressing a *P.I.* on its counterpart *P.I. B.H. past returns* is the lagged 12-month buy-and-hold return on a stock, *Size* is the firm's market cap, and *B.M.* is the lagged book-to-market ratio. The *t*-statistics are in parentheses below the coefficients. Standard errors are clustered by firm. *, **, and *** indicate significance at 10%, 5%, and 1%, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Regulated	-1.18***	-4.04***	-3.56***	-3.05**	-2.93**	-1.94	0.35
	(0.12)	(1.05)	(1.04)	(1.19)	(1.26)	(2.54)	(1.73)
P.I. All races$(R&D)	0.011***						
	(0.00)						
P.I. All races$(R&D)*Regulated	0.01**						
	(0.00)						
P.I. All races$(R)		0.18***					
		(0.04)					
P.I. All races$(R)*Regulated		0.25***					
		(0.09)					
P.I. All races$(D res)		0.19*					
		(0.10)					
P.I. All races$(D res)*Regulated		0.05					
		(0.16)					
P.I. All races$(D)			0.13***				
			(0.05)				
P.I. All races$(D)*Regulated			0.18*				
			(0.09)				
P.I. All races$(R res)			-0.00				
			(0.10)				
P.I. All races$(R res)*Regulated			0.41**				
			(0.16)				
P.I. House$(R)				0.30***			
				(0.07)			
P.I. House$(R)*Regulated				0.17			
				(0.12)			
P.I. House$(D res)				0.15			
				(0.11)			
P.I. House$(D res)*Regulated				0.06			
				(0.16)			
P.I. House$(D)					0.09		
					(0.08)		
P.I. House$(D)*Regulated					0.09		
					(0.12)		
P.I. House$(R res)					0.02		
					(0.10)		
P.I. House$(R res)*Regulated					0.53***		
					(0.15)		

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
P.I. Senate$(R)						0.50***	
						(0.18)	
P.I. Senate$(R)*Regulated						0.12	
						(0.24)	
P.I. Senate$(D res)						0.13	
						(0.16)	
P.I. Senate$(D res)*Regulated						-0.14	
						(0.24)	
P.I. Senate$(D)							0.14***
							(0.03)
P.I. Senate$(D)*Regulated							-0.18
							(0.17)
P.I. Senate$(R res)							0.02
							(0.14)
P.I. Senate$(R res)*Regulated							0.58***
							(0.08)
Size	-0.49***	-0.81***	-0.69***	-0.94***	-0.67***	-0.91***	-0.71***
	(0.05)	(0.11)	(0.11)	(0.12)	(0.11)	(0.14)	(0.12)
B/M ratio	-0.15*	-2.75***	-3.78***	-2.89***	-4.74***	-3.62***	-3.46**
	(0.08)	(0.65)	(1.18)	(0.68)	(1.28)	(1.27)	(1.58)
B.H. Past returns	-0.48***	-0.29	-0.87**	-0.56	-0.68	-0.48	-0.45
	(0.11)	(0.42)	(0.41)	(0.47)	(0.43)	(0.61)	(0.61)
IMR	-4.05***	-5.72***	-5.07***	-5.88***	-5.99***	-6.92***	-3.55***
	(0.30)	(0.77)	(0.84)	(0.83)	(0.94)	(1.01)	(0.92)
Intercept	16.16***	26.28***	20.66***	24.07***	19.05***	22.75**	11.60**
	(0.66)	(4.11)	(4.19)	(5.45)	(4.57)	(9.71)	(5.20)
R-squared	0.43	0.44	0.55	0.45	0.53	0.45	0.57

Appendix

Variable Description

Variable	Description
Abnormal Returns	Difference between a firm's raw annual return and the value-weighted annual return
P.I. #	Natural log of Political Contributions Index based on the total number of candidates supported by each firm
P.I. $	Natural log of Political Contributions Index based on the dollar amount contributed to candidates by each firm
Regulated	This is a binary variable that takes a value of one if the regulation index is above the median and zero if the regulation index is below the median
Size	Natural log of price per share ($) times shares outstanding
B/M ratio	Natural log of book equity divided by market equity
B.H. Past returns	12-month buy-and-hold return from January to December
Total Sales	Natural log of firm sales in millions of $
No. of Employees	Number of employees in millions
Cash flow	Cash flow scaled by total assets
Leverage	Sum of long-term debt and debt in current liabilities scaled by total assets
Market share	Firm sales scaled by total industry sales
No. of geographic segments	Number of geographic segments
No. of business segments	Number of business segments
Regulated (For Probit regression)	This is an indicator variable that equals one the if the firm operates in the financial services industry or in the utility industry and zero otherwise