Do Political Contributions Impact Shareholder Wealth?
Evidence from State Campaign Finance Reforms

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Abstract

Corporate political contributions are a contested topic, with advocates and firms suggesting they offer efficiency gains. While some researchers suggest contributions influence politicians to benefit firms, still others propose contributions indicate agency concerns. Several studies observe correlations between shareholder wealth and contributions to federal candidates, but causality remains a challenge. Using an innovative database of both federal and state contributions from corporations, I evaluate the link with shareholder wealth by exploiting changes in state campaign finance laws as a shock to contributions. Following the staggered adoption of laws limiting contributions across states, I observe shareholder wealth declines. My findings suggest corporate political contributions positively impact shareholders through government subsidy awards, informing debates over campaign finance reform and corporate political contributions.

JEL Classification: G38; G32; H71

Key words: Corporate Political Contributions; Shareholder Wealth; Campaign Finance Reform

"All contributions by corporations to any political committee or for any political purpose should be forbidden by law..." – Theodore Roosevelt to Congress on December 5, 1905

I. Introduction

The role of corporations in campaign finance has been debated for more than a century, and policies have been enacted to limit the influence of firms in politics, though the impact on shareholders is not well understood (Milyo 1999; Primo & Milyo 2006; Bebchuk & Jackson 2012; Coates 2012). The literature on corporate political contributions suggests benefits arise from firms financing politicians' elections, suggesting the connection may increase the chance of politicians guiding corporate decision-making or government leaders awarding valuable contracts to firms (Faccio 2006; Faccio *et al.* 2006; Jayachandran 2006; Faccio & Parsley 2009; Goldman *et al.* 2013; Hill *et al.* 2013a). Specifically, researchers have observed positive correlations between corporate financial support of politicians and stock performance, capital access and regulatory approval of acquisitions (Claessens *et al.* 2008; Cooper *et al.* 2010; Perez-Saiz & Semenov 2014).

Still, challenges remain with distinguishing between campaign contributions helping firms perform well in the future, or alternatively, firms with the resources and motivation to contribute to political campaigns are simply more likely to perform well. I use a quasi-natural experiment from externally imposed campaign finance reforms to attain causal inference and inform the ongoing debate regarding corporate campaign contributions. Specifically, the staggered adoption of campaign finance reforms across U.S. states results in plausibly exogenous changes in political campaign contributions for a sample of firms.[1] Therefore, I use campaign finance reforms to examine the link between shareholder wealth and corporate political contributions.

Since campaign finance for state and local politicians is overseen by the state of the government office, I examine financing of state political campaigns by firms in states enacting reforms (treatment) and compare them to otherwise similar firms in states without reforms (control). I use these events as a shock to study the importance of corporate involvement in campaign finance. I utilize a difference-in-differences (DiD) approach analyzing the interaction of the post (relative to the pre) reform period and treatment (relative to control) firms. Consistent with the view that corporate political contributions benefit firms, I observe a decline in shareholder

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[1] State campaign finance reforms have also been used as a quasi-natural experiment to test causal inferences in the public choice literature on election competition (Stratmann & Aparicio-Castillo 2006).

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wealth for treatment firms following restrictions to political contributions (i.e., plausibly exogenous declines in firms' participation in campaign finance).

I study political contributions from political action committees dedicated to a firm, which are the most direct connection firms have to politicians' elections.[2] I develop an innovative database of state political contributions to identify firms forced to lower contributions and examine how shareholder wealth responds. The National Institute for Money in State Politics provides data on state campaign finance activity, which are critical to exploit state reforms. Campaign finance reforms typically impose new limits, offering plausibly exogenous declines in contributions. As a result, I study reforms establishing legal limits to previously unrestricted contributions.

To examine the impact of the reforms on firms and shareholders, I analyze firm value (*Tobin's Q*) and stock performance (*12-Month Buy-and-Hold Return*). I focus on performance during the election cycle following reforms and compare it to the prior cycle, though I also analyze alternative periods and measures with similar results. Shareholders of treatment firms exhibit an average decline in wealth of at least 5% following reforms limiting political contributions.

Next, I use a triple difference (difference-in-differences-in-differences, DiDiD) approach to compare firms concentrating political contributions in the reform state. I analyze firms with more concentrated political contributions and find treatment firms with concentrated contributions (i.e., a greater proportion of political contributions limited by reforms) are adversely affected more than other treatment firms. Further, I explore channels where political contributions could affect firms and find concentrated treatment firms are approximately 4% less likely to receive government contracts awarded by state governments following reforms, which is meaningful given the average subsidy is $200 million. The results offer evidence political contributions contribute to shareholder wealth, in addition to offering a direct channel: government subsidy awards.

The DiD approach rules out many alternative hypotheses. For example, Cooper *et al.* (2010) state that "our finding of a link between contributions and future returns may simply be driven by unobserved firm characteristics that are correlated with contributions and are also the main cause of increased returns." My results show the decline in shareholder wealth relates only to treatment firms when political contributions become restricted following reforms and are most pronounced for treatment firms with concentrated contributions. Therefore, general trends in

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[2] Political action committees are the primary campaign finance mechanism for firms, since regulators (e.g., Federal Election Commission) prohibit corporate treasuries from contributing directly to political campaigns (Epstein 1980).

shareholder wealth over time or effects related to firm characteristics are unlikely alternative explanations. Further, greater declines at treatment firms with concentrated contributions within a state help alleviate concerns over differences between reform and non-reform states.

One potential concern is the political economy where campaign finance reforms take place. Since the reforms take place across multiple years, plausible alternative explanations must relate to all campaign finance reforms over time. I have reviewed reforms in addition to performing Weibull hazard models where the "failure events" are the adoption of laws restricting political contributions to identify determinants. I find no evidence that events are endogenous to firms contributing politically or those located in the state enacting reforms. Further, I find no evidence that economic and political characteristics are significant determinants of reforms or the primary cause of declines in shareholder wealth, government subsidy awards or political contributions.

I perform additional robustness tests using control firms within the states where reforms take place and find similar results. Though these control firms are unaffected by contribution limit enactments, these tests mitigate concerns regarding differences in control firms that relate to the states where firms are headquartered beyond unobservable state fixed effects. Further, I control for unobservable characteristics related to states, industries and years by using fixed effects. I also measure value using industry-adjusted Tobin's Q and observe similar results. In sum, the results are robust to using multiple measures of shareholder wealth and using different treatment and control definitions to account for corporate, geographic and time-specific effects.

Overall, this study complements the literature along several dimensions. I analyze corporate political activities at both state and federal levels of government. While existing studies primarily focus on federal political contributions, the inclusion of corporate contributions to state campaigns allows me to exploit state law changes to identify causal inference between political contributions and shareholder wealth. The research closest to mine uses a regression discontinuity design to analyze close, off-cycle U.S. congressional elections and infer that political networks add value, which relies on similarities between firms contributing to winning and losing candidates for federal offices (Akey 2015). However, if some firms are able to distinguish between winning and losing candidates (even in close elections), then the election outcomes may relate to firm quality such that superior firms contribute to winning candidates, leading to concerns similar to prior research by making contributions a signal of firm quality rather than a mechanism for political connections. On the other hand, I extend the literature on shock-based causal inference in

financial economics by using campaign finance reform to show reforms can lead to changes in wealth for affected firms compared to otherwise similar firms (Atanasov & Black 2014).

I also document that more firms contribute to state politicians than federal. Moreover, many potential benefits of government ties are more likely in states than the federal level.[3] Further, my research design allows me to look at a novel set of political contributions and focus on state contributions, which is where most legislation takes place and may have larger effects.[4] Additionally, I provide evidence that one channel through which firms benefit from greater political contributions is government subsidy awards. Also, while Akey (2015) focuses on value enhancement from new networks, I analyze restrictions to determine the extent to which effects are. Finally, Stratmann and Aparicio-Castillo (2006) observe more competitive elections with contribution limits in place, suggesting my setting may inform that of Akey (2015). The remainder of the paper is organized as follows. Section II discusses the background and academic literature regarding campaign finance reform and corporate political contributions. Section III describes the empirical methodology and results, and Section IV concludes.

II. Campaign Finance Reform Background and Related Literature

While corporations participate in the political process in many ways, I focus on political contributions to campaigns, since this direct access to politicians develops reputational capital for the firm to benefit (Claessens *et al.* 2008; Cooper *et al.* 2010; Aslan & Grinstein 2012; Perez-Saiz & Semenov 2014; Akey 2015; Brown *et al.* 2015). The Federal Election Commission (FEC) and state governments restrict campaign finance through extensive procedures politicians must follow, including disclosure of the source and use of funds. To allow equal access to participants, campaign finance is highly regulated, often including strict limits. Importantly, corporations are prohibited from contributing directly to political campaigns from the corporate treasury (Epstein 1980). However, corporations are legally permitted to support campaigns through political action committees (PACs) dedicated firms, contributing from funds separate from the corporate treasury.

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[3] See e.g., the 76th Oregon Legislative Assembly's House Bill 4200 by Joint Special Committee on Economic Development from the one-day special session in December 2012 which provided future financial security, suggesting state legislatures have specific interests related to corporations headquartered in the state: http://www.ocpp.org/media/uploads/documents/2013/2012-specsess-hb4200.en.pdf.

[4] Most legislative activity takes place at the state level. In 2012, for example, the United States Congress passed fewer bills than any state legislature in the country, with most state legislature passing twice as many bills as Congress. See e.g., LegiNation, Inc., which provides data for state legislature activity: https://www.billtrack50.com/.

a. Campaign Finance Background

Prior to the Federal Election Campaign Act of 1971, politically active corporations encouraged individuals to contribute. However, the regulatory process led to the rise in corporate participation by offering an alternative mechanism for individuals to allocate more capital (Masters & Keim 1985; Conway 1986; Humphries 1991). Since firms are strictly prohibited from allocating corporate funds to political campaigns, firms instead administer PACs to finance political campaigns with "hard" money political contributions from corporate PACs. Corporate PACs are firm-specific pools of money dedicated to the firm, associated with the firm stakeholders and stockholders but independent from the corporate treasury. While individual state laws vary, most follow the federal model.[5] Additionally, research on corporate lobbying and soft money campaign finance activities document that executives benefit in the form of additional compensation and firms have agency and free cash flow problems (Jensen & Meckling 1976; Chaney *et al.* 2011; Aggarwal *et al.* 2012; Skaife *et al.* 2013; Gounopoulos *et al.* 2019). Independent expenditure-only committees (i.e., "Super PACs") cannot contribute to campaigns but instead participate in the process independently from political campaigns. Importantly, firm specific Super PACs do not exist in the manner that firm-specific PACs do, allowing minimal interaction between firms and politicians through independent spending. Instead, many firms, individuals and organizations all contribute to the same Super PAC. Further, soft money contributions are not campaign-specific, indicating that the spending is not directly linked to politicians.[6] These restrictions limit direct connections between firms and politicians.

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[5] In fact, 11 CFR 102.5(a)(1)(ii) allows federal and state political contributions to be made from the same corporate PAC. The FEC regulates all "hard" money, which includes all activities and funds directly financing political campaigns and committees. Alternatively, the FEC defines "soft" money as "money raised outside the limits and prohibitions of federal campaign finance law." Soft money political contributions include outside expenditures indirectly related to politicians. While other mechanisms like soft money contributions allow firms to participate in the political process, none allow firms direct access to politicians. The most common legal structure among states follows federal precedent of separate funds, while other states regulate corporations similar to the FEC with similar political contribution restrictions. Though some states allow firms to contribute to political campaigns without organizing a separately segregated fund, much of the regulatory process is similar for firms in these states as well. See e.g. National Conference of State Legislatures' (NCSL) State Campaign Finance Laws: An Overview: http://www.ncsl.org/research/elections-and-campaigns/campaign-finance-an-overview.aspx.

Also, see e.g., the FEC's Public Records Office Summary of State Campaign Finance Laws: http://www.fec.gov/pubrec/publicrecordsoffice.shtml.

[6] The FEC clearly states, "Independent expenditures represent spending by individuals, groups, political committees, corporations or unions expressly advocating the election or defeat of clearly identified federal campaigns. These expenditures may not be made in concert or cooperation with, or at the request or suggestion of, a candidate, the candidate's campaign or a political party." See e.g., FEC "Independent Expenditure-Only Committees" press release detailing independent expenditure-only committees: http://www.fec.gov/press/press2011/ieoc_alpha.shtml.

Super PACs are not a prominent financing source of capital for the political channels in my study for several reasons. First, while most state campaign finance activity and laws are similar to those at the federal level, independent expenditures are highly concentrated at the federal level, while state and local elections are financed primarily through campaign expenditures (Stratmann & Aparicio-Castillo 2006). Additionally, independent expenditures are largely funded by individuals rather than corporations (Ansolabehere *et al.* 2003; Briffault 2012; Bonica 2014). Though Cooper *et al.* (2010) has endogeneity concerns, they find that soft money contributions through non-campaign-specific independent expenditure committees and charitable giving do not influence the relation between political contributions and shareholder wealth.

Super PACs were also prohibited beginning with the Bipartisan Campaign Reform Act (BCRA) of 2002, until the 2010 ruling by the Supreme Court of the United States in the case between Citizens United and the FEC.[7] Moreover, prior to 2002, independent expenditures were limited.[8] Therefore, independent expenditures are of little importance prior to 2010. Overall, strict restrictions minimize alternative, unregulated channels linking corporations and politicians such that the primary mechanism connecting corporations to political campaigns is the corporate PAC.

b. *Corporate Political Action Committees*

The sole direct mechanism the FEC allows for corporate participation in campaign finance is the corporate PAC. Corporate PACs are separate segregated funds (SSFs). That is, PACs are dedicated to and administered by the firm, but PAC funds are separate from corporate resources. In particular, corporations can create and facilitate political contributions to campaigns, so long as the corporate treasury does not fund any political contributions (Milyo 1999). Individuals have the opportunity to contribute both directly to campaigns and to PACs, which in turn contribute to

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Additionally, see e.g., the FEC's "Super PACs and Other Independent Expenditure Filers," which includes detailed descriptions of independent organizations participating in politics: http://www.fec.gov/portal/super_pacs.shtml.

[7] See McCain–Feingold Act, Pub.L. 107–155, 116 Stat. 81, enacted March 27, 2002, H.R. 2356. Also, see e.g., Citizens United v. Federal Election Commission, 558 U.S. 310 (2010). Unfortunately, my primary research design does not benefit from this brief sub period because campaign finance reform halted while the legal process unfolded for BCRA. However, I do perform my analysis on the period prior to 2010 with qualitatively and quantitatively similar results. Similarly, correlations between political contributions and firm value persist from 2002 to 2010, though the research design suffers from endogeneity.

[8] In fact, during 2012, independent expenditures were more substantive than the two decades preceding, reaching $1 billion, while independent expenditures were only $11 million and $34 million, respectively during 1992 and 2000. See e.g., the Center for Responsive Politics "Outside Spending," which documents the various forms of political spending outside of PACs: https://www.opensecrets.org/outsidespending/index.php?type=Y.

campaigns. By contributing to PACs, individuals are more fully participating in the process through additional eligible channels. Corporate leadership and political advisors administer PACs and determine where to allocate capital. PACs rely on stakeholders and stockholders for funding, namely executives and upper-level management. Corporate treasuries may only provide administrative fees organizing the PAC, which are not trivial. Further, corporate PACs cannot incentivize donations but can develop materials illustrating the goals and purpose of the PAC.[9]

While several studies analyze corporate political contributions and argue that firms benefit, establishing causation is challenging due to reverse causality, simultaneity bias, omitted variables and other specification errors. Similarly, the literature specifically focused on corporate political contributions directly from PACs to political campaigns shows correlations with corporate outcomes but also suffers from endogeneity. Cooper *et al.* (2010) show that federal political contributions are positively associated with both changes in shareholder wealth and certain firm characteristics, including size, profitability, market share and union membership, in addition to industry characteristics. Though they account for the likelihood of contributing politically based on firm characteristics, the results incorporate the endogenous decision to contribute a particular amount in addition to the effect of the political contributions.

Additionally, Claessens *et al.* (2008) find that political contributions are associated with more access to financing in Brazil. They attempt to alleviate endogeneity concerns by showing that political contributions to presidential affiliates, incumbent and winning candidates have a

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[9] For example, Microsoft sponsors the Microsoft Political Action Committee (MSPAC), which has a website stating, "Corporate participation in the public policy process is an important and essential means of enhancing shareholder value and is fundamental to free and democratic societies." While employees fund corporate PACs, political contributions are still allocated based upon corporate decisions. In many cases, corporations have committees who evaluate candidate campaign policies and allocate capital accordingly. See e.g., Microsoft's Political Engagement website, which offers an overview: "Microsoft sponsors the Microsoft Political Action Committee (MSPAC), to enable Microsoft employees and shareholders to participate more effectively in the U.S. political process. The committee, created in 1988, informs its members about important issues and government decisions that can affect Microsoft business. It also provides an opportunity for members to collectively support public policy positions that are important to Microsoft and the software industry. As a bipartisan organization that contributes to the campaigns of federal, state, and local candidates, MSPAC typically supports candidates who share Microsoft views on public policy, serve as congressional or legislative leaders, represent districts or states where Microsoft has a major business presence, or serve on committees that have jurisdiction over legislation that is important to the company.

"The MSPAC Steering Committee evaluates candidates' public policy positions on issues that are relevant to Microsoft business or of particular interest to the computer software industry. The committee – composed of senior managers in Legal and Corporate Affairs at Microsoft – then decides which candidates and campaigns MSPAC will support."

Also, see e.g., NCSL "Political Action Committee Contribution Limits," which states the following: "If a corporation desired to form a PAC, pooling contributions from its employees or outside sources into a distinct bank account, the PAC can spend money to influence elections in a way the corporation cannot by itself."

greater impact. Unfortunately, the significant positive correlation between winning and losing candidates limits inferences. Likewise, Perez-Saiz and Semenov (2014) find that banks allocate capital to legislators who appoint regulators in advance of acquisitions, suggesting firms contribute to politically powerful legislators in advance of making acquisitions or that government officials allow firms contributing politically to grow through the acquisition market. More recently, Brown *et al.* (2015) observe lower and less volatile effective tax rates for firms contributing politically, another example of opportunities for firms and shareholders to benefit from political contributions. However, in each case, endogeneity concerns persist.

The best attempt by researchers to offer causal evidence that political contributions impact firms comes from Akey (2015), who studies abnormal performance following 13 special elections for U.S. congressional offices using a regression discontinuity design. This approach infers causality from firms contributing to winning and losing candidates being indistinguishable, and therefore only elections decided by a margin of less than 5% are examined. The results show firms contributing to winning candidates perform 3% better following elections, offering the strongest evidence to date that political contributions can be valuable for firms. The biggest concern with this approach is that firms with skills in identifying political success are also more likely to have skill in identifying successful strategies in their own industry. Overall, research on political contributions observes positive relations between firm benefits and contributions, consistent with other literatures linking politics to corporate outcomes (Goldman *et al.* 2009; Kim *et al.* 2012; Ovtchinnikov & Pantaleoni 2012; Amore & Bennedsen 2013; Fang & Prabhat 2013; Goldman *et al.* 2013; Hill *et al.* 2013b; Chen *et al.* 2014; Borisov *et al.* 2016; Ovtchinnikov *et al.* 2019). However, endogeneity concerns related to omitted variables and specification errors persist.

c. *Campaign Finance Reform*

While many states follow the model of federal campaign finance laws, state campaign finance reforms vary between 1988 and 2010. Twenty-two states impose twenty-six reforms. Seventeen of these law changes limit previously unlimited contributions, leading to plausibly exogenous declines in political contributions. The remaining law changes relax restrictions, allowing firms to choose a higher level of political contributions. Since political contribution decisions become endogenous to the firm after restrictions are relaxed, I focus on law changes imposing limits that restrict firms' political contributions. Half of these reforms take place by 1996,

allowing time for exogenous variation in political contributions following the law changes and subsequent changes in shareholder wealth. While laws are not randomly assigned, the impetus for each law differs. For example, some campaign finance reforms were enacted through voter initiatives in the 1990s (Stratmann & Aparicio-Castillo 2006).[10] Though unlikely that firms contributing politically are the motivating factor in restricting contributions, I investigate this concern in additional analyses. The most commonly imposed limit is $5,000 from a firm to a political campaign during a four-year cycle. Though cost of living adjustments raise limits, my analysis focuses on substantive law changes, imposing limits to previously unrestricted contributions and raising limits in terms of real dollars. Limits influence the amounts firms contribute to politicians. Firms in states without political contribution limits allocate over 100% more money to politicians. Appendix A summarizes changes to contribution limit laws by state.

Despite campaign finance reform, corporate political contributions have grown in frequency and magnitude over time, especially for state political contributions. While almost 20% of public firms gave politically in the 1980s (10% to federal and 10% to state politicians), nearly 30% gave politically in the 2000s (20% state and 10% federal). While campaign finance reform may have slowed the growth in contributions, state and federal contributions have grown at average rates of 30% and 12%, respectively, during the recent decades. Taken together, these patterns indicate firm decision-makers value state political links highly relative to federal ties.

III. Empirical Methodology and Results

While federal campaign finance laws governing corporate political activity have changed little apart from the Bipartisan Campaign Reform Act (BCRA), state campaign finance laws exhibit substantive variation across both states and time. Thus, the changes in state-level restrictions implemented over the past few decades allow for a quasi-natural experiment on the importance of corporate political contributions and can offer insight into campaign finance effects (Stratmann & Aparicio-Castillo 2006). I therefore exploit changes in state campaign finance reforms to identify

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[10] While California and Oregon also impose political contribution limits in 1996, these law changes are not included in the analysis because they are overturned by judicial actions before an election cycle passes. These reforms do not alter my conclusions. Also, see e.g., Stratmann and Aparicio-Castillo (2006), who study the effects of changes in limits to political contributions in elections and observe that winners have more competitive elections with smaller victory margins and more candidate campaigns once political contribution limits take effect. They document that lower limits favor challengers, increasing competition.

the relation between corporate political contributions and shareholder wealth. First, I summarize the data and show the correlation from prior literature. Then, I use a DiD approach to test whether campaign finance reforms affect corporate political contributions and measure whether shareholder wealth responds to these externally imposed restrictions.

a. *Corporate Political Contributions and Firm Characteristics*

To take advantage of state campaign finance reform, I employ the most comprehensive database of hard money corporate PAC contributions to political campaigns for government offices at all levels to test the effect on shareholder wealth. I am the first to collect and study hard money contributions to politicians running for all government offices from firms in the CRSP-Compustat universe using data from the National Institute on Money in State Politics and the FEC.[11] Due to the cyclical nature of elections and political contributions, I compute the total from data over a full four-year election cycle such that contributions to a politician elected every four years are incorporated throughout the term, similar to Cooper et al. (2010).[12] The first full election cycle of political contribution data begins in 1984. By ending in 2014, I can observe shareholder wealth for the four years before and after each reform.

I exploit the adoption of state laws with state political contributions data to capture variation in contributions largely free of econometric concerns. To identify firms contributing to state politicians, I collect PAC data from the National Institute on Money in State Politics, in addition to the FEC. Since firms contributing politically decide how much to allocate to campaigns and frequently contribute the amount allowed by limits (and larger quantities when political contributions are not restricted), restrictions on campaign finance implement binding constraints for some firms, resulting in exogenous variation in political contributions for these firms. I identify state political contributions from firm-dedicated PACs to political campaigns governed by state agencies, including candidates running for both state and local offices, while federal political contributions include all contributions governed by and disclosed to the FEC. I manually identify firms with dedicated PACs from each source. I merge the political contributions data with the

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[11] Perez-Saiz and Semenov (2014) focus on state political contributions and limit analysis to the importance of contributions by financial institutions to state officials governing the financial services industry in advance of mergers and acquisitions. The remaining literature focuses on federal political contributions.

[12] My results are quantitatively and qualitatively similar when using the same five-year period as Cooper *et al.* (2010), as well as both shorter and longer time periods.

CRSP-Compustat universe. I analyze firm-year data using multiple samples for completeness. First, I replicate the prior literature using the full CRSP-Compustat universe (full sample). The primary sample (experiment sample) is used for the quasi-natural experiment created by campaign finance reforms and consists of treatment firms and matching control firms. While my initial analysis focuses on firms most likely to be impacted by reforms, I perform a broader analyze to assess the generalizability and robustness of the analysis (robustness sample).

The full sample is comprised of both firms that contribute to political candidate campaigns and firms that do not, resulting in 95,878 firm-year observations over more than three decades and spanning 13,229 firms. Table I presents firm characteristics by how firms contribute. Specifically, firms that do not contribute politically are separated from those that do contribute, and contributing firms are further divided into three mutually exclusive categories: firms contributing to only state politicians, firms contributing to both state and federal politicians and firms contributing only to federal politicians.[13] Contributors account for 30% of the sample, with more firms contributing to state than federal campaigns. Firms contributing to both state and federal politicians allocate approximately 50% of total contributions to state politicians. Firms contributing to both state and federal politicians are the largest, followed by firms contributing to only federal, only state and not at all. In addition to contributing more politically, contributors to state and federal politicians also have more geographic segments, higher leverage, higher governance index and larger, more independent boards, highlighting the importance of DiD and fixed effects analyses.

As prior researchers have documented federal political contributions are correlated with firm value, I begin the analysis by regressing Tobin's Q on measures of political contributions and firm characteristics in Table II. Similar to Cooper *et al.* (2010), I also utilize the log of political contribution measures. The positive coefficients for *Log (Political Contributions)*, *Log (State Contributions)* and *Log (Federal Contributions)* indicate all are positively correlated (coefficients = 0.012, 0.020 and 0.009, respectively) with *Tobin's Q*, showing state political contributions share the positive correlation between federal political contributions and firm value without controlling for endogeneity. State contributions are also correlated with firm value beyond the correlation between state and federal contributions by including both variables in column 4. Finally, column 5 shows state political contributions are correlated with firm value even among federal

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[13] The analysis is similar when groups are separated by firm-year, election cycle or the full period using the same categories, since political contributions are persistent.

contributors, which may result from the concentration of state political contributions. Panel B of Table II repeats the analysis including only firms contributing politically, which shows a similar correlation. Though firm value is correlated with political contributions, this analysis does not address endogeneity. Further, the inverse mills ratio is positive and significant, suggesting the propensity to contribute is linked to firm value. As a result, I utilize the quasi-natural experiment created from externally imposed campaign finance reforms to infer causality.

b. *Univariate Analysis of Contributions and Shareholder Wealth around Reforms*

For my primary sample, I identify treatment firms as those headquartered in states passing campaign finance reforms imposing limits below the firm's previous political contributions. Since each reform limits contributions per campaign, I characterize treatment firms using the maximum amount allocated to a campaign during the four-year election cycle prior to reforms. Since firms allocate 55% of contributions to campaigns in the state where the firm is headquartered and politicians in the headquarter state are most likely to impact firms, I isolate firms located in states where campaign finance reforms limit previously unrestricted political contributions. While other firms are also headquartered in those states, I categorize 97 firms affected by the reforms such that they previously gave more to a single political campaign than the subsequently enacted reform allows. As a result, the reforms lead to plausibly exogenous declines in contributions for these treatment firms. I match treatment firms with firms from states that do not enact campaign finance reform such that my experiment sample includes treatment and control firms.

To identify control firms, I draw from firms in non-reform states, excluding firms in states where contribution limits increase. I require that firms share the first digit of the Standard Industrial Classification (SIC) code and year, in addition to being within 25% of *Market Value of Equity*, *Tobin's Q* and *Maximum Political Contribution Per Headquarter State Campaign*. Of the 97 treatment firms, 86 have at least one corresponding control firm meeting these requirements. Further, I require each firm's match to have data necessary to be included in the analysis, creating a balanced sample of treatment and control firms. Then, I select the control firm with total headquarter state political contributions closest to the treatment firm to ensure treatment and control firms have similar political contributions and are matched on a one-to-one basis.[14] Table

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[14] These binding constraints help identify a large sample of similar control firms. In fact, 75% of control firms are within 5% of the *Market Value of Equity* of the corresponding treatment firm. Further, 80% share the first two digits

III compares treatment and control firms, suggesting characteristics are indistinguishable during the year prior to reforms, including not having significantly different *Market Value of Equity* (p-value = 0.778)*, Leverage* (0.528)*, Return-on-Assets* (0.852)*, Governance Index* (0.487)*, Business Segments* (0.850)*, Geographic Segments* (0.583)*, Industry Adjusted Q* (0.964) and *Prior 12-Month BHAR* (0.203)*.* This comparison suggests treatment and control assignment is "as-if" randomly assigned, facilitating an appropriate setting for a DiD testing approach.

To discern the impact of campaign finance reform on political contributions and affirm that the constraint binds as expected, I analyze contributions before and after reforms for treatment and control firms. My univariate analysis serves as a traditional DiD approach. Specifically, since all reforms impose limits to political contributions from each firm to each campaign, I focus on the maximum amount a firm contributes any political campaign to identify when the new legally imposed constraint on contributions is binding.[15] Table IV tabulates *Maximum Political Contribution Per Headquarter State Campaign* in Panel A and *Total Headquarter State Political Contributions* in Panel B for treatment and control firms (first difference) during the pre and post reform periods (second difference). I average observations during the four years (full election cycle) before and after the reforms, to alleviate potential econometric issues related to time dependence in the outcome variable within each firm (Bertrand *et al.* 2004). The results document a significant decline in *Maximum Political Contribution Per Headquarter State Campaign* of approximately 65% for treatment firms following reforms, while control firms exhibit increases in contributions, similar trends for the broader sample period. The first and second differences suggest treatment firms exhibit similar political contributions pre-reform but significantly lower contributions post reform. Moreover, the DiD p-value is below 1%. Similarly, *Total Headquarter State Political Contributions* decline approximately 25% for treatment firms, while remaining unchanged for control firms. While the parallel changes assumption is not directly testable, my results in Table IV offer informal confirmation that the assumption is credible, showing treatment

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of the SIC code and 65% share the first three digits. I only require that the treatment and control firm be in the sample for one year before and after the reforms to be included in the sample, but of the four years before and after the reforms, each pair is included for an average of 7.4 of the 8 possible years. The results are similar when requiring firms be present for the full period, share the first three digits of the SIC code and be within 5% of *Market Value of Equity*, though the sample size reduction affects the power to test significance in some tests. I have also performed tests with larger samples including less restrictive matching constraints and unmatched pooled analyses with similar results.

[15] Political contributions are highly persistent over time, so prior contributions proxy for future contributions in the absence of reforms. The first-order autocorrelation coefficient is 0.938, which has an F-statistic of 5.620, rejecting the null hypothesis of no first-order autocorrelation.

and control firms exhibit similarities and correlated political contributions subject to similar economic and legal forces.[16] The decline in political contributions for treatment firms following campaign finance reforms suggests the experimental setting is useful for understanding the impact on firms and shareholders when law changes externally impose shifts in contributions. Having demonstrated the importance of campaign finance reform on political contributions, I study shareholder wealth around reforms to infer causality of political contributions on firm outcomes.

My first attempt at identifying causal inference largely free of econometric concerns involves analyzing the univariate DiD between treatment and control firms between the pre and post reform periods. In Panels C and D of Table IV, I analyze firm value, measured by *Tobin's Q*, and stock performance, measured by *12-Month Buy-and-Hold Return*, respectively. The second difference in both analyses is negative and significant, indicating that treatment firms decline in value and shareholders lose wealth following reforms, relative to control firms. The economic magnitude suggests firm value declines by over 10%, while buy-and-hold returns decrease by 16% in the post reform period relative to control firms. In both Panel C and D, the sign of the change from the pre to post reform period is positive for control firms and negative for treatment firms. Table IV suggests that treatment firms decline in value relative to control firms, providing evidence that declines in political contributions lead to lower shareholder wealth.

As an additional test, I examine the differential impact of the reforms on treatment firms where law changes should have a larger effect, i.e., firms with more concentrated contributions. I implement a DiDiD framework by comparing concentrated treatment firms to diversified treatment firms. Specifically, I measure concentration in two manners: headquarter state concentration and campaign concentration. Since the reforms take place in the state where the firms are headquartered, law changes should have a disproportionately greater effect on firms allocating a larger percentage of political contributions to the headquarter state. Further, since reforms limit contributions on a per campaign basis, firms concentrating political contributions among a smaller number of candidates should also exhibit larger declines in shareholder wealth following reforms, since the political contribution structure of those firms becomes constrained to a greater degree. I measure headquarter state concentration as the ratio of the firm's headquarter state political

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[16] Since multiple staggered shocks lead to concerns regarding parallel trends, I also employ an instrumental variable approach as robustness, which replaces the parallel trends assumption with the "only through" assumption. The results are similar, and conclusions unchanged.

contributions to contributions in all state campaigns, which I analyze in Panels A (firm value) and C (stock performance). Similarly, in Panels B and D, I measure campaign concentration as the percentage of the firm's top campaign contribution relative to all campaigns. For each, I bifurcate the sample and compare high (above median) and low concentration. Table V presents the results.

The DiDiD results are all negative with the economic magnitudes implying declines in shareholder wealth at least as large as those observed in Table V. Panels A and B reveal that firms with concentrated political contributions in reform states exhibit relative declines compared to firms with more diversified political contributions. Both the second and third differences are negative and statistically significant in each case. This decline suggests that firms more reliant upon the firm's headquarter state exhibit the strongest reaction to law changes in that state, while other similar firms do not exhibit the same decline. Treatment firms with geographically diversified contributions outperform concentrated treatment firms in reform states during the post reform period. Panel C and D also shows a similar relation for firms with concentrated and diverse contributions among campaigns. These results also provide additional evidence that the differences observed around reforms relate specifically to changes in campaign finance activity. Having established evidence of a univariate relation between shareholder wealth and political contribution reductions around reforms, I perform multivariate DiD and DiDiD analysis of contributions.

c. *Multivariate Analysis of Political Contributions and Shareholder Wealth around Reform*

I implement the DiD approach in a multivariate setting to control for additional firm characteristics and unobservable fixed effects. I regress shareholder wealth, measured by *Tobin's Q* and *BHAR12,* on *Treatment, Post,* and *Treatment * Post*. *Post* is an indicator variable equal to one following campaign finance reform, and *Treatment* is an indicator variable equal to one for firms in states enacting reforms whose maximum political contribution in the election cycle prior to the reform exceeded the reform limit. The primary variable of interest is *Treatment * Post,* which identifies the group of firms previously contributing more politically than the newly imposed reform allows after the reform takes effect. Panel A of Table VI presents the results. Columns 1 and 2 present results for *Tobin's Q,* while columns 3 and 4 present results for *BHAR12*. Column 1 shows treatment and control firms do not have significantly different firm value overall, consistent with the value being similar prior to reforms. Column 2 shows that firm value is significantly lower for treatment firms following reforms (coefficient = -0.154; p-value = 0.096).

Columns 3 and 4 present similar results, with the coefficient of *Treatment * Post* also being negative (-0.085) and significant (0.066). The economic magnitudes suggest that shareholder wealth declines approximately 9% for each measure. The results support firms' claims that political contributions lead to greater shareholder wealth. Shareholder wealth decreases after limiting reforms for firms that previously allocated contributions above the subsequently imposed limit (i.e., firms legally forced to reduce political contributions) but does not for otherwise similar control firms maintaining similar political contributions.

Next, I implement the DiDiD in a multivariate setting. I add two indicator variables to measure concentration: *High Headquarter Concentration* and *High Campaign Concentration.* The primary variables of interest are *Treat * Post * High Headquarter* and *Treat * Post * High Campaign,* respectively. Panel B of Table VI presents the results, which document that firms contributing politically in a concentrated manner exhibit significantly lower shareholder wealth following reforms, relative to otherwise similar control firms and non-concentrated treatment firms. The economic magnitude of the results demonstrates that shareholders of concentrated treatment firms exhibit the largest decline in wealth. Each model has a significant (p-values = 0.003, 0.060, 0.019, 0.028, respectively) and negative coefficient, with each model suggesting the decline exceeds 9%. For robustness, I also examine changes in Tobin's Q and find similar results.

d. *Government Awarded Contractual Subsidies*

Finally, to provide insight into a potential channel through which political contributions impact shareholder wealth, I analyze subsidy contracts awarded to firms by state governments. One of the primary manners in which the literature discusses firm benefits from involvement with the political process is through preferential treatment by government decision-makers (Faccio *et al.* 2006; Fan *et al.* 2007; Claessens *et al.* 2008; Kim *et al.* 2012; Yu & Yu 2012; Goldman *et al.* 2013; Chen *et al.* 2014). The most direct way a government transfers capital to a corporation is through large government contract awards. If government contracts are valuable, then firms contributing politically could increase shareholder wealth by obtaining additional contracts that offer supplementary revenue and profit.

I analyze determinants of state government contract awards to study the relation to contributions. To examine government contracts, I collect data from Good Jobs First, a national policy resource center tracking the largest economic development subsidy packages awarded by

state and local governments.[17] While less than 1% of firms in the sample receive government subsidies, the average subsidy value in my sample is $200 million dollars, which is likely to be the most direct mechanism for governments to affect shareholder wealth. Panel A of Table VII examines political contributions to government subsidies for the full sample, while Panel B of Table VII implements the DiDiD approach for government subsidies. Though the methodology suffers from endogeneity concerns, Panel A of Table VII shows firms contributing politically, especially those allocating more money to state politicians, also receive more frequent and larger state contracts. Column 1 documents that *Log (State Contributions)* is positively (coefficient = 0.0003) and significantly (p-value < 0.001) related to the probability of being awarded a government subsidy. Column 2 shows a similar result using an indicator variable, *State Political*, equal to one if the firm contributes to state politicians and zero otherwise. Contributors are 25% more likely to be awarded government contracts if they contribute politically.[18] Further, column 3 shows that firms contributing more politically are also awarded larger contracts, while column 4 shows contributors are awarded 2% larger contracts. Since these relations may suffer from endogeneity, I perform a DiD analysis with respect to subsidies.

Columns 1 and 2 in Panel B of Table VII show that the coefficient of *Treatment * Post* is negatively (though not statistically significantly) related to the likelihood and size of subsidy awards. In columns 3 through 6, I implement the DiDiD approach and observe that treatment firms contributing politically in a concentrated manner observe significant declines in the likelihood and size of subsidy awards. The coefficients on the variables of interest are negative (-0.044, -0.918, -0.046, -0.973, respectively) and significant (p-values <0.001, <0.001, 0.093, 0.074, respectively). The decline in likelihood and size of subsidies for concentrated treatment firms following reforms, as well as the positive relation between political contributions and subsidies, provide causal inference for the channel through which firms benefit from political contributions.

e. *Additional Analysis of Political Contributions and Shareholder Wealth*

In additional analysis, I expand my sample to all firms in reform states to offer more comprehensive evidence on the role of political contributions, by analyzing all firms around

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[17] See e.g., Good Jobs First's Subsidy Tracker: http://www.goodjobsfirst.org/megadeals/subsidy-tracker.
[18] I compute the conditional change in the probability by dividing the relative increase in conditional probability by the overall probability of contract awards in the sample: ((coefficient of *State Political*) / (Probability of Subsidy Award)) = 0.001 / 0.004.

campaign finance reform. I provide controls for whether the firm contribute a large amount to political campaigns, which I define using multiple measures. I use the most common contribution limit, as well as each state's limit to identify *High Contributors*. The results in Table VIII suggest that large contributors are more negatively impacted in reform states, while firms contributing less do not exhibit negative valuation effects. Further, large contributors in non-reform states do not exhibit negative valuation effects either, suggesting the reforms are likely the result and that the results are generally important for a large quantity of firms. Additionally, I analyze which firms may be most impacted. For example, concentrated firms (i.e., those with fewer business or geographic segments) are most likely to be impacted by reforms, while firms that contribute to political campaigns across a larger variety of states are less likely to have such large impacts. My results show that firms are more impacted when the last state in which they contribute restricts political contributions, in addition to when they contribute more or are limited to a single business or geographic segment. Table IX presents results analyzing the full sample, which suggests that contributions are more valuable for the firm prior to the reform. Overall, these results suggest that, while the role of political contributions is broad, the effects are more substantial for firms where the impact touches a larger piece of the firm.

To offer additional evidence on the robustness of a causal relation between political contributions and shareholder wealth, I use an alternative research design: shock based IV approach (Bowen *et al.* 2014). Since exogenous shocks often provide useful instruments, I also employ an IV approach by following a growing strand of the finance literature (Adams & Santos 2006; Black *et al.* 2006; Bennedsen *et al.* 2007; Guner *et al.* 2008; Iliev 2010). Consistent with my prior results, I relate political contributions to the reform period and observe a negative relation in untabulated results. I also analyze the relation between the predicted variation in political contributions and shareholder wealth in order to capture the exogenous change in contributions following campaign finance reform. In this setting, law changes meet the necessary instrument validity requirements by offering a significant effect on contributions, being largely randomly assigned and only impacting shareholder wealth through political contributions (Angrist & Pischke 2008). I observe a negative relation between *Post* and political contributions, as well as a positive relation between the fitted value of contributions and shareholder wealth.

One concern with my research approach is that reforms need to be exogenous events. While campaign finance reforms have been used as exogenous shocks to elections in the political science

literature, a possible concern is whether reforms are exogenous to firms, especially those contributing politically. In untabulated analyses, I examine this by performing Weibull hazard models, where the "failure events" are the adoption of a contribution limit reduction. I find that reforms are not significantly related to information about the political economy, including the number or size of firms in the state, income per capita and political contributions by firms overall or to either political party. I find no evidence that firms or states allocating a disproportionate share of contributions to any particular party is a significant predictor of reforms, despite the fact that reforms are commonly associated with progressive politicians (Stratmann & Aparicio-Castillo 2006). My results suggest contributors have little discretion over reforms, indicating campaign finance reforms are exogenous to the treatment firms of my quasi-natural experiment. Further, reforms are difficult for firms to predict and respond to in advance, suggesting they are also unexpected shocks. Therefore, the exogenous shocks provided by campaign finance reforms offer the most direct basis for causal inference to date for the effect of political contributions on shareholder wealth.

To address other concerns that the states where the laws take place may differ from other states, I perform additional untabulated analyses. While state fixed effects likely consider many unobservable factors, I perform additional analysis using a matched set of control firms within the reform states. I perform analysis with only in-state control firms, as well as adding these control firms to my prior methodology. Further, I perform analyses where I pool all firms to include all possible firms to control for any potential difference in groups of firms or states. My results are similar in each case, and my conclusions remain unchanged. I also repeat my analyses after considering the likelihood of each firm contributing to political candidates and observe similar results. The results are also similar when analyzing differences between treatment and control firms rather than taking the differences from the average levels of each. I also perform analyses where I require that the firms only contribute to politicians within the reform state. While the sample is limited, the results are qualitatively similar. I also find similar results when using propensity score matching to identify control firms. Due to the Bipartisan Campaign Reform Act of 2002, I also perform subsample analyses before 2010 and observe similar results. Unfortunately, between the BCRA of 2002 and 2010 ruling by the Supreme Court of the United States in the case between Citizens United and the FEC, no state campaign finance reforms were enacted, largely due to states waiting on the court system to process the federal reforms. Additionally, due to the

unique nature of the state-level data, I can easily observe whether political contributions were allocated to winning campaigns. As a result, I perform analysis focused specifically on these funds and observe similar results on the subset of firms allocating capital to politicians winning elections. In additional untabulated analyses, I investigate a variety of alternative mechanisms connecting political contributions and firm value. First, I find evidence that political contributions are linked to higher operating profit margins, higher sales growth, higher employee satisfaction and incentives, more mergers, and lower effective tax rates.

Finally, while the number of reforms removing restrictions on contribution limits is small, I perform additional robustness tests on these law changes. In a couple of instances, states enact campaign finance reforms limiting political contributions and subsequently pass laws removing those restrictions. In those cases, firms forced to reduce political contributions exhibit positive changes in shareholder wealth following the removal of the restrictions providing further support for political contributions increasing shareholder wealth and suggesting campaign finance reform can increase or decrease shareholder wealth depending on the restrictions imposed or removed by reforms.

IV. Conclusion

Several studies on corporate involvement in politics have associated positive shareholder wealth effects with political influence. In fact, the return on investment suggested by some studies implies that corporations are significantly underinvesting in political influence. However, a causal link between corporate outcomes and corporate political contributions is unclear. I provide the most comprehensive study of corporate political contributions and shareholder wealth to date by introducing an innovative dataset, which allows me to exploit the staggered adoption of U.S. state laws to examine the effect of corporate political contributions on shareholder wealth largely free of econometric concerns related to reverse causality, omitted variables, simultaneity bias, heterogeneous effects or measurement and other specification errors.

The empirical evidence indicates contributors benefit from greater shareholder wealth, and one channel for increased wealth is in the form of additional government awarded subsidy contracts. I observe shareholder wealth declines following exogenous reductions in political contributions resulting from campaign finance reforms, relative to otherwise similar but unaffected control firms. Importantly, the results show treatment firms reduce political contributions and only

firms reducing political contributions exhibit negative changes to shareholder wealth. My empirical evidence helps measure firm benefits from political ties, suggesting the economic magnitude is noteworthy. Additionally, the results suggest corporate political contributors are benefiting from their strategy of contributing and that reforms can force firms to alter political participation to the detriment of shareholders. Overall, my results document shareholder benefits from corporate engagement in politics.

My study enhances the literature on political links by informing the campaign finance landscape and providing the most credible basis for causal inference to date. I also add to the literature developing in financial economics that employs exogenous shocks to offer further scrutiny to econometric concerns. My findings suggest campaign finance reform plays an important role for corporate participants. The empirical evidence also informs the debate around campaign finance reforms, showing restrictions can negatively impact firms headquartered within the reform state and their shareholders. Policy makers should consider what value, if any, is created from restricting corporate political contributions and whether it exceeds the value destroyed, in addition to considering the other implications of corporate political spending and disclosure thereof (Bebchuk & Jackson 2012). Public policy makers should be thoughtful of the structures of reforms, which are critical in determining which firms are most likely to be impacted by the law changes.

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Table I – Summary of Political Contributions

In Table I, I present summary statistics for the CRSP-Compustat universe of firms from 1984 to 2014, grouped by political contributions. Sample means for each group are presented with the number of unique firms and observation count listed above. Political contributions are studied during four year cycles in order to reduce the cyclical nature of the data, similar to the methodology of Cooper *et al.* (2010). *Political Contributions* is the sum of contributions by a given firm to all campaigns for any office during the prior four years ending with the election. *Contributions Per Campaign* is the ratio of total contributions to the total number of campaigns to whom the firm gave politically during the prior four years ending with the election. *Republican* is the percentage of contributions allocated to Republican campaigns during the prior four years ending with the election. *Incumbent* is the percentage of contributions allocated to incumbent candidate campaigns during the election cycle. *Headquarter State* is the percentage of contributions allocated to campaigns in the firm's headquartered state during the prior four years ending with the election. *Market Value of Equity* is total level of market capitalization of the firm in millions of USD at the most recent fiscal year end prior to the election cycle, using the price at the most recent month ending prior to the fiscal year end. *Leverage* is the ratio of long-term debt to assets at the most recent fiscal year-end prior to the election cycle end. *Geographic Segments* is the count of geographic segments the firm has listed in Compustat during the most recent fiscal year end prior to the election cycle end. *Regulated Industry* is an indicator equal to one if a firm operates in the financial services industry (one-digit SIC code 6) or in the utilities industry (two-digit SIC code 49) and zero otherwise. *Prior 12-Month BHR* is the cumulative return over the prior year immediately preceding the fiscal year end prior to the election cycle end. All variable definitions are included in Appendix B. Differences compare the group to the left, with the first column comparing firms contributing to state & federal campaigns to those contributing to state campaigns. Significance at the 10%, 5% and 1% levels are indicated as *, ** and ***.

	State & Federal Contributors	Federal Contributors	State Contributors	Non Contributors
	671 Firms	1,635 Firms	1,887 Firms	9,036 Firms
	(N=4,142)	(N=10,092)	(N=11,648)	(N=69,996)
Political Contribution Characteristics				
Political Contributions	458,164***	146,214***	73,859***	
Contributions Per Campaign	1,594*	1,245***	1,653***	
Republican (%)	0.62***	0.62	0.58***	
Incumbent (%)	0.74***	0.77***	0.64***	
Headquarter State (%)	0.36***	0.24***	0.55***	
Financial Characteristics				
Market Value of Equity	20,548***	8,985***	3,772***	1,072***
Leverage	0.268*	0.257***	0.267***	0.210***
Geographic Segments	2.17***	1.84***	1.43***	1.53***
Regulated Industries (%)	0.19*	0.15***	0.22***	0.14***
Prior 12-Month BHR	0.044***	0.056*	0.098**	0.041***
Post 12-Month BHR	0.046*	0.043	0.064*	0.034**
Governance Characteristics				
Governance Index	9.87***	9.88*	9.13***	8.91**
CEO Duality	0.69***	0.65***	0.61***	0.54***
Board Size	11.16***	10.69***	9.99***	8.75***
Independent (%)	0.76***	0.74***	0.69***	0.69***

Table II – State and Federal Political Contributions

Table II tabulates the multivariate analysis of shareholder wealth for firms to analyze the relation to corporate political contributions. *Tobin's Q* is calculated as the ratio of total assets less book value of equity plus market value of equity from the most recent month ending prior to the fiscal year-end to total assets at the prior year-end following the end of the election cycle. *Log (Political Contributions)* is the log of one plus the political contributions to all campaigns during the election cycle. *Log (State Contributions)* is the log of one plus the political contributions to state campaigns during the election cycle. *Log (Federal Contributions)* is the log of one plus the sum of political contributions to federal campaigns during the election cycle. *Log (State) * Federal* is the interaction of log of one plus the political contributions to state campaigns during the election cycle with an indicator variable equal to one for firms contributions to federal politicians and zero otherwise, such that the value is equal to the log of one plus state political contributions for firms also contributions to federal politicians and zero otherwise. *Return-on-Assets* is the ratio of net income to total assets at the most recent fiscal year end prior to the election cycle end. *Log (Total Assets)* is the total level of assets of the firm in millions of USD at the most recent fiscal year-end prior to the election cycle. *Intangible Ratio* is the level of intangible assets scaled by total assets of the firm at the most recent fiscal year end prior to the election cycle. *R&D-to-Sales* is the total level of research and development expenses scaled by the total level of sales for the firm at the most recent fiscal year end prior to the election cycle. *Leverage* is the ratio of long-term debt to assets at the most recent fiscal year-end prior to the election cycle end. *Inverse Mills Ratio* is computed using a predicted model for the likelihood of contributions politically from Cooper, Gulen, and Ovtchinnikov (2010). All models include firm and year fixed effects. All variable definitions are included in Appendix B. Robust p-values are in parentheses, with standard errors clustered by firm. Significance at the 10%, 5%, and 1% levels are indicated as *, **, and ***.

Panel A: Multivariate Analysis of State Political Contributions and Firm Value

VARIABLES	(1) Tobin's Q	(2) Tobin's Q	(3) Tobin's Q	(4) Tobin's Q	(5) Tobin's Q
Log (Political Contributions)	0.012***				
	(0.002)				
Log (State Contributions)		0.020***		0.019***	
		(<0.001)		(<0.001)	
Log (Federal Contributions)			0.009**	0.005	0.003
			(0.050)	(0.337)	(0.573)
Log (State) * Federal					0.022***
					(<0.001)
Log (Total Assets)	-0.189***	-0.194***	-0.185***	-0.196***	-0.193***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Leverage	-0.349***	-0.348***	-0.351***	-0.347***	-0.347***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Return-on-Assets	-0.093	-0.089	-0.094	-0.089	-0.090
	(0.283)	(0.302)	(0.274)	(0.304)	(0.299)
Intangible Ratio	-0.470***	-0.476***	-0.472***	-0.477***	-0.480***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)
R&D-to-Sales	0.001***	0.001***	0.001***	0.001***	0.001***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Constant	2.842***	2.879***	2.827***	2.882***	2.872***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Firm and Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Observations	95,878	95,878	95,878	95,878	95,878
Adjusted R-squared	0.493	0.493	0.493	0.493	0.493

Table II – State and Federal Political Contributions (Continued)

Panel B: Multivariate Analysis of State Political Contributions and Firm Value among Contributors

VARIABLES	(1) Tobin's Q	(2) Tobin's Q	(3) Tobin's Q	(4) Tobin's Q	(5) Tobin's Q
Log (Political Contributions)	0.007*				
	(0.053)				
Log (State Contributions)		0.017***		0.018***	
		(<0.001)		(<0.001)	
Log (Federal Contributions)			0.001	-0.002	-0.004
			(0.842)	(0.670)	(0.404)
Log (State) * Federal					0.0180***
					(<0.001)
Inverse Mills Ratio	1.122***	1.132***	1.129***	1.134***	1.137***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Log (Total Assets)	-0.385***	-0.402***	-0.376***	-0.401***	-0.393***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Leverage	-0.535***	-0.530***	-0.538***	-0.531***	-0.528***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Return-on-Assets	0.678***	0.689***	0.675***	0.689***	0.688***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Intangible Ratio	-0.458***	-0.469***	-0.459***	-0.468***	-0.479***
	(0.007)	(0.006)	(0.007)	(0.006)	(0.005)
R&D-to-Sales	0.003	0.003	0.003	0.003	0.003
	(0.447)	(0.427)	(0.447)	(0.426)	(0.427)
Constant	4.962***	5.088***	4.934***	5.087***	5.048***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Firm and Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Observations	25,882	25,882	25,882	25,882	25,882
Adjusted R-squared	0.083	0.086	0.083	0.086	0.085

Table III – Summary of Firm Characteristics and Political Contributions

Table III presents summary statistics for firms grouped by whether the firm is a treatment firm, contributing above subsequently imposed political contribution limits during the year prior to the reform in the firm's headquarter state. The groups provide a quasi-natural experiment. Each group includes 86 matching firms, with sample means for each group in addition to the p-value for the test comparing the sample means. Matching firms are required to share the first digit of the Standard Industrial Classification code industry and be within 25% of *Market Value of Equity*, *Tobin's Q* and *Maximum Political Contribution Per Campaign* over the most recent four-year election cycle. Then, I select the firm closest in *Total Headquarter State Political Contributions*, such that the match is one-to-one. *Market Value of Equity* is total level of market capitalization of the firm in millions of USD at the most recent fiscal year end prior to the election cycle, using the price at the most recent month ending prior to the fiscal year end. *Leverage* is the ratio of long-term debt to assets at the most recent fiscal year-end prior to the election cycle end. *Return-on-Assets* is the ratio of net income to total assets at the most recent fiscal year end prior to the election cycle end. *Intangible Assets* is the level of intangible assets scaled by total assets of the firm at the most recent fiscal year end prior to the election cycle. *Board Size* is a count of the board of directors at the firm at the most recent annual meeting prior to the election cycle end. *Insiders* is the number of the board of directors employed by the firm at the most recent annual meeting prior to the election cycle end. *Governance Index* is a measure of firm governance based upon provisions the firm holds at the most recent annual meeting date prior to the election cycle end, reported by Gompers, Ishii, and Metrick (2003), with higher numbers indicating less shareholder-friendly provisions in place or worse overall governance. *Business Segments* is the count of business segments the firm has listed in Compustat during the most recent fiscal year end prior to the election cycle end. *Geographic Segments* is the count of geographic segments the firm has listed in Compustat during the most recent fiscal year end prior to the election cycle end. *Industry Adjusted Q* is the ratio of total assets less book value of equity plus market value of equity at the month prior to the fiscal year end to total assets at the most recent fiscal year end prior to the election cycle end, less the median for the industry as defined by the first two digits of Standard Industrial Classification Code. *Prior 12-Month BHAR* is the cumulative return less the market return over the prior year immediately preceding the fiscal year end prior to the election cycle end. *Prior 36-Month BHAR* is the cumulative return less the market return over the prior three years immediately preceding the fiscal year end prior to the election cycle end. All variable definitions are included in Appendix B.

	Treatment	Control	P-Value of Difference
	86 Firms	86 Firms	86 Firm-Pairs
Market Value of Equity	6,994	7,919	0.778
Leverage	0.27	0.29	0.528
Return-on-Assets	0.01	0.02	0.852
Intangible Ratio	0.18	0.16	0.367
Board Size	10.00	9.42	0.204
Board Insiders	1.37	1.36	0.971
Governance Index	9.33	8.36	0.487
Business Segments	2.52	2.62	0.850
Geographic Segments	1.41	1.56	0.583
Industry Adjusted Q	0.16	0.16	0.964
Prior 12-Month BHAR	0.09	0.02	0.203
Prior 36-Month BHAR	0.13	0.10	0.825

Table IV – Contributions and Shareholder Wealth around Campaign Finance Reforms

Table IV summarizes political contributions and shareholder wealth around campaign finance reforms for 86 treatment and control firms during the four-year election cycle before and after campaign finance reforms. Panel A shows maximum political contributions allocated per campaign in the firm's headquarter state, while Panel B shows total political contributions in the firm's headquarter state. Matching firms are required to share the first digit of the Standard Industrial Classification code industry and be within 25% of *Market Value of Equity*, *Tobin's Q* and *Maximum Political Contribution Per Campaign* over the most recent four-year election cycle. Then, I select the firm closest in *Total Headquarter State Political Contributions*, such that the match is one-to-one. To alleviate concerns over cyclical effects in political contributions, I use four-year election cycle political contribution measures. *Maximum Political Contribution Per Headquarter State Campaign* is computed as the maximum of all political contributions to each headquarter state campaign during the four-year election cycle before and after the law change. *Total Headquarter State Political Contributions* is computed as the sum of all political contributions to each headquarter state campaign during the four-year election cycle before and after the law change. Panels C and D present average firm value as measured by *Tobin's Q* and *12-Month Buy-and-Hold Return* during the four-year election cycle before and after reforms. I present means for the four annual observations before and after each law change, in addition to the differences between groups, pre and post law changes for each group and the difference-in-differences. *Tobin's Q* is computed as the ratio of total assets less book value of equity plus market value of equity at the month prior to the fiscal year end to total assets at the most recent fiscal year end prior to the end of the election cycle, such that the average of the four years before and after the campaign finance reform are included. *12-Month Buy-and-Hold Return* is the cumulative return over the prior year immediately preceding the fiscal year end prior to the election cycle end such that the average of the four years before and after the campaign finance reform are included. All variable definitions are included in Appendix B. Significance at the 10%, 5% and 1% levels are indicated as *, ** and ***.

Panel A: Maximum Political Contribution Per Headquarter State Campaign around Campaign Finance Reforms

	Pre	Post	Difference
Treatment	15,477	5,427	(10,050)***
Control	14,346	15,474	1,128***
Difference	1,131	(10,047)***	(11,178)***

Panel B: Total Headquarter State Political Contributions around Campaign Finance Reforms

	Pre	Post	Difference
Treatment	47,780	35,359	(12,421)***
Control	40,680	41,020	340
Difference	7,099*	(5,661)**	(12,081)***

Panel C: Firm Value Measured by Tobin's Q around Campaign Finance Reforms

	Pre	Post	Difference
Treatment	1.61	1.52	(0.09)
Control	1.58	1.69	0.11**
Difference	0.03	(0.17)	(0.20)*

Panel D: Stock Performance Measured by Buy-and-Hold Return around Campaign Finance Reforms

	Pre	Post	Difference
Treatment	0.25	0.12	(0.13)
Control	0.13	0.16	0.03
Difference	0.12**	(0.04)	(0.16)*

Table V – Concentrated Political Contributions around Campaign Finance Reforms

Table V summarizes firm value and stock performance around campaign finance reforms for treatment and control firms grouped by concentration. Using the concentration of treatment firm political contributions, I divide the sample in half to identify firms more vulnerable to reforms. I measure concentration with two measures: headquarter state and campaign concentration. *Headquarter State Concentration* is the ratio of political contributions to campaigns in the firm's headquarter state to political contributions to all state campaigns. *Campaign Concentration* is the ratio of political contributions to the campaign where the firm contributes the most to the total political contributions to all campaigns. Panels A and C use *Headquarter State Concentration*, while Panels B and D use *Campaign Concentration*. Panels A and B measure firm value using *Tobin's Q*, while Panels C and D utilize *Buy-and-Hold Return. Tobin's Q* is computed as the ratio of total assets less book value of equity plus market value of equity at the month prior to the fiscal year end to total assets at the most recent fiscal year end prior to the end of the election cycle, such that the average of the four years before and after the campaign finance reform are included. *12-Month BHR* is the cumulative return over the prior year immediately preceding the fiscal year end prior to the election cycle end such that the average of the four years before and after the campaign finance reform are included. All variable definitions are included in Appendix B. I present means for the four annual observations before and after each law change, in addition to the differences between groups, pre and post law changes for each group and the difference-in-differences. Significance at the 10%, 5% and 1% levels are indicated as *, ** and ***.

Panel A: Firm Value Measured by Tobin's Q by Headquarter State Concentration

	Concentrated		Diversified		Difference		
	Pre	Post	Pre	Post	Pre	Post	Difference
Treatment	1.53	1.14	1.69	1.91	-0.16	-0.77*	-0.61*
Control	1.54	1.83	1.62	1.55	-0.08	0.28	0.36
Difference	-0.01	-0.70*	0.07	0.36	-0.08	-1.05***	-0.97***

Panel B: Firm Value Measured by Tobin's Q by Campaign Concentration

	Concentrated		Diversified		Difference		
	Pre	Post	Pre	Post	Pre	Post	Difference
Treatment	2.06	1.54	1.16	1.51	0.90	0.03	-0.87**
Control	1.05	1.23	2.11	2.15	-1.06	-0.92	0.14
Difference	1.01**	0.31	-0.95**	-0.65*	1.96***	0.95**	-1.01**

Panel C: Stock Performance Measured by Buy-and-Hold Return by Headquarter State Concentration

	Concentrated		Diversified		Difference		
	Pre	Post	Pre	Post	Pre	Post	Difference
Treatment	0.34	0.20	0.17	0.05	0.17	0.15	-0.02
Control	0.11	0.20	0.15	0.12	-0.04	0.08	0.12
Difference	0.23*	-0.01	0.02	-0.08	0.21*	0.07	-0.14*

Panel D: Stock Performance Measured by Buy-and-Hold Return by Campaign Concentration

	Concentrated		Diversified		Difference		
	Pre	Post	Pre	Post	Pre	Post	Difference
Treatment	0.22	0.18	0.28	0.06	-0.06	0.12	0.18
Control	0.10	0.29	0.17	0.04	-0.07	0.25	0.32*
Difference	0.13	-0.11	0.12	0.03	0.01	-0.13	-0.14*

Table VI – Shareholder Wealth and Political Contributions around Reforms

Table VI analyzes shareholder wealth for treatment and control firms around campaign finance reforms. *Treatment* is an indicator variable equal to one for firms allocating at least the subsequently imposed political contributions limit to any political campaign in the firm's headquarter state during the election cycle prior to campaign finance reform and zero otherwise. *Post* is an indicator variable equal to one following campaign finance reforms and zero otherwise. *Treatment * Post* is an indicator variable equal to one for treatment firms after campaign finance reforms and zero otherwise. *Size* is the log of the total market capitalization of the firm in millions of USD at the election cycle end. *Book-to-Market* is computed as the ratio of book value of equity at the most recent fiscal year end prior to the end of the election cycle to the market value of equity at the month prior to the fiscal year end prior to the end of the election cycle. *Market* is the cumulative return on the market over the prior year immediately preceding the fiscal year end prior to the election cycle end. *Momentum* is the cumulative return over the prior year immediately preceding the fiscal year end prior to the election cycle end. Panel B of Table VI summarizes shareholder wealth around campaign finance reforms for firms by political contribution concentration. Using the concentration of treatment firm political contributions, I divide the sample in half to identify firms more vulnerable to reforms. I measure concentration with two measures: headquarter state and campaign concentration. *High Headquarter (Campaign) Concentration* is an indicator variable equal to one if the ratio of contributions to campaigns in the firm's headquarter state relative to contributions to all state campaigns (ratio of political contributions to the campaign where the firm contributes the most to the total political contributions to all campaigns) is above the sample median and zero otherwise. Industry definitions utilize two-digit Standard Industrial Classification code. Variable definitions are included in Appendix B. Significance at the 10%, 5% and 1% levels are indicated as *, ** and ***.

Panel A: Shareholder Wealth around Campaign Finance Reforms

VARIABLES	(1) Tobin's Q	(2) Tobin's Q	(3) BHAR12	(4) BHAR12
Treatment	0.0637	0.0244	0.0486	0.0248
	(0.708)	(0.882)	(0.214)	(0.563)
Post		0.002		0.0458
		(0.976)		(0.187)
Treatment * Post		-0.154*		-0.085*
		(0.096)		(0.066)
Log (Total Assets)	-0.066	-0.067		
	(0.247)	(0.245)		
Return-on-Assets	-0.394	-0.414		
	(0.638)	(0.615)		
Intangible Ratio	0.756**	0.732**		
	(0.033)	(0.042)		
R&D-to-Sales	0.003	0.002		
	(0.711)	(0.761)		
Business Segments	-0.049**	-0.054**		
	(0.048)	(0.035)		
Geographic Segments	0.061**	0.064**		
	(0.021)	(0.019)		
Size			-0.027*	-0.028*
			(0.080)	(0.081)
Book-to-Market			-0.018	-0.017
			(0.839)	(0.847)
Market			-0.077	-0.0812
			(0.412)	(0.387)
Momentum			0.006	0.004
			(0.875)	(0.911)
Constant	1.634***	1.541***	0.026*	0.028*
	(<0.001)	(<0.001)	(0.088)	(0.080)
State, Industry and Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	1,272	1,272	1,272	1,272
Adjusted R-Squared	0.082	0.086	0.028	0.021

Table VI – Shareholder Wealth and Political Contributions around Reforms (Continued)

Panel B: Concentrated Contributions and Shareholder Wealth around Campaign Finance Reforms

VARIABLES	(1) Tobin's Q	(2) Tobin's Q	(3) BHAR12	(4) BHAR12
Treatment	-0.645***	0.541**	0.025	0.140*
	(<0.001)	(0.017)	(0.795)	(0.078)
Post	-0.182**	-0.011	0.081	0.043
	(0.038)	(0.928)	(0.323)	(0.284)
Treatment * Post	0.899**	-0.050	0.017	0.139
	(0.035)	(0.899)	(0.887)	(0.250)
High Headquarter Concentration	-0.090		0.089	
	(0.222)		(0.175)	
High Campaign Concentration		0.356		0.056
		(0.298)		(0.589)
Treat * High Headquarter	-0.166		0.017	
	(0.402)		(0.633)	
Post * High Headquarter	0.353***		0.022	
	(0.003)		(0.464)	
Treat * Post * High Headquarter	-0.682***		-0.0980**	
	(0.003)		(0.019)	
Treat * High Campaign		-0.449		0.027
		(0.284)		(0.826)
Post * High Campaign		0.232		-0.050
		(0.498)		(0.626)
Treat * Post * High Campaign		-0.747*		-0.285**
		(0.060)		(0.028)
Log (Total Assets)	-0.004	-0.068		
	(0.885)	(0.299)		
Return-on-Assets	0.855	-0.666		
	(0.189)	(0.450)		
Intangible Ratio	0.624*	0.895**		
	(0.071)	(0.021)		
R&D-to-Sales	1.968**	0.001		
	(0.0358)	(0.907)		
Business Segments	-0.051*	-0.068**		
	(0.070)	(0.016)		
Geographic Segments	0.022	0.049**		
	(0.414)	(0.049)		
Size			-0.050*	-0.035*
			(0.064)	(0.076)
Book-to-Market			0.100	-0.056
			(0.346)	(0.551)
Market			-0.217	-0.116
			(0.144)	(0.246)
Momentum			-0.055	-0.007
			(0.115)	(0.845)
Constant	1.587***	1.079***	0.042*	0.033*
	(<0.001)	(<0.001)	(0.081)	(0.080)
State, Industry and Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	1,272	1,272	1,272	1,272
Pseudo R-Squared	0.271	0.064	0.032	0.017

Table VII – Political Contributions and Government Subsidies

Table VII tabulates the multivariate analysis of state government subsidy awards and corporate political contributions. *Log (State Contributions)* is the log of one plus the political contributions to state campaigns during the election cycle. *State Political* is indicator variable equal to one if the firm allocates capital to political contributions to state campaigns during the election cycle and zero otherwise. *Log (Subsidy)* is the log of one plus the value of a subsidy value from a state or local government awarded to the firm during the following year. *Subsidy* is an indicator variable equal to one if the firm receives a subsidy from a state or local government the following year and zero otherwise. *Return-on-Assets* is the ratio of net income to total assets at the most recent fiscal year end prior to the election cycle end. *Log (Total Assets)* is the total level of assets of the firm in millions of USD at the most recent fiscal year-end prior to the election cycle. *Intangible Ratio* is the level of intangible assets scaled by total assets of the firm at the most recent fiscal year end prior to the election cycle. *R&D-to-Sales* is the total level of research and development expenses scaled by the total level of sales for the firm at the most recent fiscal year end prior to the election cycle. *Leverage* is the ratio of long-term debt to assets at the most recent fiscal year-end prior to the election cycle end. Panel B of Table VII tabulates the multivariate analysis of state government subsidy awards and corporate political contributions around reforms. Using the concentration of treatment firm political contributions, I divide the sample in half to identify firms more vulnerable to reforms. I measure concentration with two measures: headquarter state and campaign concentration. All models include state, industry and year fixed effects. Industry definitions utilize two-digit Standard Industrial Classification code. All variable definitions are included in Appendix B. All models include state, industry and year fixed effects. Industry definitions utilize two-digit Standard Industrial Classification code. Robust p-values are in parentheses, with standard errors clustered at the firm level. Significance at the 10%, 5%, and 1% levels are indicated as *, **, and ***.

Panel A: Political Contributions and Government Subsidy Awards

VARIABLES	(1) Subsidy	(2) Subsidy	(3) Log (Subsidy)	(4) Log (Subsidy)
Log (State Contributions)	0.0003***		0.007***	
	(<0.001)		(<0.001)	
State Political		0.001***		0.020***
		(0.009)		(0.007)
Log (Total Assets)	0.0004***	0.001***	0.009***	0.011***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Leverage	-0.0009*	-0.001*	-0.018*	-0.017*
	(0.084)	(0.090)	(0.070)	(0.075)
Return-on-Assets	-0.001***	-0.001***	-0.018***	-0.020***
	(0.00102)	(<0.001)	(<0.001)	(<0.001)
Intangible Ratio	-0.001*	-0.001*	-0.024*	-0.024*
	(0.055)	(0.056)	(0.053)	(0.054)
R&D-to-Sales	-126.5	-141.6	-0.00001	-0.00001
	(0.265)	(0.266)	(0.264)	(0.265)
Constant	-0.002***	-0.002***	-0.037***	-0.045***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)
State, Industry and Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	95,878	95,878	95,878	95,878
Adjusted/Pseudo R-squared	0.286	0.259	0.287	0.277

Table VII – Political Contributions and Government Subsidies (Continued)

Panel B: Political Contributions and Government Subsidies around Campaign Finance Reforms

VARIABLES	(1) Subsidy	(2) Log (Subsidy)	(3) Subsidy	(4) Log (Subsidy)	(5) Subsidy	(6) Log (Subsidy)
Treatment	-0.004	-0.076	-0.011	-0.220	-0.035	-0.731
	(0.543)	(0.508)	(0.204)	(0.199)	(0.149)	(0.126)
Post	-0.001	-0.023	-0.006	-0.113	-0.014	-0.299
	(0.721)	(0.771)	(0.210)	(0.193)	(0.188)	(0.163)
Treatment * Post	-0.010	-0.192	0.012	0.235	0.026	0.529
	(0.323)	(0.317)	(0.386)	(0.375)	(0.597)	(0.579)
High Headquarter Concentration			0.040***	0.824***		
			(<0.001)	(<0.001)		
High Campaign Concentration					0.012	0.240
					(0.231)	(0.215)
Treat * High Headquarter			-0.034**	-0.721***		
			(0.010)	(0.006)		
Post * High Headquarter			0.037***	0.785***		
			(<0.001)	(<0.001)		
Treat * Post * High Headquarter			-0.044***	-0.918***		
			(<0.001)	(<0.001)		
Treat * High Campaign					-0.002	-0.052
					(0.933)	(0.911)
Post * High Campaign					0.039**	0.832***
					(0.012)	(0.007)
Treat * Post * High Campaign					-0.046*	-0.973*
					(0.093)	(0.074)
Log (Total Assets)	0.003**	0.070**	0.003*	0.062*	0.005*	0.107*
	(0.034)	(0.030)	(0.064)	(0.056)	(0.099)	(0.089)
Leverage	0.008	0.170	0.010	0.200	0.019	0.372
	(0.634)	(0.627)	(0.575)	(0.566)	(0.520)	(0.521)
Return-on-Assets	-0.008	-0.191	-0.005	-0.109	0.0001	-0.0507
	(0.616)	(0.568)	(0.790)	(0.744)	(0.996)	(0.932)
Intangible Ratio	0.0003	0.006	0.0003	0.005	0.009	0.193
	(0.626)	(0.624)	(0.635)	(0.635)	(0.910)	(0.904)
R&D-to-Sales	0.0002	0.001	-0.0003	-0.009	-0.001	-0.025
	(0.851)	(0.960)	(0.824)	(0.694)	(0.645)	(0.519)
Constant	-0.026	-0.506	-0.0207	-0.435	-0.022	-0.443
	(0.729)	(0.729)	(0.778)	(0.765)	(0.825)	(0.824)
State, Industry and Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,272	1,272	1,272	1,272	1,272	1,272
Adjusted/Pseudo R-squared	0.055	0.054	0.071	0.071	0.104	0.104

Table VIII – Firm Value and Large Corporate Political Contributions

Table VIII analyzes firm value among contributors and noncontributors around campaign finance reform. Panels A and B analyze firms contributing above and below limits relative to noncontributors in both states reducing contribution limits and other states. *High (Low) Contributor* is an indicator equal to one for firms allocating at least (less than) the contribution limit to a political campaign during the election cycle prior to campaign finance reform and zero otherwise. Panel A uses the modal contribution limit of $5,000 contributed during the prior election cycle to identify firms contributing above the limit, while Panel B uses the headquarter state contribution limit law to compare firms previously contributing above subsequently imposed contribution limits in states with contribution limit reductions to control firms. *Post* is an indicator variable equal to one following reform and zero otherwise. *Reform State* is an indicator variable equal to one for states reducing contribution limits and zero otherwise.

Panel A: Multivariate Difference-in-Difference-in-Differences Analysis of Firms Contributing Above Average

VARIABLES	(1) Tobin's Q	(2) 12 Month BHAR	(3) Tobin's Q	(4) 12 Month BHAR
High Contributor	0.556***	0.117***	0.0594	0.0217
	(<0.001)	(<0.001)	(0.331)	(0.107)
Low Contributor	0.0395	0.00174	0.192***	0.0357
	(0.463)	(0.886)	(<0.001)	(0.265)
Reform State	-0.0925	-0.00530	0.0267	0.0342**
	(0.220)	(0.833)	(0.634)	(0.0184)
*Reform * Low*	0.0531	0.0233	-0.0506	-0.0999
	(0.601)	(0.405)	(0.696)	(0.304)
*Reform * High*	-0.602	-0.00429	0.103	-0.0490
	(0.107)	(0.951)	(0.443)	(0.259)
Post			-0.0872*	0.0441
			(0.0667)	(0.376)
*Post * Reform*			0.237***	-0.0951
			(0.00870)	(0.107)
*Post * Low*			-0.0852***	-0.222***
			(0.00144)	(0.00824)
*Post * High*			0.218	0.283*
			(0.175)	(0.0666)
*Post * Reform * Low*			0.0680	0.179**
			(0.520)	(0.0134)
*Post * Reform * High*			-0.0898**	-0.0572**
			(0.0195)	(0.0192)
Log (Total Assets)	-0.114***		-0.202***	
	(<0.001)		(<0.001)	
Leverage	-0.478***		-0.351***	
	(<0.001)		(<0.001)	
Return-on-Assets	1.791***		-0.229*	
	(<0.001)		(0.0917)	
Intangible Ratio	-0.462***		-0.590***	
	(0.00578)		(<0.001)	
Size		-0.00611***		-0.00646***
		(<0.001)		(<0.001)
Book-to-Market		0.0205*		0.0305*
		(0.0946)		(0.0914)
Prior 12 Month BHAR		0.00509		0.00452
		(0.420)		(0.467)
Constant	1.717***	-0.0411	1.779***	0.0140
	(<0.001)	(0.524)	(<0.001)	(0.863)
State, Industry and Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	43,992	43,992	43,992	43,992
Adjusted R-squared	0.285	0.117	0.287	0.104

Table VIII – Firm Value and Large Corporate Political Contributions (Continued)

Panel B: Difference-in-Difference-in-Differences Analysis of Firms Contributing Above Subsequent Limit

VARIABLES	(1) Tobin's Q	(2) 12 Month BHAR	(3) Tobin's Q	(4) 12 Month BHAR
High Contributor	0.204*	0.0262***	0.427***	0.0240**
	(0.0574)	(0.00658)	(<0.001)	(0.0411)
Low Contributor	0.273**	0.0112	0.138**	-0.00179
	(0.0132)	(0.415)	(0.0143)	(0.920)
Reform State	-0.0987*	0.00477	0.0269	0.0401***
	(0.0559)	(0.639)	(0.632)	(0.00337)
Reform * Low	-0.0965	-0.0521*	-0.273**	-0.0851**
	(0.175)	(0.0739)	(0.0482)	(0.0194)
Reform * High	-0.867**	0.00309	0.147	0.00160
	(0.0270)	(0.908)	(0.492)	(0.966)
Post			-0.0845*	-0.0273***
			(0.0757)	(<0.001)
Post * Reform			0.238***	0.122**
			(0.00873)	(0.0459)
Post * Low			-0.0722**	-0.00232
			(0.0151)	(0.971)
Post * High			-0.0225	0.0299
			(0.835)	(0.276)
Post * Reform * Low			0.138	0.00628
			(0.181)	(0.746)
Post * Reform * High			-0.0699***	-0.130***
			(0.00694)	(<0.001)
Log (Total Assets)	-0.107***		-0.209***	
	(<0.001)		(<0.001)	
Leverage	-0.465***		-0.344***	
	(<0.001)		(<0.001)	
Return-on-Assets	1.793***		-0.228*	
	(<0.001)		(0.0943)	
Intangible Ratio	-0.472***		-0.581***	
	(0.00501)		(<0.001)	
Size		-0.00367**		-0.00398***
		(0.0111)		(0.00564)
Book-to-Market		0.0357**		0.0447***
		(0.0187)		(0.00341)
Prior 12 Month BHAR		0.191***		0.185***
		(<0.001)		(<0.001)
Constant	1.718***	0.204	2.501***	0.231
	(<0.001)	(0.564)	(<0.001)	(0.469)
State, Industry and Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	43,992	43,992	43,992	43,992
Adjusted R-squared	0.272	0.009	0.280	0.009

Table IX – Contributing Firms in Reform and Non-Reform States

Table IX tabulates the multivariate analysis of firm value for firms to analyze the relation to all firms with state corporate political contributions around changes in state laws among state contributors who observe law changes in all states where the firm contributions to political candidates. Panel A focuses on all campaign finance reform impacting a firm, while Panel B is focused on the final reforms. Panel C focuses on headquarter state reforms among concentrated firms. *Log (Home Contributions)* is the log of the contributions to state political candidates in the firm's headquartered state during the election cycle. *Law Change* is an index that increases (decreases) when the all states where the firm contributes change laws to tighten (relax) restrictions on political contributions and zero otherwise. *Log (State) * Post* is the log of state contributions following all law changes, such that the value is equal to state contributions after the laws change and zero otherwise, which is equivalent to the interaction of the absolute value of the change of the index and state contributions. *Log (State) * Pre* is equal to zero after every law changes and the log of state contributions before. Industry definitions are based upon two-digit Standard Industrial Classification codes. All models include state, industry and year fixed effects. All variable definitions are included in Appendix B. Robust p-values are in parentheses, with standard errors clustered by firm. Significance at the 10%, 5%, and 1% levels are indicated as *, **, and ***.

Panel A: Campaign Finance Reform in All States Where a Firm Contributes

VARIABLES	(1) Tobin's Q	(2) Tobin's Q	(3) Tobin's Q	(4) Tobin's Q
Log (State Contributions)	0.0628***			
	(<0.001)			
Log (State) * Pre		0.0628***		
		(<0.001)		
Log (State) * Post	-0.0599	0.00294		
	(0.104)	(0.914)		
Log (Home Contributions)			0.0488***	
			(0.00204)	
Log (Home) * Pre				0.0488***
				(0.00204)
Log (Home) * Post			-0.0480	0.000819
			(0.287)	(0.979)
Law Change	1.044*	1.044*	1.071*	1.071*
	(0.0749)	(0.0749)	(0.0840)	(0.0840)
Log (Total Assets)	-0.634***	-0.634***	-0.624***	-0.624***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Regulated Industry	0.320***	0.320***	0.320***	0.320***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Leverage	1.340***	1.340***	1.339***	1.339***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Return-on-Assets	7.938***	7.938***	7.938***	7.938***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Intangible Ratio	-0.0699	-0.0699	-0.0587	-0.0587
	(0.732)	(0.732)	(0.775)	(0.775)
R&D-to-Sales	0.00300**	0.00300**	0.00300**	0.00300**
	(0.0284)	(0.0284)	(0.0284)	(0.0284)
Constant	4.965***	4.965***	4.891***	4.891***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)
State, Industry and Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	95,878	95,878	95,878	95,878
R-squared	0.493	0.493	0.493	0.493

Table IX – Contributing Firms in Reform and Non-Reform States (Continued)

Panel B: Campaign Finance Reform in Final State Among Reforming States Where a Firm Contributes

VARIABLES	(1) Tobin's Q	(2) Tobin's Q	(3) Tobin's Q	(4) Tobin's Q
Log (State Contributions)	0.0519***			
	(<0.001)			
Log (State) * Pre		0.0519***		
		(<0.001)		
Log (State) * Post	-0.0352*	0.0167		
	(0.0776)	(0.456)		
Log (Home Contributions)			0.0389***	
			(<0.001)	
Log (Home) * Pre				0.0389***
				(<0.001)
Log (Home) * Post			-0.0406***	-0.00172
			(<0.001)	(0.899)
Law Change	0.267	0.267	0.226**	0.226**
	(0.193)	(0.193)	(0.0329)	(0.0329)
Log (Total Assets)	-0.586***	-0.586***	-0.577***	-0.577***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Regulated Industry	0.334***	0.334***	0.336***	0.336***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Leverage	1.286***	1.286***	1.285***	1.285***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Return-on-Assets	7.938***	7.938***	7.938***	7.938***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Intangible Assets	0.00612	0.00612	0.0178	0.0178
	(0.979)	(0.979)	(0.939)	(0.939)
R&D-to-Sales	0.00298**	0.00298**	0.00298**	0.00298**
	(0.0348)	(0.0348)	(0.0349)	(0.0349)
Constant	4.882***	4.882***	4.823***	4.823***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)
State, Industry and Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	95,878	95,878	95,878	95,878
R-squared	0.493	0.493	0.493	0.493

Table IX – Contributing Firms in Reform and Non-Reform States (Continued)

Panel C: Campaign Finance Reform in Corporate Headquarter States for Concentrated Firms

VARIABLES	(1) Firms with Single Geographic Segment Tobin's Q	(2) Firms with Single Geographic Segment Tobin's Q	(3) Firms with Single Business Segment Tobin's Q	(4) Firms with Single Business Segment Tobin's Q
Log (State) * Pre	0.0755***		0.0774***	
	(<0.001)		(<0.001)	
Log (State) * Post	0.00134		-0.0170	
	(0.971)		(0.691)	
Log (Home) * Pre		0.0706***		0.0606**
		(0.00307)		(0.0320)
Log (Home) * Post		-0.000118		-0.0266
		(0.998)		(0.621)
Law Change	1.412	1.446	1.663	1.690
	(0.148)	(0.155)	(0.119)	(0.125)
Log (Total Assets)	-0.777***	-0.769***	-0.870***	-0.863***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Regulated Industry	0.435***	0.438***	0.456***	0.460***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Leverage	1.579***	1.583***	1.725***	1.735***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Return-on-Assets	7.995***	7.995***	7.980***	7.980***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Intangible Assets	-0.256	-0.257	-0.0210	-0.0243
	(0.420)	(0.420)	(0.954)	(0.947)
R&D-to-Sales	0.00256*	0.00256*	0.00281**	0.00281**
	(0.0570)	(0.0567)	(0.0259)	(0.0258)
Constant	5.391***	5.329***	5.985***	5.935***
	(<0.001)	(<0.001)	(<0.001)	(<0.001)
Observations	71,353	71,353	66,854	66,854
R-squared	0.498	0.498	0.497	0.497

Appendix A – Summary of Campaign Finance Reforms

State	Political Contributions Limit Law Change	Year of Laws Passed
Alabama	Always Unlimited	
Alaska	Always Limited	
Arizona	Always Limited	
Arkansas	Becomes Unlimited	1998
California	Becomes Limited Then Unlimited	1996; 1998
Colorado	Becomes Unlimited	1998
Connecticut	Always Limited	
Delaware	Always Limited	
Florida	Always Limited	
Georgia	Becomes Limited	1998
Hawaii	Always Limited	
Idaho	Becomes Limited	1998
Illinois	Becomes Limited	2011
Indiana	Always Unlimited	
Iowa	Always Unlimited	
Kansas	Always Limited	
Kentucky	Becomes Limited	1988
Louisiana	Becomes Limited	1988
Maine	Always Limited	
Maryland	Becomes Limited	1992
Massachusetts	Becomes Limited	1994
Michigan	Always Limited	
Minnesota	Always Limited	
Mississippi	Always Limited	
Missouri	Becomes Limited Then Unlimited	1996; 2000
Montana	Always Limited	
Nebraska	Always Limited	
Nevada	Becomes Limited	1992
New Hampshire	Becomes Unlimited Then Limited	1986; 2000
New Jersey	Always Limited	
New Mexico	Becomes Limited	2010
New York	Becomes Limited	1994

Appendix A – Summary of Campaign Finance Reforms (Continued)

State	Political Contributions Limit Law Change	Year of Laws Passed
North Carolina	Always Limited	
North Dakota	Always Unlimited	
Ohio	Becomes Limited	1996
Oklahoma	Always Limited	
Oregon	Becomes Limited Then Unlimited	1996; 1998
Pennsylvania	Always Limited	
Rhode Island	Becomes Limited	1990
South Carolina	Becomes Limited	1992
South Dakota	Always Limited	
Tennessee	Becomes Limited	1996
Texas	Always Unlimited	
Utah	Always Unlimited	
Vermont	Becomes Unlimited	2004
Virginia	Always Unlimited	
Washington	Becomes Limited	1994
West Virginia	Always Limited	
Wisconsin	Always Limited	
Wyoming	Always Unlimited	

Appendix B – Variable Definitions

Variable	Measurement	Data Source
Board Insiders	A count of the board of directors at the firm employed by the firm at the most recent annual meeting prior to the election cycle end	RiskMetrics
Board Size	A count of the board of directors at the firm at the most recent annual meeting prior to the election cycle end	RiskMetrics
Book-to-Market	The ratio of book value of equity at the most recent fiscal year end prior to the election cycle end to market value of equity at the month prior to the fiscal year end	Compustat Annual
Business Segments	The count of business segments the firm has listed in Compustat during the most recent fiscal year end prior to the election cycle end	Compustat Annual
Federal Contributions	The sum of federal political contributions made by a given firm over the prior four-year election cycle	Federal Election Commission
Federal	Binary equal to one where the firm contributes politically to federal political campaigns and zero otherwise	Federal Election Commission
Geographic Segments	The count of geographic segments the firm has listed in Compustat during the most recent fiscal year end prior to the election cycle end	Compustat Annual
Governance Index	A measure of firm governance based upon provisions the firm holds at the most recent annual meeting date prior to the election cycle end, reported by Gompers, Ishii, and Metrick (2003), with higher numbers indicating less shareholder-friendly provisions in place or worse overall governance	RiskMetrics
High Headquarter Concentration	Binary equal to one where the firm allocates more capital to the firm's headquarter state than the median treatment firm over the prior four-year election cycle and zero otherwise	National Institute on Money in State Politics, Compustat Annual
High Campaign Concentration	Binary equal to one where the firm allocates more capital to the campaign where the firm contributes the most than the median treatment firm over the prior four-year election cycle and zero otherwise	National Institute on Money in State Politics, Compustat Annual
Headquarter State (%)	The percentage of the firm's total political contributions allocated to campaigns for government offices in the state where the firm is headquartered during the election cycle	National Institute on Money in State Politics, Compustat Annual

Appendix B – Variable Definitions (Continued)

Variable	Measurement	Data Source
Incumbent (%)	The percentage of the firm's total political contributions allocated to incumbent candidate campaigns during the election cycle	National Institute on Money in State Politics, Compustat Annual
Industry Adjusted Q	The ratio of total assets less book value of equity plus market value of equity at the month prior to the fiscal year end to total assets at the most recent fiscal year end prior to the election cycle end, less the median for the industry as defined by the first two digits of Standard Industrial Classification Code	Compustat Annual
Intangible Ratio	The ratio of intangible assets to total assets at the most recent fiscal year end prior to the election cycle end	Compustat Annual
Inverse Mills Ratio	The ratio of the probability density function to the cumulative distribution function of a distribution computed from a probit model predicting the likelihood of a firm to contribute politically using firm size, sales, number of employees, business segments, geographic segments, book-to-market ratio, leverage, cash flow, industry market share, Herfindahl sales concentration index, regulated industry indicator, number of firms in industry with political action committee and industry government contracts relative to sales	CRSP, Compustat Annual, United States Treasury Bureau of the Fiscal Service
Leverage	The ratio of long-term debt to assets at the most recent fiscal year end prior to the election cycle end	Compustat Annual
Log (Federal Contributions)	The log transformation of one plus the sum of a firm's political contributions to campaigns for federal office in all states over the prior four-year election cycle	National Institute on Money in State Politics
Log (Political Contributions)	The log transformation of one plus the sum of a firm's political contributions to campaigns for office in all states over the prior four-year election cycle	National Institute on Money in State Politics
Log (Subsidy)	The log transformation of one plus the value of government subsidies received by the firm from state and local governments during the current year	Good Jobs First National Policy Resource Center Subsidy Tracker Database
Log (State Contributions)	The log transformation of one plus the sum of a firm's state political contributions to campaigns for office in all states over the prior four-year election cycle	National Institute on Money in State Politics

Appendix B – Variable Definitions (Continued)

Variable	Measurement	Data Source
Log (State Contributions) * Federal	The sum of a firm's state political contributions to campaigns for office in all states over the prior four-year election cycle if the firm also gave to federal campaigns and zero otherwise	National Institute on Money in State Politics, Federal Election Commission
Log (Total Assets)	The log of one plus the total level of assets of the firm in millions of USD at the most recent fiscal year end prior to the election cycle	Compustat Annual
Market	The cumulative return over the twelve months prior to the election cycle end	CRSP
Market Capitalization	The total level of market capitalization of the firm in millions of USD at the most recent fiscal year end prior to the election cycle, using the price at the most recent month ending prior to the fiscal year end	CRSP, Compustat Annual
Maximum Political Contribution Per Headquarter State Campaign	The maximum of all state political contributions allocated to campaigns for office in the firm's headquarter state over the prior four-year election cycle	National Institute on Money in State Politics
Momentum	The cumulative market-adjusted return over the twelve months prior to the election cycle end	CRSP
Political Contributions Per Campaign	The ratio of total political contributions to the total number of campaigns to which the firm gave politically during the election cycle	National Institute on Money in State Politics, Federal Election Commission
Post	Time period indicator equal to one for the periods following campaign finance reform in headquarter state of the treatment firm and zero otherwise	National Conference of State Legislatures; Stratmann and Aparicio-Castillo (2006); Christianson *et al.* (1996); Malbin and Gais (1998); *Campaign Finance Law*
Treatment * Post	State and time period indicator equal to one for firms previously contributions politically above the subsequently imposed limit and headquartered in states reducing political contribution limits for the periods following the law change and zero otherwise	National Conference of State Legislatures; Stratmann and Aparicio-Castillo (2006); Christianson *et al.* (1996); Malbin and Gais (1998); *Campaign Finance Law*
Post 12-Month Buy-and-Hold Abnormal Return	The cumulative market-adjusted return over the twelve months following the election cycle end	CRSP
Post 12-Month Buy-and-Hold Return	The cumulative return over the twelve months following the election cycle end	CRSP

Variable	Measurement	Data Source
Prior 12-Month Buy-and-Hold Return	The cumulative return over the twelve months prior to the election cycle end	CRSP
R&D-to-Sales	The ratio of research and development expenses to sales at the most recent fiscal year end prior to the election cycle end	Compustat Annual
Republican (%)	The ratio of political contributions to republican campaigns to total political contributions over the prior four-year election cycle	National Institute on Money in State Politics
Return-on-Assets	The ratio of net income to total assets at the most recent fiscal year end prior to the election cycle end	Compustat Annual
Size	The log of one plus the total level of market capitalization of the firm in millions of USD at the most recent fiscal year end prior to the election cycle, using the price at the most recent month ending prior to the fiscal year end	CRSP, Compustat Annual
State Contributions	The sum of a firm's state political contributions to campaigns for office in all states over the prior four-year election cycle	National Institute on Money in State Politics
State Political	Binary equal to one where the firm contributes politically to state but not federal political campaigns and zero otherwise	National Institute on Money in State Politics
Subsidy	Binary equal to one if the firm receives a government subsidy from state and local governments during the current year	Good Jobs First National Policy Resource Center Subsidy Tracker Database
Tobin's Q	The ratio of total assets less book value of equity plus market value of equity at the month prior to the fiscal year end to total assets at the most recent fiscal year end prior to the election cycle end	Compustat Annual
Total Headquarter State Political Contribution	The firm's total state political contributions allocated to campaigns for government offices in the state where the firm is headquartered during the election cycle	National Institute on Money in State Politics, Compustat Annual
Treatment	State indicator equal to one for firms previously contributing politically above the subsequently imposed limit and headquartered in states reducing political contribution limits and zero otherwise	National Conference of State Legislatures; Stratmann and Aparicio-Castillo (2006); Christianson *et al.* (1996); Malbin and Gais (1998); *Campaign Finance Law*