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THE VALUE OF CORPORATE POLITICAL CONNECTIONS: EVIDENCE FROM SUDDEN DEATHS*

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ABSTRACT

We present new causal estimates of firm-value benefits generated by political connections. Our identification strategy uses sudden deaths of U.S. Representatives and Senators as a source of exogenous variation. We find that firms contributing to the deceased politicians lose, on average, 0.60% of their equity value within one week after the politician's death. Our results support the notion that campaign contributions to political candidates may serve as a useful measure of firms' political connections.

JEL classification codes: D72, G38, H89, P16

Keywords: firm value, political connections, campaign contributions, political activism, PACs, sudden deaths, natural experiment

1. Introduction

Are corporations able to distort the political process to extract favors from politicians and if so, what is the effect of these favors? These questions have sparked much debate in the political science and economics literature. Several papers find that corporate political connections generate substantial firm-value benefits (e.g., Faccio, 2006; Faccio and Parsley, 2009; Cooper, Gulen, and Ovtchinnikov, 2010; Akey, 2015). Some papers, however, find that such connections either generate no value (Fowler, Garro, and Spenkuch, 2017) or are indicative of agency problems and therefore value-destroying (Aggarwal, Meschke, and Wang, 2012; Coates, 2012).

A related set of issues pertains to the researchers' ability to measure firms' political connections. It is likely that many (or even most) of the activities that firms undertake in the process of exerting political influence are unobservable to outsiders. To circumvent this problem, the literature has developed several measures of firms' political connections, such as social ties between politicians and corporate executives (Do, Lee, and Nguyen, 2013), the presence of politicians on corporate boards (Goldman, Rocholl, and So, 2009), or geographic ties between firms and politicians (Faccio and Parsley, 2009). The most widely used metric, however, measures firms' political connections via campaign contributions made by their political action committees, known as PACs (e.g., Cooper, Gulen, and Ovtchinnikov, 2009; Akey, 2015). The advantage of this metric is that campaign contributions are publicly observable and can be collected for a large cross-section of firms starting from 1980. However, most corporate campaign contributions are relatively small, which has led some researchers to question their validity as a proxy for political influence (Fowler, Garro, and Spenkuch, 2017).

We address these issues by providing new causal estimates of the value of political connections, as measured by corporate campaign contributions. To estimate the effect of political

connections on firm value, we use plausibly exogenous variation stemming from legislators' sudden deaths. First, we collect all instances in which sitting U.S. Representatives or Senators died of plausibly exogenous causes between 1980 and 2016. We then identify all firms that had contributed to the suddenly deceased legislators and estimate these firms' cumulative abnormal stock returns (CARs) around the dates of the legislators' deaths. On average, firms connected to a suddenly deceased legislator lose 0.60% of their equity value within one week after the legislator's death. These estimates are somewhat lower than those reported in prior papers. However, they are still sizable. For a typical (median) firm in our sample, losing a political connection represents a $33.6 million drop in firm value.

While we find that legislators to whom firms make campaign contributions are expected (by the equity market) to generate significant firm-value benefits, our results do not necessarily imply that these benefits can be directly attributed to campaign contributions. In fact, the magnitude of firms' campaign contributions is implausibly small to be able, on its own, to generate the effects that we observe (the median contribution in our sample is $1,205 per candidate). Rather, political contributions may be indicative of other actions that firm undertake in the process of establishing connections with politicians (some if not most of which are likely to be unobservable). For example, firms may establish connections with politicians by engaging their employees in the political process (e.g., Hertel-Fernandez, 2016, 2017; Babenko, Fedaseyeu, and Zhang, 2018). On the balance, however, our results support the notion that campaign contributions are a useful measure of firms' political connections.

This paper contributes to the literature that measures political connections and estimates their effects on firms. Within this literature, the papers that are perhaps most closely related to ours are Faccio and Parsley (2009) and Akey (2015). Similar to Faccio and Parsley (2009), we use

sudden deaths as the source of exogenous variation. Unlike Faccio and Parsley (2009), however, we use corporate campaign contributions rather than geography as a proxy for firms' political connections. The emphasis on campaign contributions is important for three reasons. First, campaign contributions reflect firms' endogenous decisions about which politicians to support; contributions should therefore be more informative than geographic ties, which change very infrequently. Second, it is typically large firms that make campaign contributions (Cooper, Gulen, and Ovtchinnikov, 2009). Since such firms are likely to have operations across multiple locations, it may often be challenging to construct the entire network of their geographic ties. Third, the importance of corporate money in politics is likely to have increased after the *Citizens United* decision, which has greatly expanded the ability of corporations to spend money on political campaigns.

Another prominent paper this research is related to is Akey (2015), who establishes a causal link between campaign contributions and firm value. Akey (2015) analyzes close special elections and thus focuses on firm-value benefits from obtaining new political connections. We, on the other hand, use exogenous variation in firms' connections to incumbent politicians. Ex ante, connections to incumbents needn't be as valuable as connections to the winners of close elections. A relatively secure electoral position of incumbents may make them less susceptible to corporate influence by alleviating the pressure to raise campaign contributions. This, in turn, may limit the scope for corporate influence and reduce the expected benefits that such influence provides. In contrast, contestants in close electoral races may place a relatively high value on campaign contributions, which may increase the ability of firms to extract private benefits from such politicians. Thus, comparing the size of firm-value benefits in different contexts may be informative about the extent of corporate influence in these contexts.

2. Data

Our empirical design relies on standard event study methodology. The set of events that we use comprises sudden deaths of U.S. legislators. We start by identifying all cases in which sitting U.S. Representatives or Senators died between 1980 and 2016 (for a total of 61 people, with the full list provided in Table 1). We then search LexisNexis and Factiva to identify the precise date and cause of death. We exclude the deaths that can be attributed to chronic conditions (such as cancer and chronic heart decease) and retain only those deaths the onset of which was plausibly sudden (such as plane crashes and sudden heart attacks). Our sample of suddenly deceased legislators includes 23 people (listed in Panel A of Table 1).

To identify firms connected to the deceased legislators, we use the data on campaign contributions from the Federal Election Commission (FEC). We select firms whose political action committees contributed to the deceased legislators in the most recent election cycle before the legislator's death and merge this set of firms with CRSP/Compustat. We drop the firms with missing stock returns data, which leaves 481 firm-event observations for 251 individual firms in our final sample.[1] To estimate the value of political connections, we compute cumulative abnormal stock returns (CARs) using the Fama-French three-factor asset pricing model.[2]

Summary statistics for our sample of firms are reported in Panel A of Table 2. As expected, these firms are relatively large (the median market capitalization is $5.593 billion in our sample). Since the same firm may donate to several politicians in our sample who may have died on

[1] A firm may contribute to more than one legislator and may therefore appear in several events.
[2] The CARs are computed by using the event study module available via the Wharton Research Data Services (WRDS). Model parameters are estimated over 100 trading days; the estimation window precedes the event window by 50 trading days.

different dates, the statistics for assets and market capitalization are reported at the firm-event level.

3. Empirical results

Figure 1 depicts the evolution of CARs before and after the date of death. The CARs in the seven days prior to the date of death are never statistically different from zero (they are also economically smaller than the CARs we observe after the date of death). This pattern supports our identifying assumption that the event of a legislator's sudden death represents an unexpected and exogenous shock to the firm. Immediately after the date of death, however, the CARs turn negative and keep falling consistently for four trading days after the event, at which point they appear to stabilize.

Table 2 (Panel B) presents evidence from Figure 1 more formally. It reports the magnitude of CARs during four different event windows around the date of death, where date 0 represents the date of death. The CARs are negative in all cases and range from −0.28% one day after the event to −0.60% seven days after the event. The CARs are statistically different from zero at the 5% level in all cases except for the event window (−1, +1). One potential reason is a reporting lag. For example, deaths occurring in the evening may be reported the next day or the day after. Alternatively, it may also be that the market is unable to immediately adjust to the news of sudden deaths.

The estimates we obtain are lower than the ones reported in some prior papers, which may be informative about the differences in the extent of corporate influence in different contexts (even within the same institutional environment such as the United States). For example, Akey (2015) shows that firms donating to the winners of close U.S. congressional elections experience abnormal returns that are 3% higher than the returns of firms donating to the losing candidates.

One explanation consistent with connections to incumbents being less valuable than connections to the winners of close elections is that incumbents enjoy a relatively strong electoral advantage. This electoral advantage may make incumbents less susceptible to corporate influence, which should reduce the scope of private benefits that firms can extract from them.

4. Conclusion

We use sudden deaths of sitting U.S. Representatives and Senators to estimate the value of political connections. Our evidence suggests that political connections are valuable for firms and that campaign contributions made by corporate PACs can serve as a useful proxy for corporate political connections. When compared to prior literature, our results emphasize that the value of political connections may differ across politicians even within the same institutional environment.

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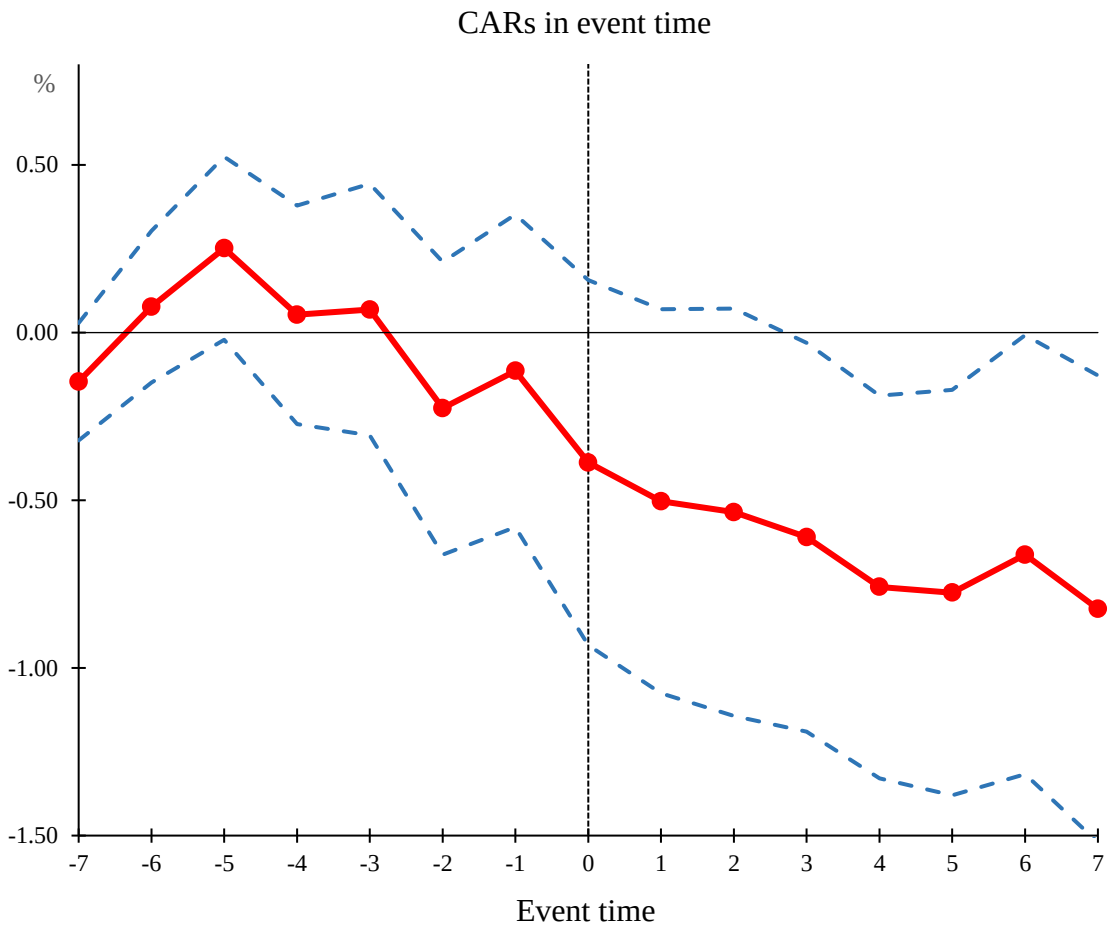

Figure 1. Evolution of cumulative abnormal returns

This figure shows the evolution of average cumulative abnormal returns (CARs) around the dates of legislators' sudden deaths. The solid red line plots the average CARs, while the dashed blue lines represent the 95% confidence intervals. The dashed vertical line (at event time 0) denotes the date of a legislator's death.

Table 1. List of deceased legislators

This table provides the list of sitting U.S. House members and U.S. Senators who died between 1980 and 2016. Panel A lists the legislators who died of plausibly exogenous causes. Panel B lists the legislators whose death was not sudden.

Name of legislator	Office	Cause of death	Date of death
Panel A: Legislators whose death was sudden			
John M. Slack	House	Heart attack	17/03/1980
Tennyson Guyer	House	Aunerism	12/04/1981
John M. Ashbrook	House	Gastric hemorrhage	24/04/1982
Adam Benjamin, Jr.	House	Heart attack	07/09/1982
Henry M. Jackson	Senate	Aortic aneurysm	01/09/1983
Lawrence P. McDonald	House	Plane crash	01/09/1983
Clement J. Zablocki	House	Heart attack	03/12/1983
Carl D. Perkins	House	Heart attack	03/08/1984
Gillis Long	House	Heart attack	20/01/1985
John P. East	Senate	Suicide	29/06/1986
Dan Daniel	House	Heart attack	23/01/1988
James J. Howard	House	Heart attack	25/03/1988
Bill Nichols	House	Heart attack	13/12/1988
Mickey Leland	House	Plane crash	07/08/1989
Larkin I. Smith	House	Plane crash	13/08/1989
H. John Heinz, III	Senate	Plane crash	04/04/1991
Walter Capps	House	Heart attack	28/10/1997
Sonny Bono	House	Injuries from skiing accident	05/01/1998
Paul Coverdell	Senate	Cerebral hemorrhage	18/07/2000
Julian Dixon	House	Heart attack	08/12/2000
Paul Wellstone	Senate	Plane crash	25/10/2002
Paul E. Gillmor	House	Head/neck trauma due to fall down the stairs	05/09/2007
Stephanie Tubbs Jones	House	Cerebral hemorrhage	20/08/2008
Panel B: Legislators whose death was not sudden			
William R. Cotter	House	Pancreatic cancer	08/09/1981
John L. Swigert, Jr.	House	Malignant tumor	27/12/1982
Benjamin S. Rosenthal	House	Cancer	04/01/1983
Phillip Burton	House	Thrombosis (blood clot)	10/04/1983
Edwin B. Forsythe	House	Lung cancer	29/03/1984
Joseph P. Addabbo	House	Cancer-related kidney ailment	10/04/1986
Sala Burton	House	Colon cancer	01/02/1987
Stewart B. McKinney	House	AIDS	07/05/1987
Melvin Price	House	Pancreatic cancer	22/04/1988
John J. Duncan	House	Cancer	21/06/1988
Claude D. Pepper	House	Stomach cancer	30/05/1989
Spark M. Matsunaga	Senate	Cancer	15/04/1990
Silvio O. Conte	House	Prostate cancer	08/02/1991
Quentin Burdick	Senate	Heart failure	08/09/1992
Ted Weiss	House	Heart failure	14/09/1992
Walter Jones	House	Pneumonia	15/09/1992
Paul B. Henry	House	Brain cancer	31/07/1993
William Natcher	House	Heart failure	29/03/1994
Bill Emerson	House	Lung cancer	22/06/1996
Frank Tejeda	House	Pneumonia	30/01/1997
Steve Schiff	House	Squamous-cell skin cancer	25/03/1998
Norman Sisisky	House	Lung cancer	29/03/2001
Patsy T. Mink	House	Viral pneumonia	28/09/2002
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Robert Matsui	House	Complications from the Myelodysplastic Syndrome	01/01/2005
Charlie Norwood	House	Cancer	13/02/2007
Juanita Millender-McDonald	House	Colon cancer	22/04/2007
Craig Thomas	Senate	Leukemia	04/06/2007
Jo Ann Davis	House	Breast cancer	06/10/2007
Julia M. Carson	House	Lung cancer	15/12/2007
Tom Lantos	House	Esophageal cancer	11/02/2008
Edward M. Kennedy	Senate	Malignant brain tumor	25/08/2009
John P. Murtha	House	Post-surgery infection	08/02/2010
Robert C. Byrd	Senate	Natural causes	28/06/2010
Donald M. Payne	House	Colon cancer	06/03/2012
Daniel K. Inouye	Senate	Respiratory complications	17/12/2012
C. W. Bill Young	House	Broken hip/multiple myeloma	18/10/2013
Alan Nunnelee	House	Brain tumor	06/02/2015

Table 2. Summary statistics and cumulative abnormal returns

Panel A of this table reports summary statistics for our sample of firms. Panel B reports these firms' cumulative abnormal returns (CARs) around the dates of legislators' sudden deaths. Event windows are indicated in parentheses; date 0 represents the date of death.

Panel A: Summary statistics

	N	Mean	Median	St.dev.
	(1)	(2)	(3)	(4)
Number of unique firms	251	-	-	-
Number of firm-events	481	-	-	-
Assets ($2016, millions)	481	49,262	10,454	183,160
Market capitalization ($2016, millions)	481	24,750	5,593	73,713

Panel B: CARs around legislators' sudden deaths (in percent)

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

***p<0.05*