

Do Campaign Contributions and Lobbying Expenditures by Firms Create “Political” Capital?

Philip Hersch · Jeffrey M. Netter · Christopher Pope

Published online: 20 July 2008
© International Atlantic Economic Society 2008

Abstract We examine the relation between a firm’s campaign contributions and lobbying expenditures and its Tobin’s q . We follow other studies that use q to measure the value of the firm’s intangible capital (e.g., the value of advertising, R&D, or environmental performance). Researchers have found a positive and significant relation between intangible assets and q . If political capital exists, it is an intangible asset. However, we find little relation between q and political contributions, suggesting that campaign contributions may not have long term effects on political markets. This is consistent with the view that contributions are done by firms as a response to a short term opportunity not as a way of building long-term political capital.

Keywords Political contributions · Lobbying expenditures · Tobin’s q · Political capital

JEL D21 · D72 · G30 · G31 · G38

Introduction

In this paper we examine a simple yet important question: Are firm political contributions and lobbying a way of buying long-term influence? Specifically, our analysis examines the extent to which capital markets view campaign contributions

We thank Annette Poulsen and Jide Wintoki for comments.

P. Hersch
Department of Economics, Wichita State University, Wichita, KS 67260-0078, USA
e-mail: philip.hersch@wichita.edu

J. M. Netter (✉) · C. Pope
Terry College of Business, University of Georgia, Athens, GA 30602-6253, USA
e-mail: jnetter@terry.uga.edu

C. Pope
e-mail: cpope@terry.uga.edu

and lobbying expenditures as an asset in terms of increased firm value. Capital market research can provide important insights into firm behavior because it focuses on the impact of decisions made by people risking real resources in investment decisions. We provide evidence on how money influences politics that hopefully complements other research that more directly examines political markets.

We find little evidence of a relation between firms' campaign contributions and lobbying expenditures and their Tobin's q (actually, market/book value of the firms' assets). In this approach, we follow other studies that use q to measure the value of the firm's intangible capital (e.g., the value of advertising, R&D, or environmental performance). Researchers have found a positive and significant relation between intangible assets and q . Analogously, political capital, if it exists, is an intangible asset. However we fail to find any significant statistical relation between q and political spending. This is consistent with the view that capital markets consider campaign contributions and lobbying as an expense and not a capital expenditure with long-run returns.

The result of our work coupled with those of others has important implications for both firm behavior and the political process. For firms, it suggests that political spending has only a short-lived effect, or perhaps should simply be considered a cost of doing business by firms that engage in the activity. Firms may lobby to bring themselves and their interests to the attention of regulators as part of an ongoing process, unlike expenditures on advertising or R&D. But the effects of political contributions and lobbying can depreciate quickly. In the political arena, if campaign contributions and lobbying are not long-lived in the value of the firm, it suggests the importance of dynamics in the political process. This is consistent with the arguments of Ansolabehere et al. (2003) who argue that political contributions are more a consumption good than a way of "buying political influence. They suggest that campaign contributions and lobbying are comparable to firm charitable contributions—contributions to people and ideas the givers want to help, rather than directly buying influence.

Evidence on Political Contributions and Firms

A complete review of the literature related to the impact of political contributions is provided in Ansolabehere et al. (2003), Stratmann (2005), and Brasher and Lowery (2006). In general, studies on the effects of campaign expenditures, especially by firms, yield mixed results. Brasher and Lowery (2006) suggest one reason for the mixed results is that many studies examine the activities of PACs rather than lobbying more generally. In addition, most studies only examine the largest firms (also a limitation of our study). Finally, the existing models may not be very good at modeling firms' characteristics.

Ansolabehere et al. (2003) come to a similar conclusion. Basing their work on an argument originally made by Tullock (1972), they suggest that expenditures by firms to achieve political influence are actually relatively low given the value of public policies. Thus, it is not surprising that researchers have found little relation between contributions and governmental action.

Therefore, the current economics literature leaves the issue of the effects of campaign contributions by firms on the political market and on the firms themselves

as unsettled. Here, we address the measurement of the value of political capital through the financial capital markets. Several recent studies also use the capital markets to determine the effects of political contributions on firm value. For example, Jayachandran (2006) finds significant stock price losses to firms that had contributed to the Republican party when Senator Jeffords left the Republican party, abruptly giving control of the Senate to the Democrats. Cooper et al. (2007) find a strong positive correlation between firms' stock returns and campaign contributions. They provide evidence that contributions are associated with firm value creation. Those studies don't necessarily imply spending is capital and they can show association rather than cause and effect. For example, the Jayachandran paper is consistent with the view that Republicans are good for firms and firms contribute to Republicans, which in turn is consistent with the view that campaign contributions are similar to charitable contributions.

In the context of our paper, there are several possible effects of firms' political spending. Theoretically, campaign contributions can help get favorable candidates elected. However, this is not likely to be important since the impact of any individual firm's contributions on an election is likely to be minimal. Thus, firms may not contribute significantly in an election to back a winner per se. They may contribute (even to both sides) to have some access later to influence legislative outcomes. One way (which again may not be that important) is affecting how legislators vote on an issue. More importantly, money can influence how legislation is written and perhaps whether bills are introduced or blocked. Campaign contribution dollars can be seen as buying influence or buying access (which is often followed up by lobbying). The question for us is whether the firm is buying future influence. If not, the dollars represent a short-term expense rather than a long-term capital expenditure whose value is compounded into the firm's market value.

The Contribution of this Work

We suggest that our paper makes several contributions. First, we include the effects of lobbying expenditures on individual firms. Earlier work has not usually examined the effects of lobbying expenditures effects because, unlike campaign contributions, lobbying can't be tied to individual politicians, parties, or for the most part, specific issues (one exception is de Figueiredo and Tiller (2001) who examine lobbying at one agency the FCC). That is, it is very difficult to examine the effect of lobbying on how a legislator votes or on which candidate was elected. Lobbying may be much more important than contributions, however, because much more is spent on this activity since there are no spending limitations (see Ansolabehere et al. 2003).¹ One

¹ The increasing importance of lobbying is illustrated by the following (Cummings 2004): "The incident brought home a lesson that had been nagging at Wal-Mart for years. "After decades of explosive growth, the retailer couldn't continue to expand its empire without abandoning founder Sam Walton's policy of shunning politics. So, in 1998, the retailer hired its first lobbyist—a retired Air Force lieutenant general—and set out to transform itself from a company without a Washington presence to one that could bend public policy to suit its business needs."

reason is that lobbying unlike campaign contributions does not directly affect who is elected. Thus, firms may have an incentive to limit campaign contributions and free ride off the expenditures of others who also support a favorable candidate.

Lobbying expenditures can be better targeted than campaign contributions to specific issues. Lobbying money can be used to influence legislation and the executive branch of government including the behavior of government agencies and departments (for example, FDA regulations, defense spending, and securities regulations). Lobbying is viewed as so important that the Congressional Democratic majority is suggesting restrictions on lobbying as a key part of their proposed ethics reforms. Again, we are interested in whether lobbying and campaign contributions has long-term political capital effects, or simply short-run effects. For convenience in the paper, we will refer to the effects of political spending as impacting legislators It should not be forgotten that these expenditures may also be directed to the executive branch.

Our main contribution is that we use evidence from the capital markets to examine indirectly the nature of political contributions.² We specifically test whether political expenditures (campaign contributions and lobbying) affect the value of the firm's assets (through the intangible asset of political capital) as proxied by Tobin's q . We directly follow the approach of Konar and Cohen (2001) who test whether environmental performance of a firm affects its q (it does) and other similar papers.³ If it exists, political capital is an intangible asset. Here, we test whether q is significantly related to campaign contributions and lobbying expenditures after controlling for other factors that affect q (for example, industry, growth, and other intangible assets).

Sample Selection, Variables and Descriptive Statistics

Our sample selection criteria are aimed at including the firms in the time periods where it is most likely we will find an effect of lobbying and the effects would not be likely to change in the period. In our sample we restrict ourselves to publicly held firms with annual sales exceeding \$500 million. We confine our estimates to large firms because to the extent there are economies of scale in lobbying the effects would be greater for larger firms (de Figueiredo, and Tiller (2001, p. 92) cite numerous studies that find economies of scale in contributions). We eliminate firms in traditionally heavily regulated industries, such as banking and other financials, telecommunications, and utilities. We eliminate these industries since much of the regulation of these industries occurs at the state level for which we do not have data on political contributions or lobbying expenditures.⁴ Our data correspond to the political cycles for the 1998 and 2000 election periods. We stop before the political

² See Mulherin (2007) for an overview of testing the effects of regulation with capital market data.

³ For another recent example, see Gleason and Klock (2006).

⁴ If we include non-financial regulated industries it does not qualitatively affect the final results. We did not collect data on financial firms because there are significant differences in the way their assets are measured and more importantly the functional form of the effects of contributions and regulation is very different.

effects of 9/11 and the Iraq war become significant, and passage of the McCain–Feingold Law changed the nature of campaign finance. It was signed March 2002 and went into effect January 1, 2003.

We construct q from Compustat data for fiscal years 1999 and 2001. To minimize possible simultaneity, the Compustat data are paired with political expenditures for the preceding election cycle; FY01 with the 2000/1999 cycle and FY99 with the 1998/1997 cycle. After adjusting for missing data, the final sample consists of 1,331 observations.

Following the literature, we construct q as market value of the firm (end-of year value of common stock plus values of preferred shares and short and long-term debt) divided by replacement value of assets (net plant property and equipment, inventory, and cash and receivables). This market to book ratio serves as the standard proxy for q in most recent literature. With the exception of the value of common stock, all values are derived from a firm's balance sheet. Hirsch and Seaks (1993) in an investigation of the functional form of q in a regression model, reject a linear specification in favor of a semilog or double log specification. Here we use $\log q$ as the dependent variable and regress it on a log of the number of firm employees (a firm size variable) with the remaining variables (often zero or negative) entered in linear form.⁵

Political Expenditure Variables

The political expenditure variables consist of contributions and lobbying expenditures. (See Ansolabehere et al. (2003) for a more complete description of the regulations concerning these expenditures). During the time period of this study, contributions could be made directly to candidates in the form of PAC contributions or to parties as “soft money” contributions. Initially, all such contributions, regardless of party, are aggregated to create the variable *Contributions*. Lobbying data for the years 1996–2000 were collected from the Center for Responsive Politics (CRP) web site. All firms that engage in lobbying must file a report on lobbying expenditures with the government according to Federal law.⁶ The CRP figures include dollars spent by internal or external company lobbyists contacting legislative or executive branch officials. We do not include dollars spent on state-level lobbying. Companies were only required to report expenditures paid to individual lobbying firms to the nearest \$20,000. CRP does not include payments of less than \$20,000 in company totals, which creates a small downward bias in the reported figures. We combine 2000 values with 1999 and 1998 with 1997, to make the lobbying data compatible with the contribution data. To control for multicollinearity, in one specification we aggregate *Contributions* and *Lobbying* to create an overall

⁵ For our sample, a Davidson–MacKinnon test (1981), rejected the strict semi-log model in favor of entering number of employees in log form.

⁶ Brasher and Lowery (2006), p. 8 describe the data: “Data used for the dependent variables are from the Lobbying Disclosure records publicly available through the U.S. Senate online legislation and records information system. The Lobbying Disclosure Act of 1995 requires that all organizations or contract lobbying firms lobbying either the executive branch or Congress register with the Senate. They are required to report both their total expenditures and the issues for which they lobbied.”

measure of political spending, *Expenditures*. In the regression equations, to normalize across firms, we divide *Contributions*, *Lobbying* and *Expenditures* by the replacement value of firm assets.

Table 1 reports descriptive statistics for the firms in our sample. Approximately, 58% of the firms in the sample made some form of political expenditure. On average, however, spending on lobbying is nearly an order of magnitude larger than contributions (\$776,753 versus \$95,780). In part, this may be due to the restrictions on contributions. It may also be reflective of the efficacy of lobbying versus contributions in obtaining political results. Contributions and lobbying appear to be complementary activities. Of the firms with political expenditures, 58.8% had spending in both categories. For the entire sample, the simple correlation between lobbying and contributions, both normalized by the replacement value of assets, is 0.77. The high correlation is consistent with contributions being used to gain political access, which is then followed up by lobbying to obtain favorable outcomes. Firms that make contributions without lobbying could be attempting to

Table 1 Descriptive statistics

Variable	Mean	Standard Deviation	Minimum	Maximum	Percent of Firms with Political Spending
Political expenditure variables					
Lobbying	\$776,753	2,662,817	0	\$38,800,000	41.7
Contributions	\$95,780	279,450	0	\$3,321,110	49.3
Republican contributions	\$69,248	202,728	0	\$2,765,879	44.6
Democratic contributions	\$26,533	91,810	0	\$1,330,792	36.2
Expenditures	\$872,534	2,859,334	0	\$41,426,378	58.4
Other variables					
Tobin's q	2.834	4.912	0.1572	117.0	–
Asset value ^a	\$4722.98	17,126.65	\$62.02	\$290,848	–
Employees (000's)	33.127	73.891	0.320	1,383	–
Sales growth	0.4590	2.379	–0.8857	53.19	–
Advertising _a	\$20.702	70.617	\$0	\$847.20	–
R&D ^a	\$170.77	639.2	\$0	\$7,400	–
Market leader	0.2810	0.12847	0	1	–
Asset age	0.4396	0.1284	0.00588	0.7930	–
Material disclosure	0.0841	0.277	0	1	–

Based on a sample of 1,331 firm-years for FY 99 and FY01 and the 2-year political cycles of 1997/98 and 1999/2000. *Lobbying* is firm lobbying expenditures during a 2 year political cycle. *Contributions* is firm total contributions to candidates and/or political parties during a 2 year political cycle. Republican and Democratic contributions breaks down contributions by party. *Expenditures* is the sum of Lobbying and Contributions. *R&D* and *Advertising* are research and development and advertising expenditures, respectively. Number of *Employees* is a proxy for firm size. *Sales growth* measures revenue growth over two years. *Market leader* is a dummy variable equaling one, if the firm was the largest firm in its SIC industry. *Material disclosure* is a dummy variable that equals one if the firm has reported litigation of a potentially adverse material nature. Asset Age is proxied by $1 - [(\text{net value of property, plant and equipment}) / (\text{gross value})]$.

^aVariable in millions

help elect individuals already predisposed to the firm's political positions. When contributions are broken down by party, the Republicans fare better than the Democrats, on average, receiving more than 2.5 times as much per firm. The disparity in the percent of firms giving to Republicans versus Democrats is not as large, however, 44.6% versus 36.2%. The larger payouts to Republicans reflect both a general propensity for firms to favor pro business Republican candidates, and the Republicans controlling both Houses of Congress during this time period.⁷

Control Variables

Based on other studies in the literature and the availability of data, the following variables are included as determinants of q . Two important sources of intangible capital are advertising (a source of product differentiation) and research and development. Unfortunately, Compustat does not fully account for either of these variables. For example, when a firm does not separate advertising from other marketing expenses on its income statement, Compustat reports a missing value for advertising. Thus, as an alternative source of advertising data we collected data on advertising from Leading National Advertisers, which summarizes expenditures by firm in major media outlets and is very complete.⁸

For R&D, we did not have access to an alternative source of data. Rather than significantly reduce our sample size, we used Compustat's R&D data, and replaced missing values with zero. The firms with missing R&D often appear to be operating in sectors such as retailing, where R&D expenditures would generally be expected to be insignificant. As with the political spending variables, advertising and R&D are entered into the regressions divided by the replacement value of firm assets.

It is also common to include in regressions explaining q , a measure or measures of firm market power. One often used measure is firm market share. Following Konar and Cohen (2001), we initially constructed market share data from *Ward's Business Directory* (2000) for the firm's primary four-digit SIC code. This was deemed superior to using Compustat data, where sales are not broken down by SIC. Problems persisted, however. Even at the four-digit level, we felt the market share data were occasionally very misleading. For example, although Microsoft was the largest firm in its SIC industry, its market share was calculated to be only 10%. This is because of the large number of firms defined to be part of that SIC industry. This is an obvious understatement of Microsoft's dominance in the software market. Rather than use market share, we created a dummy variable equal to one, if a firm was the *Market Leader* in its four digit industry.⁹

We also create a dummy variable, *Material Disclosure*, that takes on the value one, if a firm has reported pending or on-going litigation of a potentially adverse material nature. We would expect that the presence of an event represented by

⁷ Although the Democrats controlled the White House.

⁸ When available, Compustat reported advertising is a more accurate measure of total firm advertising than Leading National Advertisers (LNA). Therefore, as an alternative, we also regressed Compustat advertising values on LNA figures. We then used the predicted values to fill in for missing Compustat values. This did not change our overall findings, and these regressions are not reported.

⁹ If we substitute actual market share for *Market Leader* it does not alter the basic results.

Material Disclosure to have a significant impact on future earnings or firm asset value. These disclosures are mandated by the SEC. What is regarded as material is somewhat subjective, making the variable somewhat imprecise. We define an event as material, if either (1) management has declared an event as possibly material or (2) if the amounts in question exceed \$100 million, unless management has specifically declared the event to be nonmaterial. One reason, for including *Material Disclosure*, is to account for the possibility firms engage in political activity as a response to negative events. An example would be Microsoft's response to the Microsoft antitrust case or firms' responses to asbestos litigation. If we do not control for these factors it could potentially lead to a negative bias in the *Lobbying* and *Contributions* coefficients.

Other explanatory variables include *Growth*, defined as 2 year revenue growth; *Asset Age*, proxied as $1 - (\text{net value of property, plant and equipment} / \text{gross value})^{10}$; the log of number of *Employees*, as a measure of firm size; and a dummy variable, *Year*, if fiscal year is 2001. The latter accounts for changes in overall stock market performance during the sample period.

Lastly, we estimate the equations with and without industry fixed effects based primarily on four-digit SIC classifications. Where there were too few firms in an industry, we aggregated four digit industries to the three or two digit level. Firms in industries classified as "miscellaneous" (i.e., x999), were dropped from the sample. In one instance, firms producing gambling equipment were combined with firms engaged in casino operations to create a gambling industry designation. When included, the fixed effects control for factors such as market concentration, import competition and the socio-political environment in which an industry operates. They also control for industry political efforts made through trade associations. As such, the lobbying and contributions variables may understate the influence of political activity on firm value.

Empirical Results

We estimate regression equations explaining the log of q with least squares with robust standard errors (White Estimator) to control for possible heteroskedasticity. The results are reported in Table 2. In the first two columns of the table, *Lobbying/Asset Value* and *Contributions/Asset Value* are entered as explanatory variables, with and without fixed industry effects. In both sets of cases the political spending explanatory variables are statistically insignificant. In the third and fourth columns of Table 2, total political spending (*Expenditures/Asset Value*) is substituted for its components to control for possible multicollinearity. When fixed effects are excluded, the coefficient of *Expenditures/Asset Value* is positive, but falls short of conventional levels of significance (t -value=1.58). Based on the point estimator, the variable has an elasticity of .007, with a 95% confidence interval of $-.0019$ to $.016$.

¹⁰ This follows Konar and Cohen (2001). If net value of property, plant and equipment equals gross value, then asset age is new and *Asset Age*=0.

Table 2 Regression results: dependent variable is log Tobin's q

Variable	(1)	(2)	(3)	(4)
Intercept	0.355 ^a (4.16)	–	0.354 ^a (4.15)	–
Lobbying/Asset Value	0.0442 (1.09)	0.0224 (0.664)	–	–
Contributions/Asset Value	–0.0325 (0.091)	–0.0644 (0.187)	–	–
Expenditures/Asset Value	–	–	0.0377 (1.58)	0.0149 (1.08)
Log Employees	0.0458 ^a (2.74)	0.0569 ^a (3.16)	0.0458 ^a (2.74)	0.0569 ^a (3.16)
R&D/Asset Value	4.88 ^a (17.1)	2.07 ^a (4.51)	4.88 ^a (17.2)	2.071 ^a (4.51)
Advertising/Asset Value	4.02 ^a (3.84)	2.89 ^a (2.96)	4.01 ^a (3.84)	2.89 ^a (2.96)
Sales growth	0.0219 ^a (2.69)	0.0260 ^b (2.55)	0.0219 ^a (2.69)	0.0260 ^b (2.56)
Market leader	0.135 ^a (3.03)	0.203 ^a (5.15)	0.135 ^a (3.02)	0.202 ^a (5.14)
Material disclosure	–0.0186 (0.259)	–0.0265 (0.441)	–0.0193 (0.270)	–0.0273 (0.452)
Asset age	–0.0324 (0.209)	–0.577 ^a (3.42)	–0.0312 (0.201)	–0.577 ^a (3.42)
Year	–0.0963 ^b (2.47)	–0.0682 ^b (2.31)	–0.0932 ^b (2.52)	–0.0694 ^b (2.39)
Industry fixed effects	No	Yes	No	Yes
Adj. R^2	0.202	0.497	0.203	0.497
Log likelihood	–1,405.7	–1,039.2	–1,405.7	–1,039.3
<i>df.</i>	1,320	1,206	1,321	1,207

Based on a sample of 1,331 firm-years for FY 99 and FY01. *T*-Statistics in parentheses are based on robust (White estimator) standard errors. Coefficients of all the political expenditure variables are multiplied by 10^3 . *Lobbying* is firm lobbying expenditures during a 2 year political cycle divided by firm tangible asset value. The 1997/1998 cycle is paired with FY 99 and the 1999/1990 cycle is paired with FY01. *Contributions* is firm total contributions to candidates and/or political parties during a 2 year political cycle. *Expenditures* is the sum of Lobbying and Contributions. *R&D* and *Advertising* are research and development and advertising expenditures, respectively. All of these variables are divided by *Asset Value*, the value of firm tangible assets. Number of *Employees* is a proxy for firm size. *Sales Growth* measures revenue growth over 2 years. *Market leader* is a dummy variable equaling one, if the firm was the largest firm in its SIC industry. *Material Disclosure* is a dummy variable that equals one if the firm has reported litigation of a potentially adverse material nature. Asset Age is proxied by $1 - [(\text{net value of property, plant and equipment}) / \text{gross value}]$. *Year* is a dummy variable equaling one if fiscal year is FY01.

^aSignificance at the 1% level.

^bSignificance at the 5% level.

Based on the point estimator, therefore, a doubling of political expenditures would increase q by less than one percent. When the fixed effects are included, however, both the statistical and economic significance of spending is further reduced. The *t*-value on *Expenditures/Asset Value* falls to 1.08 and the elasticity to .003.

We also estimate (but do not report in the table) the same equation with the explanatory variable *Contributions/Asset Value* separated into its Republican and Democrat components, both separately and with and without *Lobbying/Asset Value*.

The results are the same (the political variables are insignificant). Qualitatively the results are also robust to entering the political spending variables without normalizing for asset value, changing the functional form of the q equation, eliminating extreme values of the variables from the sample, and excluding subsets of the control variables. In other words, our results are very robust to different specifications. Overall, we find no statistically significant evidence that political spending creates intangible capital that can be measured as a component of q .

With the exception of *Material Disclosure*, the remaining explanatory variables are all of expected sign and statistically significant. Consistent with previous studies, R&D and advertising both significantly contribute to q , and as such constitute intangible capital. Being a market leader also contributes to q raising it by about 20%, on average. The coefficients on *Material Disclosure*, although of expected sign, all have very low associated significance levels. This is somewhat surprising, as along with the industry fixed effects, we included *Material Disclosure* to control for firms engaging in political spending to counter adverse events, such as asbestos class action lawsuits. The absence of significance may be due to difficulties with specification—the subjective nature of what is material, or the use of a dummy variable to measure the presence of a material event.¹¹

Conclusion

This paper examines a basic but important question: what is the importance of money in politics? We use a methodology used in the finance literature to test whether the capital markets view campaign contributions and lobbying expenditures as actions that create a long lasting asset. In our analysis, we focus on measuring the value that capital markets place on lobbying and campaign contributions rather than examining identifiable actions in the political market. Specifically, we test whether political expenditures are related to Tobin's q , a basic empirical finance measure of value.

We are unable to reject the null hypothesis of no relation between political expenditures and q . This is consistent with the proposition that lobbying does not create an intangible asset for the spending firms.

Put differently our results are consistent with the result that campaign contributions do not create value by creating financial capital. There are several possible reasons for this result. First, there may be a high rate of depreciation in contributions and lobbying. With changes in legislative make-up (new legislators and new chairs and committee members) and likewise new staff members at federal agencies, it may be that the effect of political spending is very short lived. Second, the issues may change over time and spending does not really build a political infrastructure to deal with new issues. The results are important for several reasons. On the political side, political spending does not seem to be valued as long-run capital, suggesting that the political process itself is very competitive. Thus firms'

¹¹ However, when *Expenditures* is regressed on *Material Disclosure* and other control variables, inclusive of industry effects, the coefficient on *Material Disclosure* is positive and significant ($t=3.31$), as would be expected if firms seek political help in responding to negative events.

spending is not influential and our result should lessen concern about the impact of money in politics, at least in having long-term impacts. From the firm's perspective, our results suggest comparable lessened concern about competing in political markets. Those wanting to counter the effects of special interest influence need only be concerned with overcoming current spending of political opponents, not past investment.

References

- Ansolabehere, S., de Figueiredo, J., & Snyder Jr., J. (2003). Why is there so little money in U.S. politics. *Journal of Economic Perspectives*, 17, 105–130.
- Brasher, H., & Lowery, D. (2006). The corporate context of lobbying activity. *Business and Politics*, 8(1), 1–23.
- Cooper, M., Gulen, H. & Ovtchinnikov, A. (2007). Corporate political contributions and stock returns. Working paper University of Utah.
- Cummings, J. (2004). Wal-Mart opens for business in a tough market: Washington,” *Wall Street Journal*, March 24, 2004.
- Davidson, R., & MacKinnon, J. (1981). Several tests of model specification in the presence of alternative hypotheses. *Econometrica*, 49(3), 781–793.
- de Figueiredo, J., & Tiller, E. (2001). The structure and conduct of corporate lobbying: How firms lobby the Federal Communications Commission. *Journal of Economics & Management Strategy*, 10(1), 91–122.
- Gleason, K., & Klock, M. (2006). Intangible capital in the pharmaceutical industry. *Quarterly Review of Economics and Finance*, 46(2), 300–314.
- Hirsch, B., & Seaks, T. (1993). Functional forms in regression models of Tobin's q . *Review of Economics and Statistics*, 75(2), 381–385.
- Jayachandran, S. (2006). The Jeffords effect. *Journal of Law and Economics*, 49(2), 397–426.
- Konar, S., & Cohen, M. (2001). Does the market value environmental performance? *Review of Economics and Statistics*, 83(2), 281–289.
- Mulherin, J. H. (2007). Measuring the costs and benefits of regulation: Conceptual issues in securities regulation. *Journal of Corporate Finance*, 13(2–3), 421–437.
- Stratmann, T. (2005). Some talk: Money in politics. A (partial) review of the literature. *Public Choice*, 124(1), 135–156.
- Tullock, G. (1972). The purchase of politicians. *Western Economic Journal*, 10(3), 534–55.
- Ward's Business Directory (2000). Detroit: Gale Group.