Business strategy and political outcomes: The impact of the Citizens United decision on the US states.

<u>Motivation:</u>

The last two decades have seen a rapid increase in the market power of the American corporations and their increased political activity, mainly greater spending on political campaigns. A question that has emerged is whether this process led to introduction of policies that might have only served the interests of the firms and created negative externalities for the rest of the society. Have the affluent corporations gained more control over economic policy-making process or have politicians or corporate responsibility initiatives of the firms themselves prevented this from happening? While several recent publications have concluded that the politicians became more responsive to corporation, these accounts have been largely descriptive and, given lack of a proper counterfactual, have not been able to establish a causal link between corporate money in politics and political inequality. This paper aims to achieve this goal by treating the 2010 US Supreme Court decision in the Citizens United case as a natural experiment on the US states and investigating effects of the ruling on economic policies: regulation of the private sector and lower corporate taxes.

<u>Background:</u>

In the Citizens United case the Supreme Court held that restrictions on independent political campaign expenditures made by the corporations violated the free speech right secured by the First Amendment and, as a result, it ordered to lift all existing bans. This decision opened new ways through which unlimited amount of money can be channeled into the political system without a need to disclose donors. These new opportunities have been quickly utilized. According to a recent study by Spencer and Wood (2014), independent expenditures have increased threefold between 2008 and 2012 federal election cycle and nearly all of the additional contributions were channeled from firms through intermediaries - non-profit organizations and political action committees (PAC).

<u>Hypothesis:</u>

According to the resource theory by Verba, Shlozman and Brady (1995), there is a strong link between economic and political inequality and politicians tend to be more responsive to wealthy agents who may contribute more money. If this is true, I would expect that following lifting of the bans on the state-level campaign contributions, candidates will be more responsive to the interests of the business entities and groups that represent them. That is - they will be more likely to support decreased regulation of the private sector and lower corporate taxes.

<u>Methodology:</u>

I utilize state-level variation in the campaign finance law and follow a difference-in-differences methodology to test empirically whether lifting ban on campaign finance, which resulted in the increased inflow of money to politics, did in fact have an impact on the preferences of the candidates for pro-business policies. I focus in particular on issues that are widely advocated by firms and are unlikely to benefit employees and the general public: decreased regulation of the private sector and lower corporate taxes. First, I identify states that were subject to independent campaign contributions bans prior to the Supreme Court decision. 22 states had state independent expenditure bans by corporations that they were forced to lift during the 2010 election cycle. These states can be thus seen as being ”treated” by the ruling. The remaining 28 states never had such bans so they were unaffected by the ruling and can act as a control group. In my analysis, I investigate implementation of economic policies and preferences of legislators for business-friendly policies, looking at the period 2008-2016. In order to achieve this I utilize novel datasets on the economic policy changes in the US states (pre- and post-decision) and on the pre- and post-decision electoral promises of state legislators (Political Courage Test).

Findings:

Findings of the paper are interesting. I find that the ruling is associated with increase in support for reduced regulation of the private sector, as the political inequality hypothesis would predict, however the result is statistically insignificant. In case of the corporate taxes, I find a decreased support for reducing corporate taxes (statistically significant) and an increased support for maintaining the current level of the corporate taxes. These findings suggest that politics of the United States has most likely not been fully captured by the business influence and that the impact of corporate political spending may not be as negative as the media often portrays it. Retaining status quo, as opposed to obtaining preferential treatment, is a more likely outcome. Findings of my paper add to the existing literature in a number of ways. First, my analysis adds to the literature on money in politics, as it is the first paper that assesses the effect of lifting bans on campaign finance on the responsiveness of the state-level politicians to the corporate interests. Second, it adds to the literature on non-market strategy of firms by investigating the behavior of firms once they are provided with an opportunity to influence political outcomes in a legal way (eliminating the cost of being e.g. accused of corruption). Finally, it contributes to methodological analysis, being the first paper that utilizes state-level variation in the effect of the Citizens United decision in order to show causal effects of the corporate political activity on the American politics.

Work in progress (to be completed before the Academy):

I am currently conducting further analysis of: why the effects of corporate money in politics are smaller than could have been expected and why campaign finance may have a different influence on regulatory policies and taxation. I am particularly interested in whether this difference is driven mainly by the behavior of the legislators or by the strategies of the firms. There are two possible hypotheses. First, given salience of the Citizens United case, accusations of capture by firms and increased anti-establishment sentiment (as observed in the last presidential elections), politicians may be unwilling to be seen as corrupt by the business sector. In such case they may be in fact much less likely to implement pro-business measures and likely to retain status quo especially when dealing with salient issues. In order to test this I utilize information on the state-level regulation and ballot measures, as well as notes regarding consideration of increasing corporate taxes. I test whether the regulatory and tax proposals that reach the legislature are less likely to be approved following the Citizens United decision - which would suggest preference of legislators for inactivity. Second, the results may be an outcome of change in the firm strategy. Firms may also be less willing to be seen as exerting too much political pressure, especially when this means providing support to specific candidates that the shareholders may not approve of. In fact in an environment where financial political involvement is seen as something negative and public disapproves it, firms may want to increase their value by signaling that they are socially responsible. In such case they may be more likely to retain status quo instead of pushing for policies that may be seen as exerting negative social impacts. In order to test this, I utilize a range of corporate social responsibility measures and test if the behavior of the firms in the states affected by the ruling versus not affected has changed after 2010.