MANHATTAN INSTITUTE FOR POLICY RESEARCH

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New Study: Claim That Corporate Political Spending Hurts Shareholders Is False

Report reviews 20 years of academic evidence to show corporate political engagement generally benefits shareholders

New York, NY: In the wake of the Supreme Court's *Citizens United* decision, activists have taken a renewed interest in corporations' political activities. The demands of union pension funds, and other activist shareholders calling for the disclosure of corporate political spending, have been reinforced by three recent studies, two by John Coates and one by Rajesh Aggarwal, purporting to show that political spending actually harms share value. In a new Manhattan Institute report, *Corporate Political Spending: Why the Critics Are Wrong*, economists Robert Shapiro and Doug Dowson dispel this myth, showing that the reasoning and findings behind the Coates and Aggarwal studies do not actually challenge, much less refute, the broad academic consensus that corporate political activity benefits shareholders.

The dominant academic view for the last 20 years has been that companies undertake political activity to secure advantages for themselves, based on a combination of opportunity and necessity. Shapiro and Dowson's review of this research confirms that corporate participation in the political process yields generally positive returns for firms and their shareholders.

Shapiro and Dowson examine 20 years of academic research to show that companies generally engage in political activities to benefit their company and shareholders:

1. Firms employ a variety of strategies to influence the political process in ways that may, or should, improve their performance and benefit their shareholders.
2. Corporate spending decisions on campaign contributions and lobbying efforts are generally made in a rational and strategic manner.
3. This political spending does not appear to systematically affect congressional voting, but it does regularly influence policymaking.
4. Corporate political activity appears to have a generally positive effect on firm value, as reflected in excess market returns.
5. The precise mechanisms that produce these positive effects remain unclear.

About the Authors

Robert J. Shapiro is the chairman of Sonecon, LLC, a private firm that advises U.S. and foreign businesses, governments, and nonprofit organizations. From 1997 to 2001, he was Under Secretary of Commerce for Economic Affairs. In that post, he oversaw the Census Bureau and the Bureau of Economic Analysis, and directed economic policy for the U.S. Commerce Department. He has been a fellow of Harvard University, the Brookings Institution, and the National Bureau of Economic Research. He holds a

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Doug Dowson is senior economic analyst at Sonecon, LLC. Previously, he was research assistant at the Peterson Institute for International Economics. Dowson holds a B.A. in economics and political science from the University of California at Berkeley and a master's of international affairs in international economic policy from Columbia University's School of International and Public Affairs. He also has served as a Rosenthal Fellow in the U.S. Treasury's Office of International Affairs and participated in the European Union Visitors Program in Brussels.

The report is available at http://www.manhattan-institute.org/html/lpr_1.htm.