

VOTE 1 THE FIRM?: POLITICAL CONTRIBUTIONS AND UNIONISATION.

BASIC RESEARCH QUESTION

Is *firm-level* unionisation (X) related to *firm-level* contributions to political candidates (Y)?

KEY PAPER(S)

Cooper, Michael. J., Huseyin Gulen and Alexei V. Ovtchinnikov. 2010. Corporate Political Contributions and Stock Returns. *Journal of Finance*, 65(2): 687-724.

Aggarwal, Ragesh. K., Felix Meschke and Tracy Wang. 2012. Corporate Political Donations: Investment or Agency? *Business and Politics*, 14(1): 1-38.

MOTIVATION/ PUZZLE

Big Picture:

1. What motivates corporations to establish and maintain Political Action Committees (PACs)? Investment or Agency?
2. What determines how Corporate PACs distribute their funds? Can we explain the composition of the selected "portfolio" of candidates?

Focus:

Despite the decline in union density since the 1970s, financial contributions to political candidates by labour-PACs (Political Action Committees) have substantially increased in real terms (Masters, 2006). These labour-PACs can be viewed as de facto special interest groups who pursue the political interests of its' members. Freeman and Medoff (1984) argue that unions are interested in (1) bills that directly support union power; and (2) bills that support general labour. Importantly, evidence suggests that they are successful in achieving these goals. For example, Moore et al. (1995) finds that labour-PAC contributions influence senate roll-call votes on bills deemed to be important by labour unions, including those bills that specifically relate to union power (i.e., 'narrow' union bills).

The benefits that these provide to union members generally represent zero-sum transfers from unionised corporations (e.g., higher wages, better conditions). This provides a tractable incentive for corporations to "counter-engage" in the political process (i.e., predicts a positive relation between unionisation and the maintenance of a corporate PAC [Big Picture 1]). Further, if the investment hypothesis has merit, I expect to find that PACs at unionised firms are more likely to slant their "portfolios" to the republican party [Big Picture 2].

THREE CORE ASPECTS OF ANY EMPIRICAL RESEARCH PROJECT

THE IDEA

Dependent Variables: existence of PAC [0,1], "size of PAC" ln(total distributions), # of candidates supported (Cooper et al., 2010), Republican % (percentage of non-independent supported candidates who are affiliated with the Republican party). We also have precise data on candidate's receipts from labour organisations. If donations are intended to help a chosen candidate win, rather than to obtain quid pro quo, we can use these data to identify (ex-post) pro-labour candidates. If this is correct, I expect that unionised firms will "avoid" these candidates.

Source of Endogeneity: workers do not *randomly* organize themselves into unions, they "self-select" unionisation based on (un)observable characteristics of the individual firm. Classic endogeneity. Endogeneity Strategy: For workers to organise, more than 50% of the proposed unit must vote in favour of unionisation. These union election data are publicly available through open data initiatives (no FOIA required) from 1977 to 2010. This allows the use of the SRD estimator which is a popular method of dealing with endogeneity.

Source of Selection Bias: Not all firms establish corporate PACs (about 1,900 unique firms). Thus, we have a potential selection bias. Selection Bias Strategy: Use a two-stage method with Inverse Mills Ratios calculated for each two-year election cycle following Cooper et al. (2010, *JF*).

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THE DATA

1. Firm-level U.S. data. Sample period from 1978 to 2010, interval is every two-year election cycle.
2. Cross-section: probably around 1000-1900 firms. Time-series from 1978 to 2010.
3. Panel
4. Data on labour unions is from the NLRB. Data on hard money contributions comes from the FEC and can be hand-collected. Finance/accounting data from CRSP/Compustat. Collection might take a couple weeks. Might need to get subscription to Lexis/Nexis though Cooper et al. just use EDGAR.
5. Missing/merge/cleaning should be fine.
6. Should be meaningful variation, yes.

THE TOOLS

There are several good options for tests.

1. [panel] Could use a conditional logit (i.e., fixed effects logit) for dichotomous dependent variables (for specifications with FE) and OLS for everything else. Fractional response models can be considered for dependent variables such as dollar weighted republican %. The main independent variable will be union election victory → thus Firm FE + Cycle effects allow for within-group based estimate by comparing pre-election to post-election. We can also include (vote-cutoff) terms, limit bandwidth and drop firm FE (i.e., SRD—estimate this non-parametrically).
2. [quasi-experiment] "exogenous" shocks can be exploited to look for differential value effects. For example, use *Citizens United v FEC* (2010) which ruled that political spending by corporations are protected by the 1st amendment (5-4 decision – shock). Investment hypothesis would predict announcement effects for unionised firms vs. industry counterfactual. Can also look at changes *after* anti-union legislation (e.g., RTW at the state level) since this reduces expected benefits of "connecting" to politicians in the affected state.

TWO KEY QUESTIONS

WHAT'S NEW

As far as I know, this is the first paper looking at the relation between firm-level unionisation and corporate PAC activity. We use two sets of hand-collected data.

SO WHAT

In the wake of *Citizens United vs FEC* (2010) it's important that we fully understand the use of Corporate PACs. This should be the case even if you agree (legally and/or philosophically) that political spending is simply an exercise in free speech. Our context is also appealing because it investigates the issue in the "eternal struggle" of labour against 'Corporate America'.

ONE BOTTOM LINE

THE CONTRIBUTION

Helps us better understand the 'political dynamics' of the labour-capital game.

OTHER CONSIDERATIONS

No collaboration outside of supervisors is desired.

Target Journals: ILR Review, JFQA, JFE.

I don't think **ethical clearance** is required. No humans. But I will check.

Scope seems appropriate to me.

Null result: Low. Null result can be interpreted as circumstantial evidence against "investment" hypothesis. I think it would still be of interest but publication bias is an inescapable perversion.

Alternative hypothesis: unionisation will be negatively associated PAC activity, particularly "size" of the PAC since donations are partly collected from employees.