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Do Stock Returns Vary With Campaign Contributions?
The Bush versus Gore 2000 Presidential Elections

Abstract

I investigate the relation between campaign contributions and equity returns during the highly uncertain Florida recount period of the 2000 presidential elections. I find a positive (negative) relation between the level of contributions to Bush (Gore) and equity returns during this period. Similar evidence exists for the *partisanship* of contributions, an important aspect of contributions not investigated in prior studies. I also examine both firm- and industry-level contributions jointly, which mitigates the correlated omitted variables problem of prior studies. More importantly, this specification helps shed light on the ongoing debate of whether contributions are "influence-motivated" versus "election-motivated". I find that an individual firm's contributions have an impact on its stock returns *incremental* to that of its industry's contributions. This evidence is more consistent with influence-motivated contributions. Lastly, my results are robust to several other event windows, including a window that excludes the potentially confounding House and Senate races.

1. *Introduction*

Politicians make public policy decisions that have a direct and material impact on government regulations. Because firms must operate within the bounds of such regulations, these policy decisions can materially impact the expected future cash flows of firms. An efficient stock market impounds the expected value of these policy decisions (both present and expected future decisions) into each firm's current market value. *Changes* in the expected value of these policy decisions will therefore be reflected in current stock returns (e.g., Schwert, 1981). It follows that: *unexpected changes in political power* can lead to changes in expected future policy decisions and can, in turn, cause changes in firms' market values—a perfect setting to exploit the classic event study methodology (e.g., MacKinlay, 1997; Roberts, 1990a,b).[1] Jayachandran (2004) refers to this relation between shifts in political power and stock returns as the "Jeffords Effect". In her study, she investigates firms' stock returns surrounding Senator Jim Jeffords' unexpected defection from the Republican party in 2001. She finds that firms' political contributions to the Republican party prior to Jeffords' defection explain the cross-sectional variation in firm-specific market reactions to the defection news.

In the current study, I investigate the relation between campaign contributions and stock returns during the hotly contested Florida recount period of the 2000 presidential elections between Bush and Gore. Using the full population of publicly-traded firms, I find a positive

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[1] As Roberts (1990a) states, this event study methodology "exploits the sensitivity of the value of financial assets to expected changes in government policy. Changes in the value of politically sensitive financial assets prior to and immediately following the ... election provide a direct measure of expected changes in public policy. ... The objectivity and efficiency of capital markets permit assertive conclusions to be drawn from the empirical evidence."

(negative) relation between campaign contributions to Bush (Gore) and stock returns during this 37-day election period. This relation is economically significant, and exists incrementally at both the firm- and industry-levels. This relation also exists for both the level and *partisanship* of such contributions. These relations are robust to several different event window specifications. The evidence suggests that the Jeffords Effect is manifest in the 2000 presidential elections, and that it systematically varies with the nature of the contributions that firms and industries make.

I make several contributions to the literature. First, this is the first study to systematically investigate the relation between stock returns and the *partisanship* of campaign contributions, where partisanship is defined as the relative proportion of total contributions that a firm/industry makes to competing candidates. Prior studies consider only the level of contributions. However, empirical and anecdotal evidence suggests that some firms make contributions even-handedly to competing candidates to hedge election-contingent risk (e.g., Poole and Romer, 1985). Contribution partisanship therefore captures an important dimension of contribution behavior: the degree to which a firm's value is contingent upon a particular candidate's success (e.g., 99% partisanship to Gore is highly contingent on his success/failure, while 51% partisanship is not highly contingent). Partisanship therefore provides an important, additional measure of heterogeneity in political sensitivity across firms and industries that has not been investigated in prior studies. Indeed, I find evidence in this study that the partisanship of contributions is oftentimes more significantly related to stock returns than the level of such contributions.

Second, this study jointly examines both firm- and industry-level contributions. Prior studies typically investigate solely firm-level contributions. However, because public policy decisions are primarily made at the industry level (e.g., Roberts, 1990a; Herron et al., 1999), any link that exists between contributions and expected future policy decisions is arguably more

significant at the industry level. Given the importance of an industry-level analysis, the firm-level analyses conducted in prior studies potentially suffer from a correlated omitted variables problem. I find evidence in this study that both firm- and industry-level contributions are incrementally and significantly related to stock returns.

Third, my joint investigation of firm- and industry-level contributions also adds to the ongoing debate regarding whether contributions are "influence-motivated" or "election-motivated" (or both; e.g., Wang, 2004). Specifically, under the election-motivated hypothesis, a firm makes contributions to political candidates that *ex ante* share ideologies/interests aligned with the firm (e.g., Welch, 1980; Gopoian, 1984; Helpman, 1997). These contributions are made to the like-minded politician simply to get him into office—not to influence the politician's policy decisions per se (since his interests are aligned before any contributions are made). Put differently, the expected returns that the firm would garner from the politician's ideologies cause the firm to make contributions to him. More importantly, under this election-motivated hypothesis, because the politician, once elected, makes policy decisions according to his *ex ante* general ideologies—not firm-influenced interests—the stock returns of the contributing firm should be similar to those of *non-contributing* firms in the same industry (assuming that policy decisions are made at the industry level). That is, if contributions are election-motivated, a contributing firm should not exhibit any particular advantage relative to its non-contributing peers (Jayachandran, 2004). Contrary to this, I find that an individual firm's contributions have an impact on its stock returns *incremental* to that of its industry's contributions. This evidence is more consistent with influence-motivated contributions, where contributions are made by firms that seek to persuade the politician's policy decisions towards the firm's own positions (e.g., Langbein, 1990; Durden, 1991; Stratmann, 1992; Fleisher, 1993). This evidence suggests that the

3

contributions that the firm makes, in essence, cause the stock returns—effectively reversing the predicted direction of causality that election-motivated theory suggests.

Lastly, the sample and methodology investigated in this study provides several advantages relative to prior studies. First, because presidential elections arguably represent the most significant shifts in political power that occur, my investigation of the 2000 elections is a powerful setting for examining whether the Jeffords Effect systematically varies with political contributions. Second, because a high degree of ex ante uncertainty is an essential ingredient in implementing an event study, the 2000 presidential elections and the historically unprecedented nature of the Florida recount period are particularly appropriate for study. Third, because the Florida recount period extended over a 37-day period, it exhibits a unique advantage over all other presidential elections. Specifically, because results for all House and Senate races typically occur concurrently with the results for the presidential elections, it is always difficult to disentangle the confounding effects of these multiple events from an event study perspective. The Florida recount period does not materially suffer from this issue because it does not share the same event window as these House/Senate races (whose results are largely known by the day after the elections). The results I document in this study are therefore unlikely to be attributable to other political races.

The remainder of the study is organized as follows. Section 2 discusses related literature. Section 3 discusses the event window, sample, and data. Section 4 discusses the research design and empirical predictions. Section 5 presents descriptive statistics. Section 6 presents the main empirical results. Section 7 discusses important caveats and alternative explanations.

2.   *Related Literature*

Politicians make public policy decisions that have a direct and material impact on

government regulations (Stigler, 1971; Krueger, 1974). These policy decisions can materially impact the expected future cash flows of firms and industries through reduced regulatory constraints, preferential access to government subsidies, lighter taxation, the award of government contracts, etc. An efficient stock market reflects the expected value of all present and expected future policy decisions into each firm's current equity price. Changes in the expected value of such policy decisions (e.g., changes in the likelihood of policy enactment) will therefore be reflected in contemporaneous stock returns (e.g., Schwert, 1981; Schipper et al., 1987). This suggests that unexpected shifts in political power can lead to changes in expected future policy decisions, and these changes can in turn cause changes in firms' market values (i.e., stock returns). Jayachandran (2004) refers to this relation between shifts in political power and stock returns as the "Jeffords Effect".

In the context of a potential Jeffords Effect, investigating presidential elections is particularly interesting because they arguably represent the most significant shifts in political power that occur in the United States political system. This is one reason why several studies investigate stock returns surrounding presidential elections. For instance, in a comprehensive study using data spanning eighteen presidential terms from 1927–1998, Santa-Clara and Valkanov (2003) find that equal-weight market-adjusted long-window returns are higher (lower) under Democrat (Republican) presidencies—a difference of 16% per year. However, when the authors implement an event-study methodology to examine short-window returns surrounding the four "most contested" elections,[2] they find that "the market seems to react very little, if at all,

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[2] An event study methodology is used to test whether differences in returns are due to differences in expected or unexpected returns. If higher realized returns in Democratic administrations are due to a higher Democrat risk premium, then there should be an overall negative reaction to

5

to presidential news." That is, the Jeffords Effect does not seem to exist.

However, recognizing the possibility of cross-sectional variation in the Jeffords Effect, Herron et al. (1999) characterize the economy into 74 economic sectors and ex post identify 15 unique sectors whose stock returns were "politically sensitive" to the 1992 presidential elections between Clinton and Bush. The authors provide plausible ex post explanations for the market performance of several of these sectors based upon the sector-specific policy positions of each candidate; some sectors, however, defy explanation. In a similar vein, Roberts (1990a) investigates the returns of firms in the "policy sensitive" defense industry during the 1980 presidential elections between Reagan and Carter. He finds that defense firms exhibit a positive relation between stock returns and the likelihood of a Reagan victory, and attributes this relation to the expected increase in defense spending under a Reagan administration. These studies posit that, because some industries have more or less at stake with the outcome of certain shifts in political power, (market) reactions to election outcomes are likely to systematically vary along various economic characteristics—namely, industry membership. However, because their analyses are ex post or anecdotal in nature, these studies do not provide any ex ante, systematic manner in which to *predict* cross-sectional variation in the Jeffords Effect.

One manner in which to make ex ante predictions of the Jeffords Effect is provided by Krueger (1974), who posits that, given the material nature of public policy decisions, it is natural for firms to devote economic resources—time, money, votes—towards "rent-seeking activities"

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news of a Democrat victory on Election Day, followed by higher excess returns throughout the four-year Democrat term. Instead, the authors find that excess returns grow gradually over the four-year terms of presidencies, suggesting that these returns are unanticipated and due to systematic surprises in economic policies, not a Democrat risk premium.

to compete for favorably biased policy decisions (e.g., Shleifer and Vishny, 1994). Taking this cue, Fisman (2001) investigates firms in Indonesia that are "politically dependent" to Indonesian President Suharto during 1995–1997. He finds that on days when rumors surface about Suharto's deteriorating health, there is a negative relation between a firm's stock returns and its degree of "political dependence" to Suharto; Johnson and Mitton (2003) find similar evidence in Malaysia.

Several studies use the level of political contributions made to political candidates to explain the cross-sectional variation in the Jeffords Effect. For instance, Roberts (1990b) investigates firms' stock returns surrounding the unexpected death in 1983 of Senator Henry Jackson, who was Chairman of the Senate Armed Services Committee. He finds that "resource constituent" firms (i.e., those that make political contributions to Jackson) exhibit negative stock price reactions to the news of the Senator's unexpected death, while similarly-defined resource constituent firms of Senator Sam Nunn, Jackson's successor on the Committee, exhibit positive price reactions. Similarly, Jayachandran (2004) investigates the stock returns of Forbes 500 firms surrounding Senator Jim Jeffords' unexpected defection from the Republican party in 2001. The author finds that the level of firms' political contributions to the Republican party prior to Jeffords' defection explains the cross-sectional variation in market reactions to the defection news. Related to presidential elections in particular, Knight (2004) examines the returns of a select group of 70 firms chosen by analysts as being most likely to fare well under Bush versus Gore administrations. He finds that, for the six-month period before the 2000 elections, the relation between stock returns and the likelihood of a Bush victory systematically varies positively (negatively) with the level of contributions made to Bush (Gore). In the current study, I investigate the relation between campaign contributions and stock returns during the hotly

7

contested Florida recount period of the 2000 presidential elections between Bush and Gore.[3]

3. *Event Window, Sample, and Data*

3.1 EVENT WINDOW: THE 37-DAY FLORIDA RECOUNT PERIOD

In this section, I discuss the details of the event window that I examine, and the

motivations behind choosing the window. The event window I investigate is the 37-day Florida

recount period of the 2000 presidential election between George W. Bush and Al Gore, Jr.—

from Election Day (November 7, 2000) to the day that Gore publicly announced his defeat and

conceded his candidacy (December 13, 2000). I refer to this period as the "election period" or the

"Florida recount period". I do not focus on the run-up period preceding Election Day because it

is largely investigated in prior studies (e.g., Knight, 2004; Mattozzi, 2003).

The goal of this study is to investigate the relation between campaign contributions and

short-window stock returns around presidential elections in the United States. Like all event

studies, a high level of uncertainty regarding the (electoral) outcome is an essential ingredient for

proper implementation of this methodology. Unfortunately, high uncertainty is difficult to obtain

for most presidential elections because they are highly anticipated and fairly predictable due to

information garnered from Gallup polls and other media outlets (e.g., Fair, 1996). During the

run-up period prior to the elections, market participants therefore dutifully incorporate this

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[3] My study is materially different from Knight for several reasons. First, I investigate the

partisanship of contributions, while Knight only investigates the level of contributions. Second, I

include industry-level contributions, while Knight only considers firm-level contributions. Third,

I consider an event window that excludes the concurrent House/Senate race events, thus largely

precluding these races as potentially confounding events. Lastly, I consider the entire universe of

publicly-traded firms, while Knight considers a group of 70 large firms selected by analysts.

information into stock prices, leaving minimal uncertainty on the day of the elections themselves. This renders the event study methodology powerless. To circumvent this issue, I follow Santa-Clara and Valkanov (2003) by focusing on "highly contested" elections, defined as those elections where the polls/media forecasted incorrectly or the outcomes were very close ex post. Such elections are arguably the highest in uncertainty and therefore the most difficult to predict ex ante. Five elections meet this requirement.[4] Unfortunately, data for campaign contributions is only available for the 2000 elections; this is therefore the focus of my study.

The events surrounding the 2000 elections between Bush and Gore were historically unprecedented. The candidates were in a dead heat up until Election Day on November 7. Election-contingent futures contracts for the "vote share" market (from the Iowa Electronic Markets) closed on Election Day at 49.7% for Gore, 49.5% for Bush; "neither candidate had a significant ex ante electoral college advantage" (Knight, 2004). Early in the morning on November 8, results from 49 states had been tabulated: Bush had garnered 246 electoral votes and Gore, 266. Florida's remaining 25 electoral votes, which hinged on a few hundred popular votes, would decide the winner. National television networks first called Florida for Gore, then for Bush, then as "too close to call". Iowa's election-contingent futures prices ended its "winner takes all" presidential futures contract on November 10 (as originally contracted)—declaring Gore the winner by 200,000 votes. Thus, regardless of the uncertainty that existed before the election, the post-election recount period was "a whole new game", rife with new uncertainties.

Over the next 36 days, a dramatic series of hotly contested, historically unprecedented

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[4] The four remaining most contested elections are: Truman vs. Dewey in 1948, Eisenhower vs. Stevenson in 1952, Carter vs. Ford in 1976, Reagan vs. Carter in 1980.

events transpired.[5] This started with a statewide recount, as mandated by Florida state legislature, as well as a manual recount of three particularly disputed Florida counties. Several Supreme Court petitions and appeals, at both the state and federal levels, filed by both candidates, transpired. These events caused the intermittent halting and restarting of the machine and manual recounts in several counties. In the penultimate act, on December 12, the U.S. Supreme Court ruled 5–4 to overturn the Florida Supreme Court's earlier decision to allow recounts to continue; this effectively stopped all further ballot recounts. The next evening, on December 13, in a nationally-televised address, Gore conceded his bid for the presidency. With all recounting halted, the official Florida count gave the victory to Bush by 537 votes.

Using an event study methodology, I treat this 37-day Florida recount period between Election Day and the day of Gore's public concession as a single event (similar in spirit to how hourly events aggregate to a single-day "event"). This extended event window presents a unique advantage over all other presidential elections because it largely avoids the confounding events that typically occur in event studies of presidential elections—namely, the concurrent House and Senate races. That is, because the Florida recount period extended well past the House and Senate races (which largely end on the day after Election Day, November 8), my results are unlikely to be attributable to these races. Purging the confounding effects of the House and Senate races from the investigation of the Presidential race is not possible for any other presidential election ever examined. I view this as a significant advantage of my research design.

Of course, the main disadvantage to this extended window is that it introduces the possibility of *other* confounding events occurring during the period (though these possible confounding events would have to systematically drive both firm- and industry-level returns, as

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[5] For further details, see, e.g., Corrado (2001), Green and Bigelow (2001), Knight (2004).

well as both the firm- and industry-specific level and partisanship of contributions). To alleviate concerns about such potential correlated omitted variables, I conduct several robustness tests with respect to alternative event windows (e.g., the week immediately following Election Day).

3.2 SAMPLE AND RETURNS DATA

I include all firms that have CRSP daily returns and available quarterly Compustat data for the 37-day election period (from the day before Election Day, November 6, 2000, to the day after Gore publicly concedes, December 14, 2000). The final sample of 6,708 firms represents the universe of publicly-traded firms with available data on NYSE, AMEX, and NASD. The sample is therefore more comprehensive than prior studies. Raw stock returns are calculated as the buy-and-hold returns during the 28 trading days of the election period, which I treat as a single event. Excess stock returns are defined in three ways: size-adjusted, value-weight market adjusted, and equal-weight market adjusted.[6] Tests using all four alternative returns measures yield qualitatively similar results. In later robustness tests, I consider several other alternative event windows, which yield qualitatively similar results.

3.3 CONTRIBUTIONS DATA

Political contributions data for the 2000 election cycle is collected from the Center for Responsive Politics, a non-partisan, not-for-profit research group.[7] The Center culls the contributions data directly from federally mandated Federal Election Campaign Act filings.

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[6] A firm's size-adjusted returns are defined as raw buy-and-hold returns, less the buy-and-hold returns from its corresponding size decile portfolio during the same event window. Value-weight (equal-weight) market adjusted returns are defined similarly.

[7] The Center's data is recognized as the most accurate currently available. Their research is frequently cited by CNN, New York Times, USA Today, Washington Post, etc.

For industry-level analysis, I collect *total contributions*, which include individual hard money, soft money, and PAC contributions. The Center tabulates total contribution amounts by "who gives" and "who gets". "Who gives" represents the originating source of the contributions, by sector and industry.[8] I identify eighty industries with relevant four-digit SIC code classifications; I exclude several "industries" from the study because they defy SIC classification (e.g., abortion policy, gun control). "Who gets" represents the target candidate for the contributions made, to either Bush or Gore, as well as their respective political parties.

For firm-level analysis, the Center only provides data for *soft money contributions* larger than $100,000 (i.e., they do not provide total contributions data). The difference between hard money and soft money contributions is discussed in several other places (e.g., Kroszner and Stratmann, 1998; Corrado, 2001; Green and Bigelow, 2001; Jayachandran, 2004), so I do not belabor the point here.[9] According to the Center's database, 12,565 identifiable

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[8] Ambiguous sources are left uncoded. Possible biases arising from such coding are not considered here. Directly from the Center's website: "All numbers attributed to a particular industry can be assumed to be conservative. Tens of millions of dollars of contributions in each election cycle are not classified by industry at all—either because the original data is incomplete or too vague to categorize, or because of limitations on the Center's ability to fully research the millions of individual contributions given over the years."

[9] Briefly, in the context of the 2000 elections, hard money contributions were very restrictive due to legislative caps placed upon the maximum allowable amount of such contributions. Soft money contributions, on the other hand, had no such caps and had become the "loophole of choice". Soft money contributions therefore significantly dwarfed their hard money counterparts. Moreover, because soft money faced no upper limits, they arguably provide a richer measure of

firms/organizations/individuals make soft money contributions larger than $100,000 during the

2000 election cycle. Of these soft money contributors, I match 358 to publicly traded firms on

CRSP/Compustat; this is similar to the 314 firms matched by Hertzel et al. (2002).

3.3.1 Level and partisanship of contributions

When making contributions to competing candidates, firms must decide upon both the

absolute and relative amounts to give to each candidate. Prior studies typically investigate the

absolute amounts of giving, but do not consider the relative amounts; in this study, I explicitly

consider both. I refer to the absolute amount of giving as the *level* of contributions. Because the

level of contributions is the natural first step in investigating contributions behavior, it is the

central metric examined in most studies (e.g., Roberts, 1990b; Knight, 2004).[10] However,

empirical and anecdotal evidence suggests that firms may make contributions even-handedly to

rival candidates to hedge election-contingent risk (e.g., Poole and Romer, 1985). This suggests

that the level of contributions may not adequately capture the degree to which firm value is

contingent on a particular candidate's success or failure. To address this issue, I also examine the

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the resources that firms devote to the political process. *De jure*, soft money is restricted to

general party-building activities and local/state elections, but most agree that soft money serves

as a *de facto* unregulated channel through which federal elections are funded. Green and Bigelow

(2001), Corrado (2001), and Ansolabehere et al. (2003) provide a comprehensive discussion of

campaign finance issues and descriptive statistics for 2000 presidential campaign contributions.

[10] Ceteris paribus, a higher level of contributions is interpreted to mean that the firm is

attempting to: (*i*) exert a higher level of favorable influence over a politician's policy decisions

(influence-motivated), or (*ii*) exert a higher increase in the politician's likelihood of winning an

election (election-motivated).

partisanship of contributions.

Partisanship of contributions is defined as the relative proportion of total contributions that a firm/industry makes to each competing candidate. It is a continuous variable ranging from 0% to 100%. For instance, an industry may make $1 million in total contributions in a particular election cycle. However, 99% of these contributions may go to Gore, while only 1% go to Bush. I refer to these relative amounts of giving, expressed in percentages, as the partisanship of contributions. Thus, I assume that this particular industry is strongly Gore-partisan. One interpretation of this high level of partisanship is that the market value for this industry is highly contingent upon Gore's success or failure. Conversely, I assume that an industry that makes 51% (49%) of its total contributions to Gore (Bush) is not strongly partisan in its contributions to either candidate (though it is marginally Gore-partisan). This industry's market value is therefore not highly contingent upon either candidate's success or failure. This partisanship metric therefore measures an important dimension of political sensitivity of firms' market value which has not been fully investigated in prior studies.

4. *Research Design and Empirical Predictions*

In this section, I present three different models and discuss the empirical predictions for each of these models. In sections 4.1 and 4.2, I discuss the industry-level and firm-level models, respectively. In section 4.3, I discuss the full, firm-level model after controlling for its industry's contributions, and how the results from this estimation help shed light on the debate regarding "influence-motivated" versus "election-motivated" contributions.

4.1 INDUSTRY-LEVEL ANALYSIS

Industry-level analysis of the Jeffords Effect is important because public policy decisions are typically made at the industry level (e.g., Schipper et al., 1987; Roberts, 1990a; Herron et al.,

1999). Most prior studies, however, investigate solely firm-level contributions, which may simply be a proxy for industry-level contributions. I estimate the following industry-level OLS regression for the 80 industries of my sample:

$$RET_{ind} = \alpha + \beta_1 \ \$GORE_{ind} + \beta_2 \ \$BUSH_{ind} + \beta_3 \ \%BUSH_{ind}$$

$$+ \ \beta_4 \ MTB_{ind} + \beta_5 \ SIZE_{ind} + \beta_6 \ MOM_{ind} + \varepsilon_{ind} \qquad (1)$$

> RET_{ind} is the industry mean buy-and-hold returns over the event window, defined as either raw or excess (size-adjusted, equal-weight market-adjusted, market-weight market-adjusted) returns
> $\$GORE_{ind}$ is level of industry-level contributions made to Gore (in millions),
> $\$BUSH_{ind}$ is level of industry-level contributions made to Bush (in millions),
> $\%BUSH_{ind}$ is partisanship of industry-level contributions made to Bush,
> MTB_{ind} is industry mean prior-period log (market value of equity / book value equity); firms with negative MTB are excluded,
> $SIZE_{ind}$ is industry mean prior-period log market value of equity,
> MOM_{ind} is industry mean returns for the six months prior to Election Day.

$\%BUSH_{ind}$, ranging from 0% to 100%, is the partisanship variable, and represents the relative proportion of total contributions that the industry makes to Bush. If the Jeffords Effect for the 2000 presidential elections systematically varies by the partisanship of industries' contributions, then I predict that $\%BUSH_{ind}$ will be positively related to industry stock returns. Results for this partisanship variable provide new evidence regarding an additional, undocumented dimension of contributions to which aggregate industry market value may systematically vary with. Similar to prior studies regarding their investigation of the level of contributions, I also predict that $\$BUSH_{ind}$ is positively related to stock returns, and that $\$GORE_{ind}$ is negatively related to stock returns. Lastly, the model includes standard control proxies for risk used in the literature (e.g., Fama and French, 1993; Carhart, 1997), including the market-to-book ratio (MTB_{ind}), firm size ($SIZE_{ind}$), and momentum (MOM_{ind}).

4.2 FIRM-LEVEL ANALYSIS

One reason firm-level analysis of the Jeffords Effect is important is its potential legal

implications. Specifically, it is prohibited by federal law for firms to make contributions to politicians if such contributions act as the first half of a *quid pro quo* transaction. The Supreme Court states that even a simple *correlation* between firms' political contributions and favorable policy decisions is disconcerting, because even "the appearance of corruption" jeopardizes the democratic system. Though the current research design cannot in anyway resolve such concerns, a firm-level analysis is a natural starting point for investigation. I estimate the following firm-level OLS regression for the 6,708 firms in the sample:

$$RET_i = \alpha + \beta_1 \ \$GORE_i^{SOFT} + \beta_2 \ \$BUSH_i^{SOFT} + \beta_3 \ \%BUSH_i^{SOFT}$$

$$+ \ \beta_4 \ MTB_i + \beta_5 \ SIZE_i + \beta_6 \ MOM_i + \varepsilon_i \qquad (2)$$

The model is similar to the industry-level model (1) discussed above, except that each variable is defined at the firm-level, and the contributions variables represent soft money contributions, not total contributions. $\%BUSH_i^{SOFT}$, ranging from 0% to 100%, is the firm-specific partisanship variable, and represents the relative proportion of soft money contributions that the firm makes to Bush. If the Jeffords Effect for the 2000 presidential elections systematically varies by the partisanship of firms' soft money contributions, then I predict that $\%BUSH_i^{SOFT}$ will be positively related to firm stock returns. Similar to prior studies regarding their investigation of the level of contributions, I also predict that $\$BUSH_i^{SOFT}$ ($\$GORE_i^{SOFT}$) is positively (negatively) related to stock returns.

4.3 FULL MODEL

In the full model, I re-estimate the firm-level model (2) presented above, but now include each firm's industry contributions, as well. Because the firm-level contributions may simply be a proxy for firms' industry-level contributions, this mitigates the correlated omitted variables problem. More importantly, including both firm- and industry-level variables enables me to

16

examine whether firm-level contributions have an *incremental* relation to stock returns above

that of industry-level contributions. I estimate the following firm-level OLS regression for the

6,708 firms in the sample:[11]

$$RET_i = \alpha + \beta_1 \$GORE_i^{SOFT} + \beta_2 \$BUSH_i^{SOFT} + \beta_3 \%BUSH_i^{SOFT}$$

$$+ \beta_4 \$GORE_{ind}^* + \beta_5 \$BUSH_{ind}^* + \beta_6 \%BUSH_{ind}$$

$$+ \beta_7 MTB_i + \beta_8 SIZE_i + \beta_9 MOM_i + \varepsilon_i \qquad (3)$$

What is particularly important about this model is that, by interpreting the coefficients for

the firm-level contributions variables in this specification, I am able to garner some novel

insights into the debate of whether political contributions are "influence-motivated" or "election-

motivated". I turn to this issue next.

4.4 INTERPRETING FIRM-LEVEL CONTRIBUTIONS: INFLUENCE VS. ELECTION-MOTIVATED

In this section, I briefly discuss how my empirical model (3) above helps discern between

the influence-motivated and election-motivated hypotheses. In the influence-motivation

hypothesis, a firm makes contributions when it seeks to persuade a politician's policy decisions

towards the firm's own interests. For instance, some studies find that contributors give the most

money to politicians whose policy positions are "on the fence" and therefore most likely to be

influenced (e.g., Stratmann, 1992)—and such contributions seem to have a dramatic effect on the

positions that such politicians take (e.g., Langbein, 1990; Durden, 1991; Fleisher, 1993).

Conversely, in the election-motivation hypothesis, a firm makes contributions when it

seeks to increase a like-minded politician's likelihood of winning an election. That is, when the

firm assesses that a certain politician already exhibits similar ideologies that are aligned with the

firm, contributions are not made to persuade the politician's policy decisions (since their interests

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[11] Industry-level contributions are purged of (adjusted for) the firm's soft-money contributions.

are already aligned), but simply to get him into office (e.g., Welch, 1980; Gopoian, 1984; Helpman, 1997). Thus, the debate essentially centers around the direction of causality: Do contributions cause politicians' *ex post* policy positions (influence-motivated)? Or do politicians' *ex ante* policy positions cause contributions (election-motivated)? There is empirical evidence consistent with both motivations (e.g., Wang, 2004), but the debate has not been fully resolved.

In this study, one question I pose is: How might we discern between these two competing hypotheses in the context of the current research design? Consider the null hypothesis that all contributions are election-motivated. Under this null, once a politician is elected and in office, he makes policy decisions according to his general, predisposed ideologies and interests—not firm-influenced ideologies and interests. Thus, his policy decisions should affect firms with similar characteristics in a similar manner—for instance, policy decisions that are primarily made at the industry level (e.g., Roberts, 1990a; Herron et al., 1999). If this is true, then the stock returns of contributing firms should be similar to those of non-contributing firms in the same industry— that is, a contributing firm should not exhibit any particular advantage relative to its non-contributing peers (Jayachandran, 2004). This suggests that, *after controlling for industry-level contributions*, firm-specific contributions should not be related to its firm-specific stock returns.

Conversely, if firm-specific contributions *are* significantly related to its firm-specific stock returns, then this evidence suggests that we reject the null hypothesis of election-motivated giving. More importantly, such evidence is consistent with the alternative hypothesis of influence-motivated giving. In this way, the research design I implement in this study is unique because it estimates the relation between firm-specific contributions after controlling for industry-level contributions. I believe this specification enables me to speak to the issue of influence- versus election-motivated contributions.

5. *Descriptive Statistics*

Level of contributions. George W. Bush (Al Gore, Jr.) raised $193.0 ($132.8) million for his 2000 presidential campaign, and received an additional $67.6 ($83.0) million in federal funding. Table 1 examines the *level* of contributions. Panel A of table 1 reveals that the top contributing *industries* for both candidates are Retired individuals, Lawyers and law firms, Real estate, and Securities and investments ("industries" do not necessarily represent publicly traded firms). The evidence here and throughout the study is consistent with anecdotal evidence of Bush's record-breaking fundraising. For instance, the Real estate industry is the third highest contributing industry for both candidates, but Bush receives almost three-fold the funds that Gore receives ($4.34 million vs. 1.56 million). Panel B reveals that *individuals* also give to both candidates. For instance, Credit Suisse First Boston, Ernst & Young, Morgan Stanley Dean Witter, Citigroup, and Goldman Sachs each make the top contributors list of both candidates.[12]

Partisanship of contributions. Table 2 investigates the *partisanship* of contributions and reveals that the top publicly traded Bush-partisan industries are: Livestock (96.1% of contributions to Bush), Oil and gas (93.3%), Forestry (92.5%),Tobacco (91.9%), and Automotive (91.6%). Untabulated results reveal that Bush partisanship is highly correlated with Republican-party partisanship. Next, when considering the top Gore-partisan industries, two salient points emerge. First, the top Gore-partisan "industries" do not represent publicly traded firms, but labor unions and other non-corporate, ideological entities (e.g., women's issues, human rights). Indeed, only one of the Gore-partisan industries, TV/Movies/Music, has interests that can be clearly

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[12] Of the 358 firms that make soft money contributions, 120 of them (33.5%) give to both parties/candidates. The act of giving to competing candidates is inconsistent with election-motivated giving (Jayachandran, 2004); I discuss this issue in more detail in sections 6 and 7.

demarcated by an SIC code classification.[13] Second, in general, Gore-partisanship is much

weaker than Bush-partisanship—even the sole publicly-traded industry that is Gore-partisan,

TV/Movies/Music, is only 56.5% so.

6. *Empirical Results*

6.1 T-TESTS ANALYSIS

Table 3 presents the results from t-tests of differences in the mean size-adjusted excess

buy-and-hold returns of partisan industries versus those of all remaining industries. (Results for

value-weight and equal-weight market-adjusted excess returns are qualitatively similar

throughout the tests.) Overall, the results suggest that firms in Bush-partisan industries

outperform all other firms during the Florida recount period, while firms in Gore-partisan

industries underperform other firms. For instance, Table 3 shows the 1,078 firms in the top 20

Bush-partisan industries exhibit a mean excess return of +6.2% during the election period, while

the rest of the market exhibits a mean –3.7% excess return—an economically and statistically

significant difference of +9.9% in excess returns over the 28 trading days (t=14.09). Conversely,

the 61 firms in all Gore-partisan industries exhibit a mean excess return of –10.1%, while the

rest of the market exhibits a –2.1% excess return—a statistically significant difference of –8.0%

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[13] This scarcity of publicly-traded, Gore-partisan industries highlights one limitation of the

current study: the difficulty in directly examining the economic performance of Gore-partisan

"industries", and the potential omitted variables problem that this creates. For instance, equity

prices for firms in the manufacturing industry may react positively to Bush's victory. But are

such reactions related to Bush's favorable policy positions towards this industry, or are they

related to Gore-partisan Labor unions' loss in power to extract higher wages for their workers?

in excess returns (t=2.57). Results are qualitatively similar for individual industries.[14]

The differences are economically significant, and are markedly different from the unconditional results of Santa-Clara and Valkanov (2003), who find no discernible pattern for (unconditional) returns surrounding presidential elections. Moreover, because of the extended 37-day event window, it is much more difficult to attribute these results to any confounding House or Senate races, whose results are largely revealed on the day after Election Day. Figure 1, which tracks the mean excess returns of the 37-day election period on a daily basis, reveals that the differential returns are realized fairly gradually over the period.

To determine whether the pattern of returns is correlated with the changing likelihood of a Bush victory, I consider the results of the four Gallup polls taken during the Florida recount period: on November 13, 20, 28 and December 5 of 2005. Since there are no election-contingent futures prices from the Iowa Electronic Markets to examine during this Florida recount period, these four Gallup polls are the only systematic, widely-accepted metric available to gauge the uncertainty of a Bush versus Gore electoral victory during this period.[15] Gallup poll respondents were asked if they approve of the way Gore was handling the Florida recount events. Their responses reveal that approval ratings for Gore gradually and consistently dropped throughout the period (52%, 48%, 42%, 39% responded "yes" to this question on these dates, respectively). This pattern of poll responses during the election period corresponds monotonically with the pattern of returns I document, suggesting that the returns of these highly-partisan firms were

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[14] Tests for industries with less than 20 observations are not performed.

[15] The IEM did not anticipate the Florida recount events, and thus ended its presidential futures contract on November 10 (declaring Gore the winner by 200,000 votes); this further highlights the unprecedented nature of the election period.

correlated with the changing likelihood of a Bush victory. Statistical tests, however, are not feasible due to the low number of polling observations.

6.2 INDUSTRY-LEVEL OLS ANALYSIS

Table 4 presents results from OLS regression estimates of the industry-level model (1), which is estimated using 80 industry observations.[16] Overall, results suggest that the model explains a significant amount of the cross-sectional variation in election-period returns, as evidenced by the adjusted R^2 of 54.5%. The level of industry contributions to Gore ($GORE_{ind}$) are negatively related to industry-level returns, while both the level and partisanship of industry-level contributions to Bush ($BUSH_{ind}$ and %$BUSH_{ind}$) are positively related to industry returns.[17] For example, consider the returns of the full model. The coefficient for $BUSH_{ind}$ is significantly positive ($\beta=0.016$, $t=2.32$), suggesting that $1 million in industry contributions to Bush translates to an average +1.6% in industry excess returns during the 37-day period.

Next, the coefficient for %$BUSH_{ind}$ is significantly positive ($\beta=0.141$, $t=2.71$). To illustrate the impact that partisanship has on returns, consider the Entertainment industry's 43.5% Bush-partisanship with the Livestock industry's 96.1% Bush-partisanship. Controlling for the *level* of contributions, this differential *partisanship* of contributions translates to an approximate difference of +7.3% in industry returns (=[96.1–43.5]*0.141). This suggests that the partisanship of contributions measures an important, previously undocumented dimension of how aggregate industry market values are contingent upon contributions and presidential election outcomes.

6.3 FIRM-LEVEL OLS ANALYSIS

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[16] Untabulated results reveal that all results are qualitatively similar when $GORE_{ind}$ and $BUSH_{ind}$ are scaled by industry market value of equity.

[17] Untabulated results reveal that the coefficients are statistically different from each other.

Panel A of table 5 presents results from OLS regression estimates of the firm-level model (2), while panel B presents results including controls for industry contributions as specified in model (3).[18] Lastly, to ensure that the main results are not driven by confounding events, panel C presents results from a truncated event window that excludes House and Senate races.

Overall, results in panel A suggest that the firm-level model explains a modest amount of the cross-sectional variation in firms-specific, election-period returns, as evidenced by the adjusted R^2 of 14.8%. The firm-specific level of soft money contributions to Gore ($\$GORE_i^{SOFT}$) is negatively related to returns, while the firm-specific partisanship of contributions to Bush ($\%BUSH_i^{SOFT}$) is positively related to returns. For example, consider the results of the full model. The coefficient for $\$GORE_i^{SOFT}$ is significantly negative ($\beta=-0.182$, $t=-2.11$); suggesting that $1 million in firm-specific soft money contributions to Gore translate to an approximate -18.2% in excess returns for the firm during the 37-day period.[19] Next, similar to the industry-level analysis above, the coefficient for $\%BUSH_i^{SOFT}$ is significantly positive ($\beta=0.043$, $t=2.49$). Thus, the partisanship of firm-specific contributions is an important dimension of how a firm's

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[18] Untabulated results reveal that all results are qualitatively similar when $\$GORE_i^{SOFT}$ and $\$BUSH_i^{SOFT}$ are scaled by firm market value of equity.

[19] The relatively large magnitude of the coefficients highlights another important, but currently unresolved debate in the literature referred to as Tullock's Puzzle: If the benefits to political contributions are so great, why is there so *little* money in politics? For instance, Ansolabehere et al. (2003) cite the defense industry's $23.8 million in contributions in the 1998 and 2000 election cycles, and the approximate $134 billion in defense procurement contracts in 2000. Jayachandran (2004) finds that $1 million in soft money donations translates to a change in market value of $2.3 billion in the context of Senator Jeffords defection from the Republican party.

market value is contingent upon contributions and presidential election outcomes.

6.3.1 Are contributions election-motivated or influence-motivated?

Next, to examine the question of whether contributions are election-motivate or influence-motivated, I include industry-level contributions into the firm-level model (3). Results are presented in panel B of table 5. Results reveal that firm-specific soft money contribution variables are significant in the predicted directions *incremental* to that of industry-level contributions. Specifically, the partisanship of firms-specific soft money contributions to Bush ($\%BUSH_i^{SOFT}$) is positively related to returns ($\beta=0.033$, $t=1.94$), while the level of similar contributions to Gore ($\$GORE_i^{SOFT}$) is negatively related to returns ($\beta=-0.238$, $t=-2.76$); the level of contributions to Bush ($\$BUSH_i^{SOFT}$) is not significant ($\beta=0.086$, $t=1.15$). Industry-level total contribution variables are also significant in the predicted directions.[20]

Interpretation. The above evidence reveals that firm-specific contribution variables are statistically significance even after controlling for industry-level contributions. As discussed in

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[20] Similar to Jayachandran (2004), for the level of contributions, firm-level coefficients are higher in magnitude than industry-level coefficients. For instance, the coefficient for $\$GORE_i^{SOFT}$ is higher in magnitude than that for $\$GORE_{ind}$ (-0.238 vs. -0.111, respectively). One interpretation of this result is that a dollar of firm-level contributions has a higher impact on a firm's returns than a similar dollar of contributions from the industry as a whole. Conversely, when considering the partisanship of contributions, firm-level coefficients are lower in magnitude than industry-level coefficients. For instance, the coefficient for $\%BUSH_i^{SOFT}$ is lower in magnitude than that for $\%BUSH_{ind}$ (0.033 vs. 0.289, respectively). This suggest that the partisanship of firm-level contributions is not as important (from a stock-return perspective) as the partisanship of contributions made at the industry-level.

Section 4.4, this evidence is more consistent with contributions that are influence-motivated, not election-motivated. That is, the evidence suggests that contributions cause stock returns, not vice versa. This influence-motivated giving is consistent with results documented by Jayachandran (2004) regarding the defection of Senator Jeffords from the Republican party. It is also consistent with a growing number of studies that attempt to discern between the two competing theories of political contributions (e.g., Stratmann, 2002; Wang, 2004).[21]

6.3.2 Robustness tests: Considering different event windows

To ensure that my main results are not driven by the confounding House- and Senate-election events, panel C presents results from a truncated event window that excludes these races. Specifically, I re-estimate all regressions using stock returns that are calculated for an event window that begins on November 9, two days after Election Day. All other variables remain unchanged. This purges the stock returns of the confounding events related to the House

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[21] Recent studies test both motivations simultaneously and find that contributions are more prominently influence-motivated. Stratmann (2002) examines voting behavior at different points in time with matching contributions from them; he finds that contributions are most effective in swinging the votes of junior legislators, who have not built strong policy position reputations. Moreover, contributions from competing PACs are partially offsetting in voting behavior, suggesting that net contributions are important in determining voting behavior. Wang (2004) finds that "ideological ambiguity" is related to higher contributions. Welch (1980) argues that if contributions were election motivated, they would focus on close elections; however, he finds that most contributions are made to incumbents who are heavily favored to win re-election. Lastly, a third alternative is provided by Ansolabehere et al. (2003), who posit that contributions are a form of consumption or political participation, not unlike giving to charities.

and Senate races. Empirical results are qualitatively similar to those of panels A and B. Untabulated results for a for a November 13 to December 12 window are also similar.

Untabulated results also reveal that, when the entire period is parsed into four separate weekly periods, results are qualitatively similar (though somewhat weaker) throughout each of the four weekly estimations. Indeed, perhaps not surprisingly, the statistical and economic significance of the documented relations between contributions and returns seems to weaken with each progressing week.

Lastly, I also estimate the main model for the period between the Florida recount period (December 14, 2000) and the day that Bush is inaugurated (January 19, 2001). In this estimation over an alternative event window—where all uncertainty about the winner has been resolved— none of the campaign contribution variables are statistically significant at conventional levels. This suggests that the expected benefits of campaign contributions are impounded into stock prices during the Florida recount period of uncertainty.

7. *Conclusion*

In this study, I investigate the relation between campaign contributions and stock returns during the Florida recount period of the 2000 presidential elections. Using the population of all publicly-traded firms, I find a positive (negative) relation between campaign contributions to Bush (Gore)—both their level and partisanship—and stock returns during this period. These relations are robust to several different event window specifications, including windows that purge the effects of the confounding House and Senate races.

I make several contributions to the literature. First, I document the importance of considering the *partisanship* of contributions, an additional measure of heterogeneity in political sensitivity across firms that is not investigated in prior studies. Second, I investigate firm- and

26

industry-level contributions together, which enables me to assess whether firm-level contributions are incrementally related to stock returns after controlling for industry-level giving. Third, I exploit this firm- and industry-level analysis to shed light on the debate of whether contributions are election- versus influence-motivated. My evidence suggests that contributions seem to be influence-motivated. The evidence, however, is far from conclusive—these documented patterns are not definitive proof of influence-motivated giving: stock returns merely capture the market's assessment of changes in expected future cash flows, not changes in *actual* future cash flows (let alone actual changes that close the loop of a *quid pro quo* transaction).[22]

Overall, the evidence suggests that the Jeffords Effect is manifest in the 2000 presidential elections, and that the Jeffords Effect systematically varies by the level and partisanship of the campaign contributions made at both the firm and industry level.

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[22] One advantage of employing an event-study methodology, however, is that it is possible to sidestep the issue of causality altogether: regardless of the underlying motivation, campaign contributions are positively correlated with the expected benefits of favorable policy positions that a winning candidate brings to office—and stock returns therefore capture the value that the presidential candidates confer on contributing firms/industries, regardless of causality.

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Table 1, Panel A
Top contributing *industries* to Bush and Gore

Top contributing industries to Bush	Amount (000s)	Top contributing industries to Gore	Amount (000s)
Retired	$7,965.9	Lawyers/Law Firms	$5,240.7
Lawyers/Law Firms	5,948.9	Retired	2,304.7
Real Estate	4,346.1	Real Estate	1,560.7
Securities & Investment	3,962.3	Securities & Investment	1,424.9
Misc Finance	3,024.3	Civil Servants/Public Officials	1,183.7
Health Professionals	2,813.9	TV/Movies/Music	1,068.2
Business Services	2,048.7	Business Services	971.9
Oil & Gas	1,889.2	Education	963.1
Republican/Conservative	1,666.4	Health Professionals	768.8
Insurance	1,644.7	Lobbyists	695.1
General Contractors	1,530.2	Misc Business	621.2
Misc Manufacturing & Distributing	1,420.2	Computer Equipment & Services	586.9
Commercial Banks	1,327.1	Democratic/Liberal	518.2
Automotive	1,272.5	Misc Finance	443.2
Computer Equipment & Services	1,195.4	Accountants	399.6
Civil Servants/Public Officials	1,184.2	Printing & Publishing	395.3
Accountants	1,102.9	Construction Services	380.0
Education	1,048.9	General Contractors	365.0
Construction Services	938.3	Insurance	329.0
Misc Business	891.5	Commercial Banks	287.6
Uncoded	19,545.3	Uncoded	7,054.6

This table shows the top contributing industries to Bush and Gore during the 2000 elections cycle. Many industries defy SIC classification (e.g., Retired, Democratic/Liberal). Contributions data is collected from the Center for Responsive Politics, which culls the contributions data directly from federally mandated Federal Election Campaign Act filings. The rankings here are from total contributions, which include hard money, soft money, and PAC contributions. Ambiguous sources are left uncoded. Directly from the Center's website: "All numbers attributed to a particular industry can be assumed to be conservative. Tens of millions of dollars of contributions in each election cycle are not classified by industry at all – either because the original data is incomplete or too vague to categorize, or because of limitations on the Center's ability to fully research the millions of individual contributions given over the years. As a general rule, PAC contributions are almost 100% categorized by industry; soft money is more than 90% coded. Individual contributions to candidates and parties are the most difficult to classify…."

31

Table 1, Panel B
Top contributing *individuals* to **Bush and Gore**

Top contributing individuals to Bush	Amount (000s)	Top contributing individuals to Gore	Amount (000s)
MBNA Corp	$240.7	Ernst & Young	$134.9
Vinson & Elkins	202.9	Citigroup Inc	111.8
Credit Suisse First Boston	191.4	Viacom Inc	105.2
Ernst & Young	179.9	US Dept of Agriculture	102.5
Andersen Worldwide	145.7	Goldman Sachs Group	95.8
Morgan Stanley Dean Witter & Co	144.9	Time Warner	85.2
Merrill Lynch	132.4	BellSouth Corp	74.5
PricewaterhouseCoopers	127.8	US Dept of Justice	64.0
Baker & Botts	116.1	University of California	63.2
Citigroup Inc	114.3	Kushner Companies	53.0
Goldman Sachs Group	114.0	Holland & Knight	52.1
Enron Corp	113.8	National Jewish Democratic Council	51.3
Bank of America	112.5	Cablevision Systems Corp	51.2
KPMG LLP	107.7	Morgan Stanley Dean Witter & Co	50.3
Jenkens & Gilchrist	105.5	Akin, Gump et al	48.0
Enterprise Rent-A-Car	97.5	Jenner & Block	48.0
State of Texas	87.3	Skadden, Arps et al	43.3
American General Corp	84.1	Credit Suisse First Boston	43.0
Deloitte & Touche	81.6	US Dept of State	42.8
AXA Financial	79.7	Patton Boggs LLP	40.3

This table shows the top contributing individuals to Bush and Gore during the 2000 elections cycle. Contributions data is collected from the Center for Responsive Politics, which culls the contributions data directly from federally mandated Federal Election Campaign Act filings. The rankings here are from total contributions, which include hard money, soft money, and PAC contributions. Ambiguous sources are left uncoded. Directly from the Center's website: "Individual contributions to candidates and parties are the most difficult to classify – both because of the huge number of contributions, and because the data is based on employer /occupation data that is often incomplete. In most cycles, approximately 70% of the contributions there have been categorized, based on the occupation/employer reported by the donor."

Table 2

Most Bush- and Gore-partisan industries

Most Bush-partisan	%BUSH	Most Gore-partisan	%GORE
Republican/Conservative	0.999	Women's Issues	1.000
Leadership PACs	0.970	Gun Control	1.000
Abortion Policy/Pro-Life	0.962	Democratic/Liberal	0.996
Livestock	0.961	Industrial Unions	0.987
Gun Rights	0.944	Public Sector Unions	0.944
Pro-Israel	0.934	Environment	0.941
Oil & Gas	0.933	Misc Unions	0.784
Forestry & Forest Products	0.925	Building Trade Unions	0.692
Tobacco	0.919	TV / Movies / Music	0.565
Candidate Committees	0.918	Human Rights	0.509
Automotive	0.916	-	-
Poultry & Eggs	0.914	-	-
Building Materials & Equipment	0.909	-	-
Chemical & Related Manufacturing	0.901	-	-
Mining	0.898	-	-
Crop Production & Basic			
Processing	0.897	-	-
Dairy	0.894	-	-
Finance / Credit Companies	0.891	-	-
Trucking	0.884	-	-
Miscellaneous Defense	0.878	-	-

This table shows the top Bush- and Gore-partisan industries during the 2000 elections cycle. Many industries defy SIC classification (e.g., Retired, Democratic/Liberal). The rankings here are from total contributions, which include hard money, soft money, and PAC contributions. Partisanship is defined as the relative proportion of total contributions that an industry makes to each candidate. It is a continuous variable ranging from 0% to 100%. Thus, 96.1% Bush-partisanship of the Livestock industry suggests that 96.1% of that industry's total contributions went to Bush, while 3.9% went to Gore. There are only 10 industries that are Gore-partisan.

33

Table 3
Difference in mean excess returns

	n	Excess returns Size-adjusted	Excess returns VW-adjusted	Excess returns EW-adjusted
Top 20 Bush-partisan industries (87.8% to 96.1% Bush)	1078	0.062	0.036	0.061
All other industries	5630	-0.037	-0.063	-0.037
t-statistic		-14.09***	-13.93***	-13.93***
All Gore-partisan industries (56.5% to 74.9% Gore)	61	-0.101	-0.125	-0.099
All other industries	6647	-0.021	-0.047	-0.021
t-statistic		2.57**	2.49**	2.49**
TV/Movies/Music (56.5% Gore)	56	-0.113	-0.138	-0.112
All other industries	6652	-0.021	-0.046	-0.021
t-statistic		2.83***	2.80***	2.80***
Oil & gas (93.3% Bush)	290	0.112	0.088	0.114
All other industries	6418	-0.027	-0.053	-0.028
t-statistic		-13.30***	-13.51***	-13.51***
Forestry & forest products (92.5% Bush)	86	0.044	0.019	0.045
All other industries	6622	-0.022	-0.048	-0.022
t-statistic		-3.45***	-3.48***	-3.48***
Automotive (91.6% Bush)	39	0.022	-0.010	0.016
All other industries	6669	-0.022	-0.047	-0.022
t-statistic		-1.11	-0.97	-0.97
Building materials & equipment (90.9% Bush)	156	0.048	0.015	0.041
All other industries	6552	-0.023	-0.049	-0.023
t-statistic		-4.80***	-4.31***	-4.31***
Chemical manufacturing (90.1% Bush)	158	0.056	0.030	0.056
All other industries	6550	-0.023	-0.049	-0.023
t-statistic		-5.06***	-5.04***	-5.04***
Mining (89.9% Bush)	46	0.072	0.046	0.072
All other industries	6662	-0.022	-0.048	-0.022
t-statistic		-2.62***	-2.61***	-2.61***
Finance & credit (89.1% Bush)	52	-0.012	-0.038	-0.012
All other industries	6656	-0.021	-0.047	-0.022
t-statistic		-0.28	-0.28	-0.28
Trucking (88.4% Bush)	58	0.066	0.036	0.062
All other industries	6650	-0.022	-0.048	-0.022
t-statistic		-2.73***	-2.62***	-2.62***

***, **, * denotes 1%, 5%, 10% statistical significance

Table 3, continued

This table shows the results from t-tests of differences in the mean excess buy-and-hold returns (during the Florida recount period) of partisan industries versus those of all remaining industries (i.e., the rest of the market). The sample is comprised of 6,708 firms listed on NYSE, AMEX, and NASD with available CRSP/Compustat data. Excess stock returns are defined in three different manners: size-adjusted, value-weight market adjusted, and equal-weight market adjusted. First, raw stock returns are calculated as the buy-and-hold returns from the day before Election Day (November 6) to the day after Gore publicly concedes (December 14). For size-adjusted returns, I use the size decile assignments provided by CRSP to calculate buy-and-hold decile returns for the same 28 trading days. A firm's size-adjusted returns are defined as the difference between its raw buy-and-hold returns and the buy-and-hold returns from its corresponding size decile portfolio. Similarly, a firm's value-weight (equal-weight) market adjusted returns are defined as the difference between its raw buy-and-hold returns and the buy-and-hold returns from the value-weight (equal-weight) market portfolio provided by CRSP. Tests using all three alternate measures yield qualitatively similar results.

Table 4
Industry-level OLS regression of returns on total contributions

Intercept	$GORE	$BUSH	%BUSH	MTB	SIZE	MOM	Adj R2 n
-0.180	-0.042	0.022		-0.073	0.023	0.273	0.506
-3.51***	-2.49**	3.15***		-3.90***	2.22**	7.29***	80
-0.287			0.168	-0.052	0.018	0.251	0.514
-4.51***			3.31***	-2.91***	1.84*	6.81***	80
-0.297	-0.026	0.016	0.141	-0.063	0.023	0.252	0.545
-4.54***	-1.54	2.32**	2.71***	-3.45***	2.37**	6.84***	80

***, **, * denotes 1%, 5%, 10% statistical significance

This table presents results from OLS regression estimates of the industry-level model (see section 4.1), which is estimated using 80 industry observations. The model is: RET = a + b1 $GORE + b2 $BUSH + b3 %BUSH + b4 MTB + b5 SIZE + b6 MOM + e. Where RET is industry mean buy-and-hold returns over the 37-day period, $GORE is level of industry-level total contributions made to Gore (in millions), $BUSH is level of industry-level total contributions made to Bush (in millions), %BUSH is partisanship of industry-level total contributions made to Bush, MTB is industry mean prior-period log (market value of equity / book value equity) (firms with negative MTB are excluded), SIZE is industry mean prior-period log market value of equity, and MOM is industry mean returns for the six months prior to Election Day.

Table 5, Panel A

Firm-level OLS regression of returns on soft money contributions

	$GORE SOFT	$BUSH SOFT	%BUSH SOFT	$GORE*	$BUSH*	%BUSH*	MTB	SIZE	MOM	Adj R2 n
Intercept										
-0.205 -26.92***	-0.213 -2.50**	0.141 2.02**					-0.047 -16.00***	0.022 14.97***	0.188 23.48***	0.147 6237
-0.202 -26.49***			0.045 2.87***				-0.046 -15.61***	0.021 14.13***	0.188 23.55***	0.147 6237
-0.203 -26.45***	-0.182 -2.11**	0.065 0.85	0.043 2.49**				-0.046 -15.68***	0.022 14.19***	0.188 23.46***	0.148 6237

Table 5, Panel B

Firm-level OLS regression of returns on soft money contributions and industry-level total contributns

	$GORE SOFT	$BUSH SOFT	%BUSH SOFT	$GORE*	$BUSH*	%BUSH*	MTB	SIZE	MOM	Adj R2 n
Intercept										
-0.217 -27.88***	-0.376 -4.42***	0.149 1.99**	0.036 2.13**	-0.213 -16.24***	0.087 16.36***		-0.041 -14.09***	0.020 13.43***	0.161 20.14***	0.184 6237
-0.441 -15.68***	-0.238 -2.76***	0.086 1.15	0.033 1.94*	-0.111 -6.20***	0.051 7.42***	0.289 8.29***	-0.040 -13.95***	0.021 13.79***	0.153 19.10***	0.193 6237

***, **, * denotes 1%, 5%, 10% statistical significance

37

Table 5, Panel C
Firm-level OLS regression using alternate event window: Excluding House and Senate races (Nov. 9 to Dec. 14)
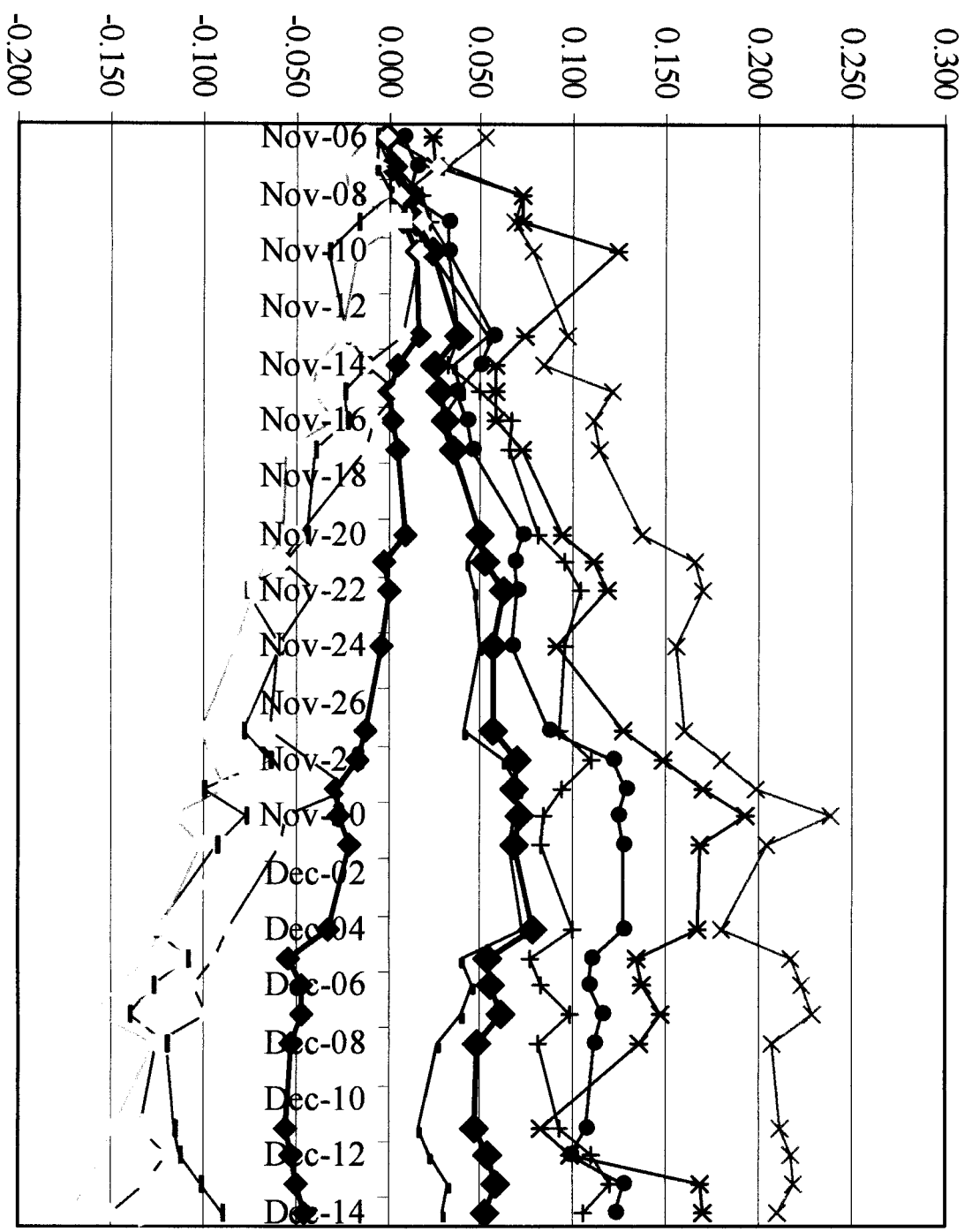
Intercept	$GORE SOFT	$BUSH SOFT	%BUSH SOFT	$GORE*	$BUSH*	%BUSH*	MTB	SIZE	MOM	Adj R2 n
-0.207	-0.178	0.040	0.034				-0.042	0.023	0.169	0.137
-28.10***	-2.15**	0.54	2.06**				-14.63***	15.68***	22.03***	6237
-0.422	-0.237	0.063	0.025	-0.108	0.049	0.260	-0.036	0.022	0.138	0.180
-15.57***	-2.85***	0.87	1.52	-6.29***	7.45***	7.74***	-12.90***	15.26***	17.81***	6237

***, **, * denotes 1%, 5%, 10% statistical significance

This table presents results from OLS regressions of the firm-level models (see sections 4.2 and 4.3), which is estimated using 6,237 firm observations. Panel A presents results from the baseline model (section 4.2). The model is: $RET_i = a + b1\ \$GORESOFT_i + b2\ \$BUSHSOFT_i + b3\ \%BUSHSOFT_i + b4\ MTB_i + b5\ SIZE_i + b6\ MOM_i + e_i$. Where RET_i is firm-specific buy-and-hold returns over the 37-day period, $GORESOFT_i$ is level of firm-specific soft money contributions made to Gore (in millions), $BUSHSOFT_i$ is level of firm-specific soft money contributions made to Bush (in millions), $\%BUSHSOFT_i$ is partisanship of firm-specific soft money contributions made to Bush, MTB_i is prior-period log (market value of equity / book value equity) (firms with negative MTB are excluded), $SIZE_i$ is prior-period log market value of equity, and MOM_i is returns for the six months prior to Election Day.

Panel B presents results from the full model that includes each firm's industry's total contributions (section 4.3). Here, the model is: $RET_i = a + b1\ \$GORESOFT_i + b2\ \$BUSHSOFT_i + b3\ \%BUSHSOFT_i + b4\ \$GORE*_i + b5\ \$BUSH*_i + b6\ \%BUSH*_i + b7\ MTB_i + b8\ SIZE_i + b9\ MOM_i + \$GORESOFT_i + b2\ \$BUSHSOFT_i + b3\ \%BUSHSOFT_i + b3\ \%BUSHSOFT_i + e_i$. Where all variables are similarly defined, except $GORE*_i$ is the total contributions that the firm's industry makes to Gore, adjusted for the soft money contributions that the firm itself makes to Gore ($GORE – $GORESOFT_i) and $BUSH*_i is similarly defined ($BUSH – $BUSHSOFT_i).

Panel C is similar to panel B, except that it presents results from a truncated event window that excludes House/Senate races; i.e., all variables are identically defined, except that stock returns are calculated for an event window that begins on November 9, the day after Election Day.