Summer 7-14-2020

IMPACT OF POLITICAL ACTION COMMITTEE ON GOVERNMENT CONTRACTS

Bibek Acharya
University of New Mexico

Bibek Acharya

Candidate

Economics

Department

This thesis is approved, and it is acceptable in quality and form for publication:

Approved by the Thesis Committee:

Alok Bohara, Ph.D. Chairperson

Wendy Hansen, Ph.D. Member

Matías Fontenla, PhD. Member

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BY

BIBEK ACHARYA

M.B.A., University of Louisiana at Monroe

THESIS

Submitted in Partial Fulfillment of the
Requirements for the Degree of

Master of Arts

Economics

The University of New Mexico
Albuquerque, New Mexico

JULY, 2020

ACKNOWLEDGMENT

I would have never been able to finish my thesis, starting from scratch in this time of world pandemic without the proper guidance and support of my thesis committee chair, committee members, and department of economics.

I would like to gratefully and sincerely thank Dr. Alok Bohara, my adviser and committee chair, for his excellent guidance, motivation, and support during my research.

I would like to thank my committee members, Dr. Wendy Hansen and Dr. Matías Fontenla, for their valuable comments and feedback for improving the quality of this thesis. I am thankful to the department of economics for providing me with excellent academic support during my study at the UNM.

I would like to thank Rajan Bishwokarma for helping me with data merging at the beginning and editing the result part. I am also thankful to my friends for helping me with writing the manuscript. I am always grateful to my parents for their support and encouragement with their best wishes.

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Abstract:

This research aims to determine whether politically active corporations are more likely to get government contracts or likely to get more massive deals than corporations that are not politically active. The research question is, to what extent is the increase in government contracts due to the presence of corporate PACs or the amount spent by corporate PACs? In sum, we expect that the existence of PACs and the higher the corporation contributions in support of candidates for federal offices, the higher their chances of getting a contract or a more massive contract. We find that corporations that have a PAC have a higher chance of getting a government contract than corporations that do not have a PAC. Corporations that have PAC receive more dollars in government contracts than a non-PAC corporation.

Keywords: PAC, PAC spending, Government Contract

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CHAPTER 1

Introduction

Researchers have begun to focus increasingly on the role of interest groups in American politics. There is increasing attention to the political representation of institutional interests. Therefore, there has been growing awareness with much of the literature focusing on the business political action committee. Very few corporations had officially established PACs before 1971 as organizations were not allowed to donate their money to federal candidates under the 1947 Taft-Hartley Act (Epstein, 1980). The involvement of corporations increased after the enactment of the Federal Election Campaign Act of 1971.

Corporations fundraised money from stockholders, and administrative and non-administrative employees on a constrained basis. The money raised is isolated from the firm's general treasury, put in a different account, and contributed to federal candidates. The maximum a firm can contribute is $5000 per federal candidate in the general or primary election, although they can create unlimited PACs in the firm. However, with the help of independent expenditures, corporate PACs may spend endless amounts that are uncoordinated with the candidates' campaign.

A conservative non-profit organization called Citizens United aired a documentary attacking Hillary Clinton during Democratic Primary elections in 2008 that violated Bipartisan Campaign Reform Act. The Act stands against "electioneering communication "within 30 days of primary or 60 days of the general election by any corporation. The supreme court intervened ruling that limiting or prohibiting independent spending by corporations violated their First

Amendment rights to free speech. Many have argued that the Citizens United ruling opened the floodgate for wealthy corporate elites to influence politics even more.

The supreme court's landmark 2010 Citizens United ruling raised some crucial points. Citizens United allowed corporations and labor unions to spend money out of their general treasuries on "express advocacy "and "electioneering communications" without limits. It opened the door to the creation of Super PACs that can make independent expenditure (I.E.s) to support or oppose candidates to the federal office expressly but cannot contribute directly to federal candidates. Before, independent expenditures (I.E.s) had to be done through traditional PACs working on behalf of corporations.

However, this research aims to determine whether politically active corporations are more likely to get government contracts or likely to get more massive deals than corporations that are not politically active. My research question is, to what extent is the increase in government contracts due to the presence of a corporate PAC or the amount spent by a corporate PAC? In sum, we expect that the existence of a PAC and the higher the corporation's contributions in support of candidates for federal offices, the higher their chances of getting a contract or a more significant contract.

The second chapter of the thesis provides a brief discussion of the literature related to this study. Next, we briefly explain the data used in this study in the third chapter. We discuss econometric models used for the analysis of data in the fourth chapter. Then, we explain the result of the findings in the penultimate episode. Lastly, the final section provides some conclusions of the research and some discussion on the further analysis of this study.

CHAPTER 2

Literature review

There exists a growing field of literature on PACs and Super PACs in the United States. Profit-maximizing firms engage in political activities to increase revenues and decrease costs (Baysinger 1984; Boies 1989; Grier, Munger, and Roberts 1994; Hansen and Mitchell 2000; Hillman and Hitt 1999; Keim and Baysinger 1988; Masters and Keim 1985). Also, McWilliams, Van Fleet, and Cory (2002) show that firms do not donate toa federal office just for the charity or for any other kind of national responsibility. Salorio (1993) focuses on how corporations have mutual gain in mind, and they think the donations might help in profit-making in the future or a change in policy to the benefit of the corporation. Hillman, Keim, and Schuler (2004) argue that managers of corporations strategically choose to engage in political activities to enhance the short-term and long-term value of their firm.

The "rational value-maximizing" perspective, views political spending as a valuable investment that results in improved firm performance and increased wealth for the shareholders (Getz 2001; Hillman 2005; Hillman, Zardkoohi, and Bierman 1999; Mathur and Singh 2010; Salorio, Boddewyn, and Dahan 2005). Shareholders might gain dividends if corporations make more profit than before with the help of networking with elected officials in federal offices or due to change in any kind of policies that help the company economically.

Mathur and Singh (2010) explain that firms might seek government contracts or other financial gains, while on the cost side, the political activity might have an eye at reducing regulations or securing tax relief in return. In sum, corporations expect something in return (i.e.,

some benefit) from their political spending. Also, firm management might be motivated to undertake political activities that boost short-run performance at the cost of long-term value creation for shareholders or in the pursuit of personal interests, such as building personal connections or promoting their ideologies.

McMenamin and Schneider (2013) argue that corporations in most nations, such as Australia, Canada, the United States, and the United Kingdom, donate to parties and politicians, usually thinking who can help them to gain their favored policies. Schneider (2013) further explains that industry pioneers look for a political connection to maintain their dominance, while smaller firms need to develop these connections to survive and compete with well-established corporations. Also, as campaigns are very costly, as well as competitive, it requires raising money from private contributors.

Boas et al. (1989) believe that what campaign donors want in terms of payback for their donation depends on the industry. Firms that are dependent on government oversight, such as banks, may wish to loosen regulation. At the same time, industries like agricultural producers, who depend on loans may look for financed credit and subsidized loans. Also, sole proprietors have more interest in political influence as they have weaker affiliations with political parties and supply less collective products. Sole proprietors are mostly small businesses, and they deal with low products, small goods, or services rather than collective goods. The competition is too intense, and sole proprietors have more to lose with a change of policy by political institutions in liberal market economies as they bear all the risks.

Samuels (2003) also explains career politicians get donations more usually than one-shot beginners as repeat collaboration among the politicians and their donors is more likely.

Typically, numerous politicians move back and forth between a political position at local, state, or national levels. This case of to and fro of candidates helps the corporate donors to tail them throughout their careers and cash in on their influence over the spending choices between various governments.

Ansolabehere, Figueiredo, and Snyder Jr (2003) suggest that there are two distinct thoughts on the money spent on U.S. politics. One school suggests that even small expenditures can induce legislators to give donors the required leverage. The other school of thought believes that campaign spending has little political advantage. However, both schools believe that campaign donations are an investment, and investors expect some rate of return. Contributions from corporations are viewed as an investment, and investors seek private benefits in the form of preferred regulation or any type of subsidies. This demand of candidates and supply of contribution is known as the market of public policy (Snyder,1990),

Barron and Mo (1991) and Grier and Munger (1997) argue that legislators are in the driving seat of this public policy market as they are the ones that have the power to change public policy. Also, any individual contribution is usually only a tiny share of overall donations. Hence it may have a negligible impact; candidates might even lose the political fight in a campaign. Given this philosophy, it makes sense for corporations to avoid investment to gain returns. It is also challenging to determine who benefits from a donation and the contract game.

The agency-theoretic argument explains that corporate political contributions reflect managerial perquisite consumption at the expense of shareholder interests (see, for example, Aggarwal, Meshke, and Wang 2012; Coates and Wilson 2007; Coates 2012; Mathur and Singh 2010; Ozer and Alakent 2013). Corporations may be motivated to get involved in political

activities that increase short-run performance at the cost of long-term value creation for shareholders (owners) or to build personal connections or promote their ideologies (Mathur and Singh 2010).

There is another school of thought that emphasizes generating wealth for the shareholder as opposed to management. If management values shareholder gain, contributing to Super PACs might be a risky political strategy. Even if corporations stand to benefit from their I.E.s, there are potentially high costs for engaging in such political spending. For example, as Bonica (2013) notes, one of the most prominent costs of disclosed political spending is public relations fallouts.

Boies (1989), in a fascinating study, argues that there is always substantial pressure on the business community to form political groups. Corporations have different preferences for their involvement in politics. For instance, only 262 of the firms on the list of Fortune 500 corporations in 1982 had political action committees. Some corporations are more active and have more influence on political events. Before PACs, little systematic data was available about the political action of corporations (Epstein,1980)

Briffault (2011), in his fascinating paper on Super PACs, talks about Super PACs in detail. Super PACs is the political action committee registered with F.E.C., where they can raise donations in unlimited amounts. Super PACs can make unlimited independent expenditures to support or oppose candidates for federal office, but cannot donate to federal candidates directly. Corporations can create their PACs, and both PAC and Super PAC. However, only Super PAC can fund that unlimited spending by collecting from individuals, corporations, and unions**.** As per our knowledge, very few studies have exploited the role of PACs in this context by doing empirical analysis, we hope to contribute towards the literature.

CHAPTER 3

Data Description

We examine the spending patterns of the world's largest companies using Fortune magazine's well-known listings of the 500 largest companies. We use a dataset, which includes data on government contracts, and donations to PACs and Super PACs by the employees of Fortune 500 companies. The dataset is organized into pooled cross-section time series in which every observation has both i and t subscript, with i representing the corporation and t serving the year. We have the data for two years with 584 corporations and their characteristics.

We include all companies that appear on the Fortune 500 list of largest companies in any year from 2007 to 2012. We analyze government contracts in the 2008 and 2012 presidential elections to understand better the effect of political spending on the receipt of government contracts. Our dependent variable is the dollar amount of government contracts by corporations and year, which is collected from federal spending online databases.

We created a new dependent variable, totaling all the federal obligation awards (a,b,c and d) listed in the federal spending database. We also adjust the dollar amounts for inflation using 2012 dollars. We use regression to analyze the impact that is having a PAC has on securing government contracts. Since the dollar amount of government contracts is skewed, we use the log-transformed dependent variable. We also use the log of the independent variable, PAC Spending, as well as dummy variable for whether a corporation has a PAC or not.

The main focus of this study is to analyze the impact of political activity on government contracts received by Fortune 500 corporations. In addition to PAC spending, we use detailed

information on corporation characteristics such as visibility, size, and type of industry. We measure visibility by looking at how many times the corporation is mentioned in the Wall Street Journal. We include measures of the four-firm concentration ratio and the number of firms in the industry to capture the concentration of political power in the industry. A higher degree of concentration or fewer firms reduce the collective action problems for firms in the industry. We measure the size of a firm by the number of employees or corporate revenue.

Table 1 contains the descriptive statistics of the variables that are used in the empirical analysis. The dollar amount of Government Contracts (*GC$)* and a dummy for Government Contracts (GCy) of Fortune 500 Corporations are the two outcome variables. The variables were obtained from the FEC online and Federal procurement database. The amount of government contracts is measured in millions. The negative amount in the contract can be because of the reimbursement corporations owned.

Variables	Description	Mean	sd	Min	Max
Dependent Variables					
GCy	1 if corporation received any contracts, = 0 otherwise	0.248	0.432	0	1
GC$	Total federal government contracts in millions	5.92	124.98	0	4184.47
Independent Variables					
PACy	= 1 if corporation has PAC, = 0 otherwise	0.651	0.477	0	1
PAC$	Dollar amount of PAC contribution in thousands	325.099	630	0	6856.79
WSJ	No. of times Corp mentioned in the Wall Street Journal in thousands	0.253	.820	0	11.58
ConcShare	Percentage of the market controlled by the top 4 firms in the industry	41.56	21.579	5.2	98.8
Employees	No. of employees in millions	0.456	0.107	0.000182	2.2
FirmsNum	Number of firms within the industry	9.57	32.97	0.12	619.172
Fin/Ins.Ind	= 1 if corporation is from finance or insurance industry, 0 otherwise	0.157	0.3636	0	1
Info.Ind	= 1 if corporation is from information industry, 0 otherwise	0.058	0.234	0	1

Table 1 (cont.)

Uti.Ind	= 1 if corporation is from utility industry,0 otherwise	0.058	0.234	0	1
Ret.Ind	= 1 if corporation is from retail industry, 0 otherwise	0.109	0.313	0	1
Serv.Ind	= 1 if corporation is from service industry, 0 otherwise	0.099	0.299	0	1
Min.Ind	= 1 if corporation is from mining industry, 0 otherwise	0.027	0.163	0	1

Table 1: Descriptive Statistics of variable

The explanatory variables of interest are Political Actional Committee (PACy) and PAC Spending (*PAC$)*. PACy is a dummy variable where we look at corporations having a PAC or not, and PAC Spending is the amount of dollars corporations spend in the PAC, which is measured in millions. Of the total observation, 65% of the firms have a PAC. To control for possible heterogeneity due to firm characteristics and type of industry, this study includes variables for the Wall Street Journal, concentration share, number of employees, number of firms in the industry, and type of industry in the empirical model. The type of industry is divided into finance, information, utility, retail, service, and mining industries.

In Table 2, we have reported the t-statistic, which shows the absolute differences in the mean values of the variables and their significance levels. We find that there exist significant differences in firm characteristics and types of industry between corporations having a PAC and those who do not have PAC. Also, we find that there exist significant differences in firm

characteristics and types of industry between corporations getting government contracts and those who do not get government contracts.

Variables	PAC==1	PAC==0	Difference	GCy==0	GCy==1	Difference
WSJ	0.327	.114	.113***	0.272	0.247	0.025*
ConcShare	43.14	38.61	4.53***	20.62	21.86	1.24*
Employees	0.055	0.027	0.028***	0.049	0.04	0.009*
FirmsNum	7.93	12.61	4.68***	8.96	9.77	0.81*
Fin/Ins.Ind	0.178	0.115	0.063***	0.058	0.189	0.131*
Info.Ind	0.059	0.056	0.056*	0.086	0.0489	0.0371*
Uti.Ind	0.081	0.014	0.067***	0.051	0.060	0.009*
Ret.Ind	0.065	0.393	0.328***	0.103	0.111	0.008*
Serv.Ind	0.098	0.100	0.002*	0.137	0.086	0.051*
Min.Ind	0.030	0.0220	0.008*	0.0275	0.0273	0.002*

Note: Two sample, equal variance t-test. * p<0.1, ** p<0.05, *** p<0.01

Table 3: Corporation's t-test for key variables for PAC and non-PAC and GC and non-GC

CHAPTER 4

Estimation Strategy and Empirical Model

Empirical Specification

Masters (1985) believed that corporation has many reasons to form PAC. However, these corporations weigh the expected costs and benefits of political actions to establish PAC. One of the reasons to form PAC can be linked with the corporations getting government contracts when they contribute to these PAC. However, these government contracts also depend on various factors such as firm's characteristics and type of industry.

This portion explains the econometric method that has been used to determine the relationship between Political Action Committees and Government contracts. This method analyzes the probability that a corporation gets government contracts when it has an active PAC. As per the literature reviews, we have a hypothesis that there is a positive relationship between the existence of an active PAC and government contracts. We use a linear regression model to test the hypothesis and quantify the effect.

We consider a simple, functional form explaining the impact of Political Action Committee as:

$$GC_{it} = f(PAC_{it}, \textit{Firm Char}, \textit{Industry Types}, \varepsilon) \qquad (1)$$

In the functional form explained in (1), *GC* is represented by two types of dependent variables. The distribution of *GC$* is skewed to the right; thus its natural log is taken to

normalize the distribution of *GC$* in the empirical analysis. To avoid taking the log of 0 values of *GC$*, one was added to all the GC$ values before taking the log. *LnGC$* is a natural log of amount of government contract received by a corporation in millions of dollars, and *GCy* represents a binary variable of whether or not one gets a contract.

Two types of independent variables represent PAC. The distribution of *PAC$* is skewed to the right; thus, its natural log is taken to normalize the distribution of *PAC$* in the empirical analysis. To avoid taking the log of 0 values of *PAC$*, one was added to all the *PAC$* values before taking the log. *LnPAC$* is a natural log of *the* amount of dollars spent by corporations, and *PACy* represents dummy variable whether or not one has a contract.

Firm Char comprises various vector of control variables of firm characteristics such as visibility in the media, concentration share, number of employees, and number of firms in the industry. *Industry Types* represents the type of industry the corporation such as finance, insurance, utilities, retail, service, and mining. Also, i refers to corporation, t refers to the year 2008 or 2012 and ε refers to the random error term.

The model has an *LnGC$* and *GCy* as a dependent variable, and our primary independent variable is *LnPAC$ and PACy* (binary). First, we look at the effect of having a *PACy* on receiving a *GCy*. Second, we use a model to examine the impact of *PACy* on *GC$* using OLS and Tobit regression. Also, I use separate models to investigate the effect of *PAC$* on *GCy*. Furthermore, we look at the impact of *PAC$* on *GC$* using OLS and Tobit regression.

CHAPTER 5

Empirical Results

This section presents Table 3, in which we estimate six models with added controls—adding controls like firms' characteristics and type of industry. This lowers concerns that unobserved characteristics correlated with our control variable are giving us biased results.

In the first model, dummy for government contracts *(GCy)* is regressed on dummy for *PAC* (*PACy),* and we used the marginal effects of logistic regression. In the second and third models, the natural log of government contracts *(LnGC$)* was taken as a dependent variable instead of government contract. The log of government contract *(LnGC$)* is regressed on dummy for *PAC* (*PACy)*. To avoid taking the log of 0 values of *GC$*, one was added to all the *GC$* values before taking the log. We used OLS and Tobit regression in the two sets, respectively.

The fourth model shows dummy for government contracts *(GCy)* is regressed on the log dollar amount of *PAC* contribution (*LnPAC$),* and we used the marginal effects of logistic regression. Also, the fifth and sixth models are OLS and Tobit regression, where the log of government contracts *(LnGC$)* is regressed on the log dollar amount of *PAC* contribution (*LnPAC$)*.

The result is positive and significant in all the models. The effect of having a PAC or dollar spent on PAC to getting government contracts is highly significant, and the sign of the coefficient is consistent with the findings of the previous literature. The sign and significance of

the coefficients are more or less uniform in all the models except the number of employees and different types of industries such as finance and utility industry. Corporation's number of employees hurts government contracts when the natural log of government contracts is taken in all forms.

Table 3: Regression estimates of Government Contracts

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Government Contracts	*GCy* (Logit)	*LnGC$* (OLS)	*LnGC$* (Tobit)	*GCy* (Logit)	*LnGC$* (OLS)	*LnGC$* (Tobit)
Has_PAC	0.746***	0.161***	0.725***			
	(0.171)	(0.0415)	(0.172)			
LnPAC$				0.146***	0.0370***	0.152***
				(0.0292)	(0.00889)	(0.0325)
Firm Char						
WSJ	0.163**	0.0136	0.116	0.127*	0.00343	0.0767
	(0.0689)	(0.0292)	(0.0811)	(0.0711)	(0.0287)	(0.0811)
ConcShare	0.00122	0.000297	0.00145	0.000297	2.52e-05	0.000567
	(0.00348)	(0.00115)	(0.00356)	(0.00353)	(0.00113)	(0.00352)
Employees	-0.557	-0.189*	-0.827	-0.945	-0.288**	-1.404**
	(0.548)	(0.106)	(0.566)	(0.607)	(0.127)	(0.714)
FirmsNum	0.000270	0.000212	0.000285	0.000333	0.000246	0.000407
	(0.00280)	(0.000381)	(0.00192)	(0.00271)	(0.000381)	(0.00188)
Industry Types						
Fin/Ins.Ind	-1.505***	-0.218***	-1.363***	-1.560***	-0.233***	-1.415***
	(0.299)	(0.0472)	(0.282)	(0.299)	(0.0492)	(0.287)
Info.Ind	0.407	-0.0840	0.0666	0.393	-0.0873	0.0507
	(0.279)	(0.0798)	(0.230)	(0.280)	(0.0797)	(0.229)

Table 3 (cont.)

Uti.Ind	-0.456	-0.232***	-0.708***	-0.539	-0.261***	-0.791***
	(0.320)	(0.0465)	(0.267)	(0.329)	(0.0508)	(0.275)
Ret.Ind	0.00246	-0.118*	-0.226	0.0288	-0.106	-0.174
	(0.246)	(0.0671)	(0.233)	(0.245)	(0.0671)	(0.231)
Serv.Ind	0.429*	-0.0661	0.161	0.427*	-0.0688	0.173
	(0.245)	(0.0849)	(0.227)	(0.248)	(0.0842)	(0.225)
Min.Ind	-0.162	-0.126	-0.320	-0.197	-0.140	-0.345
	(0.441)	(0.0846)	(0.379)	(0.446)	(0.0863)	(0.381)
Constant	-1.017***	0.200***	-1.214***	-0.954***	0.201***	-1.179***
	(0.215)	(0.0606)	(0.258)	(0.203)	(0.0604)	(0.250)
Observations	1,168	1,168	1,168	1,168	1,168	1,168
R-squared		0.031			0.038	
FirmChar	YES	YES	YES	YES	YES	YES
IndustryTypes	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
AIC	1196	2518	1780	1190	2508	1769

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

In Model 1, dummy for government contracts is regressed on dummy for PACs with added controls. The model explains having a PAC on a binary indicator of receiving an award. Results indicate that government contracts for corporations that have a PAC, they are 74.6 % more likely to receive a contract as compared to corporations, which do not have a PAC. In other words, corporations that have established PAC are significantly more likely to get government contracts than those who have not instituted a PAC.

In Model 2, the log of a government contract is regressed on dummy for PAC with all the controls. Results indicate that if a corporation has a PAC, then the likelihood of its getting Government Contracts increase by 17.4%[1] as compared to Corporations, which do not have a PAC. In other words, corporations that have established PAC are significantly more likely to get government contracts than those who have not instituted PAC. The corporation having PAC has 17.4 percent higher dollar government contracts than a non-PAC corporation. Model 3 suggests that for having a PAC, there is an approximate 106.3% point increase in the predicted value of government contracts compared to corporations with no PAC.

Model 4 explains dummy for a government contract is regressed on the log of the dollar amount of PAC contribution with all the controls. The result implies the effect of the amount of PAC contribution on the binary indicator of receiving the award. Results indicate that government contracts for corporations that have a unit increase in the dollar amount of PAC Spending are 14.6 % more likely to receive a contract as compared to corporations, which do not have a PAC.

In Model 5, log of government contracts is regressed on the log dollar amount of PAC contribution with all the controls. The result shows that an increase in PAC value leads to a 3.76% increase in the value of government contracts. In other words, if a corporation increases its PAC contribution by a dollar, then the amount of government contracts increases by 3.76%. The results of the third column suggest that a one-unit increase in the dollar amount of PAC

[1] To interpret we take exponential of the coefficient of a dummy variable in the log equation, and subtract it from 1. For example, the coefficient on *PAC*: $e^{0.161} - 1 = .174$ which if multiplied by 100 gives 17.4 percent.

Spending, there is a 16.5% point increase in the predicted value of government contracts compared to corporations with no PAC Spending.

Robustness

For robustness, we check the sensitivity of models through various methods to make sure we get the same result and significance. We test robustness through different specifications, time period analysis, and instrumental variable test. The results are significant in all the models.

Table A1, A2, and A3 from the appendix makes the results more robust, in which we estimate various scenarios with added controls—incrementally adding controls like firms' characteristics, type of industry, and fixed year effects to see the impact of having a PAC or dollar spent on PAC in having a government contract or dollar received in a government contract. From Table A1 (Appendix), in the first four scenarios, the effect of having a PAC to getting government contracts is highly significant, and the sign of the coefficient is consistent with the findings of the previous literature. Also, in all eight scenarios of Table A2 and A3, the effect of having a PAC or dollar spent on PAC to getting government contracts is highly significant with OLS and Tobit regression, and the sign of the coefficient is consistent with the findings of the previous table. Tobit regression coefficients(A3) are interpreted similarly as OLS (A2), but the linear effect is on uncensored latent variables rather than the observed outcome.

In Table A4, we compare the impact dummy for PAC on the dollar amount of government contracts separately for each of the two years we have in our data. We have data for the years 2008 and 2012; therefore, we want to look at both the years. In both the years, a log of

government contracts *(LnPAC$)* is regressed on the dummy for PAC (PACy) with all the control variables. For 2008, the result shows that the corporation having PAC has a 24.6 percent higher likelihood of getting government contracts than a non-PAC corporation. However, in 2012, the result implies that the corporation having PAC has a 10.5 percent higher possibility of getting government contracts than a non-PAC corporation. In Table A5, we compare the effect of dollars amount of *PAC* spending on the dollar amount of Government Contracts for two years. In both the years, the log of government contracts *(LnGC$)* is regressed on the log dollar amount of *PAC* Spending (*LnPAC$)*. For 2008, the result shows that if a corporation increases its PAC contribution by a dollar, then the amount of government contracts increases by 5.1% in 2008 and 2.64% in 2012. Regression estimates of government contracts for *PACy* and PAC spending (*LnPAC$)* in both the years, i.e., 2008 and 2012, are significant (Table A4 and Table A5).

We worry this model might suffer from endogeneity problem. If we do not account for the endogeneity problem, these estimates would be biased. I used instrumental variables as a part of robustness, and no endogeneity was found in both the control function approach and 2-SLS approaches. The endogeneity problem we need to worry about is the causal relationship between *LnPAC$* and *LnGC$*. The causal relationship can go either way-dollar spent on PAC can go either way i.e., dollar spent on PAC causes more government contracts, but government contracts might also cause more PAC spending. Therefore, we have an instrumented percentage workforce covered by the union contract and agency regulation. The reason is that there is not much relation between the percentage workforce covered by the union contract and government contracts as well as agency regulation and government contracts. Also, unionization is more about influencing labor-relations public policy, improving the work environment, minimum wage, occupational safety, and health legislation. The agency regulation also affects only the

PAC spending rather than the government contracts. We have facilitated the use of instrument variables by the use of the Control Function Approach (Table A5 and A6 from Appendix) and 2-SLS Instrument Variable Approach (Table A7).

The endogeneity in the independent variable can be checked by assessing the significance of the first stage error term. The error has to be significantly different from 0 for the independent variable to be endogeneous. The null against the alternate hypothesis can be stated as follows

H_0:$\hat{\mu}$ =0 (exogeneous/not endogeneous)

H_0:$\hat{\mu}$ ≠0 (exogeneous/not endogeneous)

From tables in the appendix such as the control function approach, no significance on the CF error term included from the first stage means no endogeneity. The test of endogeneity fails, and we fail to reject null. Therefore, the independent variable is exogenous, and we can focus on the non- IV results explained in the results section.

CHAPTER 6

Discussion and Conclusion

Upon comparing the results from the above tables, we can infer that having a PAC increases the likelihood of the Corporations to get government contracts compared to the ones who have no PACs. Works of the literature suggest that factors like firm characteristics such as visibility in the Wall Street Journal, number of employees, number of firms in the industry, and the share concentration in the market along with the type of industry does not seem to be essential constraints for getting government contracts.

We have considered different specifications to check how the causal estimates behave in response to the factors. We have also performed validity tests on our instrument to make sure we validate our claims. One factor that we can look more into the future is the type of industry. The finance or insurance industry and utility industry had a negative relationship. However, we could look into more industries, such as defense industries. Also, we could look into the impact of Citizens United on these contracts since Super PACs allows unlimited spending, and we could get more significant result on how the contributions from corporations benefit both the parties.

To establish a strong argument in favor of our research question, we use Logit, OLS and Tobit regression. We used the marginal effects of logistic regression when dummy for government contracts is regressed on dummy for political action committee. We used OLS and Tobit regression when the log of a government contract is regressed on dummy for PAC. We also considered conducting the study at a grander scale by using the instruments and estimating

the causal impact of having a PAC and PAC Spending to get government contracts. Every result shows that there is a significant relationship between our dependent variable (Government Contracts) and the independent variable of PAC and PAC Spending. We can conclude that having a Political Action Committee (PAC) matters to gain government contracts.

APPENDIX

Table A1: Logit Estimates of dummy of Government Contracts

GCy (Logit)	Scenario (1)	Scenario (2)	Scenario (3)	Scenario (4)	Scenario (5)	Scenario (6)	Scenario (7)	Scenario (8)
PACy	0.583***	0.569***	0.685***	0.746***				
	(0.152)	(0.153)	(0.164)	(0.171)				
LnPAC$					0.103***	0.103***	0.132***	0.146***
					(0.0241)	(0.0250)	(0.0278)	(0.0292)
Firm Char								
WSJ		-0.0121	0.0663	0.163**		-0.0388	0.0322	0.127*
		(0.0817)	(0.0722)	(0.0689)		(0.0845)	(0.0754)	(0.0711)
ConcShare		0.00387	0.00136	0.00122		0.00348	0.000515	0.000297
		(0.00328)	(0.00335)	(0.00348)		(0.00329)	(0.00341)	(0.00353)
Employees		0.0816	-0.379	-0.557		-0.112	-0.710	-0.945
		(0.500)	(0.522)	(0.548)		(0.498)	(0.573)	(0.607)
FirmsNum		0.000465	0.000211	0.000270		0.000528	0.000226	0.000333
		(0.00266)	(0.00302)	(0.00280)		(0.00259)	(0.00299)	(0.00271)
Industry Types								
Fin/Ins.Ind			-1.381***	-1.505***			-1.431***	-1.560***
			(0.291)	(0.299)			(0.291)	(0.299)
Info.Ind			0.413	0.407			0.402	0.393
			(0.271)	(0.279)			(0.271)	(0.280)
Uti.Ind			-0.426	-0.456			-0.504	-0.539
			(0.313)	(0.320)			(0.323)	(0.329)
Ret.Ind			-0.00352	0.00246			0.0166	0.0288
			(0.241)	(0.246)			(0.239)	(0.245)
Serv.Ind			0.389*	0.429*			0.385	0.427*
			(0.233)	(0.245)			(0.235)	(0.248)

TableA1(cont.)

Min.Ind			-0.160	-0.162			-0.201	-0.197
			(0.428)	(0.441)			(0.437)	(0.446)
Constant	-1.507***	-1.665***	-1.519***	-1.017***	-1.482***	-1.619***	-1.459***	-0.954***
	(0.129)	(0.194)	(0.205)	(0.215)	(0.114)	(0.182)	(0.192)	(0.203)
Observations	1,168	1,168	1,168	1,168	1,168	1,168	1,168	1,168
AIC	1298	1304	1271	1196	1295	1302	1266	1190
FirmChar		YES	YES	YES		YES	YES	YES
IndustryTypes			YES	YES			YES	YES
Year FE				YES				YES

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table A2: OLS Estimates of the amount of Government Contracts

LnGC$ (OLS**)**	Scenario (9)	Scenario (10)	Scenario (11)	Scenario (12)	Scenario (13)	Scenario (14)	Scenario (15)	Scenario (16)
PACy	0.142***	0.144***	0.161***	0.161***				
	(0.0365)	(0.0363)	(0.0414)	(0.0415)				
LnPAC$					0.0299***	0.0318***	0.0368***	0.0370***
					(0.00755)	(0.00768)	(0.00889)	(0.00889)
Firm Char								
WSJ		-0.00396	0.00668	0.0136		-0.0135	-0.00351	0.00343
		(0.0303)	(0.0292)	(0.0292)		(0.0301)	(0.0287)	(0.0287)
ConcShare		0.000919	0.000319	0.000297		0.000759	5.04e-05	2.52e-05
		(0.00116)	(0.00115)	(0.00115)		(0.00115)	(0.00113)	(0.00113)
Employees		-0.151*	-0.177*	-0.189*		-0.221**	-0.275**	-0.288**
		(0.0802)	(0.104)	(0.106)		(0.0875)	(0.123)	(0.127)

TableA2(cont.)

FirmsNum		0.000133	0.000211	0.000212		0.000176	0.000244	0.000246
		(0.000429)	(0.000410)	(0.000381)		(0.000428)	(0.000411)	(0.000381)
Industry Types								
Fin/Ins.Ind			-0.216***	-0.218***			-0.230***	-0.233***
			(0.0473)	(0.0472)			(0.0493)	(0.0492)
Info.Ind			-0.0811	-0.0840			-0.0843	-0.0873
			(0.0796)	(0.0798)			(0.0794)	(0.0797)
Uti.Ind			-0.232***	-0.232***			-0.261***	-0.261***
			(0.0467)	(0.0465)			(0.0511)	(0.0508)
Ret.Ind			-0.119*	-0.118*			-0.107	-0.106
			(0.0666)	(0.0671)			(0.0667)	(0.0671)
Serv.Ind			-0.0668	-0.0661			-0.0694	-0.0688
			(0.0854)	(0.0849)			(0.0847)	(0.0842)
Min.Ind			-0.126	-0.126			-0.140	-0.140
			(0.0864)	(0.0846)			(0.0883)	(0.0863)
Constant	0.0905***	0.0580	0.145***	0.200***	0.0809***	0.0548	0.145***	0.201***
	(0.0208)	(0.0528)	(0.0549)	(0.0606)	(0.0204)	(0.0526)	(0.0544)	(0.0604)
Observations	1,168	1,168	1,168	1,168	1,168	1,168	1,168	1,168
R-squared	0.009	0.010	0.024	0.031	0.014	0.016	0.032	0.038
AIC	2522	2528	2523	2518	2516	2522	2514	2508
FirmChar		YES	YES	YES		YES	YES	YES
IndustryTypes			YES	YES			YES	YES
Year FE				YES				YES

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table A3: Tobit Estimates o the amount of Government Contracts

LnGC$ (Tobit)	Scenario (17)	Scenario (18)	Scenario (19)	Scenario (20)	Scenario (21)	Scenario (22)	Scenario (23)	Scenario (24)
PACy	0.641***	0.634***	0.706***	0.725***				
	(0.158)	(0.158)	(0.169)	(0.172)				
LnPAC$					0.121***	0.125***	0.146***	0.152***
					(0.0277)	(0.0285)	(0.0317)	(0.0325)
Firm Char								
WSJ		-0.0154	0.0420	0.116		-0.0506	0.00307	0.0767
		(0.0892)	(0.0814)	(0.0811)		(0.0907)	(0.0821)	(0.0811)
ConcShare		0.00408	0.00164	0.00145		0.00363	0.000797	0.000567
		(0.00355)	(0.00352)	(0.00356)		(0.00350)	(0.00348)	(0.00352)
Employees		-0.220	-0.565	-0.827		-0.517	-1.056*	-1.404**
		(0.490)	(0.541)	(0.566)		(0.504)	(0.641)	(0.714)
FirmsNum		0.000588	0.000463	0.000285		0.000711	0.000543	0.000407
		(0.00211)	(0.00208)	(0.00192)		(0.00205)	(0.00205)	(0.00188)
Industry Types								
Fin/Ins.Ind			-1.283***	-1.363***			-1.333***	-1.415***
			(0.277)	(0.282)			(0.282)	(0.287)
Info.Ind			0.108	0.0666			0.0920	0.0507
			(0.228)	(0.230)			(0.227)	(0.229)
Uti.Ind			-0.664**	-0.708***			-0.742***	-0.791***
			(0.270)	(0.267)			(0.278)	(0.275)
Ret.Ind			-0.226	-0.226			-0.181	-0.174
			(0.226)	(0.233)			(0.224)	(0.231)

TableA3(cont.)

Serv.Ind			0.145	0.161			0.155	0.173
			(0.227)	(0.227)			(0.225)	(0.225)
Min.Ind			-0.299	-0.320			-0.326	-0.345
			(0.390)	(0.379)			(0.394)	(0.381)
Constant	-1.772***	-1.928***	-1.649***	-1.214***	-1.763***	-1.897***	-1.611***	-1.179***
	(0.212)	(0.279)	(0.273)	(0.258)	(0.209)	(0.272)	(0.264)	(0.250)
Observations	1,168	1,168	1,168	1,168	1,168	1,168	1,168	1,168
AIC	1849	1856	1830	1780	1844	1850	1820	
FirmChar		YES	YES	YES		YES	YES	YES
IndustryTypes			YES	YES			YES	YES
Year FE				YES				YES

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table A4: Regression Estimates of Government Contracts for 2008 and 2012

Government Contract	2008	2012
PACy	0.222***	0.101*
	(0.0653)	(0.0539)
Firm Char		
WSJ	-0.0301	0.0218
	(0.0396)	(0.0339)
ConcShare	0.000600	-0.000128
	(0.00165)	(0.00162)
Employees	-0.118	-0.213
	(0.138)	(0.154)
FirmsNum	0.000185	0.000230
	(0.000679)	(0.000446)
Industry Types		
Fin/Ins.Ind	-0.231***	-0.193***
	(0.0800)	(0.0510)
Info.Ind	-0.170	0.0126
	(0.108)	(0.120)
Uti.Ind	-0.282***	-0.178***
	(0.0776)	(0.0540)
Ret.Ind	-0.219***	-0.0142
	(0.0590)	(0.122)
Serv.Ind	0.0141	-0.137***
	(0.164)	(0.0512)
Min.Ind	-0.0824	-0.160***
	(0.162)	(0.0581)
Constant	0.162**	0.128
	(0.0691)	(0.0870)
Observations	583	584
R-squared	0.035	0.022
AIC	1407	1098

Table A5: Regression Estimates of Government Contracts for 2008 and 2012

Government Contract	2008	2012
LnPAC$	0.0499***	0.0261**
	(0.0140)	(0.0117)
Firm Char		
WSJ	-0.0569	0.0158
	(0.0417)	(0.0332)
ConcShare	0.000302	-0.000377
	(0.00166)	(0.00155)
Employees	-0.234	-0.291
	(0.161)	(0.182)
FirmsNum	0.000280	0.000230
	(0.000636)	(0.000437)
Industry Types		
Fin/Ins.Ind	-0.245***	-0.206***
	(0.0825)	(0.0538)
Info.Ind	-0.172	0.0100
	(0.108)	(0.120)
Uti.Ind	-0.314***	-0.205***
	(0.0832)	(0.0607)
Ret.Ind	-0.205***	-0.00122
	(0.0592)	(0.122)
Serv.Ind	0.0134	-0.141***
	(0.162)	(0.0519)
Min.Ind	-0.0877	-0.179***
	(0.162)	(0.0638)
Constant	0.162**	0.122
	(0.0660)	(0.0872)
Observations	583	584
R-squared	0.045	0.029
AIC	1401	1093

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table A6: Control Function Approach of Government Contracts (Marginal Effects)

Dependent Variables	Stage 1	Stage 2
	PACy (Logit)	*LnGC$* Tobit)
PACy		0.799***
		(0.222)
Firm Char		
WSJ	0.0455	0.113
	(0.0502)	(0.0815)
ConcShare	0.00133**	0.00117
	(0.000655)	(0.00359)
Employees	1.565***	-0.932
	(0.469)	(0.600)
FirmsNum	-0.000263	0.000381
	(0.000305)	(0.00189)
Industry Types		
Fin/Ins.Ind	0.188***	-1.376***
	(0.0392)	(0.284)
Info.Ind	-0.00861	0.0719
	(0.0526)	(0.230)
Uti.Ind	0.173*	-0.735***
	(0.0963)	(0.271)
Ret.Ind	-0.185***	-0.202
	(0.0438)	(0.238)
Serv.Ind	0.0480	0.154
	(0.0431)	(0.229)
Min.Ind	0.0923	-0.326
	(0.0740)	(0.381)

Table A6(cont.)

First stage Residual		0.0320
		(0.0566)
Workforce	0.00685***	
	(0.00190)	
Agency	0.00537***	
	(0.00174)	
Constant		-1.245***
		(0.267)
Observations	1,167	1,166

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table A7: Control Function Approach estimates of Government Contracts

	Stage1	Stage 2
VARIABLES	*LnPAC$* OLS	*LnGC$* OLS
LnPAC$		0.00655
		(0.0270)
Firm Char		
WSJ	0.325***	0.0103
	(0.0819)	(0.0335)
ConcShare	0.0145***	0.000513
	(0.00369)	(0.00108)
Employees	4.859***	-0.109
	(1.244)	(0.160)
FirmsNum	-0.00166	0.000166
	(0.00188)	(0.000427)

Table A7 (cont.)

Industry Types		
Fin/Ins.Ind	1.390***	-0.199***
	(0.245)	(0.0522)
Info.Ind	0.269	-0.0816
	(0.332)	(0.0793)
Uti.Ind	0.882***	-0.193***
	(0.329)	(0.0732)
Ret.Ind	-1.078***	-0.152**
	(0.242)	(0.0745)
Serv.Ind	0.478*	-0.0554
	(0.277)	(0.0873)
Min.Ind	0.767*	-0.112
	(0.436)	(0.0911)
Workforce	0.0449***	
	(0.00840)	
Agency	0.0138***	
	(0.00346)	
First stage Residual		0.0319
		(0.0289)
Constant	1.602***	0.211**
	(0.214)	(0.0881)
Observations	1,167	1,166
R-squared	0.210	0.032

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table A8: Instrumental variable estimates of Government Contracts

	Stage1	Stage 2
Dependent Variable	*LnPAC$*	*LnGC$*
LnPAC$		-0.0430
		(0.126)
Firm Char		
WSJ	0.327***	0.167
	(0.0831)	(0.106)
ConcShare	0.0146***	0.00410
	(0.00368)	(0.00393)
Employees	4.890***	-0.226
	(1.252)	(0.962)
FirmsNum	-0.00168	-8.76e-05
	(0.00185)	(0.00184)
Industry Types		
Fin/Ins.Ind	1.419***	-1.244***
	(0.244)	(0.301)
Info.Ind	0.275	0.0515
	(0.330)	(0.245)
Uti.Ind	0.843***	-0.364
	(0.323)	(0.381)
Ret.Ind	-1.066***	-0.493
	(0.241)	(0.300)
Serv.Ind	0.460*	0.219
	(0.275)	(0.236)
Min.Ind	0.751*	-0.189
	(0.430)	(0.387)

Table A8 (cont.)

Workforce	0.0490***	
	(0.00847)	
Agency	0.0130***	
	(0.00352)	
pac_spent_log		-0.0430
		(0.126)
Constant	1.495***	-0.763**
	(0.226)	(0.372)
Observations	1,166	1,166

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

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