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COMMITTEE ASSIGNMENTS AND THE VALUE OF CORPORATE POLITICAL CONNECTIONS: EVIDENCE FROM LEGISLATORS' SUDDEN DEATHS^{*}

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ABSTRACT

We present new causal evidence that political connections to U.S. legislators are valuable for individual firms. We also estimate that almost all of the value generated by connections to the U.S. legislators can be attributed to their influence over and above their formal committee assignments in Congress.

JEL classification codes: D72, G38, H89, P16

Keywords: firm value, political connections, campaign contributions, political activism, PACs, sudden deaths, natural experiment

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1. Introduction

Existing research suggests that political connections are valuable to firms (e.g., Faccio (2006), Faccio and Parsley (2009), Cooper, Gulen, and Ovtchinnikov (2010), Akey (2015)). Does this evidence imply that politicians can use the formal power of their office to provide direct firm-specific benefits or, rather, that politicians are able to exercise considerable informal influence over the issues of interest to specific firms? In this paper, we use a quasi-natural experiment (i.e., sudden deaths of politicians) to study this question in the context of the U.S. Congress. We find that almost all of the firm-value benefits of political connections can be attributed to politicians' informal influence that is not captured by their formal assignments in Congress.

The distinction between formal and informal influence is important for understanding the link between politics and finance in a relatively low-corruption environment like the United States, where office holders may be unable to blatantly use their office to provide direct benefits to individual firms. As Cohen, Diether, and Malloy (2013) show, for example, only very rarely can a legislator put language into a bill that solely affects an individual firm. Furthermore, Berry and Fowler (2016) find that there is little evidence that important formal congressional assignments (i.e., committee positions) allow politicians to procure more federal funds for their constituents. Therefore, legislators' informal influence may be crucial for generating firm-specific benefits.

To separate the effects of formal and informal influence on firm value, we use plausibly exogenous variation in political connections and congressional committee assignments due to legislators' sudden deaths. In particular, we examine equity values of firms connected to the deceased legislators and firms connected to the legislators who obtain the congressional assignments made vacant at the time of death.

We find that firms connected to the deceased legislators lose, on average, 0.89% of their equity value in the three-day window around the legislators' death. Since a deceased legislator loses all (formal and informal) influence in Congress, this equity loss indicates the combined value of both formal and informal influence. Firms connected to the legislators who subsequently obtain the deceased legislators' committee assignments, on the other hand, *do not* experience any changes in their equity value. This suggests that, at the margin, an increase in the formal influence gained by legislators due to their committee assignments does not generate additional value for their connected firms. Therefore, the value of political connections that we identify can be largely attributed to legislators' informal influence.

2. Data

We identify all cases in which U.S. Representatives or Senators died while in office between 1980 and 2016 and search LexisNexis and Factiva to identify the precise date and cause of death. We exclude all deaths that can be attributed to chronic conditions (such as cancer and chronic heart disease) and retain only those deaths the onset of which was plausibly sudden (such as plane crashes and sudden heart attacks). For each suddenly deceased legislator, we identify all his/her formal congressional committee assignments at the time of death.¹ Our sample of suddenly deceased legislators includes 18 people holding a total of 31 committee assignments at the time of their death (see Table 1).

Within each committee where the deceased legislators served at the time of death, we identify the legislator who assumed the committee assignment made vacant at the time of death.

¹ The data on committee assignments are available from Charles Stewart's congressional data page, which can be accessed at the following URL: http://web.mit.edu/17.251/www/data_page.html.

Most promotions in our sample are based on seniority (i.e., the next most senior legislator from the same party typically assumes the committee assignment of the deceased politician). However, there are exceptions to this rule. For example, when Senator Henry Jackson, the ranking member of the Senate Armed Services Committee,² died in 1983, his protégé Samuel Nunn was not the next most senior Senator on the same committee. Nonetheless, he did assume Henry Jackson's role as the ranking member upon the latter's death.³ For the sake of brevity, we only present the empirical results based on the set of politicians who ultimately replaced the deceased legislators (we refer to them as 'replacement legislators'). All our findings are robust to using only seniority-based replacements instead.

To identify firms connected to the deceased and replacement legislators, we use the data on campaign contributions from the Federal Election Commission. We select all firms whose political action committees contributed to the deceased and replacement legislators in the most recent election cycle before the legislator's death and merge this set of firms with CRSP/Compustat.⁴ We retain only those firms for which the data on stock returns are available around the time of death. Our sample includes 735 firm-legislator observations for 404 individual firms.⁵

3. Empirical results

² In the U.S. Congress, a ranking member is the most senior member of a congressional committee from the minority party and is generally regarded as the second most powerful member of the committee. The ranking member typically assumes committee chairmanship when the party controlling the legislative chamber changes.

³ See, for example, "If the Question is Military, Ask Nunn," *The New York Times*, September 20, 1983.

⁴ To conserve space, the analysis presented in this paper excludes firms that donated both to the deceased and replacement legislators. In unreported results (available upon request), we find that such firms experience moderately negative stock returns, as would be expected, since they lose one political connection within a committee but retain the other.

⁵ A firm may contribute to more than one legislator.

To estimate the value of political connections, we compute cumulative abnormal stock returns (CARs) around the time of the legislator's death. The CARs are computed using the Fama-French three-factor model,⁶ with the results reported in Table 2. Panel A of Table 2 shows the CARs of firms connected to the deceased politicians, while Panel B of Table 2 shows the CARs of firms connected to the replacement politicians.

Two observations emerge from Table 2. First, we find strong evidence that political connections generate substantial value-enhancing benefits for individual firms: firms connected to the deceased legislators lose, on average, 0.50% of their equity value within the first trading day after death, and this loss increases to 2.16% by day 15. Perhaps equally important, we find that firms connected to the replacement legislators do not experience any economically or statistically significant abnormal stock returns. Thus, while political connections appear to be valuable, their value cannot be attributed to the politicians' committee roles alone. If the value of political connections could be fully attributed to the committee roles, we would expect to see positive returns for firms whose connected politicians received new committee assignments (contrary to what we actually observe). We therefore conclude that politicians' informal influence over and above their committee roles is largely responsible for the firm-value effects that we identify.

4. Conclusion

We present new causal evidence that political connections are valuable for individual firms. We further show that the value of political connections in the U.S. can be attributed to legislators' informal influence that cannot be captured by their formal congressional assignments alone. Our

⁶ Model parameter estimates are computed over 100 trading days; the estimation window precedes the event window by 30 trading days.

results therefore contribute to the literature that investigates the sources of political influence and shows that politically connected firms are able to extract firm-specific benefits from the political system. That the value of these benefits appears to be large in a wide variety of countries, including some countries perceived as being very non-corrupt (Amore and Bennedsen (2013)), suggests that politicians are able to influence firm-specific outcomes even when their formal ability to do so is restricted by the institutional environment. Our paper provides direct causal evidence that, indeed, the value of political connections cannot be attributed solely to the formal powers that a political office may entail.

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Table 1. Suddenly deceased legislators, their committee assignments, and their replacements

Name of legislator	Date of death	Cause of death	Office	Committee assignments	Name of replacement
John Slack	17-Mar-1980	Heart attack	House	Appropriations Standards of Official Conduct	Smith, Neal Murphy, Morgan
Tennyson Guyer	12-Apr-1981	Heart attack	House	Foreign Affairs Veterans' Affairs	Lagomarsino, Robert Solomon, Gerald
Adam Benjamin, Jr.	7-Sep-1982	Heart attack	House	Appropriations Budget	Dicks, Norman Donnelly, Brian
Henry Jackson	1-Sep-1983	Aortic aneurysm	Senate	Armed Services Energy and Natural Resources Government Affairs	Nunn, Samuel Bumpers, Dale Chiles, Lawton, Jr.
Lawrence McDonald	1-Sep-1983	Plane crash	House	Armed Services	Byron, Beverly
Clement Zablocki	3-Dec-1983	Heart attack	House	Foreign Affairs	Fascell, Dante
Carl Perkins	3-Aug-1984	Heart attack	House	Education and Labor	Hawkins, Augustus
Dan Daniel	23-Jan-1988	Heart attack	House	Armed Services	Montgomery, G.V. (Sonny)
James Howard	25-Mar-1988	Heart attack	House	Public Works and Transportation	Anderson, Glenn
Bill Nichols	13-Dec-1988	Heart attack	House	Armed Services	Montgomery, G.V. (Sonny)
Mickey Leland	7-Aug-1989	Plane crash	House	Energy and Commerce Post Office and Civil Service	Collins, Cardiss Yatron, Gus
Larkin Smith	13-Aug-1989	Plane crash	House	Government Operations Judiciary	Cox, Christopher James, Craig
John Heinz, III	4-Apr-1991	Plane crash	Senate	Banking, Housing, and Urban Affairs Finance Government Affairs	Durenberger, David Seymour, John D'Amato, Alfonse
Walter Capps	28-Oct-1997	Heart attack	House	International Relations Science	Sherman, Brad Stabenow, Debbie
Sonny Bono	5-Jan-1998	Skiing accident	House	Judiciary National Security	Bryant, Ed Ryun, Jim
Julian Dixon	8-Dec-2000	Heart attack	House	Appropriations	Hoyer, Steny
Paul Gillmor	5-Sep-2007	Head trauma due to fall down the stairs	House	Energy and Commerce Financial Services	Blunt, Roy Manzullo, Donald
Stephanie Tubbs Jones	20-Aug-2008	Cerebral hemorrhage	House	Standards of Official Conduct Ways and Means	Green, Gene Thompson, Mike

Table 2. Cumulative abnormal returns around legislators' sudden deaths

This table reports cumulative abnormal returns around the dates of legislators' deaths. Panel A reports the returns for firms that donated to deceased politicians; Panel B reports the returns for firms that donated to replacement politicians. Event windows are indicated in parentheses.

	N	Mean	<i>t-stat</i>	<i>p-value</i>
	(1)	(2)	(3)	(4)
<i>Panel A: Donors of deceased politicians</i>				
CAR (-1,+1)	254	-0.50%*	-1.70	0.09
CAR (-1,+3)	254	-0.89%***	-2.36	0.02
CAR (-1,+7)	254	-0.94%***	-2.35	0.02
CAR (-1,+15)	254	-2.16%***	-2.75	0.01
<i>Panel B: Donors of replacement politicians</i>				
CAR (-1,+1)	481	-0.02%	-0.13	0.90
CAR (-1,+3)	481	0.13%	0.67	0.50
CAR (-1,+7)	481	-0.04%	-0.16	0.88
CAR (-1,+15)	481	-0.26%	-0.72	0.47

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$