Get What You Pay For? Not Always

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The most expensive election campaign in American history is over. Executives across America can now begin to assess what their companies will get in return for the roughly $2 billion spent by business interests.

Regardless of the outcome, the conclusion is likely to be not very much. From the point of view of shareholders, corporate contributions will probably turn out to be, at best, a waste of money. At worst, they could undermine their companies' performance for a long time.

As Wall Street knows well, the pitfalls of political spending start with picking the wrong horse: the financiers who broke so decisively for Barack Obama in 2008 changed their minds after the president started labeling them fat cats and supported a financial reform law they hate. This time they put $20 million in the campaign of Mitt Romney, more than three times what they contributed to President Obama's re-election. Jamie Dimon of JPMorgan Chase, once one of President Obama's favorite bankers, now calls himself "barely a Democrat."

But the bankers' collective "oops" is not the only reason to doubt the wisdom of Big Business's campaign spending. A rash of recent studies suggest that most businesses that invest in elections may do more than come up empty-handed. Spending on politics can do businesses lasting harm — damaging their reputations and distorting their investment decisions.

It's hard to tell exactly how much money companies sank into the election. But it's a lot. Only $75 million of the $650 million or so raised by "super PACS" through the end of October to support (or, mostly, attack) candidates came from corporations directly, according to the Center for Public Integrity, a watchdog group. But that's just part of the pie. Nonprofits like the United States Chamber of Commerce, which don't have to disclose their donors, spent about $300 million during the campaign — mostly supporting Republicans. Even when companies don't contribute directly to campaigns, their executives may, often through corporate political action committees.

Campaign finance watchdogs are sifting through the data to determine just how much money was unleashed by the Supreme Court's decision in 2010 to remove limits on corporate campaign contributions and to assess the impact on American politics. They worry that the rush of corporate cash will corrupt the political process — reshaping the political map and creating insidious bonds between elected officials and those who finance them.

Corporate watchdogs suggest another cause for concern: campaign contributions driven by corporate executives might harm the long-term interests of their shareholders.

A study published last summer by scholars at Rice University and Long Island University looked at nearly 1,000 firms in the Standard & Poor's 1,500-stock composite index between 1998 and 2008 and found that most companies that spent on politics — including lobbying and campaign donations — had lower stock market returns.

Another study published this year by economists at the University of Minnesota and the University of Kansas found that companies that contributed to political action committees and other outside political groups between 1991 and 2004 grew more slowly than other firms. These companies invested less and spent less on research and development.

Notably, the study determined that corporate donations to the winners in presidential or Congressional races did not lead to better stock performance over the long term. Indeed, the shares of companies that engaged in political spending underperformed those of companies that did not contribute.

And the relationship between politics and poor performance seems to go both ways: underperforming companies spend more on politics, but spending on politics may also lead companies to underperform.

Campaign spending by politically active concerns and their executives increased sharply after the Supreme Court's decision to remove limits on corporate donations. According to a study by John Coates of the Harvard Business School, the jump in spending led to a deterioration of companies' market value compared with firms that did not spend on political campaigns. "These results are inconsistent with a simple theory in which corporate political activity can be presumed to serve the interests of shareholders," Mr. Coates wrote.

These conclusions don't generally apply to companies in heavily regulated sectors — where political contributions might make sense. Mr. Coates pointed out that it was difficult to reach conclusions about the effectiveness of spending in these areas, like banking or telecommunications, because the companies all spend so much supporting candidates and lobbying.

But the recent performance of the financial industry suggests that political spending can be counterproductive even in the most highly regulated industries. A study at the International Monetary Fund found that the banks that lobbied most aggressively to prevent laws limiting predatory lending and mortgage securitization engaged in riskier lending, experienced higher delinquency rates and suffered a bigger shock during the financial crisis.

Political investments can damage a company's reputation, or anger supporters of the "other side." Darcy Burner, a former Microsoft programmer running as a Democrat for Washington State's 1st Congressional District, has even proposed an iPhone app that would allow shoppers to scan a bar code to check the political spending of the companies making the products on the shelf and their top executives.

Campaign watchdogs fear that undisclosed contributions to independent groups supporting candidates will allow companies to hide their political activity. Companies worry that nondisclosure will allow independent groups to blackmail them into supporting the candidates they represent.

The Conference Board, a trade organization grouping the biggest businesses in the nation, has published an analysis of the new landscape of political spending. The title is "Dangerous Terrain."

The Conference Board report suggests that “most companies will continue to play the game because their competitors are staying in.” This is a reason that political contributions yield so little for individual firms: political spending becomes a futile arms race between companies trying to buy an edge over their rivals.

But that’s not the only reason.

Corporate executives often spend on politics not to improve their companies’ profitability but to serve their own objectives — from supporting a personal ideological agenda to building a future career in politics. This kind of spending does little for their companies.

Think of all the former corporate executives in the last couple of administrations. Goldman Sachs alone gave us Robert E. Rubin, Jon S. Corzine and Henry M. Paulson Jr. More than one in 10 chief executives get political jobs after they retire. Unsurprisingly perhaps, Mr. Coates found that the biggest political contributions came from firms with weak corporate governance, where shareholders had little control over their top executives’ actions.

Poor governance explains, in part, why political spenders have worse results. But political activity itself could lead to poor business decisions. Executives involved in politics might lose strategic focus. And their political contributions might skew investments in a way that does shareholders no good.

Remember AT&T’s attempt to buy rival T-Mobile last year for $39 billion? By the standard metrics used by antitrust regulators to assess market concentration, the deal was bound to be rejected. It would have taken out one of only three competitors to AT&T in the national market for mobile telecommunications. It would have sharply reduced competition in the nation’s top cities.

AT&T could count on perhaps the strongest network of political connections in corporate America — nurtured with $58 million in campaign contributions since 1990, plus $306 million in lobbying expenses, according to the Center for Responsive Politics. In the House, 76 Democrats signed a letter to the Federal Communications Commission and the Justice Department supporting the deal. Letters supporting the merger poured in from liberal-leaning beneficiaries of AT&T’s largess — including the Gay and Lesbian Alliance Against Defamation, the N.A.A.C.P. and the National Education Association.

Political alliances, however, were not enough to win the day, as the government rejected the merger. AT&T and its shareholders had to pay about $6 billion in breakup fees. Over all, it was a bad deal.