Government

The Self-Destructive Downside to Corporate Political Spending

There are risks to the bottom line when a firm's shadowy political donations run counter to its image of social responsibility.

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It's well known that a flood of corporate cash has flowed into the U.S. political system since the U.S. Supreme Court's Citizens United ruling of 2010. But while the media and many academics have focused on the use of traditional political action committees, a host of harder-to-track mechanisms have given businesses increasing leverage to influence elections, legislation, and regulatory policies.

Editor's Note
This is the first of two articles about the Conference on Corporations and Democracy, which was organized by Stanford Graduate School of Business in early December. The second article is titled Are Businesses Undermining Democracy?

Although businesses have reaped a wide array of benefits from their buffed-up political muscle, there is a downside: Corporate spending can expose the business to the wrath of politically aware consumers who are increasingly willing to pummel businesses and brands on social media.

But even so, corporate boards aren't always aware of all that their companies are doing to influence policymaking at the federal, state, and local levels. And that's a mistake, said Bruce Freed, president of the Center for Political Accountability: "This is a risk-management issue. Corporate boards have a fiduciary responsibility to manage risk and set the policies that govern what the companies are doing politically and ensuring that the company is not put at risk."

Freed spoke in early December at the Conference on Corporations and Democracy, which was organized and sponsored by the Corporations and Society Initiative at Stanford Graduate School of Business and a number of other business, law, and policy schools and centers at Stanford and four other universities. He was part of a panel, titled Corporations and Money in Politics, that included Alexander Hertel-Fernandez, an associate professor at the Columbia University School of International and Public Affairs, and Marianne Bertrand, a professor of economics at the University of Chicago Booth School of Business. The panel was moderated by Neil Malhotra, the Edith M. Cornell Professor of Political Economy at Stanford GSB.

Attended by a remote audience of 450 viewers, the three-day conference focused on power relationships in democracy and the interplay among corporations, government, and the media.

There are ample examples of the risks businesses run when their socially conscious words and political contributions are out of sync. Major companies, including Target, Google, Bank of America, and Coca-Cola, have run into online buzz saws when their contradictory policies came to light. That lesson seems to have resonated since the Jan. 6 attack on the U.S. Capitol. Within days, major businesses were running for cover, pulling the plug on donations to Republican members of Congress who voted against certifying the election of President-elect Joe Biden.

Other businesses went further. Less than a week after the attack, Charles Schwab shut down its political action committee entirely, saying, "We believe a clear and apolitical position is in the best interest of our clients, employees, stockholders, and the communities in which we operate."

A Different Kind of Exceptionalism

Politicians like to speak of American exceptionalism, and there's some truth in that adage when it comes to questions of money and politics, said Hertel-Fernandez. "There's good reason to believe that key pillars of the structure of the U.S. economy and government have magnified the potential for businesses to reshape the U.S," he said.

Unlike many other democracies, the U.S. federal system leaves important authority over economic and social policy to the states. "The U.S. does far less to standardize taxes and regulations and create a floor across all of the states. And that allows the states to compete with one another for capital," Hertel-Fernandez said. As a result, businesses encourage bidding wars as states vie to host them by offering tax breaks, subsidies, and regulatory relief.

Labor unions in the U.S. are far less influential than in other countries, and have become a less significant counterweight to business, Hertel-Fernandez added. One reason: Unions in other Western countries are organized across sectors of the economy, while unions in the U.S. generally organize on a firm-by-firm basis, which gives them much less leverage.

Although the U.S. Supreme Court's 2010 Citizens United ruling regarding political spending applies to unions as well as businesses, there's no symmetry, he said. Other rulings have made it more difficult to organize public employees and to use their union dues to exert power in politics.

The Influence of Untraceable Spending

Understanding the influence of corporate money in politics means looking beyond the obvious channels that have been studied by political scientists, said Bertrand. Expenditures on federal lobbying alone, for instance, are several orders of magnitude bigger than the amount corporations spend on political action committees, she said.

Lobbying expenditures are reportable, but there are legal ways that corporate spending can be used to exert influence without being traced.

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The revolving door between the public and private sectors is a tool to gain influence, she said: “Given the discrepancies between the compensation you can get in the public sector versus the private sector, you can get [politicians] to do the thing that you want if there’s a promise of a job in the private sector.”

“Corporate social responsibility” spending can be well intended, but it can also be a subtle form of lobbying. Bertrand and her colleagues found that CSR and lobbying expenditures often track each other. They noticed that corporations that give to PACs in a congressional district are likely to make charitable donations in the same district. These so-called “socially responsible” donations often are targeted at the districts of politicians who sit on congressional committees that are important to the corporation — especially committees that have jurisdiction over government contracts, such as defense. When committee assignments or personnel change, the pattern of giving changes as well, they found.

Another way corporations gain influence is by providing subsidies and support to lawmakers, particularly those at the state level that might otherwise lack resources, said Hertel-Fernandez. In some states, lawmakers are lucky if they have one or two part-time staffers they share with colleagues. So corporations and organizations they fund are eager to step in and offer help that’s far from neutral.

“I’ve shown that outside organizations backed by companies can have a great deal of success in supporting lawmakers by providing them model bill ideas,” Hertel-Fernandez said. “If lawmakers have questions about the legislation, [the organizations] have a roster of experts who are all lined up and ready to testify.” All of those actions cost money but don’t show up as political contributions.

“It gives you a much bigger bang for your buck than, say, trying to invest in a very high-profile race for, say, Congress or the presidency,” said Hertel-Fernandez.

Although not as well known to the public as PACs, “527 organizations” (named after the section of the Internal Revenue Code that governs them) are increasingly used to channel money to corporate-supported causes. “These are the committees that have been very active at the state level in reshaping and distorting state and national politics,” said Freed. “Companies have poured not just five figures into them, but six and seven figures.”

Freed’s group found that corporations contributed close to half of the $1.5 billion raised over the last decade by six influential 527 groups, including the Republican Governors Association, the Republican State Leadership Committee, and the Republican Attorneys General Association.

A Push for Transparency

What course of action might serve to lessen the political power of corporations and make their expenditures more transparent?

Although a lack of transparency into corporate spending on politics is still a major problem, Freed said that progress has been made. In 2004, when his group, the Center for Political Accountability, began pushing shareholder resolutions to demand transparency, just nine percent of shareholders on average were supportive of such resolutions, he said. By 2020, that number had increased to 42%.

Hertel-Fernandez argues that “if we’re thinking about rebalancing the terrain, we need to think seriously about how to empower in a real way those other stakeholders — especially labor.”

“We need to be sure the voice of the shareholder is heard,” said Bertrand. But she cautioned that more input from shareholders could also mean more input from the largest institutional shareholders. “And then we are talking about extreme concentration.”

YOU TUBE LINK: https://youtu.be/YhtkOfFdAiY?list=PLxq_lXOUlvQDemEZKKcLAxRYRBIGcsFkZ

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