For America's corporations, it pays to get involved in elections. This might be good for business, but it's bad for politics.

Will corporate spending determine the outcomes of the 2012 elections? Academic research shows that when companies spend money on politics, they earn a significant financial return. For America's corporations, it pays to play politics.

How high corporate political spending will go in 2012 is anyone's guess. According to the Supreme Court, the sky's the limit.

In 2010, the U.S. Supreme Court ruled unconstitutional most of the legal limitations on how corporations can spend money to influence elections. As a result, companies can now spend unlimited amounts of money on political causes.

Illustration by DonkeyHotey
They can contribute directly or indirectly, publicly or anonymously, as much money as they want. So can unions and other social groups, but let's face facts. No union can match the spending power of America's biggest corporations.

This ruling is known as Citizens United because it upheld the right of conservative campaign group Citizens United to air a documentary that was critical of Hillary Clinton during the 2008 election season.

The ruling came too late for the 2008 elections, but the January 2010 decision came just in time for the November 2010 midterm elections.

Political watchdog group Public Citizen found in a January 2011 report that outside (non-candidate) spending by "independent" groups like Citizens United rose from $68.9 million in the 2006 midterm elections to $294.2 million in the 2010 midterm elections.

They attributed this fourfold increase to the Supreme Court's Citizen United decision.

Because of the threat of bad publicity, most corporations choose to fund political advertisements anonymously through so-called "Section 501(c)" front organizations rather than publicly in their own names.

Section 501(c) groups are nonprofit associations that can operate as anonymous fronts for corporations and other organizations. They differ from long-standing Section 527 groups, which are regular political action committees that must disclose their donors.

The Citizens United decision opened up Section 527 groups to unlimited corporate contributions (with disclosure). More nefariously, it opened up Section 501(c) groups to unlimited anonymous corporate contributions.

A December 2010 report by Bill de Blasio, the public advocate for the City of New York, found that over 75 percent of the political advertisements aired by the newly deregulated Section 501(c) groups were negative in tone. In contrast, only 54 percent of ads run by the more regulated Section 527 groups were negative.

Why would corporations want to influence elections? The answer is simple. It
pays.

In a January 2011 article in the Journal of Management, University of Tennessee Business Professor Russell Crook found that corporate political activity has a significantly positive effect on company performance measured using return on investment, return on assets and government-derived revenues.

In their study, Professor Crook and his colleagues reanalyzed the results of dozens of studies of corporate political activity. Not surprisingly, they found that companies that are highly regulated and/or do business with the government spend the most on corporate political activity.

Overall, Professor Crook and his colleagues found that corporate political activity had as large an impact on company performance as did access to strategic resources or high levels of human capital.

Big companies have the most money to spend, and the research shows that they spend much more on political activities than small firms. But it turns out that the impact of corporate political activity on company performance is even stronger for small companies than it is for large ones.

In a March 2011 article in the journal Accounting & Finance, finance professors Ike Mathur and Manohar Singh found that the economic value added by lobbying is roughly three times as high for small companies as it is for large companies, once appropriate statistical controls have been made.

This is probably because small firms tailor their lobbying efforts very closely to specific legislation that affects them, while large firms lobby on more general pro-business issues like reduced corporate tax rates.

According to news reports following the 2010 elections, some of the biggest anonymous contributors to unregulated Section 501(c) groups were hedge funds and private equity firms.

These companies and their ultra-high-income executives spent large sums to defeat Congressional Democrats who supported higher taxes on investment income. So much for the fabled Tea Party election. Reports suggest that it was more of a Bankers' Ball.
The impact of corporate spending on the 2010 Congressional races points to the real danger posed by the Supreme Court's Citizens United ruling.

The danger isn't that the 2012 presidential elections will be bought by powerful corporate interests. In the 2008 campaigns, Barrack Obama and John McCain each raised over $1 billion. It takes a lot of money to have an impact at the presidential level.

The real danger is that unlimited corporate spending will buy hundreds or even thousands of less-publicized elections for state and local offices.

Casino operators will attempt to influence gambling ballot measures. Gas drillers and coal companies will seek to place their preferred candidates on county commissions. For-profit school operators will seek to sway school board elections.

Wherever there are elected judges, local businesses with cases before the courts will try to have their preferred candidates elected - and none of them will have to disclose the fact that they are doing so.

Simply put, corporate campaign spending is a bad idea, but it's a bad idea whose time has come. The Supreme Court has opened the floodgates, and the research shows that the money will come pouring in, secretly and anonymously. It's just good business.

But it's bad politics.