

# Accepted Manuscript

US political corruption and firm financial policies

Jared D. Smith

PII: S0304-405X(16)30063-0  
DOI: [10.1016/j.jfineco.2015.08.021](https://doi.org/10.1016/j.jfineco.2015.08.021)  
Reference: FINEC 2653

To appear in: *Journal of Financial Economics*

Received date: 4 August 2014  
Revised date: 23 July 2015  
Accepted date: 12 August 2015

Please cite this article as: Jared D. Smith , US political corruption and firm financial policies, *Journal of Financial Economics* (2016), doi: [10.1016/j.jfineco.2015.08.021](https://doi.org/10.1016/j.jfineco.2015.08.021)

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.



# US political corruption and firm financial policies\*

Jared D. Smith\*  
Poole College of Management,  
North Carolina State University,  
Raleigh, NC 29634, USA.

## ABSTRACT

Using US Department of Justice data on local political corruption, I find that firms in more corrupt areas hold less cash and have greater leverage than firms in less corrupt areas. The results are robust to including a range of controls and to using an instrumental variable approach, two alternative survey measures of corruption, and propensity score matching. Further, the association between corruption and leverage is largest among firms that operate primarily around their headquarters. Overall, the evidence is consistent with the hypothesis that firms manage liquidity downward and debt obligations upward to limit expropriation by corrupt local officials.

JEL classification: G31, G32, G38, D72

Keywords: Cash holdings, Leverage, Financial policy, Local corruption, Rent-seeking

\* This paper benefited significantly from suggestions made by Raymond Fisman, the referee, Dave Denis, Jesse Ellis, and Shawn Thomas. I also thank Leonce Barger, Diane Denis, Mara Faccio, Daniel Greene, Andy Koch, Ken Lehn, Thomas Shohfi, Elliot Smith, and Roger White for their helpful comments. Seminar participants at Clemson University, Duquesne University, the University of Pittsburgh, and the Financial Management Association (FMA) Doctoral Student Consortium also provided useful feedback. All errors are my own.

\* Poole College of Management, North Carolina State University, Raleigh, NC 29634, USA. Tel.: + 1 919 515 6955; fax: + 1 919 515 2120. *E-mail address:* Jared\_Smith@ncsu.edu (J. D. Smith)

## 1. Introduction

Political corruption, especially in the form of rent-seeking, is pervasive. Survey evidence indicates that approximately 20% of firms around the world have experienced at least one bribe request from a public official.<sup>1</sup> These additional payments are often required to obtain an operating license, import license,

---

<sup>1</sup> The World Bank's Enterprise Analysis Unit aggregates data from surveys conducted from 2005 to 2014 on more than 130,000 firms in more than 135 countries. These surveys update the World Business Environment Survey.

Download English Version:

<https://daneshyari.com/en/article/10475707>

Download Persian Version:

<https://daneshyari.com/article/10475707>

[Daneshyari.com](https://daneshyari.com)