Corporate Dark Money in Politics: Evidence from India.

Abstract

This paper examines corporate dark money in politics using a novel regulatory episode in India. From 2018 onward, firms could make confidential, unlimited donations to political parties via ``electoral bonds.'' A 2024 Supreme Court ruling banned the practice and retroactively disclosed all $2 billion of such donations. Linking these data to a newly assembled dataset of publicly disclosed contributions going back to 2003, we establish that confidential donations differ markedly from disclosed ones: they are far larger in aggregate, attract bigger and more sophisticated firms, and frequently link donor firms to multiple political parties--a pattern absent from disclosed giving. When confidentiality is unexpectedly removed, publicly listed donor firms experience significant negative abnormal returns, implying an estimated $12 billion in value destruction--over five times total funds raised through electoral bonds. These patterns are consistent with dark money fostering political hedging while minimizing the risk of political retribution for donor firms. Three further findings support this interpretation: Firms hedge more broadly across parties and especially around closely contested elections when donating confidentially; sophisticated firms disproportionately shift from disclosed to confidential channels; and the market penalty upon disclosure falls hardest on firms with opposition-party ties. Paradoxically, the creation of a hidden donation channel may foster political plurality by lowering the cost of donating to opposition parties.

This paper is joint work with Sukrit Puri (LBS).

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