2-2022

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Published Citation

Hassan, M. Kabir, Md Sydul Karim, and Steven E. Kozlowski. "Implications of public corruption for local firms: Evidence from corporate debt maturity." Journal of Financial Stability 58 (2022): 100975. https://doi.org/10.1016/j.jfs.2022.100975

Implications of Public Corruption for Local Firms: Evidence from Corporate Debt Maturity

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April 28, 2021

Declarations of interest: None

Submission declaration and verification: The work described has not been published previously

Author contribution statements: The authors contributed equally to the design and implementation of the research, to the analysis of the results, and to the writing of the manuscript

Funding This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors.

Compliance with ethical standards: We confirm that we have complied with ethical standards.

Author contributions: All the authors contributed to the design and implementation of the research, the analysis of the results, and the writing of the manuscript.

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Implications of Public Corruption for Local Firms: Evidence from Corporate Debt Maturity

Highlights

- We examine how political corruption impacts firms' debt maturity structure decisions
- We identify two competing theories related to the firm's choice of debt-maturity in a high political corruption environment
- Results support the demand side story that firms in high local political corruption areas tend to adopt less short-term debt than firms in low corruption areas
- Our findings are not sensitive to the inclusion of additional fixed effects and remain robust across a series of endogeneity checks.
- The supply-side story does not find evidence that the relationship between corruption and debt maturity is driven by lenders' reluctance to extend debt in high corruption environments.

Abstract: Using political corruption conviction data from the U.S. Department of Justice, we examine the impact of local corruption on firms' debt maturity structure while exploring both demand-side and supply-side explanations. Our results support the demand-side story and indicate that firms located in high corruption areas utilize less short-term debt to mitigate liquidity and refinancing risks. Consistent with this, we find the effect is more pronounced among firms with smaller size, lower asset redeployability, and higher volatility. Our findings remain robust to the inclusion of an array of controls expected to influence debt maturity preferences as well as time, industry, and state fixed effects. Moreover, a seemingly unrelated regression approach, instrumental variables regression, propensity score matching, and placebo analyses corroborate our findings. Altogether, our results indicate that firms alter their debt maturity choices in response to local corruption to limit refinancing risk and the uncertainty created by corrupt government officials.

JEL classification: D73, G18, G32, G34

Keywords: Debt maturity, Liquidity risk, Cost of debt, Political Corruption

1. Introduction

Political corruption can substantially impact firm performance leading companies to devote extensive time and resources to minimize its associated risks. For instance, Caprio, Faccio, and McConnell (2013) find that corruption increases the risk of expropriation, making firms less willing to hold cash and more likely to invest in hard-to-expropriate assets (e.g., fixed assets and inventory). Consistent with this, Hossain et al. (2021) show that firms located in corrupt environments distribute a greater percentage of earnings as dividends, and Dass et al. (2016) reveal that firms in more corrupt areas have significantly lower value and informational transparency, all else equal. In this study, we extend the literature on local (state-level) political corruption by examining how and to what extent political corruption impacts firms' debt maturity structure. The maturity structure is a significant part of corporate financial policies, as failing to optimally structure debt obligations can lead to underinvestment (Gulen and Ion, 2016), increased debt costs (Myers, 1977; Flannery, 1986), and refinancing risks (Diamond, 1991; Harford, Klasa, and Maxwell, 2014). Thus, we predict that firms will structure debt-maturity to mitigate the risks posed by local political corruption.

The effect of political corruption (PC) on firm-level business activities has gained extensive consideration in the finance and economics literature (Bardhan 1997; Dass et al. 2016; Francis et al. 2014; Rose-Ackerman 1975; Svensson 2005), yet its effect on the corporate debt maturity structure and leverage decisions of U.S. firms has remained mostly unexplored. Thus, although traditional finance theory offers a rich understanding of the determinants of corporate debt maturity based on industry and firm-level characteristics (Flannery, 1986; Johnson, 2003; Myers, 1977), the effects of external factors such as PC are less well understood. We fill this gap in the existing literature by empirically investigating how local political corruption affects corporate debt maturity structure while exploring both supply- and demand-side explanations.

The supply-side hypothesis predicts that lenders are less willing to provide long-term debt in high PC environments. Firms operating in corrupt areas are exposed to more business uncertainty and cash-flow volatility, which aggravates borrowers' and lenders' information asymmetry problems. Consistent with this, several studies find that when external frictions are high, the supply side responds by offering shorter-maturity loans (Custódio et al., 2013; Rajan and Zingales, 1995; Stulz, 2000). Whereas longer-term debt requires greater continued monitoring, short-term debt allows lenders to adjust interest rates or discontinue the lending relationship entirely when the not-so-distant maturity date is reached. High PC indicates the presence of unfavorable business conditions and greater risk to the borrowing firm. Thus, the supply-side hypothesis predicts that lenders will prefer to issue shorter-maturity loans and will only agree to extend long-term debt at an interest rate premium.

In contrast, the demand-side hypothesis predicts that firms in high political corruption areas will prefer to use less short-term debt. Prior research highlights that short-term debt is associated with more significant liquidity mismatch and roll-over risk (Choi, Hackbarth, and Zechner, 2018; Custódio et al., 2013; Diamond, 1991; Pan, Wang, and Yang, 2019). High political corruption is expected to exacerbate such risks by increasing uncertainty and the potential for expropriation. After negative performance realizations, firms may be unable to refinance their existing short-term debt or be forced to do so at substantially higher interest rates to prevent a liquidity shortage. Hence, borrowers make a cautious choice of debt-maturity when the real and financial frictions are high by choosing less short-term debt in their debt-maturity profiles (Alfaro, Bloom, and Lin, 2018). Overall, we expect that demand-side factors will play a more significant role in shaping lending agreements because corporate executives have significant human and financial capital tied to the firm, thus, prompting the consideration of relevant risk factors when deciding on their optimal capital structure, including the local political climate. In contrast, lenders tend to hold diversified portfolios and emphasize traditional risk measures based on firm financial statements.

To test our hypothesis, we measure annual state-level PC following the methodologies described in Brown et al. (2019); Dass et al. (2016); and Hossain et al. (2021) using the political corruption convictions per capita computed from the U.S. Department of Justice's (DOJ) Public Integrity Section (PIN) reports.[4] The PIN data provides information about the number of crimes committed by government officials' violation of public trust and has been widely used in the political economy and finance literatures (Butler, Fauver, and Mortal, 2009; Dass et al., 2016; Glaeser and Saks, 2006).[5] While much of the corruption literature focuses on broad international samples or emerging economies where corruption is particularly rampant (e.g., Johan and Najar, 2010; Khwaja and Mian, 2005; Yusoff et al., 2015), the number of political corruption convictions against government officials in the U.S. District Courts is still substantial, with 22,900 total convictions across the country during our sample period from 1994 to 2017. The number of corruption convictions also varies extensively across states, indicating that public firms located in high corruption states are exposed to a much greater risk of political expropriation and incur an additional cost of doing business (Dass et al., 2016). For instance, the most corrupt state in our sample has more than nine times as many corruption convictions per capita relative to the least corrupt state. Such evidence suggests the presence of extensive state-

[4]We find similar results in robustness tests when repeating our analysis with corruption measured at the district level corresponding to the 94 U.S. federal judicial districts.

[5]See Smith (2016) for a detailed discussion of the various corruption measures used in the literature and why the U.S. DOJ conviction data is expected to be more reliable. Both Glaeser and Saks (2006) and Smith (2016) also discuss why it is highly unlikely that more corrupt areas would have fewer official convictions.

level variation and validates our motivation for exploring the impact of PC on local public firms' debt-maturity decisions.

Consistent with the demand-side hypothesis, we document a strong negative relationship between PC and the use of short-term debt. We begin our analysis by sorting all states into PC quartiles each year, and our univariate analysis provides initial evidence that firms headquartered in the top quartile of PC states use less short-maturity debt than firms in the bottom quartile. Additionally, the difference between the highest and lowest corruption quartiles is largest when considering only debt maturing within one year, and the difference diminishes monotonically as longer maturities are considered. Specifically, the percentage of debt maturing within one, two, three, four, and five years is 7.66%, 6.19%, 4.24%, 3.18%, and 2.57% lower, respectively, for the top corruption quartile firms compared to the bottom corruption quartile firms. On the other hand, for the top corruption quartile firms the percentage of debt maturing in more than one, three, and five years is 2.76%, 4.81%, 7.16% higher, respectively. To further highlight the economic magnitude of the effect, in our sample a firm headquartered in Louisiana (most corrupt State) has 36% more long-term debt on average (i.e. debt maturing in more than three years) than a firm headquartered in Oregon (least corrupt State).

We subsequently estimate ordinary least square (OLS) regressions and IV-GMM models with the percentage of debt maturing within one to five years as the dependent variable, denoted *ST1* through *ST5*. The results are consistent with our predictions and the univariate analysis results, as we find a high level of PC is associated with firms using significantly less short-maturity debt. PC exhibits a significant negative relation with *ST1*, *ST2*, and *ST3*, while the relation becomes insignificant when including relatively longer maturity debt in *ST4* and *ST5*. This finding is consistent with the demand-side explanation and implies that increased PC contributes to a significant reduction in firms' use of debt maturing within one to three years. Our analyses include industry and year fixed effects to control for unobservable differences that contribute to variation in firm maturity preferences, and we obtain similar inferences when adding state fixed effects suggesting that even within states firms place less reliance on short-term debt when local political corruption is more pervasive. In contrast, we do not find support for the supply-side explanation, as firms in corrupt areas utilize a lower percentage of short-term debt, and we do not find evidence of a significant differential impact on the cost of short- versus long-maturity debt in high corruption areas. This is consistent with evidence from Smith (2016) that firms in high PC areas are more leveraged than firms in low PC areas, highlighting lenders' willingness to extent debt in corrupt environments. Altogether, our evidence indicates that firms consider the extent of unscrupulous actions by local government officials when determining the maturity structure of their debt commitments, but well-diversified lenders do not significantly alter their lending terms.

Individual company circumstances are likely to either amplify or attenuate the effect of corruption on maturity preferences, so we examine whether the strength of the PC-debt-maturity relation varies across firms using a series of interactions in order to better understand the mechanism driving the negative PC-short-term-debt relation. Consistent with the overall effect being driven by liquidity and refinancing risks, we find PC's negative relation with short-term debt usage is most pronounced among firms with small size, low market-to-book ratio, low asset redeployability, and high volatility. Additionally, we find the effect is stronger among non-investment grade firms, which are likely to incur elevated borrowing costs and may struggle to refinance outstanding debts at affordable interest rates should conditions deteriorate further. Given prior evidence that financial markets behave differently under Republican versus

Democratic political regimes (Belo et al., 2013), we also test whether the strength of the PC-maturity relation varies under different political party leadership. Our results suggest the negative relation between corruption and short-term debt usage is driven by instances when Republicans control both legislative chambers of the firm's headquarter state. This is consistent with the findings of Di Giuli and Kostovetsky (2014) who document that firms score higher in corporate social responsibility when they have Democratic founders, CEOs, and directors, as well as when they are headquartered in Democratic-leaning states. Overall, variation in the strength of the PC-maturity relation across firms adds further support to our demand-side hypothesis that companies exposed to high political corruption reduce their reliance on short-term debt to limit liquidity and refinancing risks.

While the inclusion of industry, year, and state fixed effects in our main analysis limits the risk of omitted variable bias, we also conduct a battery of tests designed to further reduce potential endogeneity concerns. First, we explore the inclusion of firm or industry-year fixed effects and document consistent results. Next, we employ a seemingly unrelated regression analysis and find that firms in high PC areas prefer long-term debt over other sources of capital when choosing among different financing sources for new investments. We also use instruments for corruption (McCarty, Poole, and Rosenthal, 1997; Gulen and Ion, 2016), which reasserts our baseline results and suggests the observed relationship with debt maturity is attributable to variation in corruption, and a propensity score matching analysis yields similar inferences when comparing firms in high PC areas to otherwise similar firms that only differ significantly in their exposure to political corruption. To further enhance the reliability of our results, we implement a falsification test using randomly generated corruption data, and we find our placebo corruption variable is insignificant in all specifications, thus, highlighting the robustness of our findings.

Last, to mitigate concerns that the relation is driven by maturity structure decisions made in prior periods, we repeat our analysis using data on new debt issues and find that when local corruption is high firms issue significantly less short-term debt. Altogether, the evidence supports our hypothesis and suggests that firms alter their debt-maturity profiles to reduce liquidity and refinancing risks when political corruption is high.

While we focus specifically on corruption, our study is closely related to prior research examining the effects of policy uncertainty. For instance, Çolak et al. (2017) find that policy uncertainty reduces IPO activity and leads to an increased cost of capital, and Waisman et al. (2015) provide evidence that political uncertainty is associated with higher corporate bond spreads, particularly in the periods surrounding U.S. presidential elections. Additionally, several studies suggest that high policy uncertainty leads firms to shorten debt maturity, as long-term debt is prone to greater mispricing and more sensitive to changes in firm value (Datta et al., 2019; Pan et al., 2019; Tran and Phan, 2017). In contrast, our results suggest that in the case of corruption, firms' liquidity and refinancing concerns outweigh worries regarding long-term debt's potential mispricing and contribution to the underinvestment problem (Myers, 1977; Flannery, 1986; Datta et al, 2005). Two important differences are expected to contribute to the differences between the effects of corruption and policy uncertainty. First, whereas studies such as Datta et al. (2019) measure policy uncertainty using the national-level economic policy uncertainty index (EPU) of Baker et al. (2016), we measure corruption at the state (or judicial district) level, thus, reflecting risks that affect some firms but not others. Many large regional and national lenders are likely to consider the effects of nationwide political uncertainty in their lending policies, consistent with the evidence in Waisman et al. (2015), whereas exposure to local corruption can be diversified away. This contributes to a reduced supply-side effect.

Second, whereas political uncertainty results in more favorable outcomes in some instances, corruption is typically associated with negative effects, as Shleifer and Vishny (1993) and Lindgreen (2004) argue that corruption destroys economic activities' coherence through the misallocation of resources. To ensure variation in policy uncertainty does not explain our results, we re-estimate our main specifications with the inclusion of the EPU Index and find the results are largely unchanged, as PC enters with a significant negative coefficient when predicting our short-term debt variables, ST1 through ST3. This corroborates our earlier findings and provides added support for the demand-side explanation.

Our study makes several significant contributions to the literature. First, we add to the growing research on the effects of political corruption in developed countries where corruption alters the performance and behavior of many of the largest firms in the world (Brown et al., 2019; Dass et al., 2016; Glaeser and Saks, 2006). Second, Smith (2016) finds that firms in high PC areas manage liquidity downward and leverage upward to protect against the misappropriation of valuable resources by unscrupulous politicians. We extend this line of work by examining how corruption influences U.S. firms' debt-maturity preferences while evaluating both demand and supply-side explanations. Our evidence is consistent with the demand-side explanation and highlights a robust negative relationship between PC and the use of short-term debt. We disaggregate debt-maturity using fourteen variables to gain a sharper perspective regarding the specific firm-level response to political corruption, and we find that higher corruption is associated with significantly lower use of debt maturing within one, two, and three years. Our work also contributes to the debt policy literature (Graham and Leary, 2011) by quantifying the determining role PC plays in corporate debt policy. To the best of our knowledge, ours is the first study to document how U.S. firms structure their debt policy in high local political corruption environments to mitigate the increased liquidity and refinancing risks. Last, we conduct a series of robustness tests designed to minimize endogeneity concerns. Our results indicate a highly robust relationship with corruption contributing to significant differences in debt-maturity structure both within and across states.

We organize the rest of the paper as follows. Section 2 briefly discusses how firms develop their debt policy and choose between short- and long-term debt to minimize PC's effect. Section 3 outlines the data sources, sample selection, variables construction, and specifies the research design. Section 4 summarizes the key variables and main empirical results. Section 5 presents a series of robustness and sensitivity tests, and Section 6 concludes the paper.

2. Hypothesis development

In this section, we outline two competing theories regarding the firm's choice of debt-maturity in a high PC environment, and we develop our primary hypothesis. First, the supply-side theory considers how lenders structure their debt offers when external frictions are high. Prior studies document that lenders prefer to extend short-maturity loans when business volatility increases (Custódio et al., 2013; Rajan and Zingales, 1995; Stulz, 2000). In related work, Waisman et al. (2015) argue that under high political uncertainty lenders are less willing to provide long-term debt since the monitoring costs and risks are higher than for short-term debt. Similarly, our supply-side explanation predicts that lenders will prefer to extend short-term debt in high PC environments and will only extend long-term debt at an interest rate premium given its greater monitoring costs and the risk of expropriation.

By contrast, the demand-side story predicts that firms will prefer to use less short-term debt in high PC environments. Using short-term debt creates higher liquidity mismatch and roll-over risk (Choi et al., 2018; Custódio et al., 2013; Diamond, 1991; Pan et al., 2019), and these adverse characteristics of short-term debt can be exacerbated in high PC environments. Diamond (1991) highlights that the optimal debt maturity structure weighs the likelihood that credit quality will improve against refinancing and liquidity risk. When PC is high, firms must consider their internal prospects and the greater external threats posed by corrupt government officials. As a result, risk-averse borrowers will tend to limit the amount of short-term debt in their debt-maturity profiles.

Smith (2016) documents that firms exposed to high political corruption are more highly leveraged on average, suggesting that lenders remain willing to supply debt to firms located in high PC states. Such evidence is consistent with large regional and national lenders pricing in the average corruption risk while applying consistent terms across loan offerings rather than varying terms based on borrower location with respect to perceived local corruption. While lenders hold more diversified portfolios, firm executives typically have a disproportionate amount of wealth tied to firm performance in the form of stock, stock options, and recurring compensation. Thus, we hypothesize that demand-side factors will play a greater role resulting in firms taking on less short-term debt to mitigate liquidity and refinancing risks.

Hypothesis 1: All else equal, firms operating in a high political corruption environment will use less (more) short-maturity (long-maturity) debt than firms operating in a low PC environment.

Gopalan and Xie (2011) suggest that firms with greater exposure to refinancing risk have lower credit quality on average. While all firms have an incentive to limit potential liquidity and rollover risks, such concerns should be particularly pronounced among less stable firms with lower credit quality. Consequently, we expect managing refinancing risk to be a larger concern among low market-to-book firms, which tend to exhibit greater distress, as well as among smaller, non-investment grade, and highly volatile firms. We also predict liquidity risks will play a greater role among firms with low asset redeployability and firms that operate within a single business segment given their lower flexibility. This leads to our second hypothesis.

Hypothesis 2: All else equal, the negative relation between exposure to PC and reliance on short-maturity debt will be stronger among small, low market-to-book, non-investment grade, and highly volatile firms as well as among firms with low asset redeployability and undiversified business operations.

3. Data and Research Design

To investigate the effects of PC on corporate debt maturity, we obtain Federal public corruption conviction data from the Public Integrity Section of the United States Department of Justice.[6] Accounting data is obtained from Compustat annual fundamentals, and we construct our diversification measure using business segment data from Compustat historical industry segment files. Additionally, we collect state partisan composition data from the National Conference of State Legislature (NCSL).[7] Our sample firms must have headquarters in the U.S. to be included in the analysis (Heider and Ljungqvist, 2015). We focus on the firms' headquarters state rather than state of incorporation as the majority of firms' business operations are concentrated in the headquarter location (John and Kadyrzhanova, 2011). We expect that PC plays a more significant role in the location where firms compete for business opportunities such as business contracts, tax benefits, and favorable regulations. Following the literature, we exclude financial

[6] Federal public corruption conviction data is available at the Public Integrity Section of The United States Department of Justice. https://www.justice.gov/criminal/pin

[7] National Conference of state Legislature (NCSL). http://www.ncsl.org/research/about-state-legislatures/partisan-composition.aspx

(sic 6000-6999) and utility firms (sic 4890-4999) from the final sample, as such companies are highly regulated and have unique capital structures that may not be appropriate for our analysis. We then merge corruption data with firm-level accounting data by state and year. We drop firms with missing or non-positive assets, missing or non-positive sales, or missing or non-positive equity in Compustat. We also exclude firms where the accounting ratio of the debt-maturity variables (*ST1* to *ST5*) exceeds one (Shin and Stulz, 1998). Finally, we winsorize all continuous regression variables at their 1st and 99th percentiles to limit the effect of outliers. Our sample period begins in 1994 to match the earliest year of headquarter location data from 10-K and 10-Q filings available through EDGAR[8], and our sample ends in 2017. These sample selection procedures result in 45,038 firm-year observations.

3.1 Measure of Political Corruption

Following the prior literature (Brown et al. 2019; Dass et al. 2016; Hossain et al. 2021; Hossain and Kryzanowski 2021; Hossain et al. 2020; Smith 2016), we construct an annual state-level corruption variable using the number of federal public corruption convictions within each state's district courts as reported in the DOJ's annual reports to Congress.[9] We then scale the number of corruption convictions by the state's population (per 100k) each year which yields a per capita measure of political corruption. The state population data is obtained from the United States Census Bureau, and we standardize the corruption variable by its sample standard deviation for ease of interpretation. Using the DOJ's conviction data from the Public Integrity Section (PIN) is advantageous compared to survey-based data, as the former provides a more objective measure of corruption and is not influenced by perception. About 75% of the PIN

[8] Smith (2016) suggests that headquarter location data is less reliable prior to the first availability of SEC filings as well as for firms for which SEC filings are unavailable.
[9] The Federal public corruption conviction data is available for 94 Federal judicial districts and the U.S. territories.

report's convictions are associated with government officials' misconduct with the remaining 25% of convictions attributed to private citizens' political corruption convictions. Therefore, the PIN report provides a reliable picture of state-level political corruption which is expected to affect firms' financing and leverage decisions. Figure 1 illustrates the state-level time-series averages of corruption over the sample period. We observe significant variation in the corruption conviction rates across U.S. states which is expected to result in meaningful differences in firms' debt-maturity structure decisions if PC alters firms' assessment of liquidity and refinancing risk.

3.2 Control Variables

Following the corruption literature (Aidt, 2016; Baxamusa and Jalal., 2014; Brown et al., 2019; Dass et al., 2016; Mauro, 1995; Smith, 2016; Reinikka and Svensson, 2002) as well as the debt-maturity and leverage literature (Barclay, Marx, and Smith, 2003; Brockman, Martin, and Unlu, 2010; Huang et al., 2016; Stohs and Mauer, 1996), we include a set of control variables to account for expected differences in debt maturity structure and minimize concerns that our results are driven by omitted variables. Our state-level control variables include the natural logarithm of annual state GDP and a dummy variable that takes a value of one when a single party controls both legislative chambers of the firm's headquarter state and zero otherwise (*LEGISLATIVE CONTROL*). We also include the Partisan Conflict Index (*PCI*) that measures the disagreement among politicians at the federal level[10], the spread between the 10-year and 3-month Treasury bond rates (*TERM SPREAD*), and the *LEADING INDEX* from the Federal Reserve which provides a 6-month-ahead state-level prediction of economic performance.

[10]PCI index data is available at Federal Reserve Bank of Philadelphia. The PCI index is constructed measuring the political disagreement among federal-level politicians in a given month. This is a textual based measure that relies on the number of disagreements reported in a given month in the newspaper. A higher PCI indicates a higher-level of partisan conflict.

Firm-level debt maturity control variables include *SIZE* (log total assets), *MB* (market-to-book ratio), *DIVIDEND YIELD*, *ASSETS MATURITY*, *EARNINGS VOLATILITY*, *LEVERAGE*, *ROA*, *TANGIBILITY* (net property, plant, and equipment), *CAPX* (capital expenditures), *Z-SCORE DUMMY* (indicator equal to one if Altman Z-score > 1.81), *ABNORMAL EARNINGS*, *DIVERSIFICATION* (indicator equal to one if more than one business segment), and *RATED* (indicator equal to one if the firm has an S&P rating for long-term debt). Our analyses also include year, industry, and state fixed effects to control for unobservable time, industry, and state factors that contribute to variation in firms' debt maturity preferences. Appendix A provides details on the measurement, definition, and data sources for all variables.

3.3 Location of Firm Headquarters

Data on the state of firms' headquarters location is available in Compustat; however, the recorded locations can sometimes be inaccurate, as Compustat does not report firms' historical headquarters (HQ) location (Heider and Ljungqvist, 2015). If the firm's HQ location is erroneous, then firms located in a low PC state but reported to be in a high PC state (or vice versa) will create noise in the measured relation between PC and debt-maturity. To overcome this issue, we use firms' historical HQ locations from the 10-K/Q filings from EDGAR available at Augmented 10-X Header data.[11]

3.4 Dependent Variables

The prior literature uses several different measures to proxy for corporate debt-maturity structure. Standard measurements include the portion of the firm's debt that matures within three years (Datta, Iskandar-datta, Raman, 2005; Johnson, 2003) or five years (Brockman et al., 2010). To develop a full understanding of the relationship between corruption and debt-maturity, we

[11]Software Repository for Accounting and Finance at the University of Notre Dame. https://sraf.nd.edu/data/augmented-10-x-header-data/

follow Huang et al. (2016) and separately consider the proportion of debt that matures within one year (*ST1*), two years (*ST2*), three years (*ST3*), four years (*ST4*), and five years (*ST5*). In robustness tests, we also explore a variety of alternative short-term debt proxies that are used in prior studies. The measurement, definitions, and data sources for all key variables and alternative measures are described in Appendix A.

3.5 Model Specification

To test our main hypothesis, we apply the following baseline OLS regression model with standard errors clustered by firm;

$$Debtmaturity = \alpha_0 + \alpha_1 Corruption + \alpha_2 SIZE + \alpha_3 MB + \alpha_4 ROA + \alpha_5 CAPX + \alpha_6 Tangibility + \alpha_7 AssetMaturity + \alpha_8 AbnormalEarnings + \alpha_9 EarningsVolatility + \alpha_{10} Z - Scoredummy + \alpha_{11} Diversification + \alpha_{12} DividendYield + \alpha_{13} Rated + \alpha_{14} Leverage + \alpha_{15} TermSpread + \alpha_{16} ln(State\ GDP) + \alpha_{17} ln(Partisan\ Conflict\ Index) + \alpha_{18} LegislativeControl + \alpha_{19} LeadingIndex + \varepsilon. \quad (1)$$

Prior studies suggest debt maturity and leverage are jointly determined. We address this concern by using an IV-GMM approach which estimates the relation between political corruption and corporate debt maturity while instrumenting *LEVERAGE*. Following previous studies in the debt-maturity and leverage literature (e.g., Barclay et al., 2003; Datta et al., 2005; Johnson, 2003), we include a *Net Operating Loss Indicator*, *Investment Tax Credit Indicator*, *TANGIBILITY*, and *ROA* as instruments in the IV-GMM estimations. Our two-step feasible GMM process provides an efficient estimation of the model coefficients and a consistent estimation of the standard errors.[12] Once again, we include time, industry, and state fixed effects to mitigate potential omitted variable concerns. With *CORRUPTION* measured by state-year, controlling for state fixed effects provides a more stringent test that evaluates the difference in firms' debt maturity preferences in a given state when its level of corruption is high compared to when corruption is low.

4. Empirical Results

4.1 Summary Statistics

<< Insert Table 1 Here >>

<< Insert Figure 1 & 2 Here >>

Table 1 provides the ranking of the fifty U.S. states by their average number of corruption convictions scaled by the state's population (in 100k) during the sample period from 1994 to 2017. The ranking is ordered from the most to least corrupt state according to the time-series averages of the reported conviction rates in the PIN reports, and the final column reports the total number of corruption convictions during the sample period. The per capita corruption convictions are highest in the District of Columbia (not reported in the table) given that it is an administrative district, which we treat as an outlier. Louisiana is ranked first in corruption among all 50 states, while Oregon has the lowest per-capita corruption convictions. Louisiana is 9.97 times more corrupt than Oregon and 2.45 times more corrupt than the average state based on our measure. Figure 2 illustrates the univariate relationship between corruption and our five different

[12]In subsequent robustness tests, we address the possibility that Corruption and debt-maturity may be correlated with unobserved factors by employing an instrumental variable approach where the instruments are associated with Corruption but unrelated to corporate debt-maturity.

short-term debt measures after controlling for Fama-French industry effects. In all instances, we observe that as corruption increases, firms' usage of short-term debt declines.

<< Insert Table 2 Here >>

Table 2 reports summary statistics for our key regression variables over our sample period from 1994 to 2017. In Panel A, we sort states into corruption quartiles each year and calculate the average of each debt-maturity variable (*ST1* to *ST5*) for each quartile. Additionally, the panel's rightmost column reports the mean difference of the debt-maturity variables between the lowest and highest corruption quartiles. The mean difference is positive and significant at the five-percent level or better for each variable indicating that firms in the high corruption quartile states use significantly less short-term debt than firms in the low corruption quartile states. Overall, the evidence from this preliminary analysis is consistent with our hypothesis that firms use less short-term debt in high corruption areas to reduce liquidity and refinancing risk; however, our subsequent tests aim to evaluate whether such differences are attributable to corruption.

Panel B presents descriptive statistics for our control variables, and the rightmost column again reports the mean difference between firms in the low and high PC states. The results highlight a number of significant differences, as firms in low corruption states have significantly lower *LEVERAGE*, *ROA*, *TANGIBILITY*, and *DIVIDEND YIELD*, as well as higher *MB*, *ABNORMAL EARNINGS*, and *EARNING VOLATILITY* relative to firms in high PC states. Thus, while corruption may influence firms' decisions regarding short-term debt use, it is necessary to account for differences along other dimensions. Our subsequent analyses control for these differences in characteristics that have been shown to influence leverage and maturity decisions, and we explore a battery of tests designed to mitigate any remaining endogeneity concerns. Panel

C reports the pairwise correlation coefficients between *CORRUPTION* and our debt-maturity variables.

<< Insert Figure 3 Here >>

Figure 3 graphically illustrates the univariate relation between *CORRUPTION* and short-term debt use. Firms in the least corrupt states have 7.66% higher average one-year debt ratios, *ST1*, relative to firms in the most corrupt areas. Additionally, as the debt maturity increases, the difference between the lowest and highest corruption quartile diminishes monotonically. The mean differences for *ST1*, *ST2*, *ST3*, *ST4*, and *ST5* are 7.66%, 6.19%, 4.24%, 3.18%, and 2.57%, respectively, among firms in the bottom corruption quartile compared to firms in the top corruption. Further, the mean values for the proportion of debt maturing in more than one year (*DM1*), three years (*DM3*), and five years (*DM5*) is 2.76%, 4.81%, and 7.16% lower, respectively, among firms in the bottom corruption quartile compared to the top corruption quartile firms. Figure 4 subsequently illustrates the univariate relation between state-level corruption and debt-maturity with a regression estimated using an Epanechnikov kernel with a 95% confidence interval (indicated with the shadow region). As predicted, we observe that the proportion of short-term debt (*ST3*) decreases and the proportion of long-term debt (*DM3*) increases as the level of PC increases. Such evidence provides initial support for our hypothesis that corruption alters firms' debt maturity decisions.

<< Insert Table 3 Here >>

<< Insert Figure 4 Here >>

4.2 Are firms in high political corruption states more likely to cut short-maturity debt?

4.2.1 Baseline results -OLS regression

We begin our multivariate analyses with a set of OLS regressions using the five different debt-maturity dependent variables (i.e., *ST1* to *ST5*) with the results presented in Table 3. Our regressions include year and industry fixed effects in columns (1) through (5), and we subsequently add state fixed effects in columns (6) through (10). Consistent with our hypothesis, the estimated *CORRUPTION* coefficients are negative and statistically significant for *ST1* to *ST3* in columns (1)-(3) and (6)-(8). In contrast, the coefficients are insignificant when the dependent variable is *ST4* or *ST5*.[13] These results indicate that firms operating in highly corrupt states tend to use less short-maturity debt in their overall corporate debt structure. Interestingly, we find qualitatively similar results both with and without state fixed effects. Jiang, John, and Qian (2018) document that firms in more religious areas have a lower cost of debt, while Huang and Shang (2019) observe lower leverage and short-term debt ratios in areas with more significant social capital. Our inclusion of state fixed effects ensures the observed relation is not attributable to regional differences unrelated to political corruption that could explain the results. Altogether, the results provide support for Hypothesis 1.

<< Insert Table 3 Here >>

4.2.2 Endogeneity and Instrumental Variables

Although the baseline OLS results are consistent with our main hypothesis, these results may suffer from endogeneity between debt maturity and leverage. We address this concern by reexamining the relationship between political corruption and debt maturity structure while instrumenting leverage using commonly used instruments from the debt-maturity literature (e.g.,

[13] In unreported analyses, we re-estimate the regressions using three measures of long-term debt as in Custódio et al. (2013), constructed as the proportion of debt maturing in more than one year (*DM1*), three years (*DM3*), and five years (*DM5*). The results yield similar inferences and are available upon request.

Barclay et al., 2003; Datta et al., 2005; Johnson, 2003). Table 4 presents the estimates from the IV-GMM estimations. Consistent with our hypothesis, the estimated coefficients for *CORRUPTION* are negative and statistically significant for *ST1* to *ST3*. The economic significance of the estimated coefficients is also considerable, as a one standard deviation increase in *CORRUPTION* is associated with a 0.84 percentage point decrease in debt maturing within one year, a 0.76 percentage point decrease in debt maturing within 2 years, and a 0.64 percentage point decrease in debt maturing within three years. Relative to the averages of the proportion of debt maturing within one, two, and three years in our sample of 28.75%, 43.52, and 55.42%, this corresponds to a reduction in *ST1*, *ST2*, and *ST3* by 2.92%, 1.74%, and 1.15% per standard deviation, respectively.[14]

The estimated coefficients of the control variables are also consistent with the debt-maturity and corruption literature. Firms with more growth opportunities (high market-to-book ratio, *MB*) use more short-term debt to minimize the underinvestment problem (Myers 1977), and firms with greater *ABNORMAL EARNINGS* also have a higher proportion of their debt in the short-maturity window. Similarly, higher *EARNINGS VOLATILITY* causes firms to use more short-maturity debt, consistent with capital suppliers being reluctant to offer long-term debt when earnings are unstable (Datta et al., 2005). We also find evidence that firms with S&P credit ratings (*RATED*) and firms with high Z-score (*Z-SCORE DUMMY*) use more short-term debt, consistent with their having greater ability to satisfy short-term debt obligations, whereas *SIZE*, *ROA*, and *TANGIBILITY* exhibit significant negative relations with short-term debt usage. The IV-GMM estimations also yield consistent results both with and without state fixed effects, and

[14]In Appendix Table OA1, we repeat the analyses and find similar results with *CORRUPTION* measured at the judicial district level. The analyses include year, industry, and U.S. judicial district fixed effects.

altogether the results support our main hypothesis that firms in high PC environments utilize less short-maturity debt to help reduce liquidity and refinancing risk.

4.3 Corruption Versus Economic Policy Uncertainty

We next repeat our IV-GMM analyses with the inclusion of the Economic Policy Uncertainty (EPU) Index of Baker et al. (2016) given that both corruption and EPU reflect sources of risk related to the political landscape. EPU is a newspaper-based measure of policy uncertainty and reflects the political risks related to policy decision-making changes – such as Democrats being more likely to impose stricter environmental policies than Republicans. Several studies (Datta et al. 2019; Tran and Phan 2017; Waisman et al. 2015) rely on the aggregate EPU as a proxy to investigate the effects of political uncertainty on debt-maturity. In Figure 5, we plot the average *CORRUPTION* across all states each year (= $\frac{1}{N}\sum_i Corruption_{i,t}$) and compare it with EPU. The correlation between average corruption and EPU is -0.0643 in our sample, implying these two measures are distinct from each other and the effects of one are unlikely to explain the other. Additionally, whereas EPU is constructed at the national level, we compute *CORRUPTION* separately for each state thereby offering greater exploitable variation and capturing the local political threats for each firm.

<< Insert Figure 5 Here >>

<< Insert Table 5 Here >>

The results of our tests which simultaneously include *CORRUPTION* and *POLICY UNCERTAINTY* are shown in Table 5. Consistent with political corruption presenting a distinct risk to firms that is independent of EPU, we find the *CORRUPTION* variable's coefficients are negative and statistically significant for *ST1* to *ST3* and remain largely unchanged from our previous analyses. This result supports the notion that political corruption is related to the concept of risk which arises from the rent-seeking behavior of corrupt politicians (Smith 2016) rather than uncertainty (unexpected results or shocks) (Datta et al. 2019).

4.4 Fixed Effect Regressions

Our baseline regression results control for industry, year, and state fixed effects. Yet, corrupt politicians may target and solicit specific industries depending on factors such as firms' business models, resources, and ESG activities. Because these industry characteristics may vary over time and affect debt maturity as well, we include industry-by-year fixed effects to control for industry-specific effects that are unique to each time period (Heider and Ljungqvist 2015; Hasan et al. 2020). We also explore the results when instead controlling for firm fixed effects that account for unobservable firm-level factors contributing to differences in debt-maturity preferences across firms. Although our baseline analyses include a set of control variables commonly used in the debt-maturity and corruption literatures, the addition of firm fixed effects provides a strict test that controls for the average debt maturity differences across firms and only exploits within-firm variation.

<< Insert Table 6 Here >>

Table 6, panels A and B present the results with the inclusion of firm fixed effects and industry-year fixed effects, respectively. In the interest of space, we only report the estimated coefficient of *CORRUPTION*. In both panels the *CORRUPTION* coefficient remains significant for *ST1* through *ST3* and becomes insignificant when incorporating relatively longer-term debt in *ST4* and *ST5*. These results suggest that our findings are not driven by omitted industry-level factors that vary across years or by omitted firm-level factors, thus, providing greater assurance that differences in political corruption contribute to firms' debt-maturity choices.

4.5 Supply side explanation of PC and Debt-maturity relationship

While the evidence that firms in politically corrupt environments tend to rely less on short-term debt is consistent with the predictions of the demand-side hypothesis, prior work indicates that lenders may prefer to offer short-maturity loans when business uncertainty and the cost of external monitoring are high (Custódio et al., 2013; Rajan and Zingales, 1995; Stulz, 2000). By lending short term, capital suppliers can exit the lending arrangement at the maturity date if the borrowing firm's financial condition shows signs of deterioration. Although we observe that firms in high PC areas choose to utilize a higher proportion of long-term debt, they may be forced to pay an interest rate premium for the right to borrow long term. Alternatively, well-diversified lenders may focus primarily on traditional risk measures constructed from firm financial statements, while local corruption only influences the demand side. Likewise, if lenders factor in the overall risk of corruption into loan pricing but do not adjust loan rates across geographic regions, then we would not expect to find a significant relationship between our measure of political corruption and loan terms. We specify the following regression model to test these predictions following Bharath, Dahiya, Saunders, and Srinivasan (2011), which we modify to test the impact of corruption on the cost of debt.

$$Cost\ of\ debt = \alpha_0 + \alpha_1 Corruption + \alpha_2 Corruption * \log(Maturity) +$$
$$+\alpha_3 \log(Maturity) + \alpha_4 \log(Loan\ Size) + \alpha_5 Coverage + \alpha_6 Current\ Ratio +$$
$$\alpha_7 Collateral + Baseline\ Controls + \varepsilon \qquad (2)$$

The cost of debt and relevant loan data is obtained from the Dealscan database for our sample period of 1994 to 2017.[15] Our dependent variables are *All-in-Spread Drawn* and *All-in-Spread Undrawn*, where *All-in-Spread Drawn* represents the total spread over the LIBOR computed based on dollars drawn, and *All-in-Spread Undrawn* represents the all-in spread over the LIBOR based on dollars available. In addition to the control variables used in Equation 1 (Baseline Controls), we add *log(Maturity)*, *Collateral*, and *log(Loan Size)* to the regression model following the cost of debt literature. Equation (2) tests for an independent effect of corruption on the cost of debt as indicated by the α_1 coefficient as well as whether the effect of corruption has a more pronounced effect on longer maturity loans as indicated by the α_2 interaction coefficient. If lenders are more averse to extending long-maturity loans in high PC environments, we should expect to find a positive and significant interaction coefficient.

<< Insert Table 7 Here >>

The results across all specifications in Table 7 indicate no significant relationship between cost of debt and the corruption variable and its interaction with loan maturity. Thus, the demand-side story appears to be driving the observed negative relation between corruption and short-maturity debt utilization, as firms in high corruption areas choose to use more short-term debt; however, lenders do not charge an interest rate premium that varies with local corruption.

4.6 Underlying mechanisms

Our results provide evidence consistent with firms located in high corruption areas using less short-maturity debt to minimize liquidity and refinancing risk. Given this finding, Hypothesis 2 predicts the effect should be particularly pronounced among firms where liquidity and refinancing risks are expected to be more significant. To test for differential effects within

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[15] We merge the Dealscan database with the Compustat and corruption data using the Dealscan-Compustat linking database from Chava and Roberts (2008).

our sample, we dichotomize our corruption measure based on the median cross-sectional values to explore the potential channels.[16] In particular, we sort the sample each year into above and below median corruption subgroups, where a firm is considered to be located in a high PC area if its headquarters' state belongs to the above-median group. We then set the variable *HI CORRUPTION* equal to one for the high corruption area firms and zero otherwise, and we explore a set of *HI CORRUPTION* interactions to test whether the effect is stronger among firms with characteristics indicative of greater refinancing risk. Our interaction variables include *MB*, *SIZE*, *RATED*, *INV GRADE*, *LOW REDEPLOYABILITY*, *REALIZED VOLATILITY*, *IMPLIED VOLATILITY*, *REPUBLICAN CONTROL*, and *DIVERSIFICATION*.

<< Insert Table 8 Here >>

Table 8 presents the results. We find the negative relation between corruption and short-term debt use is stronger (weaker) for value (growth) firms (*HI CORRUPTION * MB* = 0.0095**). This result is consistent with low-priced value firms exhibiting greater levels of distress on average and limiting their exposure to liquidity and refinancing risks when corruption is high. Specification (2) indicates a stronger (weaker) effect among small (large) firms as the *HI CORRUPTION * SIZE* coefficient is positive and highly significant. This is consistent with smaller firms having lower credit quality on average and less ability to evade the adverse effects of political corruption. Column (3) indicates no significant difference between firms with and without an S&P credit rating; however, the effect is stronger (weaker) among non-investment grade (investment grade) firms. This once again supports the demand-side hypothesis, as non-investment grade firms face substantially higher refinancing risk as a result of their low credit

[16] Iacobucci et al. (2015) provide evidence that the median split may be preferred as more parsimonious. Categorizing continuous variables by splitting them at their median is commonly used in the political science studies (Loomis et al. 2009; Manzetti and Wilson 2007; Grosjean and Senik 2011). For example, Hossain et al. (2021) dichotomize the annual corruption sample based on the median corruption level.

ratings. In Columns (4) through (8), we find the result is concentrated within firms with lower asset redeployability[17], higher realized and implied volatility, in states where republicans control both legislative chambers of the firm's headquarter state, and among firms with only one business segment which are likely to be more vulnerable to corrupt politicians' rent-seeking behavior (Bai et al. 2013). The significant negative coefficient on the *HI CORRUPTION * REPUBLICAN CONTROL* interaction adds to existing evidence that financial markets are influenced by political regimes. For example, Di Giuli and Kostovetsky (2014) find that firms headquartered in Democratic-leaning states score higher on CSR. Additionally, Belo et al. (2013) document predictable variation in firms' cash flow and stock return over the political cycle. Our analysis examines whether a state's incumbents' party affiliation alters political corruption's effect on debt maturity, and the evidence suggests firms in highly corrupt states shorten debt-maturity primarily in Republican-controlled states. Altogether, the evidence provides support for Hypothesis 2 and suggests firms alter debt-maturity structure in response to political corruption to manage liquidity and refinancing risks.

4.7 Corruption, debt-maturity, and shareholders' equity

Next, we examine the effects of PC on the firm's choice among long-term debt, short-term debt, and equity for financing decisions. Smith (2016) finds that firms in high PC areas use more leverage on average than firms in low PC areas. Our earlier findings provide strong evidence that firms in high PC areas also manage debt-maturity structure by increasingly taking less short-maturity debt and more long-maturity debt. Thus, it is expected that when choosing among sources of financing for investments, high PC area firms would use more long-term debt

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[17]Redeployability indicates the extent to which assets have alternative uses. The redeployability data is used in Kim and Kung (2017) and available at the author's website from 1985 to 2015. See: http://blogs.cornell.edu/hyunseobkim/research. In our analysis, low Redeployability is a dummy variable that takes a value of one if the degree of redeployability of a firm's assets is lower than the sample median redeployability.

at the expense of short-term debt and equity. We formally test this prediction with a regression framework widely used in the corporate financial policy literature (Benlemlih, 2017; Gatchev et al., 2010). Specifically, we estimate the following system of equations:

$$Short-termDebtIssue = \beta_{11} + \beta_{21}\Delta NFA * HI\ CORRUPTION + \beta_{31}\Delta NWC * HI\ CORRUPTION + \beta_{41}\Delta Cash\ Holdings * HI\ CORRUPTION + \beta_{51}\Delta NFA + \beta_{61}\Delta NWC + \beta_{71}Cash\ Holdings + \beta_{81}HI\ CORRUPTION + Controls \quad (3)$$

$$Long-termDebtIssue = \beta_{12} + \beta_{22}\Delta NFA * HI\ CORRUPTION + \beta_{32}\Delta NWC * HI\ CORRUPTION + \beta_{42}\Delta Cash\ Holdings * HI\ CORRUPTION + \beta_{52}\Delta NFA + \beta_{62}\Delta NWC + \beta_{72}Cash\ Holdings + \beta_{82}HI\ CORRUPTION + Controls \quad (4)$$

$$EquityIssue = \beta_{13} + \beta_{23}\Delta NFA * HI\ CORRUPTION + \beta_{33}\Delta NWC * HI\ CORRUPTION + \beta_{43}\Delta Cash\ Holdings * HI\ CORRUPTION + \beta_{53}\Delta NFA + \beta_{63}\Delta NWC + \beta_{73}Cash\ Holdings + \beta_{83}HI\ CORRUPTION + Controls \quad (5)$$

where our main variable of interest is corruption's interaction with the change in net fixed assets (ΔNFA) from period *t-1* to *t* scaled by the book value of total assets, as large increases in net fixed assets are indicative of new investment projects. The three dependent variables in our system of equations include *Short-term Debt Issue* measured as the change in short-term debt from year *t-1* to *t* scaled by book value of total assets; *Long-term Debt Issue* measured as the change in long-term debt from year *t-1* to *t* scaled by book value of total assets; and *Equity Issue* measured as the change in the sale of new equity less repurchases of equity scaled by total assets. We regress each of the three financing measures on ΔNFA, $\Delta NFA * HI\ CORRUPTION$, and a set of controls using a seemingly unrelated regression approach which captures simultaneity among investments and different sources of finance (Benlemlih, 2017; Gatchev et al., 2010).

<< Insert Table 9 Here >>

Table 9 reports the results from our system of equations. Consistent with our earlier analyses, we find the degree to which investments are financed using long-term debt increases with corruption. The estimated $\Delta NFA \times HI\ CORRUPTION$ coefficient for short-term debt and equity is -0.0063 and 0.0116, respectively, and statistically insignificant. In contrast, the estimated coefficient of the ΔNFA × $HI\ CORRUPTION$ interaction is 0.0372 and significant at the 1% level in the *Long-Term Debt Issue* equation, suggesting that when choosing among financing sources for new investment projects, high PC area firms prefer long-term debt over other sources of capital. This provides strong evidence in support of our earlier findings.

5. Robustness Tests

5.1 Matching Estimation

We conduct a series of robustness tests to ensure our results are driven by differences in PC rather than differences along another dimension. First, we use a propensity score matching estimation to adjust for observable pre-treatment differences between the low corruption and high corruption subgroups. We define the firm-year treatment (control) group as firms in the top (bottom) quartile of our Corruption measure. In our matching procedure, we use a robust set of covariates that include the firm characteristics used in our baseline regression (*SIZE*, *MB*, *ASSETS MATURITY*, *ROA*, *CAPX*, *TANGIBILITY*, *Z-SCORE DUMMY*, *RATED*, *ABNORMAL EARNINGS*, *EARNINGS VOLATILITY*, *DIVERSIFICATION*, and *DIVIDEND YIELD*). Following Smith and Todd (2005), we use three different approaches to ensure our matched sample analysis' robustness. Model 1 uses nearest neighbor matching with at least four matches and a caliper of 0.05, Model 2 uses radius matching within a 0.05 caliper to take advantage of situations where multiple high-quality matches exist, and Model 3 uses local linear regression matching with a bandwidth of 0.5 to adjust for pre-treatment differences between the low and high corruption subgroups. We also test the validity of our models to ensure the results are not driven by confounding variables using Mantel-Haenszel test statistics with Rosenbaum bounds which evaluate the sensitivity of the estimated average treatment effects on the treated in the presence of potential hidden bias.

<< Insert Table 10 Here >>

We report the results in Table 10. The estimated difference between the matched samples in all three model specifications is significant for *ST1*, *ST2*, and *ST3* with firms in high corruption areas using less short-term debt. The average treatment effect on the treated ranges from -0.013 to -0.015 for *ST1*, from -0.014 to -0.020 for *ST2*, and from -0.008 to -0.011 for *ST3*. Additionally, the difference between treatment and control firms is significant at the one percent level for *ST1* and *ST2* across all matching procedures, and the difference in *ST3* is significant at the ten percent level with nearest neighbor matching and at the five percent level with radius matching and matching via local linear regression. These findings reassert the results of our prior analyses which suggest that firms operating in politically corrupt states use less short-maturity debt compared to their otherwise similar counterparts in less corrupt areas to mitigate the increased uncertainty and refinancing risk associated with an elevated level of political corruption.

5.2 Instrumental variable for corruption

Our earlier IV-GMM analyses address the concern that leverage and debt-maturity are jointly determined. To further ensure the robustness of our results, we employ an additional instrumental variables approach to address the endogeneity concern that PC and debt-maturity are correlated with unobserved factors. We instrument our *CORRUPTION* measure as follows,

$$\text{Corruption} = \int(LegislativeControl, ln(StateGDP), Unemployment, GCISC, \ Total\ Border, Corruption_{t-1}) \qquad (6)$$

where our instrumental variables are expected to be associated with political corruption but should have no direct impact on firms' corporate debt-maturity preferences. The instrument *GCISC* is a measure of capital city isolation and is commonly used in the local political corruption literature (Hossain et al. 2021; Smith 2016). Campante and Do (2014) find that isolated capital states have more corruption than states with non-isolated capitals, as isolation reduces lawmakers' accountability because residents are less involved in capital politics when they live far from the capital.[18] The value of *GCISC* ranges from zero to one, where a value of zero indicates that everyone in the state lives the farthest distance possible from the capital, and a value of one indicates everyone lives in the capital. The *Total Border* is the log of total border miles shared with another state and country (Campante and Do 2014; Holmes 1995). Since the capital isolation measure may partially depend on the geographical shape and size of the state, we also control for total border miles (Campante and Do 2014). Our final instrument is the lagged value of *CORRUPTION*, which is commonly used in the political economy literature, as past corruption should be correlated with current levels of corruption but should be unrelated to current debt-maturity decisions except through its association with current corruption (Bellemare et al. 2017; Wang 2020; Reed 2015).

<< Insert Table 11 Here >>

The second-stage estimation results are presented in Table 11 and are highly consistent with our main findings from Table 4. The instruments are not weak since the reported Kleibergen-Paap rk Wald F statistic greatly exceeds ten in all cases. Additionally, the overidentification test (Hansen J statistic) of all instruments indicates that the instruments are

[18]We thank the authors for generously sharing the Isolated capital (GCISC) data. We use the GCISC for the 2010 census year.

uncorrelated with the error term. Overall, this adds support to our prior findings and suggests our results are unlikely to be caused by endogeneity.

5.3 Placebo Analysis

We next perform a placebo analysis to ensure the validity of our inferences regarding political corruption and its effect on local firms' choice of debt-maturity. To conduct the analysis, we randomly assign state-level political corruption to different years as a falsification test. If an elevated level of political corruption causes firms to choose less short-term debt, we should not find a significant relationship between the placebo corruption and debt-maturity (Acharya and Xu, 2017; Datta et al., 2019). Figure 6 presents the time-series average of treated and randomly assigned corruption over the sample period.

<< Insert Table 12 Here >>

<< Insert Figure 6 Here >>

We present the placebo test results in Table 12. Our artificial randomly assigned corruption data exhibits a strong positive correlation (0.52) with treated corruption data but does not demonstrate a significant relation with debt-maturity for any of our dependent variables – both with and without state fixed effects. These findings further confirm the robustness of the corruption measure and its implications for firms' debt-maturity preferences.

5.4 Corruption and alternative measures of debt-maturity

We further investigate the relation between PC and debt-maturity using loan-maturity information from Dealscan. This analysis focuses solely on the maturity of new debt issues to alleviate the concern that overall debt-maturity structure is the result of both current and past decisions, and previously borrowed long-term debt that is nearing maturity is unlikely to reflect managerial preferences for shorter-term borrowings. To test the association between *CORRUPTION* and new debt issues, we define *DEAL_ST1*, *DEAL_ST2*, and *DEAL_ST3* as indicator variables that equal one if the average loan maturity of new issues is less than one year, two years, and three years, respectively. Following Ben-Nasr et al. (2015), we also employ *DM_ALT1* and *DM_ALT2* as two additional alternative debt-maturity measures where *DM_ALT1* is a dummy variable that equals one if more than 50% of the firm's total debt is short-term debt and zero otherwise, and *DM_ALT2* is the difference between a firm's total liabilities and long-term liabilities, divided by its total liabilities (El Ghoul et al. 2016).

<< Insert Table 13 Here >>

We repeat our analyses using the Dealscan and alternate debt-maturity variables with the results presented in Table 13. Overall, the findings are qualitatively to our baseline results, as *CORRUPTION* enters with a negative and significant coefficient in all specifications. The analysis provides additional support for our hypothesis that firms operating in politically corrupt environments use significantly less short-term debt to limit liquidity and refinancing risk.

6. Conclusion

This study extends the political corruption and corporate debt-maturity literature by examining how local political corruption affects firms' debt-maturity preferences. Specifically, we explore two competing theories that offer divergent predictions on the relationship between corruption and maturity preferences. The demand-side story predicts that firms operating in highly corrupt environments will use less short-term debt to limit liquidity and refinancing risks, which are exacerbated by the threat of expropriation. In contrast, the supply-side story predicts that lenders will prefer to supply short-term debt when corruption is high, given the high external frictions and business uncertainty. If lenders account for regional variation in the risk posed by corrupt government officials, we should observe that they only extend longer-term debt to borrowers at an interest rate premium. On the other hand, if lenders ignore the potential for corruption or only incorporate the average national corruption risk into loan pricing, we would not observe an increase in the lending spread when borrowers demand long-term debt. Overall, we hypothesize that demand-size forces will play a larger role, as borrowers are more likely to consider local factors when making significant capital raising decisions. Simultaneously, lenders have diversified portfolios that can better absorb the impact if corruption adversely affects a specific borrower or subgroup of borrowers.

Consistent with our hypothesis, the results indicate that firms operating in high corruption states use significantly less short-term debt. A decomposition of overall debt reveals the reduction is driven by the use of significantly less debt maturing within one, two, and three years. Our findings indicate a causal relationship between local political corruption and debt-maturity preferences, which we confirm using various endogeneity tests. Consistent with the effect being driven by liquidity and refinancing concerns, we find the corruption-maturity relation is most pronounced in firms with small size, low market-to-book, non-investment grade credit ratings, low asset redeployability, and high realized and implied volatility. In contrast, we do not find any evidence to support the supply-side explanation, as firms in high corruption areas use a greater percentage of long-term debt but do not pay an interest rate premium related to local corruption.

Our main analysis includes industry, time, and state fixed effects to control for unobservable differences that contribute to variation in debt-maturity preferences. Our measure of corruption is constructed at the state level, so the inclusion of state fixed effects implies that even within states there is a significant effect in which firms rely less on short-term borrowing when incidents of local corruption are higher than usual. We also verify that our inferences remain unchanged when including industry-year of firm fixed effects, thereby greatly reducing potential omitted variable concerns. A matched sample analysis that adjusts for pre-treatment observable differences yields similar findings when comparing firms in high corruption areas to otherwise similar firms in low corruption areas. Further, using a seemingly unrelated system of equations regression approach, we document that firms in high PC areas use more long-term debt but less short-term debt and equity to finance new investments compared to firms in low PC areas. A placebo analysis with randomly assigned corruption also reaffirms our findings, as we only find a significant relationship between political corruption and debt maturity when using actual corruption data but not the placebo corruption data. Altogether, our results highlight that firms adjust their debt-maturity profile to mitigate the risk posed by corrupt local government officials.

Appendix A: Variable descriptions and data sources

Compustat data items are shown for accounting ratios

Variable	Definition & Calculation
ST	Notes payable divided total debt $= np/(DLC + DLTT)$
ST1	The portion of debt maturing within 1 year $= (ST + DD1)/(DLC + DLTT)$
ST2	The portion of debt maturing within 2 years $= (ST + DD1 + DD2)/(DLC + DLTT)$
ST3	The portion of debt maturing within 3 years $= (ST + DD1 + DD2 + DD3)/(DLC + DLTT)$
ST4	The portion of debt maturing within 4 years

	$= (ST + DD1 + DD2 + DD3 + DD4) \big/ (DLC + DLTT)$
ST5	The portion of debt maturing within 5 years $= (ST + DD1 + DD2 + DD3 + DD4 + DD5) \big/ (DLC + DLTT)$
DM1	The portion of debt maturing in more than 1 year $\left(\frac{dltt}{dcl+dltt}\right)$
DM3	The portion of debt maturing in more than 3 years $\left(\frac{dltt-dd2-dd3}{dcl+dltt}\right)$
DM5	The portion of debt maturing in more than 5 years $\left(\frac{dltt-dd2-dd3-dd4-dd5}{dcl+dltt}\right)$
LT1	The portion of Long-term debt maturing within 1 year $= (DD1) \big/ (DLC + DLTT)$
LT2	The portion of Long-term debt maturing within 2 years $= (DD1 + DD2) \big/ (DLC + DLTT)$
LT3	The portion of Long-term debt maturing within 3 years $= (DD1 + DD2 + DD3) \big/ (DLC + DLTT)$
LT4	The portion of Long-term debt maturing within 4 years $= (DD1 + DD2 + DD3 + DD4) \big/ (DLC + DLTT)$
LT5	The portion of Long-term debt maturing within 4 years $= (DD1 + DD2 + DD3 + DD4 + DD5) \big/ (DLC + DLTT)$
ST_ALT1	A dummy variable that equals one if more than 50% of the firm's total debt is short-term debt and zeroes otherwise
ST_ALT2	The difference between a firm's total liabilities and long-term liabilities, divided by its total liabilities $DLC/(DLC + DLTT)$
DS_ST1	A dummy variable that equals one if loan maturity is less than one year [Source: Dealscan]
DS_ST2	A dummy variable that equals one if loan maturity is less than two years [Source: Dealscan]
DS_ST3	A dummy variable that equals one if loan maturity is less than three years [Source: Dealscan]
Short-Term Debt Issue	The change in current liabilities $(dlc_t - dlc_{t-1}/at)$
Long-Term Debt Issue	The change in long-term liabilities $(dltt_t - dltt_{t-1}/at)$
Net Equity Issue	The change in the sale of new equity less purchase of equity scaled by total assets: $\left(\frac{sstk_t - prstkc_t - sstk_{t-1} + prstkc_{t-1}}{at}\right)$
CORRUPTION	The state level annual corruption is measured as the Federal public corruption conviction scaled by per million population. We standardize the variable to mean zero and standard deviation of 1. [Source: The Public Integrity Section of The United States Department of Justice. https://www.justice.gov/criminal/pin state population data is obtained from the United States Census Bureau. https://www.census.gov/en.html]
LEGISLATIVE CONTROL	This dummy variable takes a value of 1 when a single party controls both legislative chambers of the firm's headquarter state, otherwise 0. [Source: National Conference of state Legislature (NCSL). http://www.ncsl.org/research/about-state-legislatures/partisan-composition.aspx]
REPUBLICAN CONTROL	This dummy variable takes the value of 1 when Republicans control both legislative chambers of the firm's headquarter state and 0 for the Democrats. [Source: National Conference of state Legislature (NCSL). http://www.ncsl.org/research/about-state-legislatures/partisan-composition.aspx]
Ln(GDP)	Natural logarithm of per capita state GDP. State per-capita GDP is chained 2012 dollars. [Source: Data is obtained from Bureau of Economic Analysis (BEA). https://www.bea.gov/]
TERM SPREAD	This variable is measured as the difference between the 10-year and 3-month Treasury yield [Source: Federal Reserve Bank of St. Louis https://fred.stlouisfed.org/]
LEADING INDEX	This index predicts six months growth rate of the state coincident index, which is composed of four state-level economic indicators (a) nonfarm payroll employment, (b) wages and salaries, (c) production workers average working hours, (d) unemployment rate. In addition to the coincident index, the leading index includes other state-level economic indicators such as housing permits, unemployment insurance claims,

	delivery times from supply management manufacturing survey, and interest rate spread between 10-year Treasury bond and 3-month treasury bills. Source: Federal Reserve Bank of Philadelphia [https://www.philadelphiafed.org/surveys-and-data/regional-economic-analysis/state-leading-indexes]
DIVIDEND YIELD	This variable is calculated as the dividend divided by the market value of equity. $$\text{Dividend} = \frac{(\text{dvc} + \text{dvp})}{prcc_f * csho}$$
ASSETS MATURITY	Book value of the weighted average of the maturities of property, plant, and equipment calculated as the gross ppegt divided by total assets times ppegt divided by the annual depreciation expense plus the current assets divided by the cost of goods sold times current assets divided by the cost of goods sold. $$\text{Assets maturity} = \left(\frac{\text{ppent}}{\text{at}}\right) * \left(\frac{\text{ppent}}{\text{dp}}\right) + \left(\frac{\text{act}}{\text{at}}\right) * \left(\frac{\text{act}}{\text{cogs}}\right)$$
EARNINGS VOLATILITY	This variable is calculated as the standard deviation of EBITDA over the past three years divided by the average assets for that period. $$\text{Earnings Volatility} = \frac{\text{3 years standard deviation of ebitda}}{\text{3 years average of at}}$$
LEVERAGE	Leverage is calculated as the total debt divided by the equity market value. $$\text{Leverage} = \frac{\text{dlc} + \text{dltt}}{\text{prcc}_f * \text{csho} + \text{at} - \text{ceq}}$$
MB	This variable is calculated as the market value of the firm divided by the book value of the total assets. $$\text{Market to book ratio} = \frac{\text{prcc}_f * \text{csho} + \text{at} - \text{ceq}}{\text{at}}$$
ROA	ROA is calculated as the operating income before depreciation divided by the total assets. $$\text{ROA} = \frac{\text{oibdp}}{\text{at}}$$
CAPX	Capital expenditure scaled by total assets $$\text{CAPX} = \frac{capx}{\text{at}}$$
SIZE	Logarithm of total assets (at)
TANGIBILITY	Tangibility is calculated as the gross property plant and equipment divided by book value of total assets. $$\text{Tangibility} = \frac{\text{ppegt}}{\text{at}}$$
Z-SCORE DUMMY	Altman Z score is defined as an indicator variable equals 1 if Z>1.81. Where X_1 is calculated as the current assets minus current liabilities divided by the book value of total assets. X_2 is defined as retained earrings divided by the book value of total assets, X_3 is measured as the operating income before depreciation divided by the total assets, X_4 is market value of the equity divided by the total debt, and X_5 is sales divided by the book value of total assets. $$Z = 1.2 * X_1 + 1.4 * X_2 + 3.3 * X_3 + 0.6 * X_4 + 1 * X_5$$ $X_1 = \frac{\text{act} - \text{lct}}{\text{at}}, X_2 = \frac{\text{re}}{\text{at}}, X_3 = \frac{\text{oiadp}}{\text{at}}, X_4 = \frac{\text{prcc}_f * \text{csho}}{\text{at}}, X_5 = \frac{\text{sale}}{\text{at}}$
Net Operating Loss Dummy	The variable takes value 1 if the firm report net operating loss carry forward (tlcf).
Investment Tax Credit Dummy	This variable takes value of 1 if the firm report investment tax credit and zero otherwise (itc)
EARNINGS VOLATILITY	This variable is calculated as the standard deviation of EBITDA over the past three years divided by the average assets for that period. $$\text{Earnings Volatility} = \frac{\text{3 years standard deviation of ebitda}}{\text{3 years average of at}}$$
ABNORMAL EARNINGS	$$(LeadIBADJ - IBADJ) \Big/ \text{prcc}_f * \text{csho}$$
RATED	Takes value of 1 if the firm has S&P rating for long-term debt and zero otherwise
DIVERSIFICATION	This variable takes value of 1 if the firm has more than 1 business segment and zero otherwise
Investment grade (INV GRD)	Takes the value of 1 if the firm's S&P long term rating is more than B.
Non-CP	Takes the value of 1 if the firm does not have commercial paper (NP)
All-in-Spread Drawn	All-in spread drawn is the sum of spread over the LIBOR and an annual fee based on dollars drawn [Source: Dealscan]
All-in-Spread Undrawn	All in spread undrawn is the sum of spread over the LIBOR and annual fee based on total dollars available under the loan agreement [Source: Dealscan]
log(Maturity)	The natural log of difference between the start date and date of a loan facility [Source: Dealscan]

log(Loan Size)	Log of Loan size [Source: Dealscan]
Ln(Sale)	Natural logarithm of Sales
Negative Income Dummy	Takes the value of 1 if net income is negative for firm-year observation and zero otherwise
Δ Net Fixed Assets	Changes in net fixed assets from t-1 to t $\left(\frac{ppent_t - ppent_{t-1}}{\mathrm{at}_t}\right)$
Δ Net Working Capital	Changes in net working capital from t-1 to t. $\frac{(wcap_t - che_t)-(wcap_{t-1} - che_{t-1})}{\mathrm{at}_{t-1}}$
Δ Cash holdings	Changes in cash holding from t-1 to t $\left(\frac{che_t - che_{t-1}}{\mathrm{at}_t}\right)$
Collateral	Takes value of 1 if the loan is secured [Source: Dealscan]
Current ratio	Current assets dividend by current liabilities
ln(1+INTEREST COVERAGE)	Ebitda divided by total interest expenses
Headquarter address	Filing information of 10-K/Q from EDGAR available at Augmented 10-X Header data [Source: Software repository for accounting and finance at the University of Notre Dame https://sraf.nd.edu/data/augmented-10-x-header-data/]
Economic Policy Uncertainty (EPU)	US monthly economic policy uncertainty data is obtained from Baker, Bloom, and Davis (2016)
Firm-level Political Risk	Firm-level political risk data is obtained from Hassan, Hollander, Lent, Tahoun, (2019).
Firm-level non-political Risk	Firm-level Nonpolitical risk data is obtained from Hassan, Hollander, Lent, Tahoun, (2019)
Risk	Firm-level risk data is obtained from Hassan, Hollander, Lent, Tahoun, (2019).
Low Redeployability	Low Redeployability is a dummy variable that takes a value of 1 if the degree of redeployability of a firm's assets is lower than the sample median redeployability. Redeployability indicates the extent to which assets have alternative uses. The redeployability data is used in Kim and Kung (2017) and available at the author's website from 1985-2015: http://blogs.cornell.edu/hyunseobkim/research/
High Realized Volatility	High Realized Volatility is a dummy variable takes value of 1 if a firm's Realized Volatility is higher than sample median Realized Volatility. CRSP realized volatility is based on 12 months standard deviation of daily stock returns. Firm-level realized volatility data is obtained from Alfaro, Ivan, Nicholas Bloom, and Xiaoji Lin, The Finance Uncertainty Multiplier (2017) for 1997-2016.
High Implied Volatility	High Implied Volatility is a dummy variable takes value of 1 if a firm's Implied Volatility is higher than sample median Implied Volatility. 365-day implied volatility of at the money forward calls. Firm-level implied volatility data is obtained from Alfaro, Ivan, Nicholas Bloom, and Xiaoji Lin, The Finance Uncertainty Multiplier (2017) for 1997-2016

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Table 1: State level political corruption

This table reports the ranking of U.S. states by their average number of corruption convictions during the sample period (1994-2017) scaled by the state population (in 100k). The ranking is ordered from the most to least corrupt state according to the time-series average of the reported convictions in the PIN reports. The furthermost right column reports the total number of corruption convictions during the same period.

Rank (High to Low)	Corruption related allegations scaled by 100k state Population [1994-2017]	SD	p25	p50	p75	Total
LA	0.81	0.24	0.61	0.83	0.98	912
MT	0.74	0.75	0.20	0.50	0.84	180
SD	0.67	0.48	0.26	0.53	0.97	133
ND	0.62	0.60	0.26	0.47	0.89	100
MS	0.61	0.39	0.30	0.57	0.81	438
AK	0.57	0.65	0.14	0.44	0.65	96
KY	0.56	0.19	0.38	0.49	0.66	583
VA	0.46	0.21	0.33	0.43	0.57	879
AL	0.45	0.25	0.29	0.42	0.57	512
IL	0.44	0.18	0.30	0.44	0.53	1359
MD	0.42	0.31	0.15	0.37	0.56	595
NJ	0.41	0.14	0.31	0.34	0.51	870
FL	0.40	0.16	0.31	0.37	0.46	1706
OK	0.40	0.17	0.25	0.36	0.57	360
TN	0.39	0.13	0.30	0.37	0.51	588
PA	0.38	0.11	0.30	0.37	0.43	1171
OH	0.37	0.17	0.27	0.36	0.48	1066
WV	0.37	0.26	0.22	0.33	0.49	170
DE	0.37	0.34	0.11	0.24	0.57	76
NY	0.35	0.13	0.24	0.35	0.43	1651
HI	0.32	0.27	0.14	0.28	0.38	100
GA	0.32	0.17	0.23	0.33	0.42	708
MO	0.32	0.11	0.23	0.31	0.40	455
TX	0.31	0.09	0.24	0.29	0.34	1814
WY	0.31	0.38	0.00	0.20	0.52	40
MA	0.30	0.12	0.23	0.28	0.41	481
RI	0.28	0.23	0.10	0.20	0.38	74
AR	0.28	0.20	0.14	0.20	0.44	195
AZ	0.27	0.19	0.15	0.25	0.32	402
ME	0.26	0.20	0.15	0.24	0.38	83
ID	0.23	0.18	0.07	0.24	0.34	79
CA	0.23	0.09	0.18	0.22	0.25	2004
IN	0.23	0.10	0.15	0.22	0.29	358
NM	0.23	0.16	0.11	0.19	0.34	111
VT	0.23	0.23	0.00	0.17	0.33	35
CT	0.22	0.17	0.11	0.22	0.31	194
MI	0.21	0.07	0.17	0.21	0.26	521
SC	0.18	0.17	0.09	0.15	0.20	187
WI	0.18	0.07	0.12	0.17	0.22	242
NC	0.17	0.07	0.11	0.17	0.21	365
NV	0.16	0.15	0.00	0.15	0.26	86
KS	0.15	0.11	0.07	0.14	0.20	102
IA	0.15	0.10	0.07	0.13	0.19	111
NE	0.14	0.12	0.06	0.11	0.21	63
WA	0.14	0.08	0.07	0.12	0.18	214
MN	0.11	0.07	0.07	0.11	0.15	145
CO	0.11	0.12	0.02	0.06	0.15	125
UT	0.10	0.10	0.03	0.07	0.19	63
OR	0.08	0.07	0.03	0.08	0.11	74
NH	0.08	0.10	0.00	0.07	0.09	24

Table 2: Summary statistics for variables

Panel A of the table presents summary statistics for the short-term debt variables (ST1 to ST5) by corruption quartile, Panel B presents pooled summary statistics for our main variables of interest, and Panel C reports the correlations between Corruption and our debt maturity variables. Our sample period starts in 1994 and ends in 2017, and firms must have their HQ location in the U.S and non-missing HQ location in their 10-K/Q filing to be included in the sample. Following the literature, we exclude financial (sic 6000-6999) and utilities firms (sic 4890-4999) from the final sample. We also drop firms with missing or non-positive assets, missing or non-positive sales, and missing or non-positive equity in Compustat, and we exclude firms where the accounting ratio of the debt-maturity variables (ST1 to ST5) exceeds one. Finally, we winsorize all the continuous firm-level regression variables at their respective 1st and 99th percentiles to limit the effects of outliers. The final column reports t-tests for the difference in means where *, **, and *** denote the 10%, 5%, and 1% significance level respectively.

Panel A: Summary Statistics of Dependent Variables

QUARTILE	LOW CORRUPTION					2					3					HIGH CORRUPTION					Mean Difference (Low-High)		
Variable	ST1	ST2	ST3	ST4	ST5	ST1	ST2	ST3	ST4	ST5	ST1	ST2	ST3	ST4	ST5	ST1	ST2	ST3	ST4	ST5			
Mean	0.30	0.45	0.57	0.66	0.76	0.31	0.46	0.58	0.68	0.77	0.26	0.41	0.53	0.63	0.74	0.28	0.42	0.54	0.64	0.74	ST1	0.021	***
SD	0.34	0.38	0.38	0.35	0.31	0.34	0.38	0.38	0.36	0.31	0.33	0.37	0.38	0.36	0.32	0.32	0.37	0.37	0.35	0.31	ST2	0.026	***
p25	0.03	0.09	0.20	0.35	0.53	0.02	0.09	0.21	0.37	0.56	0.02	0.07	0.17	0.31	0.49	0.02	0.09	0.19	0.33	0.51	ST3	0.023	***
p50	0.14	0.34	0.57	0.79	0.97	0.15	0.37	0.63	0.87	0.99	0.11	0.27	0.48	0.71	0.93	0.13	0.31	0.52	0.73	0.92	ST4	0.020	***
p75	0.49	0.87	0.99	1.00	1.00	0.52	0.90	0.99	1.00	1.00	0.40	0.77	0.98	1.00	1.00	0.43	0.79	0.98	0.99	1.00	ST5	0.019	***

Panel B: Summary Statistics of Independent and control variables

Variables	Mean	SD	p25	p50	p75	Mean Difference (Low-High Corruption Quartile)	
Firm Variables							
SIZE	5.677	2.237	4.029	5.711	7.272	-0.003	
LEVERAGE	0.176	0.162	0.045	0.133	0.262	-0.019	***
MB	1.952	1.641	1.090	1.457	2.146	0.146	***
ROA	0.059	0.217	0.038	0.108	0.162	-0.023	***
CAPX	0.057	0.063	0.018	0.036	0.069	-0.001	
TANGIBILITY	0.273	0.228	0.095	0.203	0.388	-0.009	***
ASST MATURITY	9.159	10.905	2.569	5.605	11.807	0.092	
ABNORMAL EARNINGS	0.013	0.333	-0.037	0.005	0.040	0.014	***
ERNS VOLATLITY	0.079	0.119	0.018	0.039	0.088	0.007	***
Z-SCORE DUMMY	0.829	0.376	1.000	1.000	1.000	-0.015	***
DIVERSIFICATION	0.429	0.495	0.000	0.000	1.000	-0.005	
DIVIDEND YIELD	0.009	0.023	0.000	0.000	0.011	-0.001	***
RATED	0.270	0.444	0.000	0.000	1.000	-0.046	***
LOSS CARRY FORWARD	0.473	0.499	0.000	0.000	1.000	0.088	***
INVESTMENT TAX CREDIT	0.133	0.339	0.000	0.000	0.000	0.067	***
State and Macro Variables							
TERM SPREAD	1.624	1.027	0.870	1.520	2.710		
STATE ln(GDP)	10.771	0.228	10.672	10.807	10.928		
PARTISAN CONFLICT INDEX	4.629	0.264	4.449	4.502	4.882		
LEGISLATIVE CONTROL DUMMY	0.767	0.423	1.000	1.000	1.000		
LEADING INDEX	1.355	1.146	0.870	1.590	2.050		

Panel C: Pairwise Correlation Coefficients

Variables	ST1	ST2	ST3	ST4	ST5	LT1	LT2	LT3	LT4	LT5	LEVERAGE	CORRUPTION
ST	0.681*	0.502*	0.397*	0.325*	0.262*	-0.191*	-0.274*	-0.352*	-0.439*	-0.550*	-0.077*	-0.009*
ST1		0.826*	0.690*	0.579*	0.475*	0.588*	0.349*	0.186*	0.039*	-0.120*	-0.250*	-0.035*
ST2			0.856*	0.728*	0.599*	0.549*	0.694*	0.492*	0.316*	0.128*	-0.285*	-0.039*
ST3				0.858*	0.709*	0.483*	0.621*	0.719*	0.518*	0.305*	-0.272*	-0.038*
ST4					0.827*	0.416*	0.539*	0.629*	0.707*	0.463*	-0.244*	-0.035*
ST5						0.345*	0.447*	0.523*	0.588*	0.661*	-0.214*	-0.034*
LT1							0.774*	0.642*	0.542*	0.453*	-0.248*	-0.037*
LT2								0.841*	0.717*	0.601*	-0.241*	-0.037*
LT3									0.861*	0.728*	-0.208*	-0.032*
LT4										0.852*	-0.163*	-0.027*
LT5											-0.113*	-0.023*
LEVERAGE												0.055*

Table 3: Relationship between PC and debt-maturity-OLS Regression

In this table, we present the OLS regression estimates over our sample period from 1994 to 2017. We consider five different measures of debt-maturity as the dependent variable which includes ST1: debt maturing within 1 year, ST2: debt maturing within 2 years, ST3: debt maturing within 3 years, ST4: debt maturing within 4 years, and ST5: debt maturing within 5 years. Our main variable of interest is Corruption, which reflects the state-level number of corruption convictions scaled by the state population (in 100k). We then standardize Corruption by its standard deviation. We include time fixed effects, Fama-French 48 industries fixed effects, and state fixed effects to control for any unobservable time, industry, and state-specific factors that affect maturity preferences. Standard errors clustered by firm are shown in brackets, and statistical significance is denoted as *** =p<1%, ** =p<5%, * =p<10%.

VARIABLES	ST1	ST2	ST3	ST4	ST5	ST1	ST2	ST3	ST4	ST5
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
CORRUPTION	-0.5937***	-0.5673**	-0.4596**	-0.2849	-0.1189	-0.3954*	-0.5560**	-0.5526**	-0.2857	-0.2193
	[0.2075]	[0.2281]	[0.2334]	[0.2262]	[0.2219]	[0.2094]	[0.2366]	[0.2466]	[0.2362]	[0.2237]
SIZE	-0.0477***	-0.0696***	-0.0769***	-0.0736***	-0.0622***	-0.0475***	-0.0698***	-0.0772***	-0.0739***	-0.0626***
	[0.0016]	[0.0017]	[0.0017]	[0.0016]	[0.0015]	[0.0016]	[0.0017]	[0.0017]	[0.0016]	[0.0015]
MB	-0.0056***	-0.0047***	-0.0067***	-0.0077***	-0.0058***	-0.0060***	-0.0051***	-0.0070***	-0.0079***	-0.0060***
	[0.0016]	[0.0016]	[0.0015]	[0.0014]	[0.0013]	[0.0016]	[0.0016]	[0.0015]	[0.0014]	[0.0013]
ROA	-0.0785***	-0.0690***	-0.0229*	0.0143	0.0333***	-0.0757***	-0.0657***	-0.0202*	0.0165	0.0354***
	[0.0125]	[0.0125]	[0.0119]	[0.0108]	[0.0098]	[0.0124]	[0.0124]	[0.0118]	[0.0108]	[0.0098]
CAPX	-0.1179***	-0.1367***	-0.1009**	-0.048	0.0641	-0.1207***	-0.1475***	-0.1085**	-0.0546	0.0614
	[0.0384]	[0.0455]	[0.0477]	[0.0458]	[0.0442]	[0.0384]	[0.0451]	[0.0470]	[0.0454]	[0.0440]
TANGIBILITY	-0.1658***	-0.1619***	-0.1242***	-0.0927***	-0.0904***	-0.1621***	-0.1569***	-0.1214***	-0.0907***	-0.0871***
	[0.0193]	[0.0206]	[0.0214]	[0.0205]	[0.0198]	[0.0193]	[0.0207]	[0.0214]	[0.0205]	[0.0197]
ASSETS MATURITY	0.0000	0.0000	-0.0005	-0.0008***	-0.0011***	0.0000	-0.0001	-0.0005*	-0.0008***	-0.0011***
	[0.0003]	[0.0003]	[0.0003]	[0.0003]	[0.0003]	[0.0003]	[0.0003]	[0.0003]	[0.0003]	[0.0003]
ABNORMAL EARNINGS	0.0235***	0.0246***	0.0204***	0.0144***	0.0151***	0.0238***	0.0247***	0.0207***	0.0148***	0.0156***
	[0.0046]	[0.0050]	[0.0047]	[0.0042]	[0.0037]	[0.0046]	[0.0050]	[0.0047]	[0.0042]	[0.0037]
EARNINGS VOLATLITY	0.1138***	0.0912***	0.0422**	0.000	-0.0278*	0.1104***	0.0883***	0.0417**	0.0005	-0.0261*
	[0.0200]	[0.0196]	[0.0184]	[0.0167]	[0.0151]	[0.0200]	[0.0195]	[0.0183]	[0.0167]	[0.0151]
Z-SCORE DUMMY	-0.0290***	-0.0324***	-0.0211***	-0.0106	-0.0029	-0.0289***	-0.0326***	-0.0217***	-0.011	-0.0026
	[0.0073]	[0.0079]	[0.0077]	[0.0072]	[0.0067]	[0.0073]	[0.0078]	[0.0076]	[0.0071]	[0.0067]
DIVERSIFICATION	-0.0091*	-0.0201***	-0.0214***	-0.0193***	-0.0162***	-0.0083	-0.0187***	-0.0200***	-0.0179***	-0.0148***
	[0.0054]	[0.0059]	[0.0059]	[0.0057]	[0.0056]	[0.0054]	[0.0059]	[0.0058]	[0.0056]	[0.0055]
DIVIDEND YIELD	0.2042**	0.2480**	0.2435***	0.1888**	0.0159	0.2132**	0.2640***	0.2643***	0.2102**	0.0401
	[0.0900]	[0.0965]	[0.0933]	[0.0880]	[0.0851]	[0.0894]	[0.0960]	[0.0930]	[0.0876]	[0.0846]
LEVERAGE	-0.4041***	-0.5150***	-0.4889***	-0.4024***	-0.2792***	-0.4022***	-0.5149***	-0.4898***	-0.4031***	-0.2802***
	[0.0244]	[0.0253]	[0.0242]	[0.0222]	[0.0202]	[0.0241]	[0.0251]	[0.0240]	[0.0221]	[0.0203]
TERM SPREAD	0.0888***	0.0532	0.013	-0.0861*	-0.2059***	0.0072	0.0156	-0.0031	-0.0791	-0.2152***
	[0.0342]	[0.0438]	[0.0456]	[0.0478]	[0.0362]	[0.0512]	[0.0622]	[0.0629]	[0.0638]	[0.0547]
ln(STATE GDP)	0.0202	0.0144	0.013	0.0185	-0.0035	-0.084	-0.0356	-0.0107	0.0249	-0.0164
	[0.0206]	[0.0225]	[0.0224]	[0.0211]	[0.0206]	[0.0520]	[0.0585]	[0.0584]	[0.0557]	[0.0541]
ln(PCI)	0.0493	0.0417	0.0207	-0.069	-0.1689***	0.0100	0.0247	0.014	-0.0638	-0.1721***
	[0.0458]	[0.0616]	[0.0648]	[0.0700]	[0.0484]	[0.0495]	[0.0657]	[0.0684]	[0.0736]	[0.0530]
LEGISLATIVE CONTROL	0.0048	0.0077	0.0066	0.0091*	0.0067	0.0013	-0.0001	-0.0019	0.0008	-0.0037
	[0.0051]	[0.0055]	[0.0054]	[0.0053]	[0.0050]	[0.0048]	[0.0054]	[0.0055]	[0.0053]	[0.0050]
LEADING INDEX	-0.0016	-0.0007	-0.0016	-0.0002	0.0034	-0.0047**	-0.0034	-0.0046*	-0.0026	0.0019
	[0.0024]	[0.0027]	[0.0027]	[0.0026]	[0.0025]	[0.0021]	[0.0025]	[0.0025]	[0.0025]	[0.0023]
Constant	0.0228	0.4937	0.8709*	1.5213***	2.4789***	1.5263*	1.2671	1.4344	1.6404*	2.9043***
	[0.4023]	[0.4934]	[0.5045]	[0.5188]	[0.4158]	[0.8026]	[0.9389]	[0.9385]	[0.9267]	[0.8522]
Observations	48,592	41,527	41,447	41,297	40,512	48,592	41,527	41,447	41,297	40,512
Adjusted R-squared	0.244	0.338	0.337	0.301	0.26	0.248	0.342	0.341	0.305	0.265
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
State FE	NO	NO	NO	NO	NO	YES	YES	YES	YES	YES

Table 4: Relationship between PC and debt-maturity- IV GMM Regression

In this table, we present the second stage IV-GMM estimates over our sample period from 1994 to 2017. We consider five different measures of debt-maturity as the dependent variable which includes ST1: debt maturing within 1 year, ST2: debt maturing within 2 years, ST3: debt maturing within 3 years, ST4: debt maturing within 4 years, and ST5: debt maturing within 5 years. Our main variable of interest is Corruption, which reflects the state-level number of corruption convictions scaled by the state population (in 100k). We then standardize Corruption by its standard deviation. We include time fixed effects, Fama-French 48 industries fixed effects, and state fixed effects to control for any unobservable time, industry, and state-specific factors that affect maturity preferences. Standard errors clustered by firm are shown in brackets, and statistical significance is denoted as *** =p<1%, ** =p<5%, * =p<10%.

VARIABLES	ST1	ST2	ST3	ST4	ST5	ST1	ST2	ST3	ST4	ST5
	(1)	(2)	(3)	(4)	(5)	(1)	(2)	(3)	(4)	(5)
CORRUPTION	-0.8405***	-0.7649***	-0.6429**	-0.3752	-0.1795	-0.4640**	-0.5716**	-0.5815**	-0.3146	-0.2325
	[0.2625]	[0.2844]	[0.2931]	[0.2694]	[0.2610]	[0.2321]	[0.2612]	[0.2709]	[0.2492]	[0.2366]
SIZE	-0.0387***	-0.0518***	-0.0512***	-0.0435***	-0.0299***	-0.0383***	-0.0519***	-0.0515***	-0.0437***	-0.0302***
	[0.0026]	[0.0031]	[0.0032]	[0.0030]	[0.0028]	[0.0026]	[0.0031]	[0.0032]	[0.0029]	[0.0028]
MB	0.0170*	0.0228*	0.0241**	0.0180*	0.0206**	0.0177*	0.0229**	0.0237**	0.0180*	0.0206**
	[0.0100]	[0.0118]	[0.0118]	[0.0108]	[0.0105]	[0.0099]	[0.0117]	[0.0117]	[0.0106]	[0.0102]
ROA	-0.1156***	-0.1170***	-0.0816***	-0.0427**	-0.0272	-0.1115***	-0.1109***	-0.0748***	-0.0376**	-0.022
	[0.0198]	[0.0213]	[0.0209]	[0.0188]	[0.0181]	[0.0189]	[0.0200]	[0.0194]	[0.0175]	[0.0167]
CAPX	0.1547	0.1614	0.2248	0.2071	0.3291**	0.1623	0.1557	0.2153	0.2042	0.3293**
	[0.1303]	[0.1453]	[0.1487]	[0.1364]	[0.1358]	[0.1285]	[0.1436]	[0.1463]	[0.1340]	[0.1329]
TANGIBILITY	-0.3175***	-0.3382***	-0.3210***	-0.2555***	-0.2596***	-0.3207***	-0.3384***	-0.3199***	-0.2582***	-0.2606***
	[0.0707]	[0.0791]	[0.0802]	[0.0735]	[0.0726]	[0.0703]	[0.0791]	[0.0797]	[0.0729]	[0.0716]
ASSETS MATURITY	0.0009*	0.0010*	0.0008	0.0003	0.0000	0.0009*	0.0011*	0.0008	0.0004	0.0000
	[0.0005]	[0.0005]	[0.0005]	[0.0005]	[0.0005]	[0.0005]	[0.0005]	[0.0005]	[0.0005]	[0.0005]
ABNORMAL EARNINGS	0.0296***	0.0301***	0.0259***	0.0179***	0.0172***	0.0302***	0.0301***	0.0258***	0.0182***	0.0174***
	[0.0058]	[0.0061]	[0.0060]	[0.0053]	[0.0047]	[0.0058]	[0.0061]	[0.0060]	[0.0053]	[0.0047]
EARNINGS VOLATLITY	0.2038***	0.2183***	0.1946***	0.1417***	0.1202***	0.2031***	0.2171***	0.1934***	0.1432***	0.1226***
	[0.0415]	[0.0504]	[0.0507]	[0.0463]	[0.0451]	[0.0411]	[0.0500]	[0.0500]	[0.0456]	[0.0441]
Z-SCORE DUMMY	0.1652*	0.1920*	0.2256**	0.1873**	0.2030**	0.1765**	0.1988**	0.2265**	0.1916**	0.2072**
	[0.0867]	[0.1003]	[0.1012]	[0.0925]	[0.0915]	[0.0872]	[0.1005]	[0.1008]	[0.0919]	[0.0903]
DIVERSIFICATION	-0.0110*	-0.0216***	-0.0221***	-0.0180***	-0.0146**	-0.0099	-0.0199***	-0.0203***	-0.0165***	-0.0130**
	[0.0061]	[0.0068]	[0.0070]	[0.0063]	[0.0063]	[0.0061]	[0.0068]	[0.0068]	[0.0062]	[0.0061]
DIVIDEND YIELD	0.2517**	0.3295***	0.3486***	0.3014***	0.1394	0.2714***	0.3551***	0.3775***	0.3275***	0.1678*
	[0.1029]	[0.1155]	[0.1140]	[0.0958]	[0.0929]	[0.1046]	[0.1170]	[0.1149]	[0.0968]	[0.0942]
RATED	-0.0983***	-0.1623***	-0.2222***	-0.2472***	-0.2654***	-0.1016***	-0.1642***	-0.2225***	-0.2484***	-0.2670***
	[0.0276]	[0.0319]	[0.0324]	[0.0298]	[0.0296]	[0.0276]	[0.0319]	[0.0321]	[0.0294]	[0.0290]
LEVERAGE	0.6075	0.6616	0.8251	0.6844	0.8533*	0.6714	0.7028	0.8383	0.7123	0.8778*
	[0.4438]	[0.5062]	[0.5108]	[0.4668]	[0.4617]	[0.4483]	[0.5100]	[0.5113]	[0.4659]	[0.4580]
TERM SPREAD	-0.0214	-0.1361**	-0.2436***	-0.3658***	-0.5006***	-0.1794**	-0.2573***	-0.3518***	-0.4426***	-0.5986***
	[0.0491]	[0.0619]	[0.0641]	[0.0620]	[0.0525]	[0.0817]	[0.0966]	[0.0976]	[0.0923]	[0.0847]
ln(STATE GDP)	0.0435*	0.0422	0.0426	0.0414	0.0207	-0.1561**	-0.1154*	-0.1029	-0.061	-0.1073*
	[0.0252]	[0.0284]	[0.0289]	[0.0263]	[0.0260]	[0.0624]	[0.0692]	[0.0700]	[0.0639]	[0.0625]
ln(PCI)	-0.1799**	-0.3407***	-0.4950***	-0.6286***	-0.7610***	-0.2594***	-0.3988***	-0.5438***	-0.6643***	-0.8077***
	[0.0849]	[0.1070]	[0.1102]	[0.1066]	[0.0924]	[0.0971]	[0.1194]	[0.1217]	[0.1172]	[0.1033]
LEGISLATIVE CONTROL	0.0103	0.0132*	0.0119*	0.0127**	0.0105*	0.0024	0.0015	-0.0008	0.0011	-0.0033
	[0.0064]	[0.0070]	[0.0070]	[0.0064]	[0.0061]	[0.0053]	[0.0062]	[0.0063]	[0.0058]	[0.0056]
LEADING INDEX	0.0011	0.0032	0.0028	0.0037	0.0080***	-0.0045**	-0.0025	-0.0034	-0.0012	0.0037
	[0.0029]	[0.0033]	[0.0035]	[0.0032]	[0.0031]	[0.0022]	[0.0027]	[0.0027]	[0.0026]	[0.0024]
Observations	48,592	41,527	41,447	41,297	40,512	48,592	41,527	41,447	41,297	40,512
Adjusted R-squared	0.123	0.218	0.201	0.217	0.147	0.113	0.214	0.203	0.216	0.146
Weak IV test	17.58	15.64	15.70	15.85	15.54	17.10	15.11	15.16	15.35	15.09
Overidentification test	0.95	0.76	0.73	0.83	0.66	0.76	0.60	0.58	0.72	0.82
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
State FE	NO	NO	NO	NO	NO	YES	YES	YES	YES	YES

Table 5: The Effects of Corruption and Economic Policy Uncertainty

In this table, we present the second stage IV-GMM estimates that control for Economic Policy Uncertainty. We consider five different measures of debt-maturity as the dependent variable that measure the proportion of debt maturing within 1 to 5 years (ST1 to ST5). Policy Uncertainty is measured using the EPU Index developed by Baker et al. (2016). We include time fixed effects, Fama-French 48 industries fixed effects, and state fixed effects in the regression to control for any unobservable time-, industry-, and state-level factors that affect maturity preferences. Standard errors clustered by firm are shown in brackets, and statistical significance is denoted as *** =p<1%, ** =p<5%, * =p<10%.

VARIABLES	ST1	ST2	ST3	ST4	ST5	ST1	ST2	ST3	ST4	ST5
	(1)	(2)	(3)	(4)	(5)	(1)	(2)	(3)	(4)	(5)
CORRUPTION	-0.8405***	-0.7649***	-0.6429**	-0.3751	-0.1795	-0.4640**	-0.5716**	-0.5815**	-0.3146	-0.2325
	[0.2625]	[0.2844]	[0.2931]	[0.2694]	[0.2610]	[0.2321]	[0.2612]	[0.2709]	[0.2492]	[0.2366]
POLICY UNCERTAINTY	-0.0004	0.0024	0.0054**	0.0103***	0.0167***	0.0070**	0.0081**	0.0106***	0.0139***	0.0214***
	[0.0017]	[0.0020]	[0.0022]	[0.0020]	[0.0018]	[0.0032]	[0.0037]	[0.0038]	[0.0035]	[0.0033]
SIZE	-0.0387***	-0.0518***	-0.0512***	-0.0435***	-0.0299***	-0.0383***	-0.0519***	-0.0515***	-0.0437***	-0.0302***
	[0.0026]	[0.0031]	[0.0032]	[0.0030]	[0.0028]	[0.0026]	[0.0031]	[0.0032]	[0.0029]	[0.0028]
MB	0.0170*	0.0228*	0.0241**	0.0180*	0.0206**	0.0177*	0.0229**	0.0237**	0.0180*	0.0206**
	[0.0100]	[0.0118]	[0.0118]	[0.0108]	[0.0105]	[0.0099]	[0.0117]	[0.0117]	[0.0106]	[0.0102]
ROA	-0.1156***	-0.1170***	-0.0816***	-0.0427**	-0.0272	-0.1115***	-0.1109***	-0.0748***	-0.0376**	-0.022
	[0.0198]	[0.0213]	[0.0209]	[0.0188]	[0.0181]	[0.0189]	[0.0200]	[0.0194]	[0.0175]	[0.0167]
CAPX	0.1547	0.1614	0.2248	0.2071	0.3291**	0.1623	0.1557	0.2153	0.2042	0.3293**
	[0.1303]	[0.1453]	[0.1487]	[0.1364]	[0.1358]	[0.1285]	[0.1437]	[0.1463]	[0.1340]	[0.1329]
TANGIBILITY	-0.3175***	-0.3382***	-0.3210***	-0.2556***	-0.2596***	-0.3207***	-0.3384***	-0.3199***	-0.2582***	-0.2606***
	[0.0707]	[0.0791]	[0.0802]	[0.0735]	[0.0726]	[0.0703]	[0.0791]	[0.0797]	[0.0729]	[0.0716]
ASSETS MATURITY	0.0009*	0.0010*	0.0008	0.0003	0.0000	0.0009*	0.0011*	0.0008	0.0004	0.0000
	[0.0005]	[0.0005]	[0.0005]	[0.0005]	[0.0005]	[0.0005]	[0.0005]	[0.0005]	[0.0005]	[0.0005]
ABNORMAL EARNINGS	0.0296***	0.0301***	0.0259***	0.0179***	0.0172***	0.0302***	0.0301***	0.0258***	0.0182***	0.0174***
	[0.0058]	[0.0061]	[0.0060]	[0.0053]	[0.0047]	[0.0058]	[0.0061]	[0.0060]	[0.0053]	[0.0047]
EARNINGS VOLATLITY	0.2038***	0.2183***	0.1946***	0.1417***	0.1202***	0.2031***	0.2171***	0.1934***	0.1432***	0.1226***
	[0.0415]	[0.0504]	[0.0507]	[0.0463]	[0.0451]	[0.0411]	[0.0500]	[0.0500]	[0.0456]	[0.0441]
Z-SCORE DUMMY	0.1652*	0.1920*	0.2256**	0.1873**	0.2030**	0.1765**	0.1988**	0.2265**	0.1916**	0.2072**
	[0.0867]	[0.1003]	[0.1012]	[0.0925]	[0.0915]	[0.0872]	[0.1005]	[0.1008]	[0.0919]	[0.0904]
DIVERSIFICATION	-0.0110*	-0.0216***	-0.0221***	-0.0180***	-0.0146**	-0.0099	-0.0199***	-0.0203***	-0.0165***	-0.0130**
	[0.0061]	[0.0068]	[0.0070]	[0.0063]	[0.0063]	[0.0061]	[0.0068]	[0.0068]	[0.0062]	[0.0061]
DIVIDEND YIELD	0.2517**	0.3294***	0.3486***	0.3014***	0.1394	0.2714***	0.3550***	0.3774***	0.3275***	0.1678*
	[0.1029]	[0.1155]	[0.1140]	[0.0958]	[0.0929]	[0.1046]	[0.1170]	[0.1149]	[0.0968]	[0.0942]
RATED	-0.0983***	-0.1623***	-0.2222***	-0.2472***	-0.2654***	-0.1016***	-0.1642***	-0.2225***	-0.2484***	-0.2670***
	[0.0276]	[0.0319]	[0.0324]	[0.0298]	[0.0296]	[0.0276]	[0.0319]	[0.0321]	[0.0294]	[0.0290]
LEVERAGE	0.6075	0.6616	0.8251	0.6844	0.8533*	0.6714	0.7028	0.8382	0.7123	0.8778*
	[0.4438]	[0.5062]	[0.5108]	[0.4668]	[0.4617]	[0.4483]	[0.5100]	[0.5113]	[0.4659]	[0.4580]
TERM SPREAD	-0.0308	-0.0723**	-0.1000***	-0.0941***	-0.0580**	0.0063	-0.0421	-0.0718**	-0.0743**	-0.032
	[0.0224]	[0.0286]	[0.0298]	[0.0304]	[0.0242]	[0.0228]	[0.0285]	[0.0299]	[0.0301]	[0.0244]
ln(STATE GDP)	0.0435*	0.0422	0.0426	0.0414	0.0207	-0.1561**	-0.1154*	-0.1029	-0.061	-0.1073*
	[0.0252]	[0.0284]	[0.0289]	[0.0263]	[0.0260]	[0.0624]	[0.0692]	[0.0700]	[0.0639]	[0.0625]
ln(PCI)	-0.1853***	-0.3038***	-0.4120***	-0.4716***	-0.5053***	-0.1521**	-0.2744***	-0.3820***	-0.4514***	-0.4803***
	[0.0677]	[0.0847]	[0.0866]	[0.0846]	[0.0737]	[0.0618]	[0.0782]	[0.0801]	[0.0790]	[0.0670]
LEGISLATIVE CONTROL	0.0103	0.0132*	0.0119*	0.0127**	0.0105*	0.0024	0.0015	-0.0008	0.0011	-0.0033
	[0.0064]	[0.0070]	[0.0070]	[0.0064]	[0.0061]	[0.0053]	[0.0062]	[0.0063]	[0.0058]	[0.0056]
LEADING INDEX	0.0011	0.0032	0.0028	0.0037	0.0080***	-0.0045**	-0.0025	-0.0034	-0.0012	0.0037
	[0.0029]	[0.0033]	[0.0035]	[0.0032]	[0.0031]	[0.0022]	[0.0027]	[0.0027]	[0.0026]	[0.0024]
Observations	48,592	41,527	41,447	41,297	40,512	48,592	41,527	41,447	41,297	40,512
Adjusted R-squared	0.123	0.218	0.201	0.217	0.147	0.113	0.214	0.203	0.216	0.146
Weak IV test	17.58	15.64	15.69	15.85	15.54	17.03	15.13	15.16	15.30	15.09
Overidentification test	0.95	0.76	0.73	0.83	0.66	0.76	0.60	0.58	0.72	0.82
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
State FE	NO	NO	NO	NO	NO	YES	YES	YES	YES	YES

Table 6: Fixed effect regressions

In this table, we present the second stage IV-GMM estimates with the inclusion of additional fixed effects. Specifically, Panel A reports estimates when adding firm fixed effects, and Panel B reports estimates with Industry-Year FE. Our sample period is 1994 to 2017. We consider five different measures of debt-maturity as the dependent variable which includes ST1: Debt maturing within 1 year, ST2: Debt maturing within 2 years, ST3: Debt maturing within 3 years, ST4: Debt maturing within 4 years, and ST5: Debt maturing within 5 years. Standard errors are clustered at the firm level and shown in brackets. Statistical significance is denoted as *** =p<1%, ** =p<5%, * =p<10%.

Panel A: Firm Fixed-Effect	ST1	ST2	ST3	ST4	ST5	ST1	ST2	ST3	ST4	ST5
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
CORRUPTION	-0.4307**	-0.4719**	-0.4446*	-0.2062	-0.189	-0.3961**	-0.4415**	-0.4428*	-0.2136	-0.1963
	[0.1956]	[0.2200]	[0.2322]	[0.2205]	[0.2140]	[0.1979]	[0.2252]	[0.2375]	[0.2249]	[0.2155]
Controls	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	48,086	40,862	40,774	40,619	39,817	48,086	40,862	40,774	40,619	39,817
Adjusted R-squared	-0.005	0.043	0.054	0.054	0.006	-0.009	0.029	0.038	0.044	0.003
Weak IV test	18.32	0.33	18.09	17.86	17.89	19.60	19.48	19.52	19.25	19.36
Overidentification test	0.35	0.57	0.60	0.70	0.60	0.36	0.56	0.59	0.70	0.55
Firms Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
State FE	NO	NO	NO	NO	NO	YES	YES	YES	YES	YES

Panel B: Fixed-Effect Interaction	ST1	ST2	ST3	ST4	ST5	ST1	ST2	ST3	ST4	ST5
	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
CORRUPTION	-0.8521***	-0.7859***	-0.6368**	-0.3594	-0.1094	-0.5283**	-0.6300**	-0.6225**	-0.3276	-0.1928
	[0.2600]	[0.2865]	[0.2918]	[0.2659]	[0.2565]	[0.2350]	[0.2689]	[0.2755]	[0.2521]	[0.2382]
Controls	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	48,583	41,518	41,438	41,288	40,502	48,583	41,518	41,438	41,288	40,502
Adjusted R-squared	-0.119	-0.161	-0.193	-0.128	-0.167	-0.147	-0.18	-0.203	-0.143	-0.19
Weak IV test	50.287	44.09	44.51	45.22	44.16	49.65	43.09	43.5	44.26	42.93
Overidentification test	0.78	0.82	0.80	0.99	0.46	0.99	0.63	0.64	0.88	0.60
State FE	NO	NO	NO	NO	NO	YES	YES	YES	YES	YES
Year FE * Industry FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES

Table 7: Supply side explanation of PC and Debt-maturity

This table presents OLS results that evaluate the effect of corruption on debt-maturity from the perspective of debt suppliers. The dependent variables are "All-in-Spread Drawn" and "All-in-Spread Undrawn", where the all-in spread drawn represents the total spread (including interest and fees) over the LIBOR based on dollars drawn and all-in spread undrawn measures the total spread (including interest and fees) over the LIBOR based on dollars available. We add *LOAN MATURITY*, *COLLATERAL*, and *LOAN SIZE* to the regression model following the cost of debt literature. Our sample period is 1994 to 2017, and we include time fixed effects, Fama-French 48 industries fixed effects, and state fixed effects to control for any unobservable time-, industry-, and state-level factors. Standard errors clustered by state and firm are shown in brackets with statistical significance denoted by *** =p<1%, ** =p<5%, * =p<10%.

VARIABLES	All-in-Spread Drawn			All-in-Spread Undrawn		
	(1)	(2)	(3)	(4)	(5)	(6)
CORRUPTION (Per 100K Population)	11.018**	71.58	77.396	1.324	-0.415	3.641
	[5.342]	[82.720]	[82.815]	[0.988]	[13.392]	[14.423]
LOAN MATURITY	5.601**	8.184*	8.605*	3.916***	3.842***	4.019***
	[2.235]	[4.567]	[4.699]	[0.339]	[0.691]	[0.739]
CORRUPTION * LOAN MATURITY		-8.464	-7.699		0.244	-0.322
		[11.480]	[11.622]		[1.846]	[1.971]
COLLATERAL	71.470***	71.485***	71.352***	12.014***	12.014***	12.044***
	[3.149]	[3.146]	[3.113]	[0.481]	[0.481]	[0.497]
LOAN SIZE	-25.210***	-25.236***	-24.989***	-2.529***	-2.528***	-2.495***
	[1.335]	[1.332]	[1.366]	[0.337]	[0.338]	[0.344]
COVERAGE	-19.052***	-19.057***	-19.060***	-2.759***	-2.759***	-2.751***
	[1.765]	[1.765]	[1.770]	[0.364]	[0.364]	[0.365]
CURRENT RATIO	-4.047***	-4.037***	-3.822***	0.076	0.076	0.073
	[1.076]	[1.075]	[1.035]	[0.194]	[0.194]	[0.194]
BASELINE CONTROLS	YES	YES	YES	YES	YES	YES
	[1.838]	[1.840]	[1.851]	[0.235]	[0.236]	[0.241]
Observations	7,740	7,740	7,740	5,381	5,381	5,381
Adjusted R-squared	0.509	0.509	0.513	0.465	0.465	0.465
Industrty FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
State FE	NO	NO	YES	NO	NO	YES

Table 8: PC and Debt-maturity Mechanisms

In this table, we present the second stage IV-GMM estimates that explore potential mechanisms that drive the relation between corruption and debt maturity. HI CORRUPTION is a dummy variable set equal to one if the state-level corruption is higher than sample median and zero otherwise. Our sample period is 1994 to 2017, and we include time fixed effects, Fama-French 48 industries fixed effects, and state fixed effects to control for any unobservable time-, industry-, state-level factors. Standard errors clustered at the firm level are shown in brackets with statistical significance denoted by *** =p<1%, ** =p<5%, * =p<10%.

VARIABLES	ST3							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
HI CORRUPTION	-0.0280***	-0.0561***	-0.0132**	0.0013	0.0017	0.0102	0.0022	-0.0194***
	[0.0092]	[0.0161]	[0.0063]	[0.0065]	[0.0102]	[0.0108]	[0.0077]	[0.0066]
HI CORRUPTION*MB	0.0095**							
	[0.0044]							
HI CORRUPTION*SIZE		0.0081***						
		[0.0027]						
HI CORRUPTION*RATED			0.0013					
			[0.0135]					
HI CORRUPTION*INV GRD			0.0394**					
			[0.0177]					
INV GRADE			0.2602***					
			[0.0581]					
HI CORRUPTION*LOW REDEPLOYABILITY				-0.0250**				
				[0.0097]				
LOW REDEPLOYABILITY				-0.0045				
				[0.0095]				
HI CORRUPTION*HI REALIZED VOLATILITY					-0.0290*			
					[0.0154]			
REALIZED VOLATILITY					0.0198			
					[0.0182]			
HI CORRUPTION*HI IMPLIED VOLATILITY						-0.0349**		
						[0.0155]		
IMPLIED VOLATILITY						0.017		
						[0.0265]		
HI CORRUPTION*REPUBLICAN CONTROL							-0.0213**	
							[0.0107]	
REPUBLICAN CONTROL							0.0093	
							[0.0124]	
HI CORRUPTION*DIVERSIFICATION								0.0207**
								[0.0101]
SIZE	-0.0515***	-0.0554***	-0.0600***	-0.0515***	-0.0520***	-0.0405***	-0.0547***	-0.0515***
	[0.0032]	[0.0029]	[0.0026]	[0.0032]	[0.0032]	[0.0048]	[0.0033]	[0.0032]
MARKET TO BOOK	0.0204*	0.0243**	0.0307**	0.0237**	0.0364*	0.031	0.0204	0.0240**
	[0.0105]	[0.0117]	[0.0135]	[0.0116]	[0.0209]	[0.0216]	[0.0129]	[0.0117]
DIVERSIFICATION	-0.0202***	-0.0202***	-0.0268***	-0.0206***	-0.0185**	-0.0097	-0.0177**	-0.0306***
	[0.0068]	[0.0068]	[0.0078]	[0.0068]	[0.0081]	[0.0093]	[0.0073]	[0.0088]
RATED	-0.2242***	-0.2252***	-0.3304***	-0.2222***	-0.2421***	-0.2136***	-0.2150***	-0.2234***
	[0.0324]	[0.0325]	[0.0559]	[0.0319]	[0.0518]	[0.0619]	[0.0370]	[0.0321]
Controls as in main model?	YES	YES	YES	YES	YES	YES	YES	YES
Observations	41,447	41,447	41,447	41,447	31,280	17,223	31,940	41,447
Adjusted R-squared	0.09	0.09	-0.02	0.10	0.033	0.06	0.13	0.10
Weak IV test	43.16	43.48	33.2	43.89	44.02	29.62	15.63	15.82
Overidentification test	0.59	0.62	0.85	0.58	0.58	0.90	0.12	0.11
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
State FE	YES	YES	YES	YES	YES	YES	YES	YES

Table 9: Firms' financing decisions and corruption

This table presents the estimates from a system of equations representing the extent to which investments are financed with $Short-term\ Debt\ Issue$, $Long-term\ Debt\ Issue$, and $Net\ Equity\ Issue$ using a framework similar to Gatchev et al. (2009). We employ a seemingly unrelated regression approach that considers simultaneity among investments and different sources of financing. HI CORRUPTION is a dummy variable set equal to one if the state-level corruption is higher than the sample median and zero otherwise. We include time fixed effects, Fama-French 48 industries fixed effects, and state fixed effects to control for any unobservable time-, industry-, and state-level factors. Standard errors are reported in the parenthesis, and heteroskedasticity robust standard errors are clustered by firm and fiscal year. Industry fixed effects are defined by two-digit SIC code. The sample period is from 1994 to 2017 with statistical significance denoted by *** =p<1%, ** =p<5%, * =p<10%.

Dependent variable	Short-Term Debt Issue	Long-Term Debt Issue	Equity Issue
Δ NFA * HI CORRUPTION	-0.0063	0.0372***	0.0116
	[0.0079]	[0.0116]	[0.0179]
Δ NWC * HI CORRUPTION	0.0248***	0.0464***	-0.0295*
	[0.0076]	[0.0111]	[0.0171]
Δ CASH HOLDINGS * HI CORRUPTION	0.0103**	0.0058	-0.0281**
	[0.0050]	[0.0073]	[0.0112]
Δ NFA	0.1225***	0.5162***	0.0635***
	[0.0063]	[0.0093]	[0.0142]
Δ NWC	0.1211***	0.1582***	0.2374***
	[0.0055]	[0.0081]	[0.0125]
Δ CASH HOLDINGS	0.0057*	0.0782***	0.6600***
	[0.0034]	[0.0050]	[0.0076]
HI CORRUPTION	-0.0006	-0.0012	-0.0006
	[0.0008]	[0.0012]	[0.0019]
Controls	Yes	Yes	Yes
Time Fixed Effects	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes
State Fixed Effects	Yes	Yes	Yes
Observations	42,633	42,633	42,633
R-squared	0.06	0.21	0.24

Table 10: Propensity Score Matching

In this table, we present the average treatment effect on the treated for the dependent variables (ST1 to ST5) as a proxy for the debt-maturity structure. Our outcome variables include ST1: Debt maturing within 1 year, ST2: Debt maturing within 2 years, ST3: Debt maturing within 3 years, ST4: Debt maturing within 4 years, and ST5: Debt maturing within 5 years. Our sample period is 1994 to 2017. We include firm-level variables used in equation 1 for the matching estimation. In addition, time fixed effects and Fama-French 48 industries fixed effects are included to control for any unobservable time- and industry-level factors. Model 1 uses four nearest neighbor matching with common support, Model 2 uses radius matching, and Model 3 uses local linear regression matching to adjust pre-treatment observable differences between observations in low corruption and high corruption areas. Statistical significance of matching estimates is denoted as *** =p<1%, ** =p<5%, * =p<10%. In the final row, for robustness of the matching, we report the inference of Mantel-Haenszel test statistics from Rosenbaum bounds to check sensitivity of estimated average treatment effects on the treated in the presence of hidden bias.

Average Treatment Effect of Treated (ATET)	ST1				ST2				ST3				ST4				ST5			
	Treated	Control	Diff	T-stat	Treated	Control	Diff	T-stat	Treated	Control	Diff	T-stat	Treated	Control	Diff	T-stat	Treated	Control	Diff	T-stat
Model 1: Four Nearest Neighbors with common	0.280	0.295	-0.014***	3.41	0.428	0.442	-0.014***	2.80	0.549	0.557	-0.008*	1.65	0.649	0.652	-0.003	0.65	0.740	0.740	0.000	0.89
Model 2: Radius matching (caliper .05)	0.280	0.296	-0.015***	4.60	0.428	0.444	-0.016***	4.20	0.549	0.559	-0.010**	1.97	0.649	0.655	-0.005	1.08	0.745	0.744	0.001	0.22
Model 3: Local Linear Regression	0.280	0.293	-0.013***	3.06	0.428	0.44798	-0.020***	3.91	0.549	0.560	-0.011**	2.13	0.639	0.646	-0.007	0.70	0.745	0.740	0.004	0.97
Firm Controls									Yes											
Year Fixed Effects									Yes											
Industry Fixed Effects									Yes											
Mantel-Haenszel bounds									**No Hidden Bias**											

Table 11: Instrumental variables for corruption

In this table, we present the second stage IV-GMM estimates using instrumental variables for Corruption defined in equation (6). Our sample period is 1994 to 2017. We include time fixed effects, Fama-French 48 industries fixed effects, and state fixed effects to control for any unobservable time, industry, state effects. Standard errors clustered by firms are shown in brackets. Statistical significance is denoted as *** =p<1%, ** =p<5%, * =p<10%.

VARIABLES	ST1	ST2	ST3	ST4	ST5	ST1	ST2	ST3	ST4	ST5
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
CORRUPTION	-0.9313***	-0.7299**	-0.7740***	-0.2281	0.416	-1.0056**	-1.5187**	-1.5535**	-0.9672	-0.0877
	[0.2984]	[0.3254]	[0.2908]	[0.2882]	[0.2899]	[0.4414]	[0.6582]	[0.6167]	[0.6091]	[0.4305]
SIZE	-0.0405***	-0.0539***	-0.0539***	-0.0468***	-0.0341***	-0.0413***	-0.0536***	-0.0542***	-0.0467***	-0.0341***
	[0.0018]	[0.0023]	[0.0022]	[0.0021]	[0.0023]	[0.0023]	[0.0028]	[0.0024]	[0.0023]	[0.0025]
MB	-0.0039***	-0.0029**	-0.0044***	-0.0052***	-0.0034***	-0.0051***	-0.0031**	-0.0049***	-0.0057***	-0.0036***
	[0.0015]	[0.0013]	[0.0012]	[0.0012]	[0.0012]	[0.0015]	[0.0013]	[0.0012]	[0.0012]	[0.0012]
ROA	-0.0935***	-0.0909***	-0.0552***	-0.0122	0.005	-0.0845***	-0.0880***	-0.0463***	-0.0078	0.0073
	[0.0144]	[0.0128]	[0.0114]	[0.0110]	[0.0111]	[0.0140]	[0.0141]	[0.0126]	[0.0118]	[0.0111]
CAPX	-0.1572***	-0.0999*	-0.0644	-0.0577	0.0726**	-0.1094**	-0.1073*	-0.0831	-0.049	0.0732**
	[0.0571]	[0.0595]	[0.0578]	[0.0450]	[0.0339]	[0.0453]	[0.0593]	[0.0541]	[0.0445]	[0.0333]
TANGIBILITY	-0.1645***	-0.1874***	-0.1494***	-0.1034***	-0.0988***	-0.1625***	-0.1829***	-0.1463***	-0.1110***	-0.0920***
	[0.0213]	[0.0205]	[0.0179]	[0.0162]	[0.0160]	[0.0181]	[0.0215]	[0.0193]	[0.0149]	[0.0173]
ASSETS MATURITY	0.0002	0.0001	-0.0001	-0.0005*	-0.0010***	0.0001	0.0002	-0.0002	-0.0004*	-0.0011***
	[0.0003]	[0.0003]	[0.0003]	[0.0003]	[0.0002]	[0.0003]	[0.0003]	[0.0003]	[0.0003]	[0.0002]
ABNORMAL EARNINGS	0.0274***	0.0242***	0.0176***	0.0119***	0.0111***	0.0262***	0.0222***	0.0177***	0.0123***	0.0120***
	[0.0051]	[0.0040]	[0.0034]	[0.0027]	[0.0023]	[0.0049]	[0.0037]	[0.0036]	[0.0030]	[0.0023]
EARNINGS VOLATLITY	0.1182***	0.1193***	0.0899***	0.0552***	0.0277***	0.1195***	0.1180***	0.0906***	0.0595***	0.0335***
	[0.0145]	[0.0168]	[0.0148]	[0.0109]	[0.0090]	[0.0164]	[0.0175]	[0.0148]	[0.0115]	[0.0095]
Z-SCORE DUMMY	-0.0311***	-0.0367***	-0.0256***	-0.0156**	-0.0095*	-0.0312***	-0.0374***	-0.0276***	-0.0156**	-0.0105**
	[0.0084]	[0.0098]	[0.0078]	[0.0068]	[0.0056]	[0.0082]	[0.0095]	[0.0078]	[0.0067]	[0.0052]
DIVERSIFICATION	-0.0083*	-0.0179***	-0.0209***	-0.0152***	-0.0105**	-0.0098**	-0.0193***	-0.0206***	-0.0159***	-0.0106**
	[0.0043]	[0.0049]	[0.0048]	[0.0048]	[0.0049]	[0.0046]	[0.0051]	[0.0047]	[0.0047]	[0.0048]
DIVIDEND YIELD	0.2512***	0.4197***	0.4468***	0.3272***	0.0146	0.2509***	0.3875***	0.4267***	0.3483***	0.0103
	[0.0843]	[0.1182]	[0.1076]	[0.0937]	[0.0892]	[0.0832]	[0.1253]	[0.1249]	[0.1054]	[0.0938]
RATED	-0.0349***	-0.0894***	-0.1417***	-0.1852***	-0.1993***	-0.0405***	-0.0898***	-0.1416***	-0.1836***	-0.1950***
	[0.0054]	[0.0076]	[0.0115]	[0.0129]	[0.0153]	[0.0062]	[0.0080]	[0.0121]	[0.0139]	[0.0161]
LEVERAGE	-0.3495***	-0.4391***	-0.4155***	-0.3192***	-0.1941***	-0.3852***	-0.4351***	-0.4101***	-0.3043***	-0.2060***
	[0.0409]	[0.0443]	[0.0381]	[0.0333]	[0.0307]	[0.0479]	[0.0461]	[0.0335]	[0.0282]	[0.0294]
TERM SPREAD	0.0084	0.0016	-0.0515***	-0.0754***	-0.0842***	0.0141	-0.0027	-0.0539***	-0.0648***	-0.0843***
	[0.0184]	[0.0157]	[0.0180]	[0.0179]	[0.0108]	[0.0110]	[0.0182]	[0.0176]	[0.0197]	[0.0114]
ln(STATE GDP)	0.0105	0.0005	-0.0028	0.0073	0.0072	-0.047	-0.0483	-0.0393	-0.0492	-0.0845*
	[0.0207]	[0.0202]	[0.0190]	[0.0181]	[0.0191]	[0.0427]	[0.0794]	[0.0797]	[0.0610]	[0.0452]
ln(PCI)	-0.0543*	-0.0811	-0.2300***	-0.3315***	-0.3852***	-0.0524*	-0.0925*	-0.2246***	-0.2931***	-0.3822***
	[0.0328]	[0.0510]	[0.0543]	[0.0668]	[0.0371]	[0.0291]	[0.0532]	[0.0541]	[0.0724]	[0.0388]
LEGISLATIVE CONTROL	0.0001	0.0021	0.0021	0.0069	0.0036	-0.0018	-0.0055	-0.0096	-0.0055	-0.0083*
	[0.0056]	[0.0054]	[0.0056]	[0.0055]	[0.0053]	[0.0049]	[0.0065]	[0.0067]	[0.0059]	[0.0046]
LEADING INDEX	-0.0042	-0.0017	-0.0017	0.0006	0.0058**	-0.0040**	-0.002	-0.0033	-0.0028	0.0046*
	[0.0028]	[0.0029]	[0.0025]	[0.0028]	[0.0027]	[0.0017]	[0.0027]	[0.0027]	[0.0027]	[0.0025]
Observations	43,700	37,498	37,424	37,286	36,594	43,700	37,498	37,424	37,286	36,594
Adjusted R-squared	0.177	0.261	0.275	0.262	0.246	0.17	0.253	0.268	0.256	0.241
Weak IV test	104.34	80.62	80.23	80.40	80.72	31.29	32.93	32.68	32.76	32.39
Overidentification test	0.34	0.24	0.13	0.65	0.06	0.68	0.07	0.10	0.36	0.07
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
State FE	NO	NO	NO	NO	NO	YES	YES	YES	YES	YES

Table 12: Placebo Analysis

In this table, we present the second stage IV-GMM estimates using placebo analysis with randomly assigned Corruption. We consider five different measures of debt-maturity as the dependent variable which include ST1: Debt maturing within 1 year, ST2: Debt maturing within 2 years, ST3: Debt maturing within 3 years, ST4: Debt maturing within 4 years, and ST5: Debt maturing within 5 years. Our sample period is 1994 to 2017, and we include time fixed effects, Fama-French 48 industries fixed effects, and state fixed effects to control for any unobservable time-, industry-, state-level factors. Standard errors clustered by firms are shown in brackets. Statistical significance is denoted as *** =p<1%, ** =p<5%, * =p<10%.

VARIABLES	ST1	ST2	ST3	ST4	ST5	ST1	ST2	ST3	ST4	ST5
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
CORRUPTION	-0.258	-0.1893	-0.178	-0.1612	-0.0715	-0.0865	0.1337	0.1421	-0.1298	0.0119
	[0.2477]	[0.2758]	[0.2803]	[0.2597]	[0.2511]	[0.2061]	[0.2544]	[0.2616]	[0.2425]	[0.2213]
SIZE	-0.0388***	-0.0519***	-0.0512***	-0.0435***	-0.0300***	-0.0384***	-0.0519***	-0.0515***	-0.0436***	-0.0302***
	[0.0026]	[0.0031]	[0.0032]	[0.0029]	[0.0028]	[0.0026]	[0.0031]	[0.0032]	[0.0029]	[0.0028]
MB	0.0167*	0.0226*	0.0241**	0.0180*	0.0201*	0.0175*	0.0230**	0.0240**	0.0183*	0.0204**
	[0.0099]	[0.0117]	[0.0118]	[0.0108]	[0.0105]	[0.0099]	[0.0117]	[0.0117]	[0.0106]	[0.0103]
ROA	-0.1157***	-0.1174***	-0.0821***	-0.0431**	-0.0266	-0.1112***	-0.1111***	-0.0752***	-0.0380**	-0.0217
	[0.0198]	[0.0213]	[0.0209]	[0.0189]	[0.0182]	[0.0189]	[0.0200]	[0.0195]	[0.0175]	[0.0167]
CAPX	0.1526	0.1621	0.2272	0.2093	0.3221**	0.1602	0.1571	0.2186	0.2076	0.3258**
	[0.1298]	[0.1451]	[0.1487]	[0.1367]	[0.1366]	[0.1285]	[0.1438]	[0.1467]	[0.1346]	[0.1337]
TANGIBILITY	-0.3154***	-0.3373***	-0.3211***	-0.2561***	-0.2559***	-0.3200***	-0.3399***	-0.3224***	-0.2604***	-0.2591***
	[0.0704]	[0.0788]	[0.0800]	[0.0734]	[0.0729]	[0.0703]	[0.0792]	[0.0799]	[0.0732]	[0.0720]
ASSETS MATURITY	0.0008*	0.0010*	0.0008	0.0003	0.000	0.0009*	0.0011**	0.0008	0.0004	0.000
	[0.0005]	[0.0005]	[0.0005]	[0.0005]	[0.0005]	[0.0005]	[0.0005]	[0.0005]	[0.0005]	[0.0005]
ABNORMAL EARNINGS	0.0298***	0.0303***	0.0261***	0.0181***	0.0171***	0.0303***	0.0303***	0.0261***	0.0184***	0.0174***
	[0.0058]	[0.0061]	[0.0060]	[0.0053]	[0.0047]	[0.0058]	[0.0061]	[0.0060]	[0.0053]	[0.0047]
EARNINGS VOLATLITY	0.2023***	0.2173***	0.1942***	0.1418***	0.1179***	0.2020***	0.2172***	0.1940***	0.1442***	0.1215***
	[0.0412]	[0.0501]	[0.0505]	[0.0462]	[0.0451]	[0.0411]	[0.0500]	[0.0501]	[0.0458]	[0.0444]
RATED	-0.0978***	-0.1623***	-0.2226***	-0.2475***	-0.2640***	-0.1010***	-0.1645***	-0.2233***	-0.2492***	-0.2663***
	[0.0275]	[0.0319]	[0.0324]	[0.0298]	[0.0297]	[0.0276]	[0.0319]	[0.0322]	[0.0295]	[0.0292]
Z-SCORE DUMMY	0.1619*	0.1904*	0.2255**	0.1880**	0.1979**	0.1748**	0.1997**	0.2290**	0.1943**	0.2048**
	[0.0862]	[0.0998]	[0.1009]	[0.0925]	[0.0918]	[0.0873]	[0.1007]	[0.1011]	[0.0923]	[0.0910]
DIVERSIFICATION	-0.0108*	-0.0214***	-0.0219***	-0.0179***	-0.0145**	-0.0099	-0.0198***	-0.0202***	-0.0164***	-0.0130**
	[0.0061]	[0.0068]	[0.0069]	[0.0063]	[0.0063]	[0.0061]	[0.0068]	[0.0068]	[0.0062]	[0.0061]
DIVIDEND YIELD	0.2490**	0.3281***	0.3483***	0.3015***	0.1355	0.2714***	0.3567***	0.3799***	0.3294***	0.1653*
	[0.1026]	[0.1154]	[0.1140]	[0.0960]	[0.0931]	[0.1046]	[0.1172]	[0.1151]	[0.0971]	[0.0946]
LEVERAGE	0.5913	0.6532	0.8247	0.6878	0.8279*	0.6624	0.7074	0.8512*	0.7257	0.8659*
	[0.4413]	[0.5038]	[0.5092]	[0.4665]	[0.4630]	[0.4488]	[0.5109]	[0.5127]	[0.4682]	[0.4612]
TERM SPREAD	-0.0184	-0.1346**	-0.2418***	-0.3635***	-0.4986***	-0.1845**	-0.2662***	-0.3613***	-0.4502***	-0.5996***
	[0.0488]	[0.0619]	[0.0640]	[0.0618]	[0.0524]	[0.0827]	[0.0984]	[0.0993]	[0.0936]	[0.0863]
ln(STATE GDP)	0.0441*	0.0431	0.0438	0.0422	0.0194	-0.1595**	-0.1210*	-0.1089	-0.0653	-0.1087*
	[0.0252]	[0.0284]	[0.0291]	[0.0265]	[0.0262]	[0.0625]	[0.0694]	[0.0702]	[0.0641]	[0.0627]
ln(PCI)	-0.1711**	-0.3349***	-0.4898***	-0.6243***	-0.7558***	-0.2610***	-0.4042***	-0.5498***	-0.6701***	-0.8064***
	[0.0836]	[0.1062]	[0.1092]	[0.1056]	[0.0916]	[0.0981]	[0.1214]	[0.1237]	[0.1187]	[0.1053]
LEGISLATIVE CONTROL	0.0107*	0.0136*	0.0124*	0.0129**	0.0104*	0.0033	0.0028	0.0006	0.002	-0.0029
	[0.0064]	[0.0070]	[0.0071]	[0.0064]	[0.0062]	[0.0053]	[0.0062]	[0.0063]	[0.0058]	[0.0056]
LEADING INDEX	0.0021	0.0042	0.0036	0.0041	0.0080**	-0.0046**	-0.0026	-0.0035	-0.0013	0.0037
	[0.0029]	[0.0034]	[0.0035]	[0.0032]	[0.0031]	[0.0023]	[0.0027]	[0.0027]	[0.0026]	[0.0024]
Observations	48,592	41,527	41,447	41,297	40,512	48,592	41,527	41,447	41,297	40,512
Adjusted R-squared	0.125	0.218	0.199	0.215	0.153	0.113	0.21	0.197	0.21	0.147
Weak IV test	17.89	15.81	15.85	16.00	15.68	17.10	15.07	15.13	15.31	15.04
Overidentification test	0.99	0.79	0.76	0.84	0.65	0.77	0.61	0.59	0.73	0.81
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
State FE	NO	NO	NO	NO	NO	YES	YES	YES	YES	YES

Table 13: PC and alternative measures of debt-maturity

In this table, we present OLS regression results (left-hand side) and the second stage IV-GMM estimates (right-hand side) with alternative measures of short-term debt as the dependent variable. Specifically, we consider five alternate measures of debt-maturity where DEAL_ST1, DEAL_ST2, and DEAL_ST3 are constructed using new debt issues from the Dealscan database, and DM_ALT1 and DM_ALT2 are constructed using Compustat data following Ben-Nasr et al. (2015). DEAL_ST1, DEAL_ST2, and DEAL_ST3 are defined as indicator variables that equal one if loan maturity is less than one year, two years and three years, respectively. DM_ALT1 is an indicator variable that equals one if more than 50% of the firm's total debt is short-term debt and zero otherwise. DM_ALT2 is the difference between a firm's total liabilities and long-term liabilities, divided by its total liabilities. Our sample period is 1994 to 2017, and we include time fixed effects, Fama-French 48 industries fixed effects, and state fixed effects to control for any unobservable time-, industry-, and state-level factors. Standard errors clustered by firm are shown in brackets with statistical significance denoted as *** =p<1%, ** =p<5%, * =p<10%.

	OLS							GMM						
VARIABLES	DEAL_ST1	DEAL_ST2	DEAL_ST3	DM_ALT1		DM_ALT2		DEAL_ST1	DEAL_ST2	DEAL_ST3	DM_ALT1		DM_ALT2	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
CORRUPTION	-0.296**	-1.002***	-0.796**	-0.6319**	-0.5323**	-0.5567***	-0.3805*	-0.328**	-0.883**	-0.619*	-0.9354***	-0.6008**	-0.8324***	-0.4395*
	[0.135]	[0.320]	[0.398]	[0.2569]	[0.2677]	[0.2067]	[0.2078]	[0.146]	[0.356]	[0.457]	[0.3231]	[0.2912]	[0.2638]	[0.2311]
SIZE	-0.004***	0.008**	-0.001	-0.0465***	-0.0462***	-0.0425***	-0.0421***	-0.001	-0.004	-0.017	-0.0423***	-0.0419***	-0.0386***	-0.0382***
	[0.001]	[0.003]	[0.004]	[0.0023]	[0.0023]	[0.0019]	[0.0019]	[0.004]	[0.010]	[0.013]	[0.0031]	[0.0032]	[0.0026]	[0.0027]
MB	0.000	0.015***	0.013***	-0.0062***	-0.0066***	-0.0051***	-0.0055***	0.013	-0.03	-0.055	0.0185	0.0193	0.0173*	0.0178*
	[0.002]	[0.005]	[0.005]	[0.0020]	[0.0020]	[0.0016]	[0.0016]	[0.015]	[0.041]	[0.051]	[0.0121]	[0.0122]	[0.0102]	[0.0102]
ROA	-0.122***	-0.267***	-0.299***	-0.1110***	-0.1074***	-0.0830***	-0.0802***	-0.127***	-0.249***	-0.272***	-0.1472***	-0.1421***	-0.1160***	-0.1116***
	[0.026]	[0.038]	[0.041]	[0.0161]	[0.0159]	[0.0126]	[0.0124]	[0.026]	[0.042]	[0.048]	[0.0246]	[0.0235]	[0.0202]	[0.0193]
CAPX	0.021	-0.124*	-0.206**	-0.0422	-0.0454	-0.1204***	-0.1232***	0.075	-0.326*	-0.506**	0.2676*	0.2762*	0.1599	0.1653
	[0.033]	[0.070]	[0.091]	[0.0472]	[0.0473]	[0.0382]	[0.0382]	[0.073]	[0.191]	[0.240]	[0.1589]	[0.1575]	[0.1333]	[0.1315]
TANGIBILITY	-0.018	-0.027	-0.001	-0.2383***	-0.2339***	-0.1657***	-0.1622***	-0.05	0.094	0.179	-0.4063***	-0.4095***	-0.3180***	-0.3197***
	[0.015]	[0.033]	[0.040]	[0.0239]	[0.0240]	[0.0193]	[0.0193]	[0.042]	[0.114]	[0.140]	[0.0863]	[0.0863]	[0.0726]	[0.0722]
ASSETS MATURITY	0.000	0.000	0.000	0.0004	0.0004	0.0001	0.0001	0.0000	-0.001	-0.002	0.0012**	0.0013**	0.0009*	0.0009*
	[0.000]	[0.001]	[0.001]	[0.0004]	[0.0004]	[0.0003]	[0.0003]	[0.000]	[0.001]	[0.001]	[0.0006]	[0.0006]	[0.0005]	[0.0005]
ABNORMAL EARNINGS	0.006	0.012	0.007	0.0257***	0.0260***	0.0224***	0.0227***	0.007	0.004	-0.004	0.0335***	0.0342***	0.0296***	0.0301***
	[0.006]	[0.012]	[0.015]	[0.0059]	[0.0059]	[0.0046]	[0.0046]	[0.007]	[0.015]	[0.019]	[0.0073]	[0.0073]	[0.0059]	[0.0059]
EARNINGS VOLATLITY	0.063*	0.233***	0.418***	0.1421***	0.1376***	0.1239***	0.1205***	0.101*	0.092	0.208	0.2327***	0.2312***	0.2064***	0.2049***
	[0.038]	[0.059]	[0.070]	[0.0257]	[0.0256]	[0.0201]	[0.0201]	[0.059]	[0.136]	[0.165]	[0.0515]	[0.0512]	[0.0428]	[0.0423]
Z-SCORE DUMMY	0.002	-0.018	-0.017	-0.0327***	-0.0325***	-0.0294***	-0.0294***	0.05	-0.199	-0.287	0.1857*	0.1988*	0.1688*	0.1787**
	[0.005]	[0.012]	[0.014]	[0.0095]	[0.0094]	[0.0073]	[0.0072]	[0.060]	[0.162]	[0.199]	[0.1061]	[0.1073]	[0.0895]	[0.0901]
DIVERSIFICATION	-0.002	-0.004	-0.01	-0.0168**	-0.0155**	-0.008	-0.0072	0.0000	-0.01	-0.018	-0.0200***	-0.0183**	-0.0108*	-0.0097
	[0.003]	[0.007]	[0.009]	[0.0067]	[0.0067]	[0.0054]	[0.0054]	[0.004]	[0.009]	[0.011]	[0.0074]	[0.0074]	[0.0061]	[0.0061]
DIVIDEND YIELD	0.09	0.554***	0.573***	0.153	0.1666	0.2196**	0.2278**	0.049	0.707***	0.802***	0.1896	0.2170*	0.2508**	0.2712***
	[0.069]	[0.155]	[0.182]	[0.1078]	[0.1073]	[0.0898]	[0.0893]	[0.091]	[0.215]	[0.264]	[0.1199]	[0.1217]	[0.1026]	[0.1042]
RATED	0.003	0.014	-0.011	-0.0323***	-0.0332***	-0.0376***	-0.0380***	-0.011	0.069	0.07	-0.0994***	-0.1035***	-0.0985***	-0.1012***
	[0.003]	[0.008]	[0.011]	[0.0081]	[0.0081]	[0.0068]	[0.0067]	[0.018]	[0.050]	[0.061]	[0.0336]	[0.0337]	[0.0284]	[0.0284]
LEVERAGE	-0.036***	-0.251***	-0.270***	-0.3722***	-0.3719***	-0.3821***	-0.3802***	0.208	-1.168	-1.637	0.743	0.8139	0.6303	0.6867
	[0.013]	[0.030]	[0.037]	[0.0322]	[0.0318]	[0.0243]	[0.0241]	[0.303]	[0.818]	[1.006]	[0.5421]	[0.5506]	[0.4574]	[0.4623]
TERM SPREAD	0.004	0.024**	0.034***	0.0166	-0.074	0.053	-0.0391	-0.019	0.035	0.088	-0.0614	-0.2333**	-0.0185	-0.1828**
	[0.004]	[0.010]	[0.013]	[0.0446]	[0.0643]	[0.0350]	[0.0513]	[0.021]	[0.057]	[0.072]	[0.0607]	[0.1003]	[0.0493]	[0.0827]
ln(STATE GDP)	-0.01	-0.028	-0.019	0.0098	-0.1085*	0.0195	-0.0970*	-0.005	-0.048	-0.048	0.0381	-0.1818**	0.0447*	-0.1632***
	[0.011]	[0.026]	[0.032]	[0.0247]	[0.0639]	[0.0205]	[0.0516]	[0.013]	[0.033]	[0.041]	[0.0299]	[0.0758]	[0.0254]	[0.0624]
ln(PCI)	-0.0311	-0.0421	-0.0814	-0.0299	-0.0744	-0.0266	-0.0723	-0.0540	0.429*	0.581*	-0.1988*	-0.2851**	-0.1805**	-0.2623***
	[0.0630]	[0.0727]	[0.0717]	[0.0620]	[0.0657]	[0.0480]	[0.0513]	[0.085]	[0.252]	[0.311]	[0.1050]	[0.1198]	[0.0859]	[0.0984]
LEGISLATIVE CONTROL	-0.003	-0.003	-0.007	0.0044	-0.0014	0.0045	0.0009	-0.001	-0.008	-0.014	0.0109	0.0001	0.0103	0.0023
	[0.004]	[0.008]	[0.010]	[0.0064]	[0.0061]	[0.0051]	[0.0048]	[0.004]	[0.009]	[0.011]	[0.0078]	[0.0067]	[0.0064]	[0.0053]
LEADING INDEX	0.002	-0.003	0.006	-0.0001	-0.0046*	-0.0016	-0.0045**	0.002	-0.004	0.004	0.0028	-0.0046	0.001	-0.0045**
	[0.002]	[0.005]	[0.006]	[0.0030]	[0.0027]	[0.0024]	[0.0021]	[0.002]	[0.005]	[0.006]	[0.0035]	[0.0029]	[0.0029]	[0.0022]
Observations	13,306	13,306	13,306	49,198	49,198	49,198	49,198	13,306	13,306	13,306	49,198	49,198	49,198	49,198
Adjusted R-squared	0.025	0.104	0.136	0.179	0.182	0.243	0.247	0.012	0.012	0.009	0.082	0.074	0.116	0.108
Weak IV test								10.22	10.22	10.22	16.68	47.77	16.28	47.77
Overidentification test								0.51	0.20	0.96	0.77	0.94	0.9174	0.73
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
State FE	NO	NO	YES	NO	YES	NO	YES	NO	NO	YES	NO	YES	NO	YES

Fig 1: A map of state level corruption scaled by 100k of state population

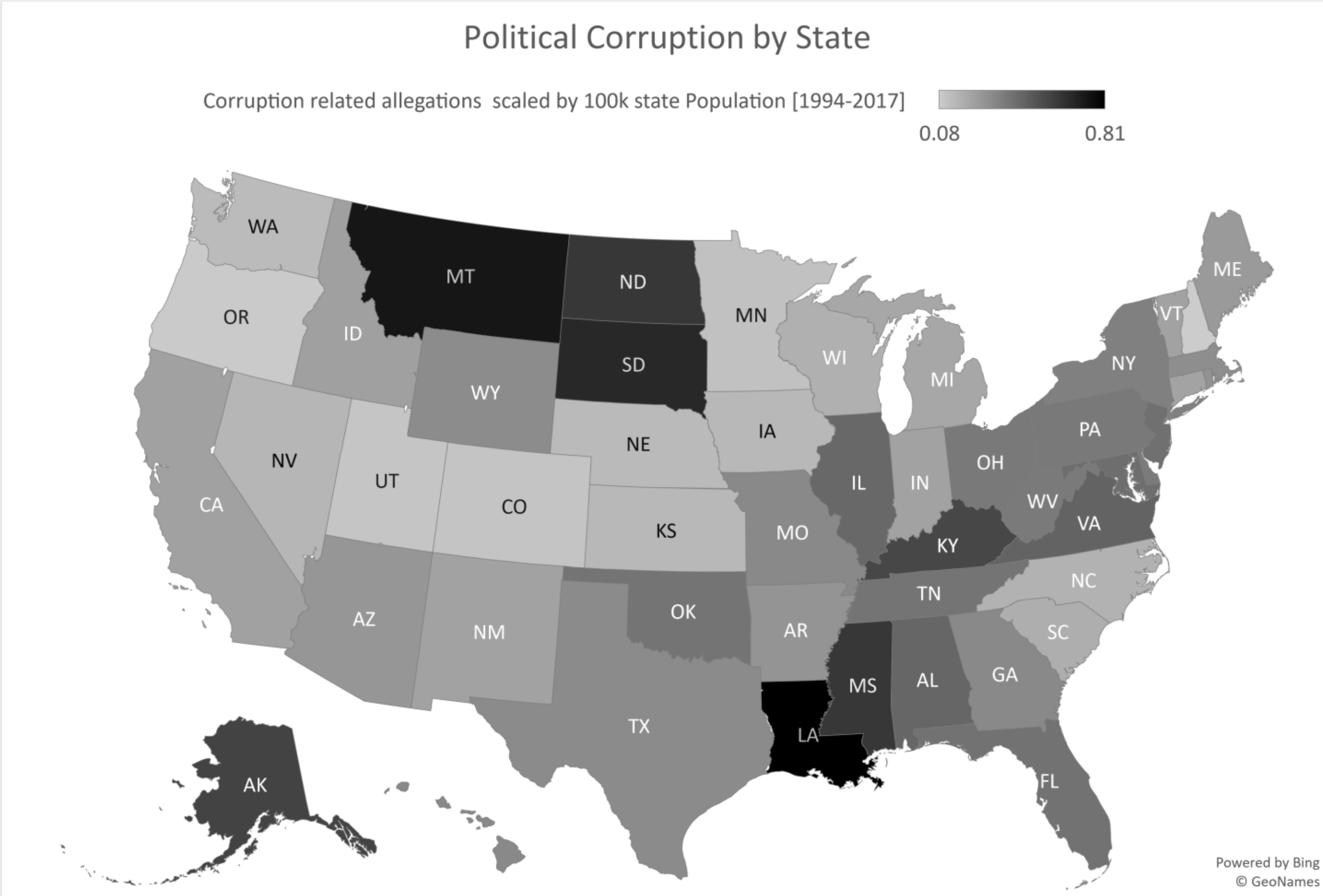


Fig 2: The relationship between Short-term debt and Corruption

This figure presents the relationship between the use of short-maturity debt (ST1 to ST5) and standardized political corruption. The univariate relationship is controlled for Fama-French 12 industries fixed effects.

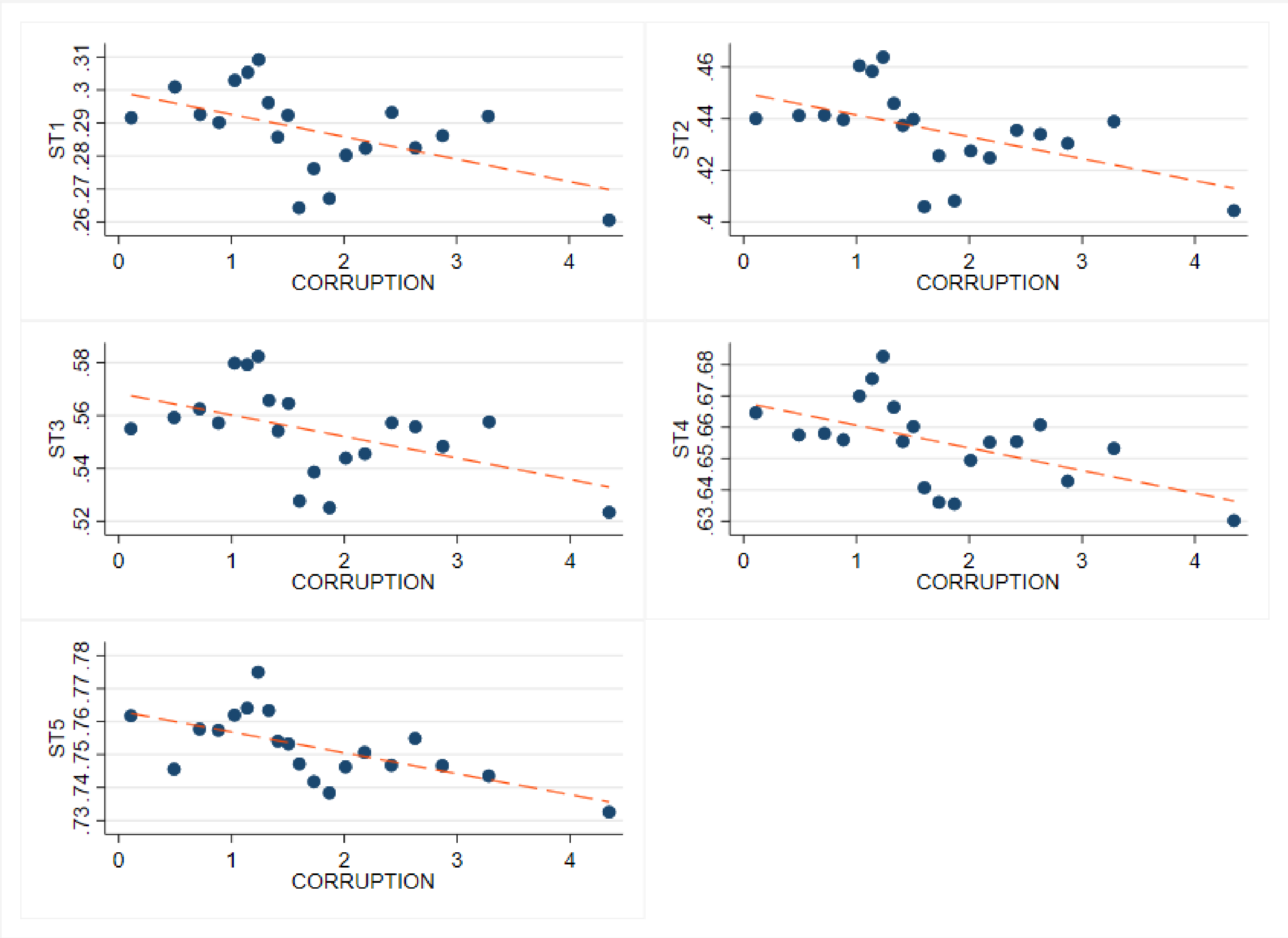


Fig 3: Mean difference of corruption

This figure presents the mean difference of our short-maturity debt variables (ST1 to ST5) and long-term debt-maturity (DM1, DM3, DM5) for firms in states with the lowest and highest Political Corruption (PC). Our variables are ST1: Debt maturing within 1 year, ST2: Debt maturing within 2 years, ST3: Debt maturing within 3 years, ST4: Debt maturing within 4 years, ST5: Debt maturing within 5 years, DM1: Portion of debt maturing in more than 1 year, DM3: Portion of debt maturing in more than 3 years, DM5: Portion of debt maturing in more than 5 years. We sort PC into quartiles each year over the sample period and calculate the mean difference each short-term and long-term debt ratio between firms located in low PC states and firms located in high PC states.

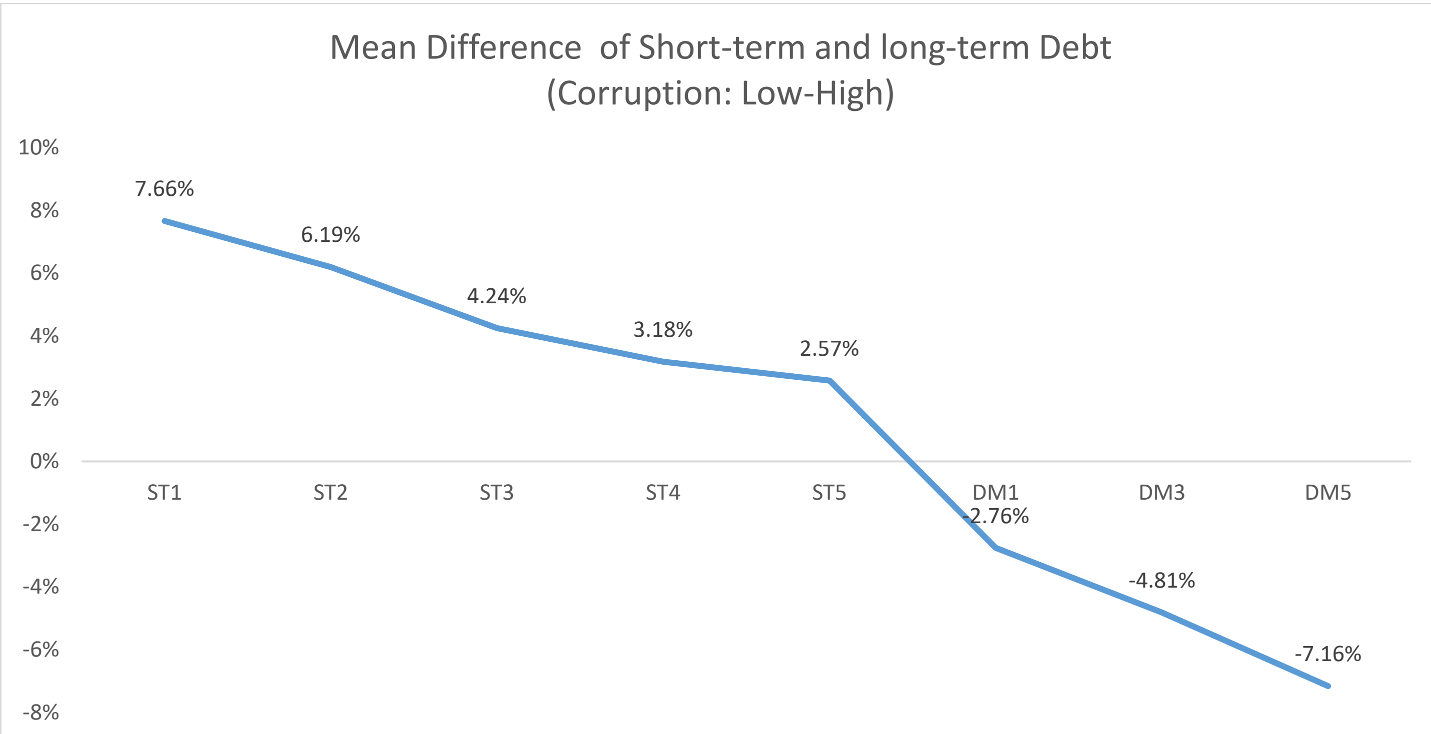


Fig 4: Debt-maturity and Corruption

This figure plots the univariate relationship corruption and portion of debt maturing in more than 3 years and within 3 years respectively. The regression is estimated using an Epanechnikov kernel at 95% confidence interval (indicated with the shadow region). We standardized corruption by its standard deviation. The state-level number of corruption convictions are scaled by the state population (in 100k).

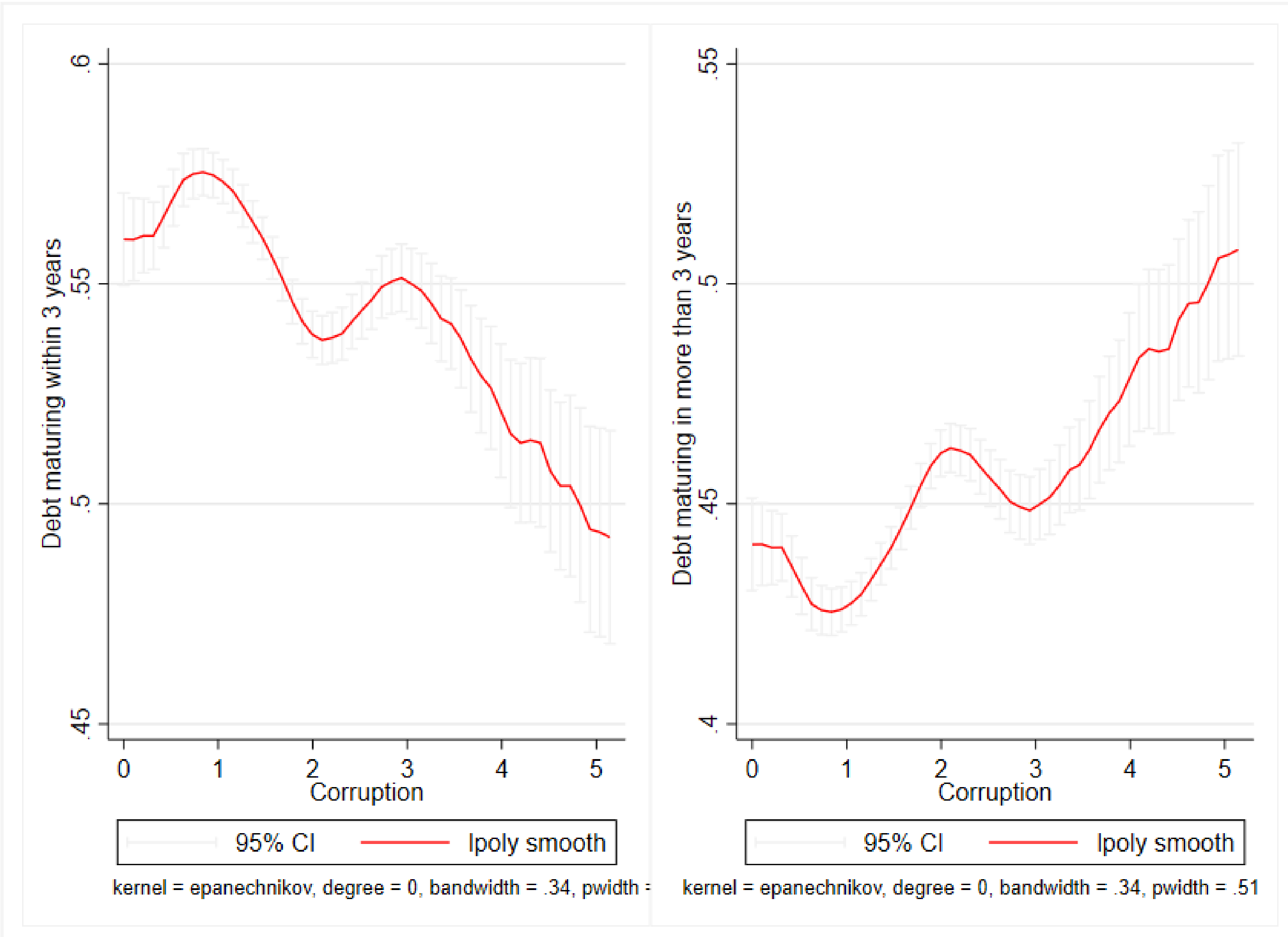


Fig 5: Relationship between policy uncertainty and political corruption

This figure plots the univariate relationship policy uncertainty and political corruption. The graphical displays a negative, in general, indicates a negative relationship (a correlation -0.0643) between policy uncertainty and local political corruption.

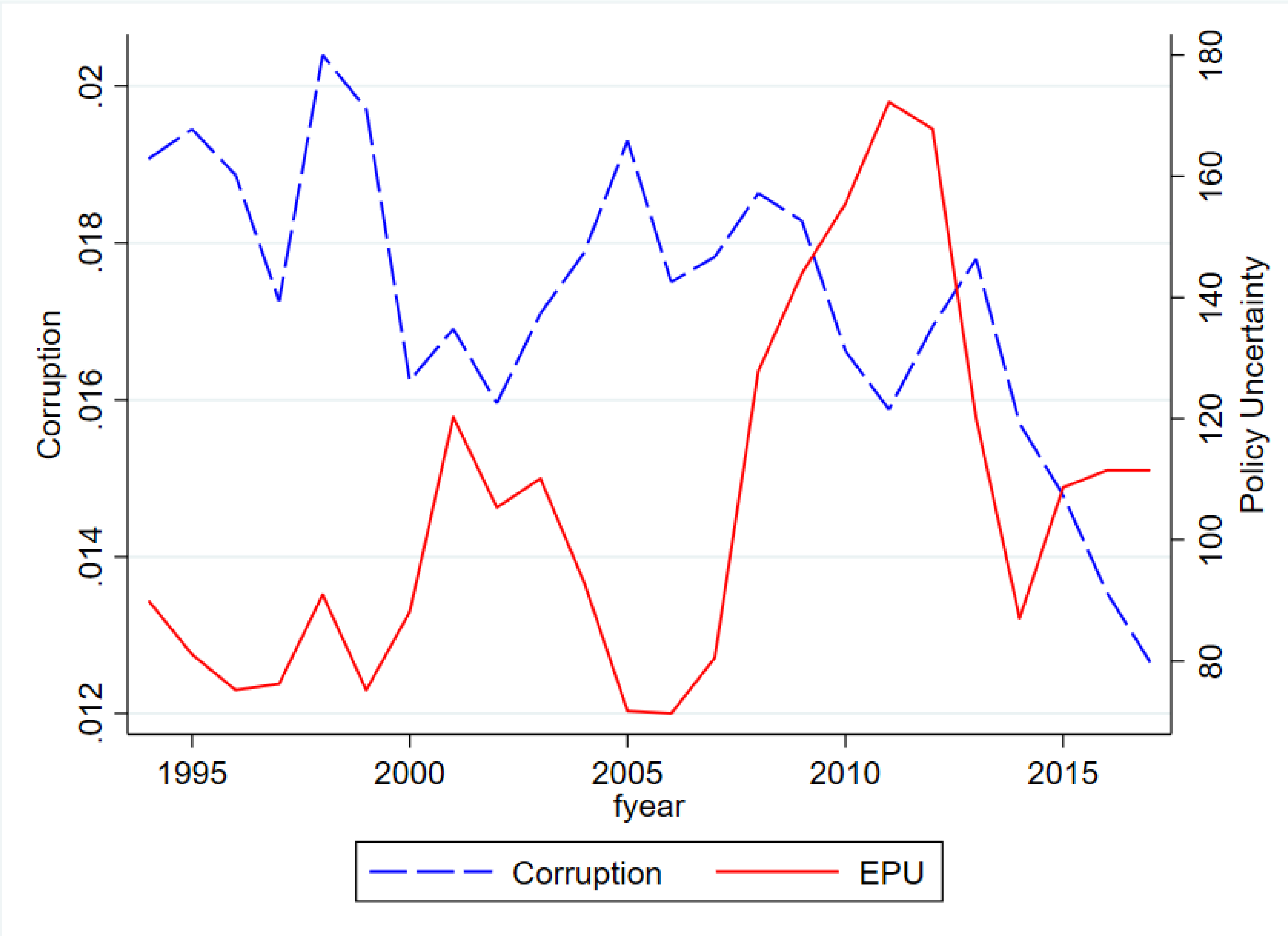
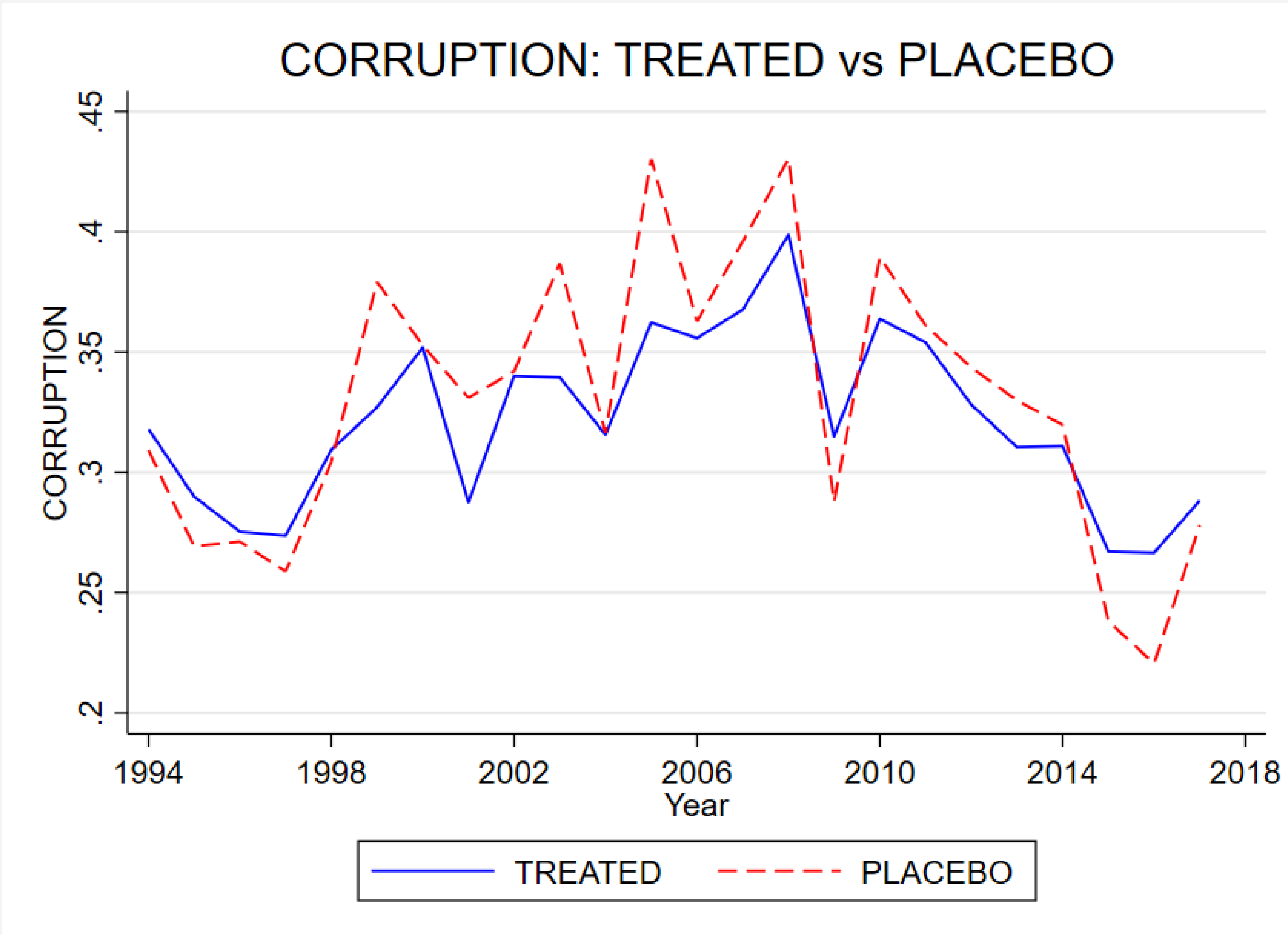


Fig 6: Treated vs Placebo

This figure presents the time-series average of treated and randomly assigned corruption over the sample period. For the placebo test, we randomly assign state-level political corruption information to different years to generate placebo corruption data.



Online Appendix

Table OA1: Relationship between PC and debt-maturity using 94 federal judicial districts

In this table, we present the second-stage IV-GMM estimates with corruption measured at the district level. We consider five different measures of debt-maturity as the dependent variable which include ST1: Debt maturing within 1 year, ST2: Debt maturing within 2 years, ST3: Debt maturing within 3 years, ST4: Debt maturing within 4 years, and ST5: Debt maturing within 5 years. Our sample period is 1994 to 2017, and we include time fixed effects, Fama-French 48 industries fixed effects, and federal judicial district fixed effects in the IV-GMM regression to control for unobservable time-, industry-, and federal judicial district-level factors. Standard errors clustered by firm are shown in brackets with statistical significance denoted as *** =p<1%, ** =p<5%, * =p<10%.

VARIABLES	ST1	ST2	ST3	ST4	ST5	ST1	ST2	ST3	ST4	ST5
	(1)	(2)	(3)	(4)	(5)	(1)	(2)	(3)	(4)	(5)
CORRUPTION	-0.0045***	-0.0044***	-0.0040***	-0.0027**	-0.002	-0.0028**	-0.0039**	-0.0040**	-0.0023	-0.0021
	[0.0012]	[0.0013]	[0.0013]	[0.0013]	[0.0012]	[0.0014]	[0.0016]	[0.0016]	[0.0015]	[0.0015]
SIZE	-0.1220***	-0.1333***	-0.1133***	-0.0738***	-0.0278***	-0.1246***	-0.1421***	-0.1222***	-0.0821***	-0.0343***
	[0.0093]	[0.0102]	[0.0102]	[0.0097]	[0.0096]	[0.0090]	[0.0103]	[0.0103]	[0.0098]	[0.0096]
SIZE SQR	0.0059***	0.0050***	0.0028***	-0.0002	-0.0032***	0.0061***	0.0056***	0.0034***	0.0003	-0.0028***
	[0.0007]	[0.0007]	[0.0007]	[0.0007]	[0.0007]	[0.0006]	[0.0008]	[0.0008]	[0.0007]	[0.0007]
MB	0.0086	0.0072	0.0052	0.0014	0.0064	0.0086	0.013	0.0117	0.0078	0.0105
	[0.0086]	[0.0097]	[0.0098]	[0.0094]	[0.0093]	[0.0074]	[0.0090]	[0.0089]	[0.0086]	[0.0084]
ROA	-0.0732***	-0.0668***	-0.0292*	-0.005	0.0008	-0.0590***	-0.0591***	-0.0257	-0.0034	0.0021
	[0.0157]	[0.0160]	[0.0152]	[0.0138]	[0.0126]	[0.0154]	[0.0166]	[0.0157]	[0.0143]	[0.0130]
CAPX	0.1335	0.0456	0.0498	0.0343	0.1497	0.1858*	0.1875	0.184	0.1521	0.2308*
	[0.1198]	[0.1326]	[0.1368]	[0.1315]	[0.1334]	[0.1081]	[0.1287]	[0.1317]	[0.1270]	[0.1280]
TANGIBILITY	-0.2729***	-0.2400***	-0.1903***	-0.1396**	-0.1571**	-0.3054***	-0.3224***	-0.2802***	-0.2286***	-0.2234***
	[0.0612]	[0.0671]	[0.0680]	[0.0652]	[0.0650]	[0.0557]	[0.0667]	[0.0670]	[0.0640]	[0.0633]
ASSETS MATURITY	0.0006	0.0005	0.0001	-0.0003	-0.0005	0.0006	0.0006	0.0001	-0.0003	-0.0005
	[0.0005]	[0.0005]	[0.0005]	[0.0004]	[0.0004]	[0.0004]	[0.0005]	[0.0005]	[0.0004]	[0.0004]
ABNORMAL EARNINGS	0.0249***	0.0242***	0.0235***	0.0150**	0.0185***	0.0267***	0.0299***	0.0289***	0.0193***	0.0213***
	[0.0063]	[0.0067]	[0.0065]	[0.0058]	[0.0050]	[0.0059]	[0.0065]	[0.0062]	[0.0055]	[0.0048]
EARNINGS VOLATLITY	0.1095***	0.0883**	0.0655*	0.035	0.0402	0.1287***	0.1246***	0.0990***	0.0654**	0.0594*
	[0.0319]	[0.0349]	[0.0342]	[0.0323]	[0.0316]	[0.0306]	[0.0353]	[0.0346]	[0.0328]	[0.0320]
Z-SCORE DUMMY	0.1276*	0.093	0.0923	0.0666	0.0882	0.1404**	0.1532**	0.1529**	0.1261*	0.1250*
	[0.0770]	[0.0870]	[0.0875]	[0.0848]	[0.0848]	[0.0616]	[0.0746]	[0.0747]	[0.0724]	[0.0718]
LEVERAGE	0.3413	0.0734	0.0429	-0.031	0.1743	0.3934	0.3662	0.3413	0.2606	0.3536
	[0.3815]	[0.4245]	[0.4272]	[0.4132]	[0.4146]	[0.3090]	[0.3695]	[0.3704]	[0.3583]	[0.3561]
TERM SPREAD	0.1036***	0.0462	0.007	-0.1020**	-0.2394***	0.0073	0.0222	0.0157	-0.091	-0.2758***
	[0.0375]	[0.0466]	[0.0492]	[0.0498]	[0.0395]	[0.0572]	[0.0690]	[0.0705]	[0.0701]	[0.0619]
ln(STATE GDP)	0.0652**	0.0506*	0.042	0.0365	0.0076	-0.0595	0.0267	0.0549	0.0544	-0.031
	[0.0263]	[0.0288]	[0.0290]	[0.0275]	[0.0273]	[0.0559]	[0.0640]	[0.0643]	[0.0605]	[0.0593]
ln(PCI)	0.0313	0.0007	-0.0067	-0.1009	-0.2170***	-0.0057	-0.0072	0.0035	-0.0919	-0.2316***
	[0.0511]	[0.0654]	[0.0693]	[0.0724]	[0.0530]	[0.0556]	[0.0713]	[0.0749]	[0.0783]	[0.0596]
LEGISLATIVE CONTROL	0.0220***	0.0206***	0.0178**	0.0173**	0.0129*	0.0045	0.0029	0.0015	0.0057	0.0019
	[0.0073]	[0.0078]	[0.0078]	[0.0076]	[0.0074]	[0.0052]	[0.0061]	[0.0063]	[0.0060]	[0.0056]
LEADING INDEX	0.0028	0.0046	0.0042	0.0036	0.0078**	-0.0044*	-0.0021	-0.0035	-0.0027	0.0029
	[0.0032]	[0.0035]	[0.0035]	[0.0033]	[0.0033]	[0.0024]	[0.0029]	[0.0030]	[0.0029]	[0.0027]
Observations	138,779	118,184	117,946	117,495	115,239	140,673	119,813	119,573	119,120	116,843
Kleibergen–Paap rk Wald F	22.01	19.29	19.37	19.39	18.67	34.33	28.67	28.71	28.59	27.59
Hansen J statistic (p value)	0.60	0.95	0.86	0.77	0.98	0.83	0.72	0.63	0.54	0.91
Adjusted R-squared	0.18	0.31	0.31	0.29	0.24	0.17	0.26	0.27	0.25	0.20
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	NO	NO	NO	NO	NO
US District FE	NO	NO	NO	NO	NO	YES	YES	YES	YES	YES