

Corporate Interests and the Political Process: International Evidence

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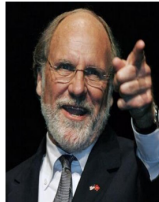
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Executives in Political Office

Global competition and regulation
Firm-value and aggregate implications
Executives' electoral success
Conclusions





Questions

- ▶ How often do executives enter politics?
- ▶ Why do executives go into politics?
- ▶ What impact do businessman politicians have on their firms and on the aggregate policy more generally?
- ▶ What determines executives' electoral success?

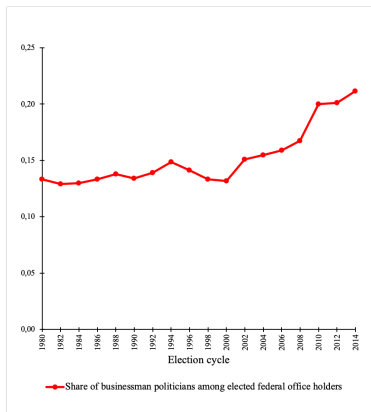
Literature: Firms and Politics

- ▶ Firms participate in the political process in a variety of ways:
 - ▶ Direct connections with politicians (Faccio (2006); Goldman, Rocholl, and So (2009); Duchin and Sosyura (2012), Akcigit, Baslandze, and Lotti (2018));
 - ▶ Campaign contributions to candidates from the firms' PACs (Cooper, Gulen, and Ovtchinnikov (2010); Akey (2015));
 - ▶ Lobbying (Bertrand, Bombardini, and Trebbi (2014); Borisov, Goldman, and Gupta (2015));
 - ▶ CEOs involving their employees in politics (Babenko, Fedaseyev, and Zhang (2017)).

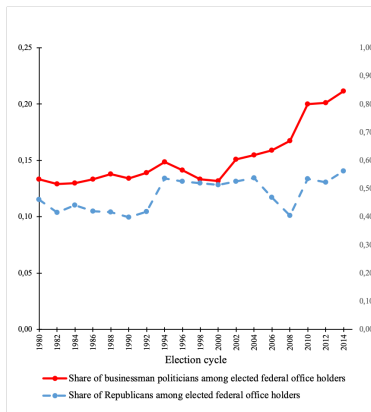
Literature: Firms and Politics

- ▶ The participation of executives in the political process:
 - ▶ Faccio (2006): political connections through executives and shareholders are valuable to firms, but primarily in corrupt countries;
 - ▶ Bunkawanicha and Wiwattanakitang (2008): the impact of business tycoons in Thailand after the 2001 election;
 - ▶ Gehlbach, Sonin, and Zhuravskaya (2010): businessmen may run for office to reduce lobbying costs.

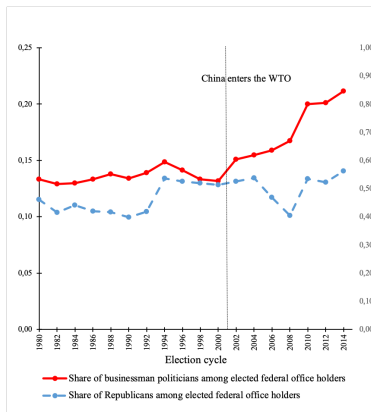
Executives in Elected Office: the United States



Digging Deeper: the United States



Digging Deeper: the United States



Economic Theories of Regulation

- ▶ **Regulatory capture** (Stigler (1971); Peltzman (1976)): regulation creates barriers to entry and exists primarily for the benefit of industry incumbents.
- ▶ **Tollbooth theory** (De Soto (1990); Shleifer and Vishny (1998)): bureaucrats create regulation so as to extract benefits from firms by means of bribes, campaign contributions, votes, etc.

The Incidence of Executives Running for Office



The Impact of Global Competition

- ▶ We use the rise of China as an exogenous competitive shock.
- ▶ We run the following IV regression, adapted from Autor, Dorn, and Hanson (2013):

$$\Delta EX_{it} = \gamma_t + \beta_1 \Delta IC_{US,it} + e_{it}. \quad (1)$$

- ▶ We instrument $\Delta IC_{US,it}$ (the growth in import exposure of U.S. industries) by $\Delta IC_{OTH,it}$ (the growth in import exposure of the corresponding industries in other high-income countries).

The Impact of Global Competition

<i>Sample:</i>	<i>Instrumental variables: Second-stage estimates</i>			
	Growth in the number of businessman politicians			
	Manufacturing industries		All industries	
	(1)	(2)	(3)	(4)
Growth in imports from China to U.S.	0.024*** (0.006)	0.024*** (0.005)	0.016** (0.008)	0.016** (0.006)
Post-2000 indicator	0.023 (0.025)	0.042** (0.021)	0.035*** (0.013)	0.051*** (0.011)
	<i>Instrumental variables: First-stage estimates</i>			
Growth in imports from China to OTH	0.536*** (0.056)	0.536*** (0.056)	0.613*** (0.027)	0.613*** (0.027)
Post-2000 indicator	-0.382** (0.154)	-0.382** (0.154)	-0.080** (0.037)	-0.080** (0.037)
Time period	1991-2007	1991-2010	1991-2007	1991-2010
Observations	112	112	498	498
R-squared	0.492	0.492	0.515	0.515

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

The Impact of Federal Regulation

- ▶ We use the index of industry-level regulation developed in Al-Ubaydli and McLaughlin (2017).
- ▶ The index is constructed via textual analysis in two steps:
 - ▶ Measure the restrictiveness of the Code of Federal Regulations.
 - ▶ Using keywords, measure the relevance of each part of the Code of Federal Regulations for specific industries.

The Impact of Federal Regulation

	Growth in the number of businessman politicians			
	(1)	(2)	(3)	(4)
Regulation measured by words	0.008** (0.004)	0.014** (0.005)	- -	- -
Regulation measured by restrictions	- -	- -	0.604* (0.315)	1.092** (0.442)
Observations	2,431	2,431	2,431	2,431
R-squared	0.088	0.026	0.088	0.026
Industry fixed effects	Yes	Yes	Yes	Yes
Election cycle fixed effects	Yes	No	Yes	No
Decade fixed effects	No	Yes	No	Yes

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Firm-Value Implications

Panel A: CARs of firms whose executives win political office

	CAR	N	t-stat
	(1)	(2)	(3)
Event window (-1; +1)	0.014	71	2.21**
Event window (-1; +3)	0.018	71	2.15**
Event window (-1; +5)	0.019	71	2.07**
Event window (-1; +7)	0.028	71	2.34**

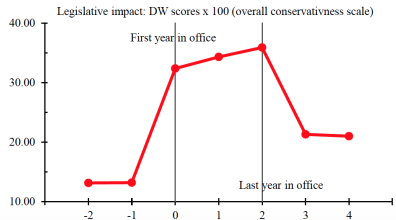
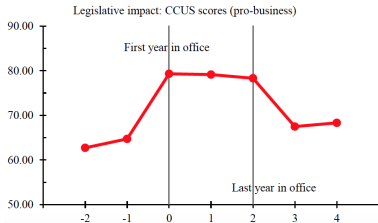
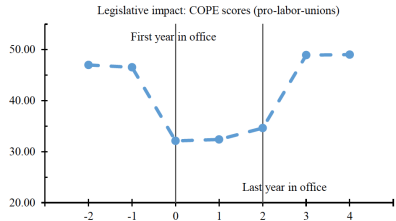
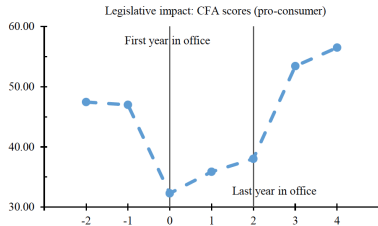
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Panel B: CARs of firms whose executives win political office, sample splits at the top and bottom quartiles

	CAR (ownership in the top quartile)	N	CAR (ownership in the bottom quartile)	N	t-stat
	(1)	(2)	(3)	(4)	(5)
Event window (-1; +1)	0.046	13	0.008	29	1.88*
Event window (-1; +3)	0.065	13	0.005	29	2.22**
Event window (-1; +5)	0.072	13	0.011	29	2.13**
Event window (-1; +7)	0.099	13	0.013	29	2.23**

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Voting Records: Graphical Evidence



Voting Records: Evidence from Close Elections

Panel A: Pro-consumer (CFA), pro-labor (COPE) interest group ratings

	CFA		COPE	
	(1)	(2)	(3)	(4)
Businessman politician indicator	-10.638** (4.834)	-10.704** (4.988)	-7.104* (3.950)	-7.113* (3.848)
Republican indicator	-48.524*** (4.675)	-48.876*** (5.725)	-65.639*** (2.468)	-62.404*** (2.952)
Republican vote share	- -	0.074 (0.865)	- -	-0.686 (0.456)
Observations	255	255	526	526
R-squared	0.667	0.667	0.807	0.808

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Panel B: Pro-business interest group ratings (CFA), the overall conservative/liberal score (DW-NOMINATE)

	CCUS		DW-NOMINATE x 100	
	(1)	(2)	(3)	(4)
Businessman politician indicator	4.432 (4.518)	4.443 (4.380)	12.154*** (4.316)	12.197*** (4.050)
Republican indicator	37.955*** (3.252)	35.459*** (4.165)	79.239*** (3.211)	75.898*** (4.164)
Republican vote share	- -	0.528 (0.528)	- -	0.708 (0.683)
Observations	526	526	497	497
R-squared	0.651	0.653	0.867	0.868

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What Determines Executives' Electoral Success?

- ▶ We find no evidence that businessman politicians raise more money than their non-businessman opponents.
- ▶ The sources of campaign contributions differ somewhat across businessman and non-businessman politicians.
- ▶ At the same time, businessman politicians do differ from their non-businessman opponents on observable characteristics.

Are Businessman Politicians Different?

	Businessman politicians	N	Opponents of businessman politicians	N	t-stat
	(1)	(2)	(3)	(4)	(5)
Female	0.125	152	0.140	516	-0.46
Republican-party candidate	0.671	152	0.403	516	5.97***
Prior government experience	0.303	152	0.459	516	-3.46***
Army service	0.362	152	0.306	516	1.29
Undergraduate degree	0.967	152	0.859	516	3.70***
Graduate degree	0.691	152	0.587	516	2.31**
Ivy League school	0.263	152	0.164	513	2.78***
MBA degree	0.204	152	0.081	516	4.31***
Law degree	0.230	152	0.314	516	-1.99**
Academic experience (Ph.D. degree or professor)	0.125	152	0.120	516	0.16
Finance experience	0.224	152	0.056	516	6.39***
Age	52.375	152	52.242	451	0.14
Married status	0.914	152	0.814	415	2.90***
Number of children	2.724	152	2.625	392	0.60
Foreign-born	0.046	152	0.047	445	-0.05
Runs in home state	0.493	152	0.388	443	2.28**

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Conclusions

- ▶ Over the last two decades, corporate executives have increased their participation in the legislative process, both in the U.S. and in other developed countries.
- ▶ The rise of businessman politicians can be at least partly attributed to regulation and intensifying global competition.
- ▶ Executives' participation in the legislative process appears to have generated benefits for their firms and shifted the balance of power toward corporate interests.