Discussion of “Politically-Connected CEOs and Corporate Outcomes: Evidence from France”

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Contribution of the Paper

- Explores the relationship between a CEO's political history and corporate decisions
- Three specific contributions
  - Adds to the growing literature exploring the role of CEO characteristics in explaining corporate decisionmaking
  - Explores the intersection of political economy and corporate finance
  - Examines the alma mater (Ecole Polytechnique) of:
    - » Two of the authors (Francis, David) and also an organizer (Gilles)

Empirical Results, Reviewed

1. Politicians run everything in France
2. Politician-CEOs earn lower profits
3. …particularly if located in swing areas
4. Politician-CEOs in swing areas employ more
5. Politician-CEOs employ more in election years
6. …and this holds for city-level politics, too
7. Sometimes standard errors are large
8. Perhaps politician-CEOs employ more in election years and swing cities when their friends are in power
9. Subsidiaries run by politician-CEOs pay lower taxes, particularly if located in swing cities
10. …and they get higher subsidies

Research Questions

- How pervasive is political influence in French firms? Very
- What is the effect of a politically-connected CEO on firm outcomes? Somewhat negative
- Is there a *political business cycle* in firms headed by politician-CEOs? Yes
- Is there a *partisan business cycle* in firms headed by politician-CEOs? Possibly

- Interpretation
  - The Authors: Corporate decisions are distorted by the political pressures on politically-connected CEOs (*Networks*)
  - Alternative: Firms hire bureaucrats to invest in and manage political capital (*Political Risk*)
    - » Results reflect the political naïveté of a non-representative sample of non-political firms

1. How Pervasive is Political Influence?

CEO level characteristics	
CEO in the Who's Who	0.51
CEO age (years)	56.6

- Sample selection:
  - – What is done with CEOs who are not in the Who's Who or alumni directory?
  - $\Rightarrow$ Perhaps non-politicians are missing from the sample

2. Bureaucrats Earn Lower Profits

Result

- Current profits of politically-connected CEOs are 1-2% lower
  - …and lower still in "swing areas"

Alternative interpretations

- Statistical: RHS variables are measured ex post
  - The poorly performing politician-CEOs are in Who's Who …but are the poorly performing non-politicians?
  - "Swing areas" have voted out several incumbents
    - Indicative of poor economic performance through the sample?
    - Exacerbates selection effects
- Economic: Politician-CEOs are investing in political capital
  - A short run cost
  - But long-run benefits: Pay lower taxes, get higher subsidies

3. Political Business Cycles

- Results
  - Firms managed by politician-CEOs employ more
    - » Particularly if located in swing areas
    - » And in election years
- Alternative interpretations
  - Changes in political regime raise uncertainty / risk
    - » Particularly for politically naïve firms
      [firms not headed by bureaucrats]
    - » Option value of waiting leads politically naïve firms to postpone hiring until uncertainty is resolved

4. Partisan Business Cycles

- Results:
  - Weak evidence that you employ more people when your friends are in power
  - Little evidence of effects on taxes and subsidies when your friends are in power
- Interpretation
  - The *existence* of political risk (swing area, election year) differentiates the performance of politically-connected firms
  - …But the *flavor* of that political risk is not so relevant
- More evidence needed here
  - *Networks* interpretation suggests strong effects
  - *Political risk* interpretation suggests no effects
  - Evidence falsifies neither

A Plausibility Test?

- Is *distorting corporate behavior* along these margins an efficient way of transferring rents to politicians?
  - Pork-barrel politics
    - » Raising federal spending in your district by $100 per capita raises vote share by 2% (Levitt and Snyder, 1995)
      - Each vote costs $5,000 in public money
  - Campaign contributions
    - » An additional $100,000 in campaign contributions in a congressional race increases the vote share by 0.3% (Levitt, 1994)
      - Each vote costs $1000 in private money
  - Manipulating employment
    - » Wolfers (2002): Raising employment rate in a state by 1% raises Governor's vote share by 0.4%
      - Each vote costs 2.5 jobs on a corporate payroll
- Is *political uncertainty* important enough that the option value of waiting can explain the differential political cycle in hiring?