Decomposing Partisan Optimism

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Abstract

Entrepreneurs invest more when their preferred political party has a larger share of seats in government. We ask whether this effect is driven by ideological alignment or partisan cheerleading by using data on the party alignment and ideological views of Finnish entrepreneurs. Our setting allows us to exploit two sources of variation previously underused in the literature: ideological heterogeneity within parties and multiparty coalition governments. We then exploit the Finns Party's departure from government as a shock which altered government composition but not economic ideology or policy. Finns Party supporters did not invest less after the party left government. Our findings suggest that ideological similarity is a more important driver of partisan optimism than "blind party loyalty."

Keywords: Partisan expectations, blind party loyalty, small business economics.

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1 Introduction

Recent work has found evidence of *partisan optimism*: people are more optimistic in their assessments of economic conditions when the party they support is in power.[1] However, it is unclear whether individuals are more optimistic because their economic policy preferences are in line with the party they support, or whether their optimism is based solely on the fact that the party they support is in power. Distinguishing between these two explanations is crucial for understanding how individuals form economic expectations and the growing partisan gap in economic expectations. Moreover, most existing research on partisan optimism has focused on the United States, a relatively unique democracy characterized by a low number of effective parties, rising affective polarization [Boxell et al., 2020] and a highly fragmented system of government. In this paper, we study the nature of partisan optimism and provide evidence of its existence outside of the US.

To understand the underlying reason(s) behind partisan optimism, we adapt a framework from the political science literature (*e.g.*, Dias and Lelkes [2022], Orr et al. [2023] and Fowler [2020]) that suggests partisanship is driven by either *party* or *policy*. We will refer to these explanations as *blind party loyalty* and *ideological alignment* respectively. In the former case, people are more optimistic because their preferred party is in power, while in the latter case, people are optimistic because the parties they support will pursue policies that align with their policy preferences. Disentangling these two explanations is challenging because vote choice is often influenced by ideological alignment. We first introduce a simple spatial model where a person selects a party based on their alignment along two orthogonal dimensions: economic and social. The model predicts that if optimism is

[1]This has been documented in the US in a variety of settings, including the decision to become an entrepreneur [Engelberg et al., 2022]. We discuss the findings of this literature later.

driven by ideological alignment, we would expect to see a correlation between economic optimism and party alignment, which disappears when economic ideological distance is accounted for.[2]

We then analyze the relative significance of *party* and *policy* in people's optimism using data on the party affiliations and ideological (economic and social) views of Finnish CEOs and chairmen of companies (henceforth entrepreneurs, as the vast majority are owner-managers of small businesses). In our data, we observe individuals with similar economic ideologies who support different parties or individuals who support the same party but have different economic ideologies. This variation allows us to attempt to separate the effect of *blind party loyalty* from *ideological alignment*. Using the share of seats in government held by the party that a person is aligned with as a measure of party alignment, we find that people tend to be more optimistic when the political party they support is in power, as previous literature has shown in the US. This effect is economically modest and not statistically significant in several specifications. However, once we control for the difference in economic ideology between the government and the individual, this effect disappears completely. Instead, we find that ideological distance on the economic dimension is negatively associated with investment.

Our data include entrepreneurs running for seats in Finland's 300+ municipal councils, each with 13-79 elected councillors. The 2021 elections drew 35,627 candidates, or about 0.6% of the national population. We identify entrepreneur-candidates who can be matched to the financial statements of the firms they manage. While municipal coun-

[2]Pan et al. [2023] provide the closest evidence to this within the finance literature by testing whether partisan differences in portfolio composition are driven by preferences or expectations. While they find evidence for the preferences channel, our paper asks whether expectations themselves are driven by *blind party loyalty* or *ideological alignment*. We also discuss the context-dependence of our results further on in the introduction.

cils are responsible for important decisions, the time commitment and remuneration for councillors are both small and almost all councillors continue to work in their existing jobs full-time. Being elected (as a marginal councillor) also does not have much of an impact on earnings [Kotakorpi et al., 2017].

In Finnish elections, many candidates report their views on issues in questionnaires designed to help voters find a candidate with similar views. This is because parties do not present ranked lists of candidates, but rather the seats won by a party are allocated to the highest vote-getters within the party, raising the importance of candidate selection. These questionnaires allow us to create measures of economic and social ideology for candidates in all elections, including elected members of the national government. We then calculate the ideological distance between the government and candidates on economic and social issues separately. This allows us to test whether entrepreneur-candidates increase investment when their party is in *national* government and how ideological distance on the economic and social dimensions is associated with investment.

We find that, without controlling for economic views, the probability that a firm invests increases with the proportion of seats in government held by the entrepreneur's party. The magnitude of this effect is moderate and sometimes statistically insignificant: A 40% increase in the share of government seats (the maximum in our sample) correlates with a 4-percentage-point increase in investment probability and a 2.5 percentage points rise in gross investment, compared to means of 32% and 16.9%, respectively. Next, we control for economic and social ideological distance and find that only economic distance is (negatively) associated with investment. The impact of economic alignment is larger than that of party alignment - a 7-unit-increase (the difference between the largest center-right and center-left parties) in economic alignment is associated with an increase in

the probability of investment of about 6.3 percentage points and an increase in gross investment of about 4.9 percentage points. Our regressions include entrepreneur fixed-effects, which means that the variation of interest comes from changes in government rather than differences across entrepreneurs.

Next, we examine the breakup of the Finns Party (henceforth, PS, its Finnish acronym) in 2017 as a shock that affected the government-alignment of certain entrepreneurs but not their ideological alignment with the government. In 2017, after lagging in the polls since entering government in 2015, PS elected a new leader, Jussi Halla-aho. Halla-aho was considered controversial for his writings on (among other things) immigration, and the other two governing parties refused to continue to cooperate with PS. As a result, PS split into two factions, with a breakaway party "remaining" in government while PS moved to the opposition. Crucially, the departure of PS had little effect on the average economic ideology (or the practical economic policies) of the government much at all. This means that a group of entrepreneurs was no longer party-aligned with the government but remained ideologically aligned. We compare the investment of these entrepreneurs in the two years after PS's departure to that of entrepreneurs affiliated with parties that remained in government and observe no significant difference, although this test is relatively underpowered as PS was not a popular party among entrepreneurs in 2017.

While our results provide some of the first evidence on the nature of partisan optimism, we should note that our results might not generalize to all settings. The prevalence and drivers of partisan expectations are likely to be context-specific and the strength of emotional attachments that people have towards parties is likely to vary across countries, over time and even across parties within a country. Similarly, the extent to which ideological alignment matters depends on to what extent ideology matters for policy and to what

extent ideology captures beliefs about economic outcomes. While Finland is perhaps a less "atypical" democracy than the US, our results may not generalize to environments with limited shifts in government ideology. While our study period witnessed significant changes in government ideology in Finland, other European democracies such as the Netherlands or Germany experienced notably less variation in ideology over the same timeframe. Consequently, the potential impact of ideology in these contexts remains uncertain. Indeed, Pan et al. [2023] find that, in a US context, partisan differences in portfolio composition seem more driven by differences in preferences between Democrats and Republicans rather than diverging expectations about the economy.

Lastly, it can be argued that entrepreneurs in our sample may differ from the general population. For instance, they might be more objective and sophisticated in making economic decisions compared to ordinary individuals, which could make them less biased in their economic choices. However, prior work on partisan optimism has documented that it is prevalent in high-stakes settings, such as the decisions of CEOs, mutual fund managers, credit analysts or indeed in entrepreneurs [Engelberg et al., 2022]. We review this literature in the next section. Even if our results did not generalize to the broader population, it is still important to understand the nature of partisan bias in these settings. Moreover, considering that the entrepreneurs in our sample are themselves politicians, it is reasonable to expect them to potentially exhibit even greater political bias than ordinary individuals.

Relevant Literature

Our paper is related to the literature on the impact of partisanship on economic decision-making and makes two contributions to this literature. First, we are among the first

to attempt to understand the drivers of partisan optimism. Second, the literature on partisanship in expectations, especially analyses focusing on economic decision-making as opposed to survey responses, has mainly focused on the United States, a relatively unique setting. We present evidence of partisanship in economic decision-making in a multiparty context dominated by coalition governments.

The effect of partisanship has been documented on various economic behaviors. Party alignment has been associated with various factors, including portfolio decisions and beliefs of individual investors [Pan et al., 2023, Krupenkin et al., 2023, Cookson et al., 2020, Meeuwis et al., 2018], more optimistic economic forecasts [Coibion et al., 2020], credit rating decisions of analysts [Kempf and Tsoutsoura, 2021], corporate investment choices [Rice, 2020], mutual fund managers' actions [Cassidy and Vorsatz, 2021], syndicated loan pricing [Dagostino et al., 2023], hiring decisions by employers in Brazil [Colonnelli et al., 2022], and entrepreneurship in the US [Engelberg et al., 2022], among others.[3] There has been less work on ideology, but Kempf et al. [2023] find that both social and economic ideological alignment tends to be associated with greater cross-country capital flows. Our main contribution to this literature is to try to study the drivers of partisanship in expectations. Pan et al. [2023] is the most similar paper in this regard, attempting to separate out the effect of *preferences* from *expectations* in terms of driving partisan differences in portfolio composition.

Our data allow us to observe in more detail the ideological views of people. Most studies mentioned measure party affiliation by looking at voter registration or political donations, in which case the strength of beliefs is not measurable, or by looking at county-level vote

[3]Mian et al. [2021] and McGrath et al. [2017] are two exceptions, finding no effect of party alignment on county-level spending.

shares, in which case individual beliefs are not observed. We measure ideology at the individual-level and link that to similar measurements for the government. While our measures of ideology are far from perfect and may (for example) not also capture relative weightings of different aspects of economic policy, they allow us to make a first pass at trying to separate out the effect of blind party loyalty from ideological alignment.

The political science literature on voting preferences (*e.g.*, Fowler [2020]) and affective polarization (*e.g.*, Dias and Lelkes [2022], Orr et al. [2023]) has also studied the relative role of policy preferences and party alignment in these contexts. In terms of random variation in the salience of ideology or party, these papers are far ahead of our observational study. Many papers in this literature use experimental methods to make party affiliation or policy preferences more salient in some scenario (though Orr et al. [2023] notes that these are often fundamentally linked). There is however one key difference between these settings and economic decision-making. Perceptions of another person may be driven by policy disagreement on many issues, and people may weight these issues differently (for example views on abortion may be more important than views on economic policy). However, in the case of partisan optimism, there is a clear and testable prediction. If partisan differences in the assessment of economic conditions are driven by policy views, these views should relate to economic policy, not social policy.[4]

We also contribute to the literature on political preferences and economic choices outside of the United States. The US is relatively distinct among democracies, in terms of having a relatively low number of effective parties, rising affective polarization (Boxell et al. [2020], Finkel et al. [2020])[5] and significant separation of powers, with a president

[4]One concern here would be that views on some social issues, for instance migration or abortion, may be associated with expectations of economic growth. We discuss this in Section 5.

[5]The dynamics of affective polarization may also work differently in countries with multiple parties

and two powerful legislative chambers as well as powerful state governments. Findings from the US may not be as relevant in less polarized multi-party systems. While political preferences and economic choice have been studied in non-US contexts (*e.g.,* Kaustia and Torstila [2011] analyze the relationship between political preferences and stock market participation), work on the consequences and nature of partisanship has been scarce. A literature in political science (including Stanig [2013], Wlezien et al. [1997] and Evans and Andersen [2006]) finds that retrospective evaluations of the economy in the UK and other European countries are influenced by partisanship, but does not examine economic decisions. Interestingly, Bisgaard [2015] finds that during a crisis, partisans *agree* about the state of the economy but disagree about the role of parties in creating the crisis.

2 A simple model of partisan investment decisions

We set up a simple theoretical framework to motivate our empirical tests. Our model gives us clear hypotheses to test with our data. The model is a standard spatial model where voters and parties express their preferences along two dimensions of ideology.

Consider an economy with a continuum of individuals with unit measure. Individual i's economic and social views are captured by x_i and y_i respectively, which are drawn independently from uniform distribution on unit interval. High x_i may, for example, represent individual i's preferences towards more liberal economic policies whereas high y_i may indicate his attitude towards abortion rights.

There are two political parties, A and B ($j = 0$ and $j = 1$ respectively). Parties'

represented in parliament: Kekkonen and Ylä-Anttila [2021] document the formation of "affective blocs" in Finland.

economic and social policies are summarized by (j, j). With this representation each party is located at the opposite ends of the political spectrum in terms of their economic and social policies. Each individual chooses the party he wants to vote by comparing his total distance in economic and social views to respective parties. For example, the political distance of individual with $x_i = 0.2$ and $y_i = 0.5$ to party A is 0.7 and to party B is 1.3. Therefore, individuals with $x_i + y_i < 1$ are closer to party A and others are closer to party B. Because views of individuals were uniformly distributed on unit interval, each party would be supported by half of the population.

For the rest of the analysis, without loss of generality, we assume that party B is the victor in the election. In order to analyze individuals' economic decisions, we endow everyone with 1 dollar and introduce them an investment opportunity. After seeing which party won the election, people decide how much they want to invest. Investment yields either $R > 1$ dollars with a probability of p or nothing with the complementary probability for each dollar invested. People have different beliefs about p, the success probability of the investment. This probability depends on the underlying model and is given by the equation:

$$p_i = \alpha + \begin{cases} \beta \text{ if } \textit{party} \text{ model governs the partisan optimism} \\ \gamma x_i \text{ if } \textit{policy} \text{ model governs the partisan optimism} \end{cases}$$

where α is a constant satisfying $\alpha > \frac{1}{R}$ so that the investment is a positive NPV project. β is equal to a positive constant if individual i supports party B (the ruling party) and 0 otherwise. The parameter β represents the positive effect of an individual's political party being in power on economic optimism, while the parameter γ captures the sensitivity of

an individual's investment decision to their alignment with the government's economic views. We assume $\alpha+\beta+\gamma \leq 1$ ensuring that the success probability always falls within the unit interval. Our aim in our empirical analysis is to test whether our data support *party* or *policy* models.

Individuals are risk averse and their utility function $u(\cdot)$ is differentiable, strictly increasing with $u(0) = 0$, concave and satisfies lnada conditions (*i.e.,* $u'(0)$ is sufficiently high and $u'(R) = 0$). Each individual maximizes her utility by choosing the amount of investment V_i. Their optimization problem is

$$\max_{V_i} \; p_i u(1 - V_i + RV_i) + (1 - p_i)u(1 - V_i)$$

The first-order condition is

$$(R-1)p_i u'(1 - V_i^* + RV_i^*) - (1 - p_i)u'(1 - V_i^*) = 0$$

Our assumptions on $u(\cdot)$ guarantee the existence and uniqueness of the solution. That is, $0 < V_i^* < 1$. Observe that the optimal investment amount V_i^* increases with p_i because

$$\frac{dV_i^*}{dp_i} = -\frac{p(R-1)^2 u''(1 - V_i + V_i R) + p_i u''(1 - V_i)}{(R-1)u'(1 - V_i + V_i R) + u'(1 - V_i)}$$

which is obtained from total differentiation of the first-order condition is strictly positive. Moreover, because p_i is an increasing function of both β and γ, investment of an individual increases if the party the individual supports is elected. This analysis leads to the following hypothesis.

Hypothesis 1*: An individual has a greater incentive to invest in both the party and policy models if that individual supports party B.*

Proof. In the *party* model, an individual's perception of success probability increases by $\beta > 0$ after elections if that individual supports party B. Thus, supporters of party B has a greater incentive to invest according to the *party* model.

If an individual supports party B, it must be the case that $x_i + y_i > 1$. Given this, we can calculate this individual's expected probability of success according to *policy* model:

$$\begin{aligned} E[p_i] &= \alpha + \gamma E[x_i | x_i + y_i > 1] \\ &= \alpha + \gamma \int_0^1 \int_{1-y_i}^1 \frac{1}{y_i} x_i dx_i dy_i \\ &= \alpha + \frac{3\gamma}{4} \end{aligned}$$

On the other hand, a supporter of party A's expected probability of success is given by

$$\begin{aligned} E[p_i] &= \alpha + \gamma E[x_i | x_i + y_i < 1] \\ &= \alpha + \gamma \int_0^1 \int_0^{1-y_i} \frac{1}{1-y_i} x_i dx_i dy_i \\ &= \alpha + \frac{\gamma}{4} \end{aligned}$$

Therefore, the supporters of party B has a greater incentive to invest under *policy* model, too. □

While the predicted relationship between party affiliation and unconditional probability of investment is positive under both models, the underlying reasons are different. Under the *party* model, such relationship is positive by construction. When the party an individual supports wins the election, her belief on the success probability of the investment jumps

up by β. Under the *policy* model, on the other hand, economic views affect both party affiliation and investment decisions. In other words, it is the alignment of economic views with the governing party *per se* that leads to partisan bias. Therefore, an observed correlation between investments and party affiliation alone does not allow us distinguish these two models. The following hypothesis does.

Hypothesis 2*: Consider two individuals who share the same economic ideology, but belong to different political parties. If the main reason for their partisan optimism is their party affiliation, we would expect to see the individual affiliated with party B invest more than the individual affiliated with party A. However, if the policy model is the main reason for partisan optimism, we would not expect to see a difference in investment levels between the two individuals.*

Proof. Consider two individuals, i and j, who share the same economic view; $x_i = x_j$. Individual i supports party A, while individual j supports party B. According to the *party* model, individual j believes that the probability of investment success is higher than what individual i believes, and therefore makes a larger investment. However, according to the *policy* model, both individuals have the same belief about the probability of investment success, and therefore make the same investment. □

In our empirical tests, we will control for individuals' economic views and examine whether their party affiliations have an impact on their investment behavior. This test will help us distinguish between the *party* and *policy* models. If we find that party affiliation has a significant impact on investment behavior, even after controlling for economic views, this would suggest support for the *party* model. On the other hand, if we find no significant difference in investment behavior between individuals with different

affiliations, this would support the *policy* model.

3 Data

This section outlines the data sources used in our analysis. In Internet Appendix I.A.1, we provide more information on the construction of key variables and the process of linking datasets. Table 1 includes a comprehensive overview of the key variables used in our empirical analyses.

3.1 Candidate ideology

Our data on political opinions come from Voting Advice Applications (VAA) run by the largest media group in Finland (Sanoma Media). VAAs are questionnaires designed to help voters find candidates with similar opinions to them by giving candidates and voters the same survey and then offering voters a list of candidates with similar opinions. Sanoma publishes multiple newspapers with similar VAAs, we use the responses from *Helsingin Sanomat*, the largest broadsheet newspaper in the country.

Sanoma runs their VAAs around all major elections in Finland and these are filled in by more than 85% of candidates running for parliament and about half of all candidates in municipal elections (Isotalo et al. [2020]). We provide background information on elections in Finland in Internet Appendix I.A.2. One immediate concern might be that the answers given by candidates do not represent their views but rather function as an attempt to cater to voter preferences. While this would lead to our measures of ideology being noisy and bias us against finding a relationship between ideology and

economic choice, it is also unlikely because the answers given by candidates to VAAs in parliamentary elections tend to be well-aligned with their answers to confidential survey questions on their policy views [Ilmarinen et al., 2022].

The format of the Sanoma VAA has been standardized from 2012 until a change in 2023, which falls outside of our sample. In all elections, the questionnaire consisted of 20 statements on topical themes followed by a section that contained the same statements: 4 statements on economic issues, 4 statements on social issues, and 2 statements on environmental values. For each statement, candidates respond on a 1-5 scale whether they disagree or agree with the statement. We use responses of candidates to these standardized statements to create a social and economic score for every candidate in all elections.

The statements used to construct the Economic Ideology score are:

- More public services should be produced by private firms
- If we ever face a situation where it is necessary to either cut public services or raise taxes, it is better to raise taxes
- Large differences in income are justifiable so that differences in talent and effort can be rewarded
- Today's level of government services and benefits are economically unsustainable in the long run

And the statements used to construct the Social Ideology score are:

- It's a good thing that gay and lesbian couples have the right to marry and adopt children, just like straight couples
- If the state offers to set up a reception center for asylum seekers in my municipality, my municipality must accept
- Schools do not treat children strictly enough these days. More discipline would make schools better
- Traditional values such as family, religion and the motherland form a good value base for politics

We calculate the government's views on economic and social issues by taking the average score of all elected members of parliament who are members of the ruling parties. The alignment of the government at the time of election is assumed to last for the entire term of the government. Because the VAA in 2011 had a different set of questions, we assumed that all parties in 2011 would have the same ideological scores as their elected members of parliament in 2015.[6]

As governments in Finland are broad coalitions, two of the three governments in our sample were affected by parties leaving or splitting up during their tenure, though none in a way which would have cost them their majority. The broad coalition government of 2011-2015 saw the Left Alliance and Green League leave towards the end of the term. The right-wing government of 2015-2019 saw one of the three governing parties, the Finns Party, split into two in 2017. A majority of its MPs formed a new party called Blue Reform, which continued in government while the remaining MPs moved to the

[6]This does not mean that the government has the same average ideology as the composition of the government changed. Party alignment is generally quite stable, so we judged this option to be safer than attempting to measure ideology from an inconsistent set of questions.

opposition. We ignore these changes in our baseline analyses since the split did not change the economic ideology of the government much at all and identifying affected entrepreneurs is difficult (Blue Reform largely disappeared prior to the next municipal elections) and because the departures of the Left Alliance and Green League were at the very end of their term in government. In a separate analysis, we use the split of the Finns Party as a shock to the party alignment of a small number of clearly affected entrepreneurs.

3.2 Election data

Election results were obtained from the Interior Ministry of Finland. For each candidate, we collected vote counts and an indicator variable indicating whether the candidate was elected.

3.3 Financial data

We obtain financial data of firms from Bureau van Dijk's Orbis database, which provides financial statements for all public and most private firms in Finland. Additionally, the same database enables us to identify key decision makers (usually board members and senior management) within these firms.

4 Results

4.1 Summary statistics

Summary statistics for our sample are presented in Table 2. Firms in our sample are on average very small, with average revenues of 1.9 million euros and average fixed assets of 720k euros. About half of the entrepreneur-years in our sample are from the National Coalition party, with the Centre Party and The Finns Party being the party of choice for about another 35%. In terms of ideology, the entrepreneurs in our sample tend to be very right-wing and conservative compared to the population. Figure 1 shows the ideological position of each entrepreneur in our sample on a -8 to 8 scale as well as the ideological position of each of the 3 national governments elected during our sample period. In Internet Appendix figure I.A.2, we present detailed data on the elected MPs and governing parties. During our sample period (from 2011 to 2022), Finland had three central governments, one "grand coalition" government featuring parties from both the left and right, a moderately right-wing government and a fairly left-liberal government.

Because we are studying small private firms, many will have low levels of fixed assets and even an economically meaningless investment of 1000 euros might appear large. We therefore only include firm-years where fixed assets are greater than 31k euros (the median of the full sample) in our sample. However, in Internet Appendix Figure I.A.4 we present the results using alternative specifications and find that, other than in specifications including the very smallest firms, our results are generally quite similar. In Internet Appendix Table 4 we provide party-level summary statistics on the economic and social views of the entrepreneurs in our sample.

Table 4 presents the average economic and social ideologies for the entrepreneurs in our sample grouped by party. We can see that almost half the entrepreneur-years in our sample affiliate with the National Coalition (KOK) party, a center-right party. The second and third most popular parties are the Center (KESK) and Finns (PS) Parties, the first of which is a centrist party traditionally representing the interests of people outside of large cities and the second a party known for being a "nationalist" right-party. All three of these parties are relatively right-wing economically by Finnish standards and entrepreneurs in all parties tend to be to the right of their parties economically.

4.2 Alignment regressions

Our goal is to test which elements of political alignment affect investment decisions. We therefore regress our two investment-related variables (*Investment Dummy*, defined as 1 if fixed assets have increased more than 10%[7] and *Investment Percentage*, defined as the winsorized percentage change in fixed assets if it is positive and 0 otherwise) on various measures of political alignment.

We begin by regressing investment on the proportion of seats a party holds in the government. We then add other aspects of ideology as well as firm-level financial controls. All of our regressions include firm fixed effects, meaning that we are comparing the same firm across different political regimes. This alleviates concerns about political views being jointly determined with other traits that may affect investment.

[7]We use 10% because of the prevalence of firm-years where fixed assets increase by a very small amount and then revert the next year. These appear to be common data errors. However, we present results defining investment as simply an increase in fixed assets in Appendix Figure I.A.4.

We run the following regressions:

$$Investment\ Dummy_{i,t} = \beta_0 + \beta_1 \times Seats\ in\ Gov't_{i,t} + \beta_2 \times Economic\ Distance_{i,t} + \beta_3 \times Social\ Distance_{i,t} + \alpha \times X_{i,t} + \gamma_i + \epsilon_i$$

$$Investment\ Percentage_{i,t} = \beta_0 + \beta_1 \times Seats\ in\ Gov't_{i,t} + \beta_2 \times Economic\ Distance_{i,t} + \beta_3 \times Social\ Distance_{i,t} + \alpha \times X_{i,t} + \gamma_i + \epsilon_i$$

Our coefficients of interest are the coefficients on *Seats in Gov't*, *Economic Distance* and *Social Distance*. X is a vector of firm-level control variables and γ_i denotes a firm fixed-effect.

The results are presented in Table 3. Columns 1 and 4 show the unconditional effect of party alignment on investment. The coefficients of 0.102 and 0.063 suggest that firms run by managers whose parties have 40% of government seats (the highest share held by a party in our sample, but quite close to what the largest party would typically have) are 4 percentage points more likely to invest (compared to a baseline of 32%) and invest 2.5 percentage points more (compared to a baseline of 16.9%). This result is inline with our *Hypothesis 1* which states that under both *party* and *policy* models, an individual is more likely to increase her investment if the party she supports is in government. However, columns 2 and 6 suggest that when other aspects of ideology are controlled for, this effect disappears and instead we see that economic ideology is negatively associated with both the probability of investing and the size of investments. A one standard deviation decrease (which is about half of the distance between the largest center-right

and center-left parties) in economic alignment is associated with an 3.5 p.p. increase in the probability of investment and a 2.4 p.p. increase in the size of investment. When economic ideology is controlled for, the *Seats in Gov't* flips sign and becomes negative. Social ideology does not appear to be associated with investment.

As these regressions involve many specification choices, we present a graph plotting coefficients and 95% confidence intervals from alternative specifications in Internet Appendix Figure I.A.4. In particular, we show the robustness of our results to alternative cutoffs of minimum fixed assets in a year as well as alternative measures of investment (net investment and a dummy that simply takes the value of 1 if a firm's fixed assets are above the previous year's figure). We find that our main results are robust to most specification changes, though including firm-years with low fixed assets tends to be associated with coefficient estimates closer to 0.

4.3 The Finns Party split

Even though there is considerable heterogeneity within parties in both measures of ideology and even though both measures of ideology seem to predict party alignment equally well, there might still be some concerns about party alignment shaping ideology. We therefore conduct an additional analysis focusing on the breakup of the Finns Party (PS) in 2017. This breakup led to a situation where a number of entrepreneurs (supporters of PS) were no longer party-aligned with the government, but because the economic ideology of PS was almost exactly the average of the government, still equally aligned on the economic dimension (see Internet Appendix Figure I.A.3).

4.3.1 Background information

PS joined a coalition government led by the Center Party in 2015. The coalition was considered right-wing by Finnish standards and set out, among other things, to reform labor markets in Finland. These actions were unpopular with supporters of PS, and the party's support started declining in polls. In municipal elections held in April 2017, PS received only 8.8% of the vote and were the fifth largest party, down from 17.7% and the second largest party in parliamentary elections two years prior.

The longtime leader of PS, Timo Soini, announced he would be stepping down and that a new leader would be elected in June 2017. This election was won by Jussi Halla-aho, a Member of European Parliament who was considered fairly controversial in Finnish politics for his writings on, among other things, immigration.

The election of Halla-aho to party leadership led to statements from the leaders of the other government parties that they were not willing to govern with Halla-aho. After some secret negotiations, a majority of PS parliamentarians announced that they would be leaving the party and founding a new party, called Blue Reform, which was considered an acceptable partner for the other government parties. With Blue Reform, the government maintained a majority in parliament while those MPs that chose to remain affiliated with PS moving to the opposition. The policy agenda of the government did not change substantitively as a result of the split as the government vowed to continue implementing their existing government program (a document that sets out the policy goals of each government in Finland).

We use this shock to study the responses of entrepreneurs who were:

- Aligned with PS in 2017 and 2021 -> we assume that they became party misaligned after the split.

- Aligned with PS in 2017 but not in 2021 -> these people changed parties between elections, but it is not clear whether they stayed in government with Blue Reform and then joined another party or jumped to another party straight away. We therefore do not consider this group to be either a "treated" or a control group.

- Aligned with other government parties in 2017 -> These are going to serve as the control group whose alignment does not change on either dimension.

In the analysis of the PS split, we construct our data files slightly differently compared to the main analysis. We discuss these differences in Internet Appendix I.A.1.3.4.

4.3.2 Results

We present the results in Figure 2. The lines of interest are the blue and green lines. The blue line presents investment by those candidates that remained affiliated with PS in 2017 and 2021, *i.e.,* those who became misaligned as a result of the split of government. The green line presents investment by those entrepreneurs that were affiliated with the two other government parties in 2017, *i.e.,* those whose government and ideological alignments remained unchanged. Finally, the red line presents investment by those entrepreneurs that aligned with PS in 2017 but not in 2021. It is very important to note here that the both the red and blue lines consist of about 40-50 entrepreneurs each in 2019 and fewer in the earlier years, meaning that this test is not powerful. Nevertheless, it appears clear that investment by those entrepreneurs who became misaligned (blue line) held up and even rose compared to those that did not change their alignment at all.

We then test the impact of the split formally, though once again, we note that the number of entrepreneurs who we can identify as affiliated in both elections is low (about 50). We run the following regression:

$$Investment\ Dummy_{i,t} = \beta_0 + \beta_1 \times Split\ Status_i \times Year\ + \beta_2 \times Year + \alpha \times X_{i,t} + \gamma_i + \epsilon_{i,t}$$

Where *Split Status* is a variable that is either *PS in Both Elections* or *Other gov't party in 2017*. *PS in Both Elections* denotes an entrepreneur who was affiliated with PS in both the 2017 and 2021 elections, *i.e.,* someone who became misaligned. *Other gov't party in 2017* denotes an entrepreneur who was affiliated with another governing party in 2017 (Center Party or National Coalition), *i.e.,* someone whose party affiliation did not change (this is the base/omitted category in the interactions). We include firm fixed-effects in the regression. The sample period for this regression is from FY 2015 to FY 2019, *i.e.* covering the term of the Sipilä government.

The results are presented in Table 5. We see no statistically significant differences between entrepreneurs affiliated with another government party and those affiliated with PS, though the sample size is small and the economic magnitudes are quite significant (but generally showing an increase in investment as opposed to a decrease after loss of affiliation).

5 Discussion and limitations

Our study avoids some key limitations of previous research on partisan optimism. For instance, many previous studies have raised concerns that measures of economic optimism and political alignment are elicited in a similar context, which could lead to experimenter demand effects or expressive responding where respondents use economic questions as an opportunity to express their satisfaction or dissatisfaction with the current government. However, in our setting, political views are elicited in a survey whereas economic actions are taken from registry data, eliminating the likelihood of such effects.

One potential concern with our analysis is that political connections or favoritism towards firms run by members of the ruling party could explain why entrepreneurs increase their investments once their preferred party is elected in Finland. However, our results suggest that *ideological* alignment is a much stronger predictor of investment decisions than *party* alignment. Additionally, we compare the views of municipal politicians with those of the elected national government, and while it's possible that municipal politicians could benefit from central government programs, they are more likely to benefit from alignment with the local municipal government. Furthermore, we note that being elected to a council does not appear to be associated with increased investment in any of our regressions.

Another concern may be that economic expectations not only reflect perceptions of a party's economic competence but also of the probability of the party being elected [Ladner and Wlezien, 2007]. In Finland, all of the elections in our sample can be considered close election in the sense that the top 3 parties finished within 0.7% of each other in 2019 and 1.3% of each other in 2011, and while in 2015 the Center Party received 3.4% more votes than the next biggest party, the next three parties (and necessary coalition partners) were

within 1.5% of each other.

Reverse causality between ideological positions and party alignment is also a typical problem in this kind of research, but not necessarily in our setting. Inclusion of firm fixed effects means that cross-sectional differences in opinion (where reverse causality would manifest itself) are not necessarily a concern. Instead, variation in both ideology and party alignment comes from changes in national government. This means that reverse causality is less likely to be a concern than the fact that changes in national government may be associated with changes in investment conditions. This concern is one we unfortunately cannot address as the lack of left-wing entrepreneurs makes the inclusion of year fixed effects infeasible.

The biggest limitations in our study relate to the measurement of ideology and party alignment. A simple scale based on basic questions may not accurately capture a person's beliefs about how policy translates to economic outcomes. Left-wing policy preferences may also not be not driven by expectations about economic conditions but by concerns about redistributive fairness whereas right-wing positions could be driven by economic concerns. As most of the entrepreneurs in our sample are right-wing, this may lead us to estimating a higher importance of economic ideology than actually exists. While we confirm that our results are robust to the exclusion of all left-wing entrepreneurs, we think that further investigation with a more politically diverse sample is warranted. Finally, the share of seats held by one's preferred party might not capture the strength of emotional attachment towards a government.

Finally, while we have self-reported measures of ideology for candidates and parties, we do not know whether the public believes that the parties are competent or trustworthy

enough to carry out these agendas. If people have strong views about these aspects, this could bias our results on economic ideology downwards and increase the importance of party. Overall, while our study is one of the first attempts to understand the nature of partisan optimism, there is still much to be explored in terms of measurement and analysis.

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Figure 1: Political Alignment of Entrepreneurs

This graph presents the economic and social alignments of the entrepreneurs in our main regression sample (in the year 2020, to reduce clutter) as well as the weighted-average alignments of elected MPs from government parties in the 3 national governments elected during our sample period. Both the social views and economic views axes have possible values ranging from -8 to 8. A higher economic view score denotes more right-wing views and a higher social views score denotes more conservative views.

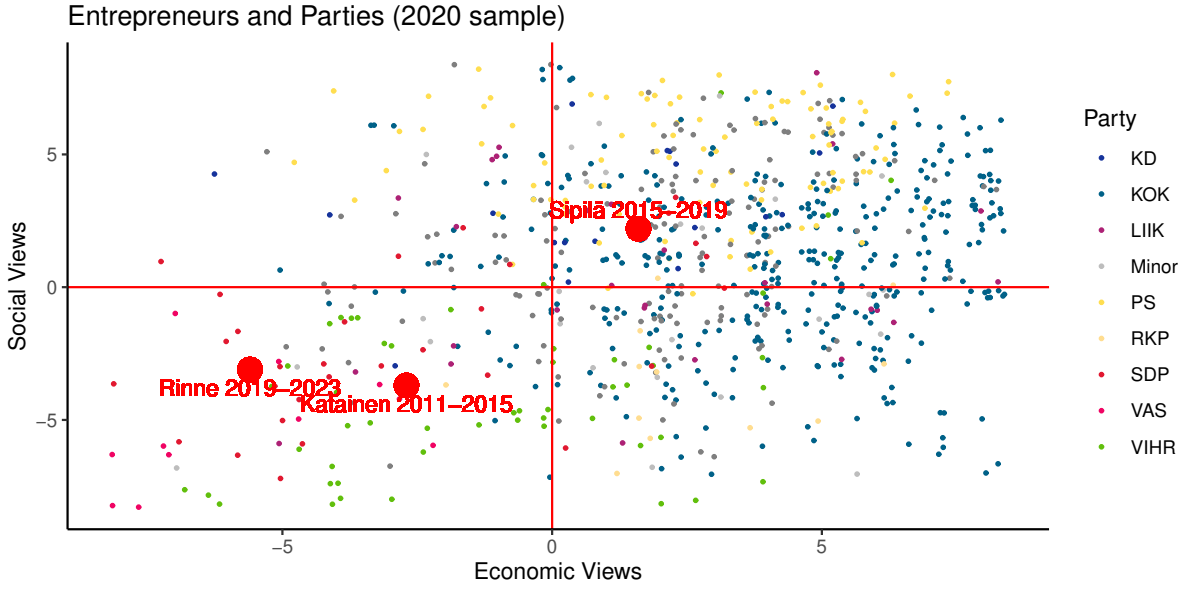


Figure 2: Investment After the PS Split

These graphs present yearly means for various measures of investment by different groupings of entrepreneurs. The graph on the left has a dummy that takes the value of 1 if fixed assets increases by more than 10% in a year on the y-axis whereas the graph on the right has the change in fixed assets (winsorized) on the y-axis. The blue lines denote those entrepreneurs that participated in elections as candidates for the Finns Party in 2017 and 2021, the green line represents those that ran for other government parties (National Coalition and Center) in 2017 and the red line those that ran for the Finns Party in 2017 but not in 2021.

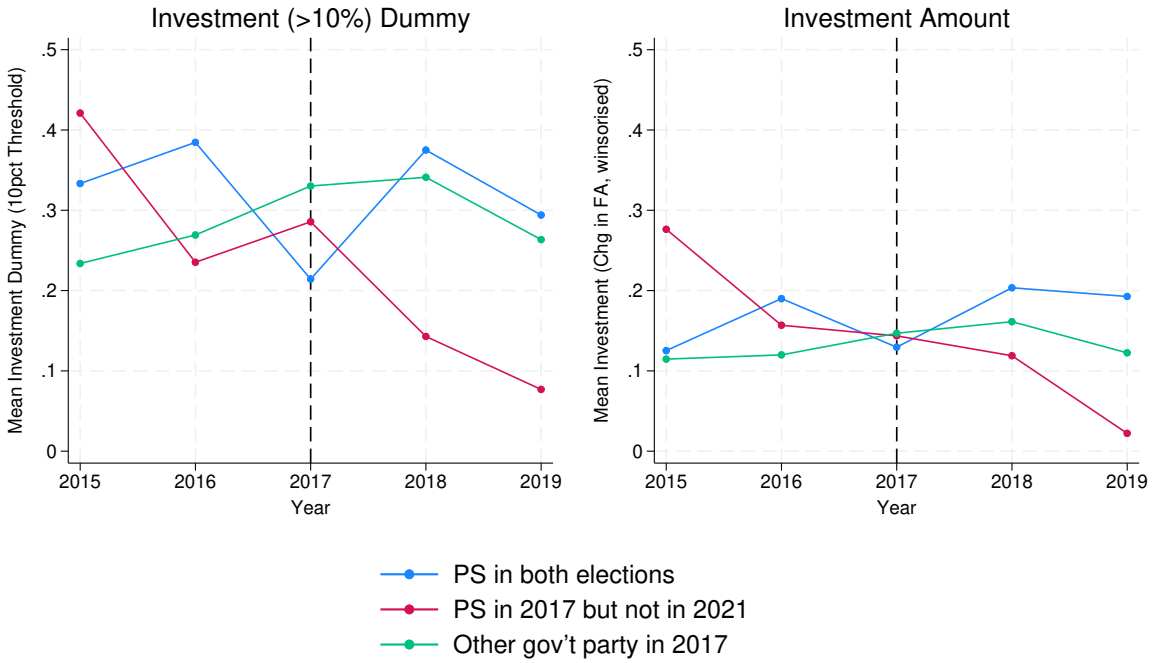


Table 1
Key Variable Definitions

Our main variables of interest are political (economic, social and party) alignment with the party currently in national government as well as investment-related variables. We define investment as an increase in fixed assets as this is the clearest evidence of a direct investment decision as opposed to being caused by for instance an increase in revenues (which may cause total assets to increase). Below, we define the key variables used in the analysis.

- **Seats in Gov't** Based on VAA data. This variable denotes the share of seats in government (*i.e.,* seats in parliament for parties in government) held by the party of the entrepreneur in any given year. Ranges from 0-1.
- **Economic Alignment** Based on VAA data. This variable is defined as the absolute value of the entrepreneur's economic alignment (as defined above, on a scale of -8 to 8) minus the national government's economic alignment. The government's economic alignment is defined as the weighted average economic alignment of all elected MPs in governing parties.
- **Social Alignment** Based on VAA data. This variable is defined as the absolute value of the entrepreneur's social alignment minus the national government's social alignment.
- **Net Investment** Based on Orbis data. This variable is equal to the (fixed assets in year t plus depreciation in t-1) divided by fixed assets in year t-1 if this is greater than 0 and 0 otherwise. The variable is winsorized at the 95% level.
- **Gross Investment** Based on Orbis data. This variable is equal to the percentage increase in the firm's fixed assets if fixed assets in year t $>$ fixed assets in year t-1 and 0 otherwise. The variable is winsorized at the 95% level.
- **Investment Dummy (10 Pct.)** Based on Orbis data. This equal to 1 if Gross Investment is above 10% and 0 otherwise.
- **Investment Dummy** Based on Orbis data. This equal to 1 if Gross Investment is above 0% and 0 otherwise.

Table 2
Summary Statistics

This table provides summary statistics at the firm-year level on several key variables used in our analyses. Our sample consists of Finnish entrepreneurs who participated in municipal elections in 2017 or 2021. We exclude firm-years where the previous year's fixed assets were less than 31k euros (our regression sample).

	(1) Mean	SD	Min	Median	Max	N
Political						
Economic Views	2.720	3.351	-8.000	3.000	8.000	3652
Social Views	1.880	3.498	-8.000	2.000	8.000	3652
Abs. Diff. Econ.	5.704	3.590	0.305	5.391	13.642	3652
Abs. Dif. Soc.	4.498	3.020	0.100	4.100	11.672	3652
Seats in Gov't	0.179	0.161	0.000	0.267	0.395	3652
Firm Info						
Sales (EUR 000)	1929.006	6713.679	-104.000	453.000	125634.406	3587
Total Assets (EUR 000)	1382.362	4520.536	32.507	392.000	79483.000	3652
Fixed Assets (EUR 000)	717.287	3044.990	31.000	152.000	55524.016	3652
Leverage (LT Debt / Total Assets)	0.241	0.259	0.000	0.173	2.295	2988
Investment Dummy	0.433	0.496	0.000	0.000	1.000	3230
Investment Dummy (10pct Threshold)	0.316	0.465	0.000	0.000	1.000	3230
Net Investment Dummy	0.743	0.437	0.000	1.000	1.000	3230
Investment (Chg in FA, winsorised)	0.169	0.286	0.000	0.000	0.839	3230
Net investment (Fixed Assets, winsorized)	0.300	0.410	0.000	0.086	1.212	3230
Political Affiliation						
Christian Democrat (KD)	0.026	0.159	0.000	0.000	1.000	3652
Centre Party (KESK)	0.220	0.414	0.000	0.000	1.000	3652
National Coalition (KOK)	0.493	0.500	0.000	0.000	1.000	3652
Movement Now (LIIK)	0.022	0.146	0.000	0.000	1.000	3652
Minor Parties	0.025	0.158	0.000	0.000	1.000	3652
The Finns (PS)	0.128	0.334	0.000	0.000	1.000	3652
Swedish People's Party (RKP)	0.007	0.082	0.000	0.000	1.000	3652
Social Democrat (SDP)	0.030	0.169	0.000	0.000	1.000	3652
Left Alliance (Vas)	0.013	0.114	0.000	0.000	1.000	3652
Green League (VIHR)	0.036	0.186	0.000	0.000	1.000	3652

Table 3
Political Alignment and Investment

This table presents results from regressions of a dummy (*Investment Dummy* that takes the value of 1 if gross assets are more than 10% higher than in the previous year and *Gross Investment*, the annual change in fixed assets, on various political alignment measures. The *Seats in Gov't* variable is the proportion of seats in government held by the entrepreneur's party in any given year (range from 0-1). The *Abs. Diff. Econ.* and *Abs. Soc. Diff.* variables denote the absolute value of the ideological distance between the entrepreneur and the government on the economic and social dimensions, respectively. Elected to council is a dummy that takes the value of 1 if an entrepreneur was elected to the municipal council in the latest election before any given firm-year. The sample is all firm-years with fixed assets greater than 31k. All specifications include firm fixed-effects. Standard errors are clustered by individual and shown in parentheses and singleton observations (firms that only appear once and hence are subsumed by the firm fixed effect) are not included in the count of Unique IDs or total observations. Significance levels: * 0.1, ** 0.05, *** 0.01.

	Investment Dummy (10 Pct.)			Gross Investment (Pct.)		
	(1)	(2)	(3)	(4)	(5)	(6)
Seats in Gov't	0.102*	-0.028	-0.108	0.063	0.003	-0.071
	(0.060)	(0.078)	(0.095)	(0.039)	(0.053)	(0.049)
Abs. Diff. Econ.		-0.009**	-0.008*		-0.007***	-0.005**
		(0.004)	(0.005)		(0.002)	(0.002)
Abs. Dif. Soc.		-0.003	-0.005		0.002	-0.001
		(0.005)	(0.005)		(0.003)	(0.002)
Elected to Council		-0.032	-0.007		-0.026	-0.019
		(0.038)	(0.042)		(0.022)	(0.018)
L.Log(Sales)			-0.027			-0.020*
			(0.018)			(0.012)
L.Leverage (LT Debt / Total Assets)			-0.331***			-0.221***
			(0.092)			(0.052)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	3077	3077	1931	3077	3077	1931
Unique IDs	493	493	360	493	493	360
R2	0.2619	0.2648	0.2945	0.2778	0.2808	0.2995

Table 4
Party Statistics

This table provides summary statistics for key political variables for entrepreneurs in each party. N refers to the number of firm-year observations for each party.

	Mean	N
Christian Democrat (KD)		
Economic Views	0.758	95
Social Views	2.295	95
Centre Party (KESK)		
Economic Views	1.933	804
Social Views	2.537	804
National Coalition (KOK)		
Economic Views	4.032	1800
Social Views	1.495	1800
Movement Now (LIIK)		
Economic Views	2.487	80
Social Views	3.100	80
Minor Parties		
Economic Views	1.688	93
Social Views	-0.269	93
The Finns (PS)		
Economic Views	2.763	468
Social Views	5.312	468
Swedish People's Party (RKP)		
Economic Views	1.040	25
Social Views	-4.280	25
Social Democrat (SDP)		
Economic Views	-2.852	108
Social Views	-0.843	108
Left Alliance (Vas)		
Economic Views	-4.854	48
Social Views	-3.104	48
Green League (VIHR)		
Economic Views	-0.641	131
Social Views	-3.405	131
Observations	3652	

Table 5
PS Split Regressions

This table presents results from regressions of various measures of investment on year dummies as well as dummies indicating whether an entrepreneur was affiliated with the Finns Party (PS) in both the 2017 and 2021 elections (someone who became misaligned in 2017) or with another government party in 2017 (someone who did not become misaligned) as well as interactions between these and the year variables. *Investment Dummy (10 Pct.)* takes the value of 1 if gross assets are more than 10% higher than in the previous year, *Investment Dummy* takes the value of 1 if gross assets are higher than the year before and 0 otherwise, *Gross Investment (Pct.)* is the annual change in fixed assets and *Net Investment (Pct.)* is the annual change in fixed assets, adjusted for depreciation. The year dummy for 2017 is the reference category for years and the entrepreneurs who are aligned with other governing parties in 2017 are the reference category for the party split variable. Significance levels: * 0.1, ** 0.05, *** 0.01.

	Investment Dummy (>10 Pct.)	Investment Dummy	Gross Investment (Pct.)	Net Investment (Pct.)
	(1)	(2)	(3)	(4)
Year=2015	-0.038	0.001	-0.008	-0.043
	(0.035)	(0.018)	(0.025)	(0.039)
Year=2016	-0.031	-0.009	-0.013	-0.048
	(0.032)	(0.015)	(0.022)	(0.035)
Year=2018	-0.010	-0.005	-0.009	-0.030
	(0.034)	(0.018)	(0.025)	(0.035)
Year=2019	-0.099***	-0.049***	-0.075***	-0.094**
	(0.035)	(0.017)	(0.025)	(0.037)
Year=2015 × PS in both elections	0.081	-0.061	-0.040	-0.016
	(0.120)	(0.055)	(0.083)	(0.149)
Year=2016 × PS in both elections	0.214	0.084	0.118	0.204
	(0.173)	(0.092)	(0.130)	(0.188)
Year=2018 × PS in both elections	0.103	0.018	0.051	0.124
	(0.167)	(0.102)	(0.149)	(0.198)
Year=2019 × PS in both elections	-0.023	-0.042	-0.078	0.055
	(0.099)	(0.062)	(0.094)	(0.168)
Firm FE	Yes	Yes	Yes	Yes
Obs.	1635	1635	1635	1635
Unique IDs	402	402	402	402
R2	0.3765	0.3940	0.4440	0.3930

Internet Appendix

I.A.1 Construction of Datasets

In this section we give detailed information on the construction of the datasets used in our paper.

I.A.1.1 Candidate data

Sanoma, the largest media group in Finland, runs questionnaires (VAAs) designed to help voters find candidates with similar opinions to them by giving candidates and voters the same survey and then offering voters a list of candidates with similar opinions. The questionnaire includes 4 statements on economic issues, 4 statements on social issues, and 2 statements on environmental values. For each statement, candidates respond on a 1-5 scale whether they disagree or agree with the statement. We use responses of candidates to these standardized statements (listed below) to create a social and economic score for every candidate in all elections. The first four statements are on economic and the last four are on social issues:

- More public services should be produced by private firms
- If we ever face a situation where it is necessary to either cut public services or raise taxes, it is better to raise taxes
- Large differences in income are justifiable so that differences in talent and effort can be rewarded
- Today's level of government services and benefits are economically unsustainable in the long run

- It's a good thing that gay and lesbian couples have the right to marry and adopt children, just like straight couples[8]
- If the state offers to set up a reception center for asylum seekers in my municipality, my municipality must accept
- Schools do not treat children strictly enough these days. More discipline would make schools better
- Traditional values such as family, religion and the motherland form a good value base for politics

We scrape candidates' responses to these questions for the parliamentary elections in 2015 and 2019 as well as municipal elections in 2017 and 2021 from *Helsingin Sanomat*'s webpage.[9] On economic questions, we make the coding consistent so that 1 always represents the left-wing answer and 5 the right-wing. On social questions, however, we reverse the coding of the answers on several questions such that 5 always represents the conservative and 1 the liberal answer. These codings are then used to create an index of social and economic views for each candidate, which we plot (for a single year) in Figure 1. We do this simply by summing up the answers to the prompts for each candidate and subtracting 12 (to create an index with a minimum value of -8 and maximum value of 8). For example, on the economic scale, the most left-wing score is -8 and the most right-wing score is 8.[10]

[8]The wording of this question was changed to its current form after same-sex couples were allowed to marry.

[9]VAA data for the 2012 municipal elections were no longer available online when we started this project.

[10]There are several advantages to this approach. The measure is simple and consistent across years. For example, if all parties shift in ideological terms, these changes will be reflected.

There are however other ways and questions that could be used: Isotalo et al. [2020] use factor analysis

Using these data, we create a social and economic score for every candidate in all elections. An entrepreneur's alignment is his/her individual score in a municipal election. If a candidate has run in both municipal elections in our data, we apply their scores from the 2021 election to 2019 and all years after that, and their scores from the 2017 election to all years prior to 2019. In case a candidate only runs in one municipal election, we take his/her score and apply it to the all years.

I.A.1.2 Financial data

Our main source for financial data of firms is Bureau van Dijk's Orbis database, which provides financial statements for all public and most private firms in Finland. We use the historical version of Orbis (*i.e.,* a copy of the entire database saved to Erasmus University's cloud) as of 2020 for most data, but extend our financial data to 2022 using the web-based version of Orbis. One limitation of this approach is that we only observe firms still in the database in 2020, which means that we are selecting upon survival in 2020 or near it.

First, we drop firm-years whose consolidation code is *not* U1 ("Only unconsolidated accounts available"). Including consolidated financials would create potential duplicates in our dataset, but the practical implication of dropping firms with consolidated accounts is minimal as there are very few of them in the data. The substantial impact of this is that firms with limited financial information or no financial information (codes LF and

and a larger set of questions (using other questions from the Sanoma VAA as well as questions from the national broadcaster's (Yle) VAA) to place candidates on both the left-right axis as well as a GAL-TAN axis, which is similar to our social ideology axis but also incorporates environmental preferences and Tähtinen [2021] uses an four dimensional Item Response Theory (IRT) model estimated on Yle's VAA, but ends up using only the first two dimensions, which she labels left-right and GAL-TAN, in her estimation of ideological distance. Qualitatively, all three methods produce fairly similar results in terms of the relative positions of the parties represented in parliament.

NF) are dropped.

Next, we attempt to filter out non-operating companies and companies that exist to provide favorable tax treatment for labor income. Our goal is to keep firms for whom an investment in fixed assets is likely to be driven by a profit motive and reflect improved future expectations. For example, many doctors earn a direct salary from a hospital but also bill private work to a holding company to avoid paying a high rate of income tax. As many of these doctors do not own the premises where they conduct their private practices, fixed assets are likely to reflect personal consumption (such as car ownership) that is done through the company. It is also common for some professions (such as finance professors) to bill consulting work to a company. We therefore drop all firm-years where the firm has the following 2-digit TOL 2008 codes (the Finnish national industry classification from 2008):

- 68 - real estate activities. These are mainly housing corporations that exist as an organizational structure for many buildings in Finland. These firms do not aim to make a profit and their investment generally reflects maintenance needs of the property rather than expectations of future profit.
- 64 - firms in the financial industry. These rarely invest in fixed assets. Many firms in this industry code are holding companies with no operations.
- 65 - insurance firms. These firms typically hold large portfolios of financial assets that are highly regulated.
- 66 - other financial firms. Similar to the two codes above.
- 70 - head offices, management consultancy. This rather broad industry code includes

local legal entities of foreign firms as well as companies set up to bill consultancy work. They are unlikely to invest heavily in fixed assets and when they do, it rarely reflects expectations about the future or improved business conditions as fixed assets are not required for normal operations of the firm.

- 86 - human health activities. These are likely to relate to doctors' tax planning activities.

We also drop firm-years ending before 2011 (the first year that we have government alignment data for) and after 2020. We later supplement this with data from 2020 to 2022 from the web-based interface of Orbis (as the amount of data that can be downloaded from the web-based interface is limited, we do this only for firms managed by candidates, meaning that this step is done after the merging described below has been completed.) In practice, this means that for most firms we have data until the end of FY 2021 or 2020.

After these, we are left with an unbalanced firm-year panel containing basic financial data for firms (information about the manager is in a separate file, described below). Our aim in the data creation process was to make sure that the firms in the sample are firms for whom investment is a real economic decision, ideally driven by expectations of firms.

I.A.1.3 Merging candidate and financial data

Our goal is to create two files: A "political" file where a candidate's election ID provides an exact match between political opinions and election outcomes as well as a "financial" file in which the Bureau van Dijk ID in Orbis provides a link between decision-makers

of firms and financial information. We use the Orbis DMC file, which contains both identifiers, as a "link-file."

We then merge the financial data and political opinions data via the link file using the candidate's name and age. The merging process creates risks of false positives, *e.g.,* matching politicians to firms they are not connected with and false negatives, missing some firms which are connected with politicians. For the sake of our analysis, a false positive has more severe implications than a false negative - a false negative lowers our statistical power whereas a false positive creates noise. As we had expectations of achieving a high sample size even after dropping observations, choices made in the data cleaning and merging process were generally made with the aim of minimizing false positives even at the cost of false negatives.

I.A.1.3.1 Link file

We start by taking the names of all board members of Finnish companies in Orbis' DMC file. We drop those who are not listed as "CEO" or "Private Trader" (in Finnish: Elinkeinonharjoittaja).[11] We then drop all remaining observations whose reported nationality is not Finnish. We calculate, based on the reported date of birth, the age of the politician at all the elections in our sample.

[11]Because a lot of small firms do not have formal roles in the database, this leads to some "true" entrepreneurs being dropped - *i.e.,* creating false negatives. However, keeping all board members would lead to matches in firms where the politician may not have any control.

I.A.1.3.2 Political file

After this, we work with the election results files (for parliamentary elections in 2011, 2015, and 2019 as well as municipal elections in 2012, 2017, and 2021) provided by the Ministry of the Interior of Finland. These files contain basic candidate information as well as the number of votes received by any candidate in any district. In the municipal-election files, we drop all candidates whose self-described occupation does not contain the word "entrepreneur" or "CEO".[12]

Using the candidate's "election ID" (a number assigned by the ministry), we link the election outcomes files (in 2015, 2019, 2017, and 2021) to the political opinions file (based on VAA data). For the parliamentary elections (2011, 2015, and 2019), we weighted-average ideologies for elected MPs in government parties and stop here. For municipal elections, we now have a file with election outcomes and political opinions for each candidate. As we do not have VAA data for 2012, our 2012 "political" file only contains election outcomes.

I.A.1.3.3 Linking the political and link file

We then merge these files (2017 and 2021 election files) with the Orbis DMC / link file (using name and age at the time of election as identifiers), with about 2500 matches in 2021 and 2000 in 2017.[13] We also merge in data on election results in 2012 using name, age and municipality to be able to control for election outcomes in 2012.[14]

[12]While "entrepreneur" is the most common job description remaining, there are many observations where the self-reported occupation might be something along the lines of "restaurant entrepreneur", which we deem to be true entrepreneurs.

[13]Suomen Yrittäjät, or the Federation of Enterprises in Finland, reported that 6484 entrepreneurs ran for municipal office in 2021 and 5947 ran in 2017 [STT]. Our matching therefore misses quite a few such entrepreneurs. Our regression sample will be even smaller due to constraints imposed later.

[14]We include the municipality in the merge because in 2012, there are some duplicates in the data when simply looking at name and age. Including municipality in the merge is not optimal as managers

We now have file with election outcome data for all municipal elections, political opinions from 2017 and 2021 as well as Bureau van Dijk and election IDs. We then use the firm-year data file ("financial file") as the "base" file, and merge in this data using the Orbis ID for the firm (in Stata parlance, we do a "1 to many" merge where a single year of candidate information is linked to multiple years of financial data).[15] We then manually bring in government alignment data that we calculated for parliamentary elections in 2011, 2015 and 2019 such that the government alignment is that of the 2011 government for the term of that government (2011-2015) and so on.

I.A.1.3.4 Differences in the data construction for PS split analysis

In the analysis of the split of the PS party in 2017, we are more concerned with maximizing sample size and less concerned with the availability of data on ideology for entrepreneurs. We are more concerned about sample size because there are far fewer entrepreneurs that affiliate with one given party than in general, especially since in 2015 most entrepreneurs chose to run for the National Coalition or Center Party. We are however less concerned about the availability of data on ideology. This is because, as we show below, the departure of the Finns Party from government did not materially affect the economic ideology or policies of the government.

We therefore make a minor change to our data collection and merging process, aiming to include entrepreneurs for whom we know which party they affiliate with but not necessarily their ideological views. In the creation of the "political" files for the 2017 and 2021

may manage firms registered outside of their municipality.

[15] To be more specific - we have separate variables for the candidate's economic and social alignment in 2021 and 2017 and bring these in in one merge. We then assign the opinions to years as described above, *i.e.,* 2021 alignment is valid for all years after 2019 and 2017 alignment for all years before then if both are available, if only one is available we assign it to all years.

municipal elections, we only use the election results files provided by the Ministry of the Interior. While we still only include self-described entrepreneur candidates, we no longer exclude those who do not have ideological views available in either election. This large potential pool of entrepreneurs (in the election results file) includes duplicates (by name and age), 4 in 2017 and 14 in 2021. We quasi-randomly drop one observation from each pair of duplicates.

We also exclude the 2012 election results file as it is is not relevant to our analysis, which spans the years 2015-2019.

I.A.2 Institutional Setting: Elections in Finland

The sample for our paper consists of entrepreneurs who run for municipal office in Finland. Finland consists of 309 municipalities each of which elects 13 to 79 councillors every 4 years. This means that municipal elections are contested by a large number of candidates, with 35627 candidates running in 2021 out of a population of 5.5 million. We are able to identify a relatively large number of candidates who operate their own businesses.

There are 5 types of elections in Finland: Presidential elections, elections to the European Parliament, parliamentary elections, municipal elections and county elections (a county is a larger political unit than a municipality). County elections were not organized prior to 2022 and thus do not feature in our sample. In terms of their impact on domestic economic policies, parliamentary elections tend to be where the direction of the country is decided. In Finland, the president is the commander-in-chief of the army and partly responsible for foreign policy, but parliament is responsible for domestic policy.

Our sample starts in 2011 and ends in 2022 (for reasons described in the next section). During this time period, Finland experienced 3 parliamentary elections (in 2011, 2015 and 2019) and 2 municipal elections (in 2012 and 2017). We also use data from the 2021 municipal elections. As we measure alignment as the difference between the entrepreneur and the national government, this means that we have 2 changes of government which generate variation in alignment that is unrelated to entrepreneur characteristics.

Almost all political parties in Finland with seats in parliament spent some time in government in our sample period. The parties that had MPs elected into office are listed below:

- the National Coalition (Kokoomus / KOK). One of the major parties with around 20% of the vote, center-right party with a mix of social ideology. In government 2011-2019
- the Social Democratic Party (SDP). One of the major parties with around 20% of the vote, center-left party that is generally socially liberal. In government 2011-2015 and 2019-2023
- the Finns Party (formerly True Finns) (Perussuomalaiset / PS). One of the major parties with around 20% of the vote, an anti-immigration party that is socially conservative and economically centrist. In government 2015-2017 (the party split in 2017 with most MPs staying in government until 2019 under a new party)
- the Centre Party (Keskusta / KESK). Formerly a major party, now polling at around 10%. Both economically and socially centrist. In government from 2015-2023
- the Green League (Vihreät / VIHR). Polling around 10% through most of the sample. Economically left-wing and socially liberal. In government from 2011-2015 and 2019-2023
- the Left Alliance (Vasemmistoliitto, VAS). Polling around 7-9% through most of the sample. Economically very left-wing and socially liberal. In government from 2011-2015 and 2019-2023
- the Swedish People's Party (RKP). Polling around 4% through most of the sample. Economically right-wing and socially liberal. In government from 2011-2015 and 2019-2023

- the Christian Democrats (Kristillisdemokraatit / KD). Polling around 4% through most of the sample. Economically right-wing and socially conservative. In government from 2011-2015
- Movement Now (Liike Nyt / LIIK). Polling around 2%. Never in government
- In addition, the autonomous region of Aland elects a representative. In our sample period, this representative has been an unofficial member of the Swedish People's Party during the entire sample. There are also cases of parties splitting up, with the most notable example being the split of the Finns Party in 2017 into Blue Reform (SIN) which remained in government and the remaining MPs, who moved into opposition. Blue Reform failed to win any seats in the 2019 parliamentary elections

The government elected in 2011 was a broad coalition with little ideological consistency. It included all parties with elected MPs other than the Centre Party (KESK) and the Finns Party (PS). In 2015, the Centre Party had the largest vote share and a right-wing / socially moderate government of the Centre Party, National Coalition (KOK) and the Finns was formed. In 2019, the Social Democratic Party narrowly won an election and formed a left-wing and socially liberal government with the Centre Party, Left Alliance (Vas), Green League (VIHR) and Swedish People's Party (RKP).

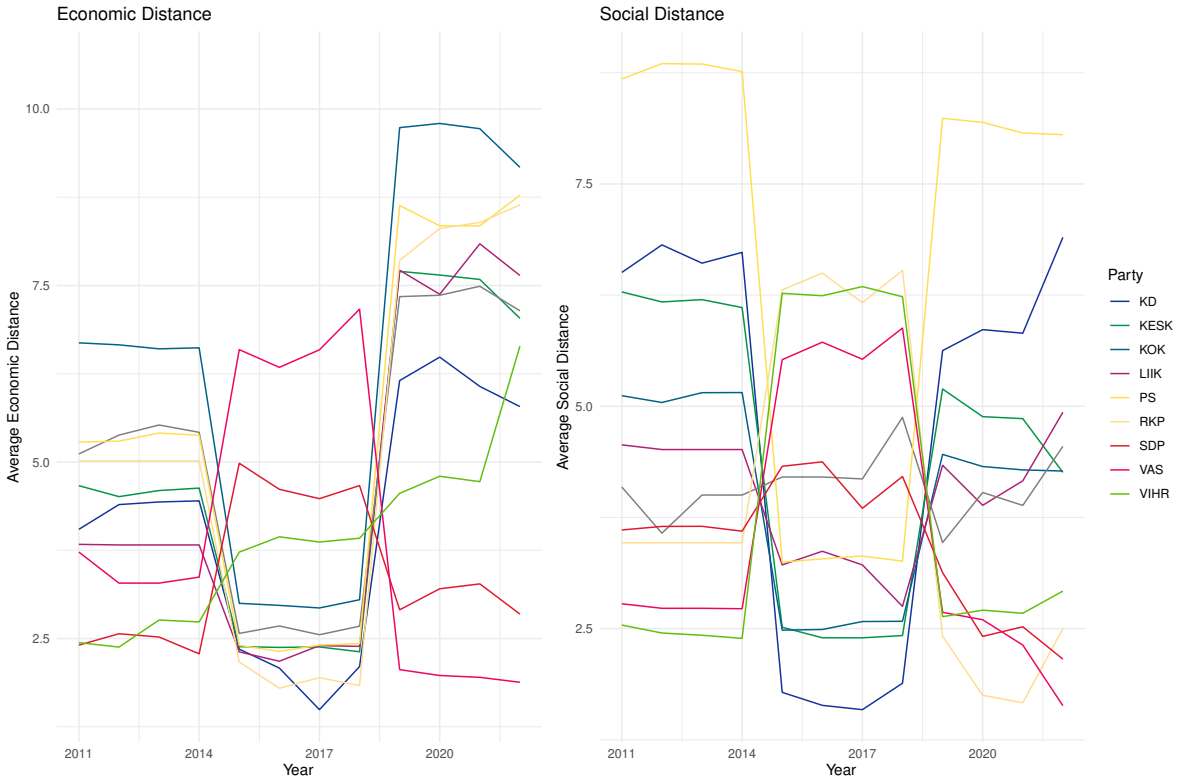
Most entrepreneurs in our sample tend to affiliate with the National Coalition, Centre Party or the Finns. Figure 1 presents the alignment of entrepreneurs as well as the 3 national governments during our sample period.

I.A.3 Time series of political variables variables

In this section, we present the evolution of our key political alignment variables (economic and social distance) for each party throughout the sample.

Figure I.A.1: Time series of political variables

These graphs present the evolution of our political variables for each party in each year. The graph on the left presents economic distance by party and year (note that the distances are changing within government terms due to entrepreneurs entering the sample) and the graph on the right presents social distance.



I.A.4 Additional Facts about Party Alignment

In this section, we present additional facts about party alignment during our sample period.

Figure I.A.2 presents scatterplots showing the ideological alignments of all elected MPs during our sample period, with the parties serving in government being circled.

Figure I.A.3 shows how the split of the Finns Party (PS) in 2017 affected the average ideology of the government. Members of PS who moved to the new Blue Reform (SIN) party that remained in government are presented in dark blue in the second graph.

Table I.A.1 uses a Logit model to predict party alignment based on ideology. This analysis is motivated by the fact that some might argue that people assign a bigger weight to closeness in economic ideology then in social ideology while deciding their party affiliation. That is, economic ideology could be a better proxy for party alignment than social ideology. If this were the case, controlling for economic ideology is expected to almost mechanically make "party-alignment partisanship" effects disappear as it is simply a more accurate proxy for them.

We take all the entrepreneurs in one year (2020) and try to predict their party using economic and social ideology as linear predictors. We see that about half of entrepreneurs can be correctly classified using both measures of ideology. We generate a predicted probability of belonging to a party and then generate a "predicted party" variable that is equal to the party with the highest probability. After this, we check whether the predicted party is equal to the actual party. The results suggest that both variables do an equally good job of predicting party affiliation. As social ideology does not predict investment

outcomes at all, this suggests that economic ideology is unlikely to simply be a better proxy for party alignment.

Figure I.A.2: Government Alignments During the Sample Period

These graphs present the economic and social alignments of each MP in our sample period. The year refers to the year of the parliamentary election. Circles denote parties in government. The circles cover 75% of each party's MPs, giving a measure of the ideological range of each party. The size of the circle refers to ideological range, not the number of MPs per party. Both the social views and economic views axes have possible values ranging from -8 to 8. A higher economic view score denotes more right-wing views and a higher social views score denotes more conservative views. Note that the dots for 2011 represent MPs from 2015 (as we do not have individual-level ideological data in 2011), but the circled parties represent the government in 2011.

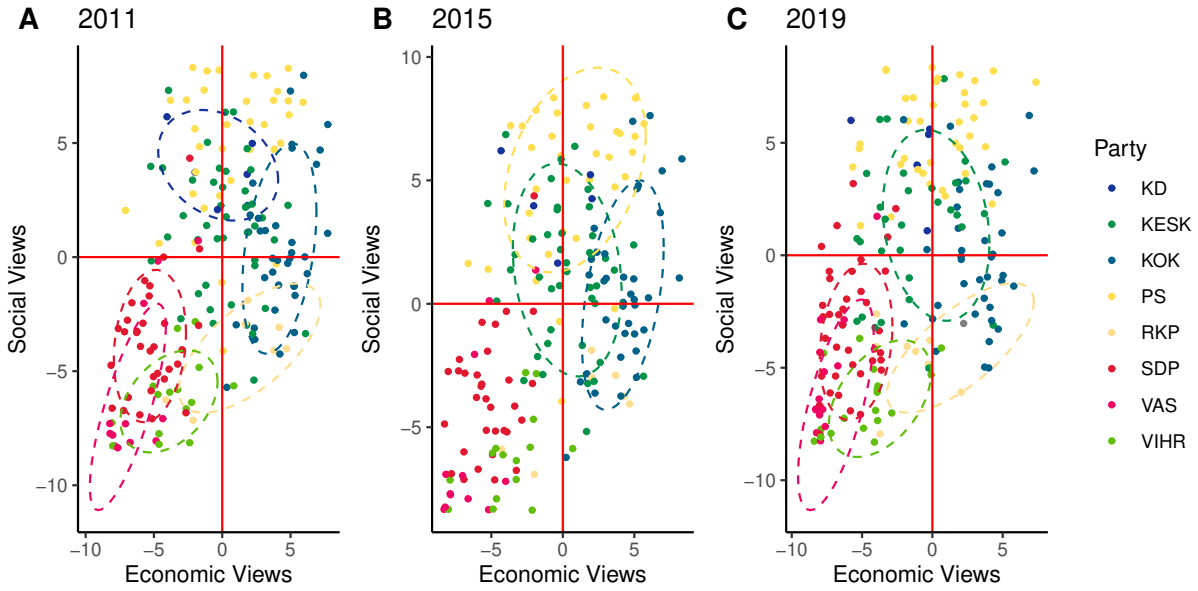


Figure I.A.3: Government Alignment After the PS Split

These graphs present the economic and social alignments of each MP in 2015 and in 2017, after the Finns Party split in half. PS denotes those MPs that stuck with the Finns Party whereas SIN denotes those that formed the new Blue Reform party (which remained in government). Circles denote parties in government. The circles cover 75% of each party's MPs, giving a measure of the ideological range of each party. The size of the circle refers to ideological range, not the number of MPs per party. Both the social views and economic views axes have possible values ranging from -8 to 8. A higher economic view score denotes more right-wing views and a higher social views score denotes more conservative views.

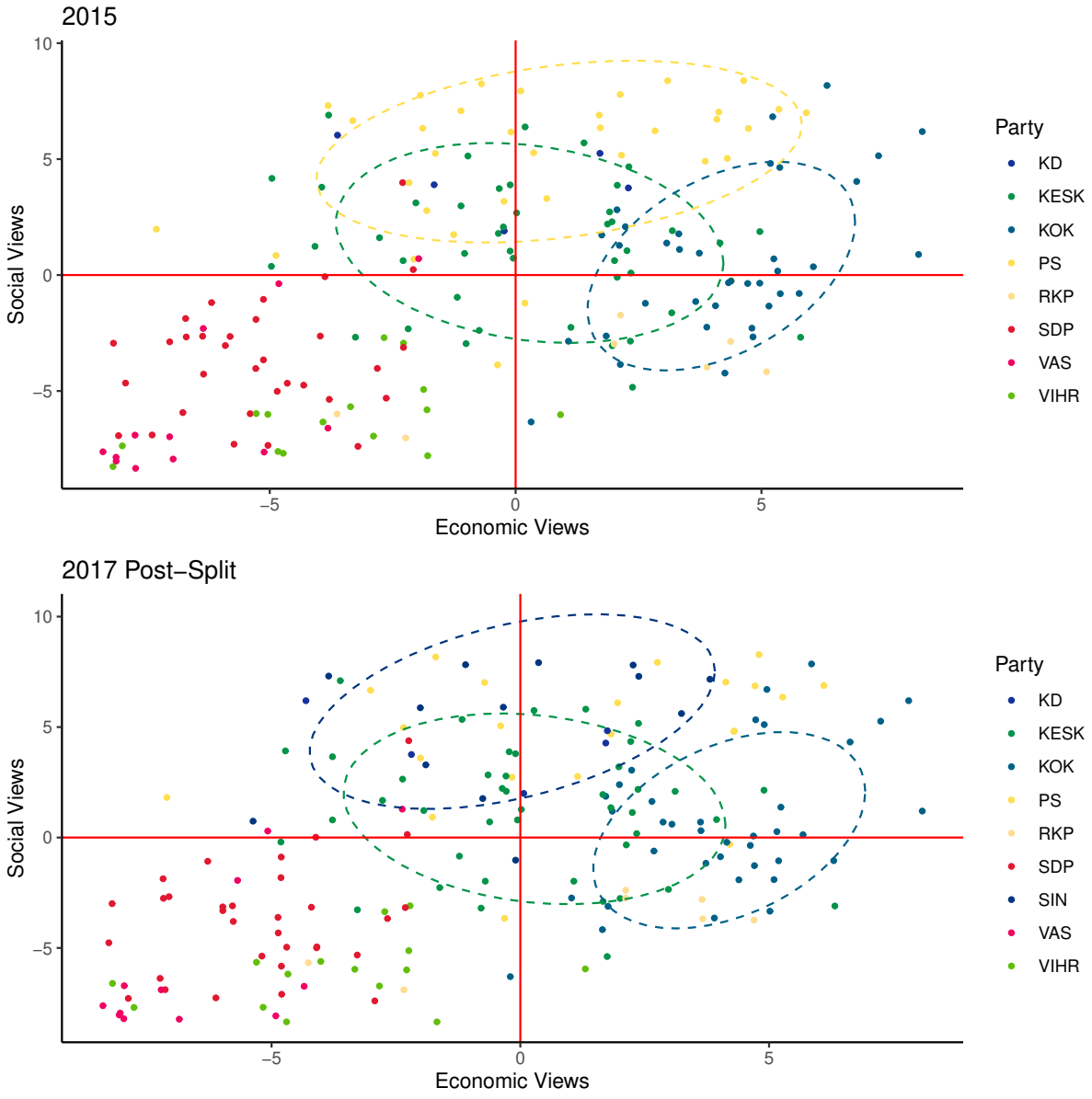


Table I.A.1
Predicting Party Alignment by Ideological Views

This table presents the number of candidates whose party alignment is predicted correctly or incorrectly. The data consist of entrepreneur-candidates and views are from 2019 (to avoid duplication across years). We first run a multinomial logit model attempting to predict party affiliation using either only the economic ideology or social ideology variables. We then create a "predicted party" variable which is equal to the party that the candidate has the highest predicted probability of belonging to based on the logit model. We then check whether that party is equal to the actual party the candidate is affiliated with, and report the number of correct and incorrect predictions in this table.

	Economic Ideology	Social Ideology
Correct	479	506
Incorrect	530	503
Total	1009	1009

I.A.5 Alternative Specifications

In this section, we present the results of regressions with different sample selection criteria as well as alternative variable definitions.

We show that our results are broadly unaffected by the cutoff of each firm-year needing a minimum of 31k euros in fixed assets and are robust to cutoffs above that value. However, when firm-years below 31k euros are included in the regressions, most of our coefficients of interest are no longer significant and tend towards zero.

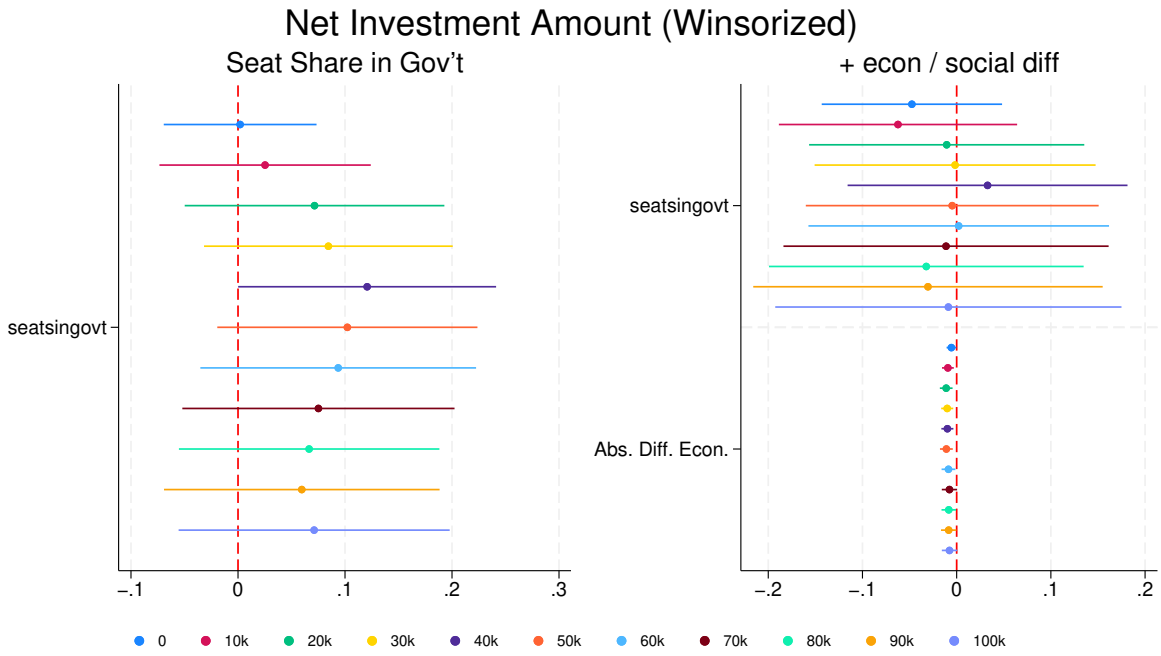
We also show that the results are not driven by any individual year by dropping each year at a time.

The first graph in each row only includes the party-alignment dummy. The second graph includes party alignment, economic distance, social distance and the elected dummy (last two unreported) whereas the third graph in each row adds the affect towards governing parties variable.

Figure I.A.4: Alternative specifications

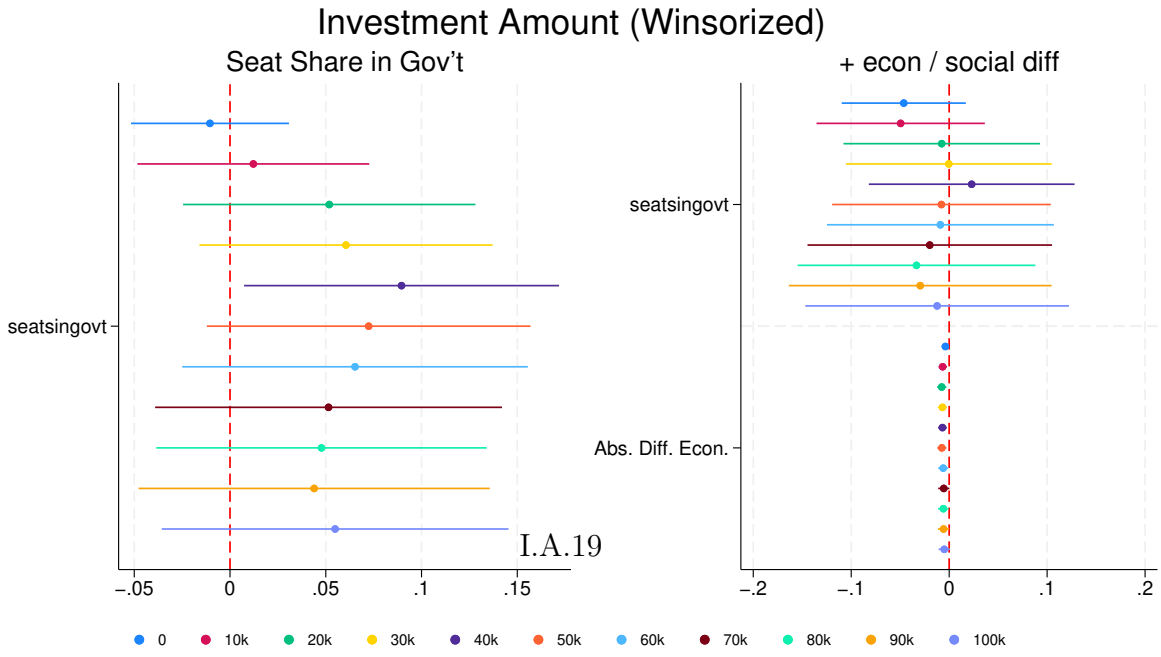
These graphs plot coefficients and 95% confidence intervals from various alternative specifications. All panels present coefficients of our baseline regressions (investment on various measures of political alignment) using different cutoffs for minimum fixed assets per year (31k in our baseline specifications). In Panel A, we use (as the dependent variable) an alternative measure of the amount invested, *Net Investment Amount*, which is defined as (Fixed Assets in year t + Depreciation in year t-1) divided by (Fixed Assets in year t-1) if that quantity is above 0 and 0 otherwise. In Panel B, the dependent variable is *Gross Investment Amount*, defined as (Fixed Assets in year t) divided by (Fixed Assets in year t-1) if that quantity is above 0 and 0 otherwise. In Panel C, the dependent variable is *Raw Investment Dummy* which takes the value of 1 if Fixed Assets in year t are higher than in year t-1. In Panel C, the dependent variable is our *Investment Dummy* which takes the value of 1 if Fixed Assets in year t are at least 10% higher than in t-1.

(a) Panel A



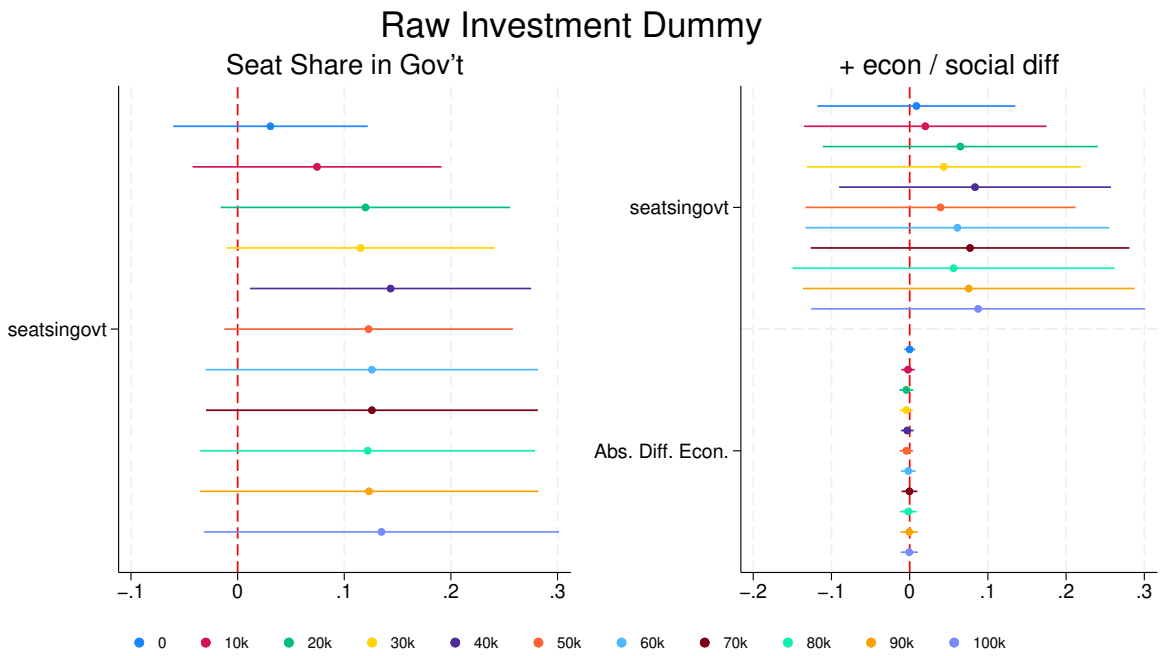
Coefficients for social difference and the elected dummy are omitted. S.E.s clustered by party−year.

(b) Panel B



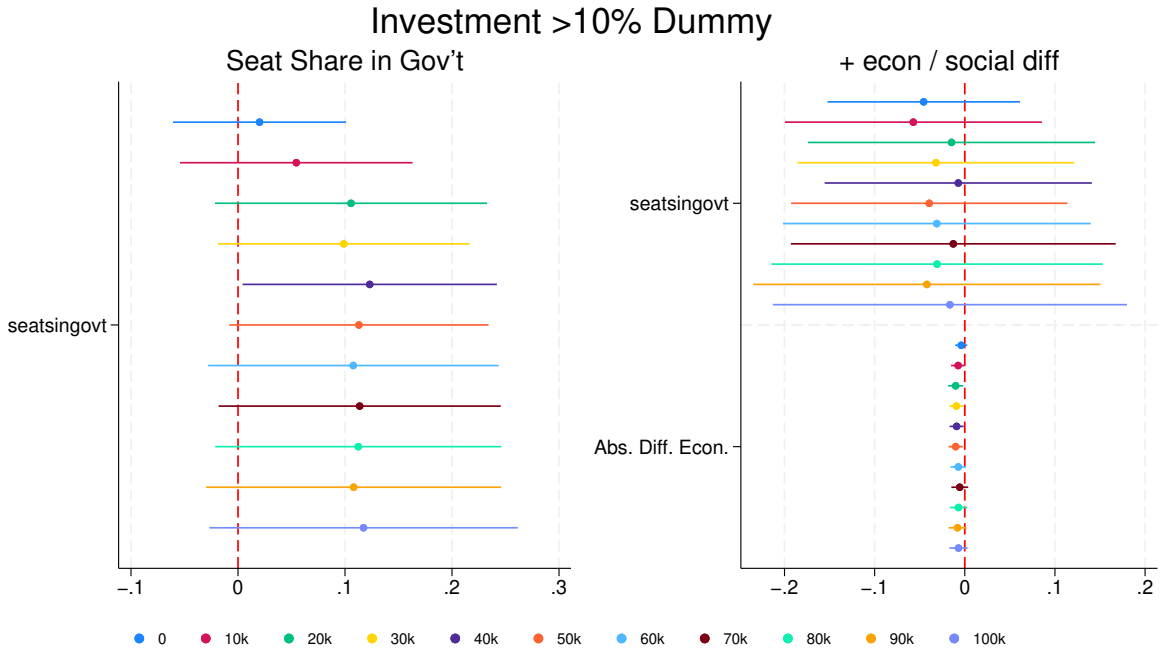
Continued

(c) Panel C



Coefficients for social difference and the elected dummy are omitted. S.E.s clustered by party−year.

(d) Panel D



Coefficients for social difference and the elected dummy are omitted. S.E.s clustered by party−year.