Firms as Electoral Monopsonies*

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We develop a framework of how firms use local labor market power to influence politics. In the model, a dominant employer shapes the preferences of local voters by influencing their expectations about how electoral outcomes will impact its economic activity. In some cases, the employer uses its market power to generate political failures—convince voters to vote against their interests. This form of electoral interference can contribute to political polarization, substitute for money in politics, and can be hard to counteract even for a well-intentioned politician. Using survey and individual-level voting data, we provide evidence that dominant employers shape politics.

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"I hope you make it very clear to your employees what you believe is in the best interest of your enterprise and therefore their job and their future in the upcoming elections... Nothing illegal about you talking to your employees about what you believe is best for the business, because I think that will figure into their election decision[.]"

– Mitt Romney, October 2012

1 Introduction

The relationship between economic power and political influence has long occupied a central place in debates within political economy and antitrust law (Brandeis 1914; Olson 1968; Acemoglu and Robinson 2006; Khan 2017; Zingales 2017; Cowgill et al. 2022). While most work has concentrated on national-level channels such as lobbying and campaign finance (Grossman and Helpman 1994; Bombardini and Trebbi 2011; Callander et al. 2022), recent evidence suggests that firms can also exert political influence through personnel decisions, shaping hiring and career choices (Colonnelli et al. 2022; Chinoy and Koenen 2024) and employee political contributions (Babenko et al. 2020) along partisan lines. Beyond these patterns, survey evidence from both the literature (Hertel-Fernandez 2017) and our original survey data, numerous anecdotal accounts in the media,[1] and the statutory record—reflected in the laws of more than a quarter of U.S. states[2,3]—all point to a deeper phenomenon: Employers using their economic leverage to directly sway electoral outcomes.

This *prima facie* evidence that firms have the potential to directly shape political behavior raises the question we address in this paper: How does the structure of local labor markets—particularly, the presence of dominant employers—create conditions for direct electoral influence? Where a single firm holds disproportionate sway over employment, it may leverage that position to shape

[1] E.g., "Wal-Mart launches registration drive," *Financial Times*, Sep. 2006. "Prominent Romney-backing coal company 'coercing' employees into donating to PACs, GOP candidates," *NBC News*, Oct. 2012. "The Koch Brothers Sent Employees a List of People to Vote For," *The Atlantic*, Oct. 2012. "Here's a Memo From the Boss: Vote This Way," *New York Times*, Oct. 2012. "Shell Oil allegedly coerced its workers to attend a Trump rally. Blame the Supreme Court," *Los Angeles Times*, Aug. 2019. "Leader of company that flies Trump 2020 flag warns of layoffs if president isn't reelected," *The Washington Post*, Oct. 2020. "Republican mega-donors asked their employees who they will vote for in survey," *The Guardian*, Nov. 2024.

[2] See electoral codes of: Arizona, Idaho, Indiana, Kentucky, Maryland, Nebraska, New Jersey, Pennsylvania, Ohio, Rhode Island, South Dakota, Utah, West Virginia, and Wisconsin.

[3] In *California Chamber of Commerce et al. v. Bonta et al.*, business groups recently challenged California Senate Bill 399, which restricts mandatory employer meetings communicating political or religious views to employees. Similar challenges have occurred in other states, including Oregon, Connecticut, and Minnesota (see, e.g., *U.S. Chamber of Commerce et al. v. Bartolomeo et al.*).

political preferences in the community, sometimes in ways that conflict with the broader public interest. We conceptualize this dynamic as a form of "electoral monopsony", where concentrated employer power shapes not only labor market outcomes, but also democratic participation. Understanding this phenomenon is especially important given the high levels of employer concentration across U.S. labor markets (Berger et al. 2022; Azar et al. 2022; Benmelech et al. 2022), and the potential to undermine the responsiveness and equity of democratic processes from the ground up.

Survey Evidence on Employer Political Activity. Our first step was to ask 2,100 U.S. workers about their experience with the American political system through the lens of their employers. 68% of participants report that their employers communicate about political developments, express political preferences internally, or frame firm decisions (such as downsizing or expansion) as contingent on electoral outcomes. 19% of participants perceive that their employer's stances on political issues or candidates affect their career opportunities. 7% explicitly report that these stances influenced the way they voted in an election.[4] Importantly, we find that major local employers are substantially more likely to engage in these practices and, when they do, exert a greater influence on workers' political preferences and perceived career prospects.

These findings are particularly salient given the degree of employer concentration faced by the typical U.S. voter: After accounting for concentration both within industry and county, the dominant industry within the median U.S. county has an employment concentration equivalent to an industry with five equally-sized firms, and employs 22.4% of the county's workforce. Motivated by these stylized facts, we develop a framework to study the political effects of local labor market concentration. We show that accounting for these effects yields important new insights about the role of firms in politics and society.

The Economics of Electoral Monopsonies. We formalize the link between employment concentration and politics in a model of a local community. Firms hire from the pool of voters in the community, and each voter accepts a job at a local firm if the market-clearing wage is larger than its outside option. Voters are heterogeneous in their outside options. On the firms' side, there is

[4]In their open-ended responses, some participants explicitly reveal the ways in which they experience employer-driven political influence. We present examples of these responses in Appendix Table IA1.

a dominant firm, ℓ, who understands how its production choices affect local wages, and a mass of competitive firms who take wages as given. The community votes (following a majority rule) on a policy that redistributes surplus from firms to voters (e.g., higher taxes on firms, or stricter enforcement of regulations). The policy benefits voters, but is costly to the firms. So, voters who are also workers may internalize some of these costs, and firms may take actions to sway the public against the policy.

We use the model as a framework to think about how ℓ's market power influences the alignment between voters' and firms' preferences over the policy, and characterize the economic and political implications. We consider two possible channels for this alignment: First, a *passive* channel, where voters internalize firms' preferences on their own, as they anticipate how the policy would affect equilibrium outcomes. Second, an *active* channel, where firms take direct actions to engineer this internalization, by leveraging their influence over employment and wages.

Passive Channel. Our first main insight is that the link between market power and political power is ambiguous under the passive channel: Workers and firms may in fact be more politically aligned in *less* concentrated labor markets. Even when market power generates more alignment, that does not translate into political distortions under this channel, since the policy that is preferred by the median voter is always implemented in this case. To formalize these insights, we consider a policy that makes production costlier for firms (e.g., a carbon tax), and compare the equilibrium outcomes in the model with the dominant firm ℓ against a benchmark where all firms are competitive. The way ℓ affects aggregate employment and wages, and how these adjust to the policy, generates two contrasting effects on the political support for the policy.

On the one hand, firms compete more intensely for workers in the competitive benchmark, which results in higher employment and wages. When the policy is sufficiently costly to force the competitive firms to downsize, these effects generate *more* opposition to the policy in the benchmark, since (a) workers receive better wages, so they value their jobs more and are thus more concerned about employment contractions, and (b) a larger number of people work in the local economy and, thus, a larger fraction of voters internalize these concerns.

On the other hand, employment can be less responsive to whether the policy is implemented

in the competitive benchmark. ℓ internalizes the effect of its employment on wages. This creates a strategic incentive to reduce production when the policy is implemented, to lower wages and partially offset the cost of the policy. Competitive firms take wages as given, so they don't have the same incentive. This means that, if the cost of the policy is sufficiently small, ℓ responds to it by reducing employment, while the competitive firms don't adjust their production. These effects generate *less* opposition to the policy in the competitive benchmark.

Active Channel. Next, we examine the active channel of internalization, where firms take direct actions to influence voters by shaping their expectations about the economic impact of the policy. To keep the active channel at first separate from the passive channel, we consider non-distortionary policies, which do not *directly* influence firms' production choices (e.g., a tax on profits). Unless firms actively intervene, the policy does not affect employment, so that the passive channel of internalization is muted.

To build intuition, suppose firms can make their production plans contingent on the voting outcome (e.g., through their options to relocate production to other locations, or through their reputation for partisanship). For instance, they might threaten to cut down production (e.g., downsize and lay off workers) if the policy passes, and promise to expand (e.g., new investments and more employment) if it does not. For voters who seek jobs in the local economy, this creates an economic cost to the policy, as they may lose their jobs or receive lower wages if the policy is implemented. We show that a similar mechanism also applies if firms cannot directly condition their production to electoral outcomes, but can influence voters' beliefs about how they will respond to the policy. For example, voters may be uninformed about the economic effects of the policy, and firms may be able to convince voters that it will be incentive-compatible for them to downsize if the policy passes, and expand if it fails, even when that is not true.

Our second main insight is that, under the active channel, market power tends to *translate* into political power. In equilibrium, only the dominant firm ℓ may want to engage in this type of electoral influence: Each competitive firm is too small to affect equilibrium wages, so it cannot influence voters' payoff and, thus, voting preferences on its own. To be *able* to influence voting, (a) ℓ must be sufficiently large compared to the competitive firms, so that changes in its employment

have a large impact on equilibrium wages, and (b) sufficiently many voters must seek jobs in the local labor market, so that enough voters are affected by these wage changes. Condition (a) reflects the typical notion of labor market power, while (b) is an additional condition for this to translate into meaningful political influence. If these conditions are satisfied, ℓ uses its leverage over expected wages to turn the median voter against the policy. Through this mechanism, ℓ uses its market power to generate a political failure: It sways the public against the policy, even when this would be both socially desirable and politically feasible (in that a majority of people would be better off) had it not done so.

Implications. Having established how ℓ can leverage its market power to distort political outcomes, we use the model to study the implications of this novel form of electoral interference.

First, we argue that it can have sharp distributional effects across voters and, thus, contribute to political polarization. In the model, voters with sufficiently high outside options are always in favor of the policy, since they are less likely to seek jobs in the local economy, which makes them more insulated from the wage effects of ℓ's threats and promises. Voters with low outside options are instead *against* the policy, since they are more exposed to these effects: They suffer more if ℓ downsizes and benefit more if it expands. For those with the worst outside options, the expected wage gains when the policy fails and ℓ expands may even exceed the forgone benefits of the policy. So, these voters may actually be better off when ℓ influences voting. These results also provide a novel, *rational* explanation for political support for pro-business platforms among economically vulnerable voters, who are typically viewed as natural beneficiaries of progressive policies.

Second, we show that counteracting this form of influence may be hard even for a well-intentioned politician, as it calls for political platforms that may *appear* disconnected from the preferences of the electorate in equilibrium. To formalize this insight, we consider an election between different candidates, one of whom (h) plays the role of a politically constrained planner: It is interested in maximizing total welfare, but can only implement policies that are supported by a majority of voters. The threat of ℓ's electoral interference can constrain the set of policies on which h can win the election: The more aggressive is h's agenda, the higher are ℓ's incentives to influence the election in favor of a more business-friendly candidate.

When this constraint binds, h faces a tradeoff. It can either adopt a relatively moderate, business-friendly agenda to remain politically competitive and win the election, or run on a more aggressive but losing platform that forces ℓ to make larger concessions to voters. When the moderate agenda is optimal, ℓ does not influence voting in equilibrium. If voters fail to account for the strategic interaction between h and ℓ, the moderate platform then appears unnecessarily business-friendly, as voters would have preferred a more aggressive tax policy. By contrast, when the aggressive agenda is optimal, ℓ makes sufficiently large concessions to turn the median voter against redistribution. As a result, the aggressive platform appears too extreme relative to the realized voter preferences. This means that electoral monopsonies can make the socially desirable platforms appear either too moderate or too extreme to voters in equilibrium.

Third, we show that the active and passive channels may either substitute for or reinforce one another. On the one hand, when workers already internalize firms' interests, there is less need for direct intervention. On the other hand, the same internalization also makes employer communications more persuasive, which increases firms' incentives to intervene. The interaction of these two forces can generate a non-monotonic relationship between the economic costs of a policy and firms' political engagement. For example, firms may be most vocal against mildly distortionary policies (i.e., policies with relatively small direct effects on employment), and remain relatively silent about either highly distortionary or non-distortionary policies. This means that firms' political engagement may not be a reliable indicator of how bad a policy truly is for business.

Last, we extend the model to explore additional implications. First, we study the role of competition policy: On the one hand, policies that reduce concentration weaken ℓ's labor-market power and, thus, dilute its electoral influence. On the other hand, ℓ can use its influence to mobilize workers against these policies, or even support policies that consolidate ℓ's market power. This second effect highlights a new labor-market channel for the feedback loop between economic and political power: Dominant employers acquire influence over electoral outcomes and can use that influence to preserve their market power. We also show how electoral monopsony power can substitute for firms' campaign spending as a tool for political influence. This suggests that observed campaign donations may understate the political influence of concentrated employers.

Electoral Relevance: Electoral Monopsony Power and Turnout. In the last step of the analysis, we provide evidence that electoral monopsony power can plausibly affect individual-level voter turnout in a large sample of U.S. voting data. We develop a measure of electoral monopsony power that translates the structural conditions for electoral influence highlighted by our theoretical framework into an empirically tractable index of firms' potential electoral influence. This potential is greatest where a small number of firms employ a large share of workers within an industry and that industry itself accounts for a large share of local employment.

We employ a shift-share design in which national industry-level changes in employer concentration serve as common shocks, and pre-determined local employment shares govern differential exposure to these shocks across counties. Controlling for census-tract fixed effects, voter age, and state-by-party and age-by-party fixed effects, identification comes from comparing how exposure to these shocks affects the turnout of Republican vs. Democratic voters within the same neighborhood, under the assumption that national industry concentration shocks are orthogonal to unobserved local political and demographic trends. We find that exposure to electoral monopsony power systematically increases turnout for the Republican Party, which we interpret as the more business-friendly platform.[5] These effects are robust to a battery of controls, including pre-treatment economic controls and individual-level demographic characteristics.

Finally, we show that this localized form of electoral influence can aggregate into meaningful national effects. In a counterfactual where all firms have the same size and, as a result, electoral monopsony power is smaller, we find that the 2016 and 2024 presidential elections could have resulted in a different outcome.

1.1 Contributions

Our results contribute to the understanding of how economic power translates into political influence by examining the role of employer concentration in shaping electoral outcomes through voter mobilization. As such, our paper contributes to the literature on employer voter mobilization

[5]In all but four counties—Gilpin County (CO), Decatur County (IA), Arthur County (NE), and Oglala Lakota County (SD)—the employment-weighted average industry's partisan skew (based on industry donations data from OpenSecrets) is Republican. That constitutes 99.97% of the electorate. In addition, Cohen et al. (2019) find that CEOs are three times more likely to be Republicans than Democrats in a sample of individuals who served as CEOs of S&P's 1500 companies between 2000 and 2017.

and the literature on the effects of employer concentration.

Employer Voter Mobilization. In a recent review of the political economy of firms, Bombardini and Trebbi (2025) argue that firms increasingly view their workforce as a form of political capital, but note that the implications of employment relationships for political outcomes remain relatively understudied. We contribute to this literature by showing how firms can deploy local labor-market power to directly shape electoral outcomes.

Within this literature, a closely related paper is Baland and Robinson (2008), who show how employment relationships can create political control when employers can monitor workers' votes and threaten to fire them if they support the wrong candidates. We study a different mechanism: Even when voting is secret, dominant employers can shape voters' political preferences by affecting their expectations about how wages and employment depend on electoral outcomes. This mechanism highlights how employment relationships can serve as a channel of political influence even in modern democratic systems (where voting is secret), alongside more traditional channels such as lobbying and campaign spending.

Another closely related paper is Bombardini and Trebbi (2011), who develops a model of how the size of an interest group—in terms of its voter representation—affects its political contributions, and estimate the model using data on employment base and campaign spending of U.S. firms. In their model, workers and firms are always aligned in their political preferences. We study how firms can endogenously generate that alignment by leveraging labor market power, and characterize the welfare and political implications.

Employer Concentration. A large literature studies the consequences of market concentration for wages and the labor share (e.g., Benmelech et al. 2022; Azar et al. 2022; Rinz 2022; Berger et al. 2022). Related work emphasizes concentration within product markets, linking higher markups to declining labor shares (Barkai 2020; De Loecker et al. 2020; Autor et al. 2017; Grullon et al. 2019; Covarrubias et al. 2020). Whereas this literature studies how concentration shapes economic outcomes, we show how concentration can translate into political influence. In particular, we show that dominant employers leverage their labor market position to shape voter behavior, with consequences that extend beyond the distribution of income to the functioning of democratic

institutions.

2 Survey Evidence on Employer Political Activity

We present original survey evidence designed to capture forms of employer political activity, worker perceptions, and channels of influence that are otherwise not directly observable.

The survey was administered online in December 2025 to a national sample of 2,100 full-time U.S. workers aged 25 and older—of whom 2,083 completed the survey—through the platform Prolific. The instrument focuses on respondents' employment relationships, exposure to employer political communication, perceived links between elections and firm decisions, and self-reported effects on political behavior and career expectations. Respondents report whether their employers communicate political views, discuss elections in the context of firm actions such as expansion or layoffs, endorse candidates, or solicit political participation or donations. They also report whether these activities affected their voting behavior or perceived job prospects. These measures allow us to directly observe margins of political engagement and influence within the workplace and to document how such activity varies systematically with an employer's local dominance. We discuss details of the administration of the survey in Appendix D, and report summary statistics in Table IA2.

The survey evidence we present here provides context for the mechanism studied in the paper. Figure 1 summarizes the key patterns from the survey. Figure 1 Panel (a) documents that employer communication about political issues is widespread and occurs more frequently among large, major employers, which we obtain directly from the survey respondents (we ask respondents whether they work for a major employer in their town or county). Among respondents employed by major local employers, 76% report exposure to some form of political communication by their employer, compared to 64% among workers employed by other firms. Similarly, 44% of respondents working for major local employers report that their employer discussed potential firm actions following elections, such as expansion or downsizing, compared to 31% among other workers. Panels (b) and (c) show that these experiences are shared across workers with different partisan affiliations.

The survey responses also indicate that employer political activity often extends beyond general communication. Forty percent of respondents employed by major local employers report that their employer endorsed a specific political candidate, compared to 40% among workers employed by other firms. More direct links between elections and employment outcomes are more unevenly distributed: 22% of respondents working for major local employers report election-related job discussions with supervisors or human resources personnel, compared to 11% among other workers, and 14% report explicit threats of layoffs, compared to 6% among workers employed by other firms. Requests for campaign donations or participation in campaign-related events are reported by 11% of workers employed by major local employers, compared to 4% among other workers.

To complement the descriptive patterns shown in Figure 1 and to assess whether these differences persist after accounting for observable worker characteristics, Table 1 reports regression estimates relating major local employer status to survey measures of workplace political activity and perceived political influence. Each column corresponds to a binary indicator for a distinct form of employer political communication, action, or perceived influence, and the main regressor of interest is an indicator for whether the respondent is employed by a major local employer.

Panel A presents specifications without additional controls. Employment at a major local employer is associated with an 11.6 percentage point higher likelihood of reporting general political communication by the employer and a 12.6 percentage point higher likelihood of reporting election-related discussions. The estimated association with discussions of layoffs or firm actions in the context of elections is 7.8 percentage points, while the likelihood of being asked to participate in campaign-related donations or events is higher by 7.2 percentage points. The estimates for election-related HR or job discussions are likewise positive (10.4 percentage points), suggesting that workers at major local employers are more likely to encounter political communication through channels directly tied to personnel decisions or career concerns. Consistently, employment at a major local employer is associated with a 5.4 percentage point higher likelihood of reporting influence on voting behavior and a 12.5 percentage point higher likelihood of reporting effects on perceived career opportunities. The coefficient on employer endorsements of specific candidates is small and not statistically distinguishable from zero.

Panel B adds a rich set of individual-level controls, including race, gender, education, industry, income, and political party fixed effects. The inclusion of controls leads to only modest attenuation of the estimates and leaves their qualitative pattern unchanged. Employment at a major local employer remains associated with a 9.2 percentage point increase in reported political communication and a 10.1 percentage point increase in election-related discussions. The estimates for discussions linking elections to layoffs or firm actions (7.3 percentage points) and for solicitation of campaign donations or events (7.0 percentage points) remain positive and statistically significant. Employment at a major local employer is also associated with a 4.1 percentage point higher likelihood of reporting influence on voting behavior and an 11.2 percentage point higher likelihood of reporting effects on perceived career opportunities. As in Panel A, the coefficient on employer endorsements of specific candidates remains small and statistically insignificant.

Political communication can range from being very broad to being very narrow and explicitly mobilizing. This is reflected, for instance, in our measurements of any political communication (average among respondents: 68.9%) versus more specific types of communication that steer toward campaign events or donations (6.5%). Table 1 also shows that workers employed by major local employers are more likely to report knowing their employer's political or policy views and to report that their employer discussed policy issues in the workplace. These patterns suggest that political activity at major local employers is not confined to elections or candidates; it also includes broader communication about policy effects and the firm's own position. Notably, across different measures of political communication, differences between major employers and all other employers are stable and generally of similar order of magnitude.

The estimated differences in the perceived impact of politics on career opportunities between major employers and all other employers are of similar magnitude to the differences in reported political communication. The estimated differences in reported influence on voting behavior are of smaller magnitude than the differences in political communication, but only by about half. Within the comparison between major and non-major employers, these patterns suggest a close correspondence between exposure to employer political activity and workers' perceptions of its relevance for their own decisions. We want to emphasize that the latter inference is specific to the relative differences between major and non-major employers and does not speak to absolute

elasticities of voting influence to political communication.

3 A Model of Electoral Monopsonies

3.1 Framework

The local economy is populated by a mass $m > 0$ of voters (indexed by i), a dominant firm (indexed by ℓ), and a mass N of competitive firms (indexed by j). Firms sell their products outside the local economy, at an exogenous price p, but they hire from the pool of voters in the local economy, so they compete with each other in the labor market.[6] Voters differ in their outside options, v_i, with $v_i \sim U[0, A]$.[7] All agents in the model are rational and risk-neutral.

The sequence of events is the following: (i) Firms communicate to voters about how their production will depend on the policy regime; (ii) voters vote on whether to implement a policy that redistributes surplus from firms to voters; (iii) the policy is implemented if it receives a majority of votes in favor; (iv) firms make production plans and wages adjust to balance labor supply and labor demand; (v) firms produce and sell their products.

We use *subgame perfect equilibrium* as the equilibrium concept.

A. Voting

The policy has a cost T_k on firm k, where $k \in \{j, \ell\}$, and generates a total benefit R to voters. The policy is implemented ($\mathcal{P} = r$) if a majority of voters vote in favor, and is discarded otherwise ($\mathcal{P} = nr$). One interpretation is that voters choose between two different candidates to run the local government, one of whom has a more redistributive agenda (e.g., higher taxes on firms or stricter enforcement of regulations), with the cost T_k and the benefit R capturing the direct effects of this agenda. An alternative interpretation is that voters directly decide whether to implement a particular policy through a referendum or ballot initiative.

We initially treat the policy features (e.g., the corporate tax rate) as parameters, and assume

[6] Internet Appendix C.5 shows that our main results carry through in a variation of the model where firms both hire workers and sell products in the local economy, so that p is endogenous and voters are exposed to the local economy also through their consumption.

[7] v_i can be interpreted as the payoff from the best alternative to working in the local labor market, such as employment in another industry, employment in a different community, or self-employment.

that the policy generates the same benefit to all voters. Later, we endogenize these features by allowing each candidate to choose its policy platform (Section 4.3). To simplify the exposition, we assume that firms' owners represent a negligible fraction of the voting population.[8]

As is typical in the voting literature, we analyze subgame perfect equilibria in undominated strategies, which implies that voters vote as-if-pivotal.[9] Given wage w and transfer R, voter i's utility is

$$u_i = \max\{w, v_i\} + \mathbb{1}_{\mathcal{P}} \frac{R}{m}, \tag{1}$$

where $\mathbb{1}_{\mathcal{P}}$ is an indicator function taking the value 1 if the policy passes, $\mathcal{P} = r$, and zero otherwise.

The max function in Eqn. (1) takes into account that i chooses to work in the local economy only if w is larger than its outside option v_i. i votes in favor of the policy if its expected utility is larger under r (i.e., $\mathbb{E}[u_i \mid r] > \mathbb{E}[u_i \mid nr]$), where the expectation takes into account how firms' production choices and, thus, wages and transfers may adjust to the policy.[10,11]

B. Labor and production

The mass of voters seeking jobs in the local economy is equal to the mass of voters with $v_i \leq w$, which, given our distributional assumption, is $m\frac{w}{A}$. Each unit of output requires one unit of labor, and firms can produce up to their capacity constraints ($\underline{q}$ for the competitive firms, and $\overline{q}$ for the dominant firm, with $\overline{q} > \underline{q} > 0$).

Given wage w and production q_k, firm $k \in \{j, \ell\}$ generates net profits

$$\pi_k = (p - w)q_k - \mathbb{1}_{\mathcal{P}} T_k, \tag{2}$$

since k incurs the cost T_k only if the policy is implemented.

The competitive firms are atomistic, so they take equilibrium outcomes as given when making their production plans. To give ℓ a dominant position in the local economy, we assume that (a) it

[8] If all owners are eligible to vote, and N is a non-negligible fraction of the voting population, ℓ may have to convince a smaller mass of voters to vote against the policy, since the competitive firms' owners may already be against the policy. The same logic applies if some voters own sufficiently large equity stakes in the firms to create a bias against the policy.

[9] See, e.g., Baron and Ferejohn (1989), Austen-Smith and Banks (1996), and Levit et al. (2024).

[10] We make the tie-breaking assumption that voters vote against r whenever indifferent.

[11] In the main model, agents have no intrinsic preferences for a certain policy (e.g., political ideology) and there is no cost of casting a vote. We consider firms' political ideologies in Internet Appendix C.4, and voters' ideologies and costly voting in Internet Appendix C.8.

has market power in the local labor market, that is, it takes into account how its production will affect wages, and (b) it has a larger production capacity than the competitive firms. (b) ensures ℓ can produce more and make more profits than each individual competitive firm, so that it has more influence on aggregate outcomes.

The aggregate production and demand for labor is $\int_0^N q_j\, dj + q_\ell = Q$. Assuming that the labor market clears, the equilibrium wage is the value of w that satisfies the market-clearing condition:

$$\underbrace{m\frac{w}{A}}_{\textit{Labor supply}} = \underbrace{\int_0^N q_j\, dj + q_\ell}_{\textit{Labor demand}}. \tag{3}$$

We make the following assumption on the parameters.

Assumption 1 *We assume (i)* $\overline{q} + \underline{q}N \leq m$ *and (ii)* $\frac{m}{A}p > \overline{q} + 2N\underline{q}$.

Assumption 1.(i) ensures that the labor demand is always met, so the labor market clears. As we discuss in Section 3.3, Assumption 1.(ii) ensures that industry profits are the smallest when ℓ chooses not to produce (i.e., at $q_\ell = 0$), so that its optimal strategy to influence voting under the active channel includes threatening to shut down production if r passes. This assumption also implies that we always have $p > w$ in equilibrium, so that, absent any policy, producing is strictly profitable for firms.

3.2 Passive Channel

Our objective is to study how ℓ's market power influences the alignment between voters' and firms' preferences over the policy. We begin by evaluating a passive channel of alignment, where firms do not actively try to influence voting, but the policy affects their production choices and, through this channel, the payoffs of voters who work in the local economy. Under the passive channel, there is no communication between firms and voters; so the sequence of events here begins with the voters voting on the policy.

Policy. We consider the case where the policy r imposes a unit cost $\tau > 0$ on firms' output (e.g., a carbon tax), and a benefit to voters that is proportional to the tax revenue (e.g., a carbon dividend or other forms of government handouts). The cost of the policy to firm $k \in \{\ell, j\}$ is then $T_k = \tau q_k$, and the benefit to voter i is a transfer $\frac{\delta \tau Q}{m}$, where $\delta > 0$ captures the efficiency of redistribution and Q is aggregate production. If the policy does not pass ($\mathcal{P} = nr$), there is no tax on firms and no transfer to voters.

Under this specification for r, for given w and Q, firm k's profits become

$$\pi_k = (p - w)q_k - \mathbb{1}_{\mathcal{P}} \tau q_k, \tag{4}$$

and voter i's utility becomes

$$u_i = \max\{w, v_i\} + \mathbb{1}_{\mathcal{P}} \frac{\delta \tau Q}{m}. \tag{5}$$

We compare political support for r in our main model (with the dominant firm ℓ and a mass N of competitive firms) to a benchmark where all firms are competitive. To isolate the effect of ℓ's market power, we hold total production capacity constant across models, that is, we impose

$$\overline{q} + N\underline{q} = N^C \underline{q}, \tag{6}$$

where N^C is the mass of firms in the competitive benchmark.

Analysis. Given a policy regime $\mathcal{P}$ and expected wage $\mathbb{E}[w]$, a competitive firm j produces at capacity if the expected profit margin $(p - \mathbb{E}[w] - \mathbb{1}_{\mathcal{P}} \tau)$ is positive, shuts down if it is negative, and is indifferent over $q_j \in [0, \underline{q}]$ if it is zero, in which case j randomizes its production choice. Similarly, ℓ chooses production to maximize $\mathbb{E}[(p - w - \mathbb{1}_{\mathcal{P}} \tau) q_\ell]$, with the exception that it takes into account how w depends on q_ℓ.

Voters cast their votes at the beginning of the game, before firms choose their production. However, they correctly anticipate how each policy regime will affect these choices and, therefore, the expected equilibrium wages and transfers. Based on these expectations, i votes in favor of r if $\mathbb{E}[u_i \mid r] > \mathbb{E}[u_i \mid nr]$. Voters with worse outside options (lower v_i) are more likely to work in the local economy (that is, to satisfy $v_i \leq w$), so they are more exposed to the labor-market effects

of the policy. That means the median-voter theorem (Black 1958) holds: Voters can be ordered by their willingness to vote against r, so the median type's preference decides the voting outcome.

Under this channel, firms do not directly influence voters' preferences over the policy. So, the policy always reflects the *true* (i.e., non-distorted) preferences of the median voter. Firms therefore have political power only insofar as the median voter is also worse off under r.

Proposition 1 (Passive influence) *Suppose the policy r is a tax on output and all firms take the voting outcome as given. The political support for r (that is, the mass of voters who are in favor of r) may be larger or smaller in the model with the dominant firm ℓ compared to the competitive benchmark.*

Under the passive channel, the link between market power and political power is ambiguous: Firms may have more political power in less concentrated labor markets. This is due to how the dominant firm ℓ affects aggregate production and equilibrium wages, and how these adjust to the policy. On the one hand, firms compete more intensely for workers in the competitive benchmark, which results in higher employment and wages. For intermediate values of τ (large enough to force the competitive firms to reduce production), these effects generate *more* opposition to the policy in the benchmark, where (a) workers receive better wages, so they value their jobs more and are thus more concerned about employment contractions, and (b) a larger mass of voters work in the local economy and, thus, internalize these concerns.

On the other hand, even though total employment is larger overall in the benchmark, it can also be less sensitive to whether the policy is implemented. ℓ internalizes the effect of its employment on wages. This creates a strategic incentive to reduce production if the policy is implemented, to lower wages and partially offset the cost of the policy. The competitive firms take wages as given, so they don't have the same incentive. This means that, for small values of τ, the competitive firms continue to operate at full capacity also under the policy, while ℓ instead adjusts to the policy by reducing production. These effects generate *less* opposition to the policy in the competitive benchmark.

Figure 2 illustrates the results in Proposition 1, by describing how political support for the policy changes with the output tax τ. In the competitive benchmark, for τ small, firms operate at

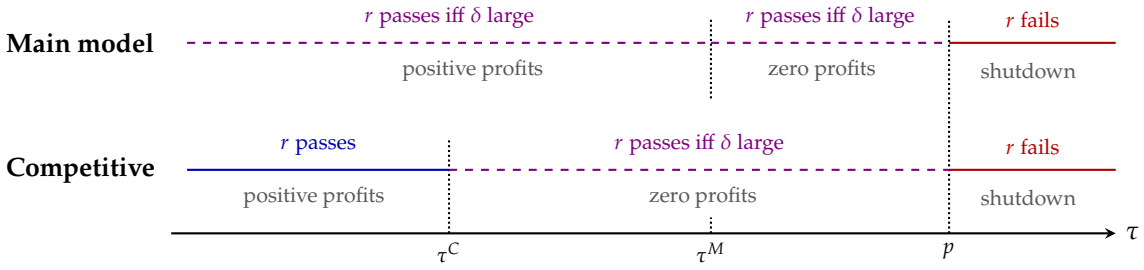


Figure 2: Voting outcomes over an output tax τ in our main model versus the competitive benchmark. Thresholds satisfy $\tau^C \leq \tau^M$. Solid segments indicate that r always passes or always fails. Dashed segments indicate that r passes only for sufficiently large δ.

full capacity under both r and nr. So, the policy does not affect wages in equilibrium and, as a consequence, it always passes. As τ increases past the threshold τ^C, profits are too small for all firms to produce $\underline{q}$. Under r, the equilibrium then enters a region where firms make zero profits and randomize their production choices, and employment decreases. In this region, r only passes if redistribution is sufficiently efficient (δ large enough). With τ larger than p, production is no longer sustainable, as firms would make negative profits if they produced. So, under r, all firms shut down, and both tax revenues and wages collapse. Here the policy cannot benefit any voter, so it never passes.

In the main model, even for low tax rates, ℓ responds to the policy by scaling back production,[12] while the competitive firms don't adjust their production. This creates *less* support for r compared to the competitive benchmark. As τ increases past the threshold τ^M, the equilibrium enters a zero-profit region also in the main model. For values of τ such that the equilibrium is in the zero-profit regions in both models, the expected wages are the same across models under r, but they are larger in the benchmark under nr. So, the policy generates a larger drop in expected wages in the benchmark. This creates *more* support for r in the main model.

3.3 Active Channel

Next, we examine the case where firms communicate to voters about how they will respond to the policy, to influence their voting choices. Whereas in the passive channel voters internalized firms'

[12]This assumes that ℓ is not capacity-constrained at $\tau = 0$, which is the case illustrated in Figure 2.

political preferences on their own, here firms take active steps to *engineer* that internalization.

Policy and influence technology. To keep the active and passive channels separate (more on this shortly), here we assume that the policy is a tax on profits: The local government collects a fraction $\tau \in (0,1)$ of firms' profits, and redistributes the tax revenue to voters. The cost to firm $k \in \{\ell, j\}$ is then $T_k = \tau(p-w)q_k$, and the benefit to each voter is $\frac{\delta\tau(p-w)Q}{m}$ (like before, $\delta > 0$ captures the efficiency of redistribution).

Under this specification for r, for given w and Q, firm k's profits become

$$\pi_k = (p-w)q_k(1-\mathbb{1}_{\mathcal{P}}\,\tau), \tag{7}$$

and voter i's payoff becomes

$$u_i = \max\{w, v_i\} + \mathbb{1}_{\mathcal{P}}\frac{\delta\tau(p-w)Q}{m}. \tag{8}$$

Since maximizing before- or after-tax profits is equivalent in this model, the policy here does not *directly* affect firms' production choices and, therefore, employment and wages in equilibrium. So, the passive channel of internalization does not arise in this case. We study the case where both the active and passive channels are at play in Internet Appendix C.1 (see also Section 4.4).[13]

Yet, firms may still try to reshape political preferences by linking their employment choices to electoral outcomes. Before voting takes place, each firm k can send a public message $m_k = (q_k^r, q_k^{nr}) \in [0, q(k)]^2$, where $q(k)$ is k's capacity constraint (i.e., $q(\ell) = \overline{q}$ and $q(j) = \underline{q}$). m_k describes how much k will produce under each policy regime and captures firms' communications about how they will respond to the policy. Sending the message has a direct cost $\gamma > 0$ for k, which may represent the public-relations cost of conveying the information to voters, or the costs (e.g., the potential legal implications) of politicizing employment choices. Firms choose their messages simultaneously and non-cooperatively.

k must adhere to the production plan in m_k with probability $\theta_k \in (0,1]$; with probability $1-\theta_k$,

[13] Internet Appendix C.4 shows that the same qualitative results arise when T_k captures an ideological component in firm k's objective function (e.g., a non-monetary payoff experienced by its owners when their preferred candidate is elected). In this case, T_k may vary across firms to reflect heterogeneity in political preferences (e.g., positive for firms whose owners oppose r, and negative otherwise).

the firm is free to choose its production ex-post (after voting takes place and the policy regime realizes). If k does not send any message (for which we use the notation $m_k = \emptyset$), it always chooses production ex-post.

This approach to modeling the active channel is intentionally flexible, as it is meant to capture different channels through which firms can shape voters' expectations about how they will respond to the policy. Internet Appendix B describes simple ways to model some of these channels that map into the general framework described here. First, firms may use their reputation for partisanship (Internet Appendix B.1) to make their communications about how they will respond to the policy credible in equilibrium. Second, firms may strategically keep the options to relocate production across different locations, which makes their threats to relocate or promises to expand incentive compatible ex-post (Internet Appendix B.2).[14] Lastly, voters may have incomplete information about the economic effects of the policy, and firms may be able to exploit this to sway them against the policy (Internet Appendix B.3; see also Section 4.4).[15]

Benchmark without electoral influence. To set the stage for our main results, we first consider a benchmark where firms take the voting outcome as given, so they do not send any messages. Assumption 1.(ii) implies that $p > w$ in equilibrium under either policy regime. Since the profit margin is always positive and they take wages as given, the competitive firms here always operate at full capacity ($q_j = \underline{q}$). This also means that the equilibrium is always in pure strategies.

ℓ instead internalizes how q_ℓ affects w, so it solves:

$$\max_{q_\ell \in [0,\overline{q}]} (p - w) q_\ell, \tag{9}$$

where w is the market-clearing wage implied by Eqn. (3).

We use q_ℓ^* to denote the solution to Program (9).[16] Given that the policy is non-distortionary, employment and wages do not adjust to the policy regime and, thus, r is always supported by all voters.

[14] E.g., "Amazon Pauses Huge Development Plans in Seattle Over Tax Plan," *New York Times*, May 2018.

[15] In this last microfoundation, voters may have incorrect beliefs about the probability that k sticks to the production plan in m_k. For example, voters may be uncertain about whether the policy is distortionary, and firms may be able to convince them that it is (e.g., that it will force firms to downsize) even when, in reality, it is not.

[16] Given q_ℓ^*, the market-clearing condition yield the other equilibrium outcomes. For brevity, we describe these in Appendix A.2.

Lemma 1 (Benchmark without electoral influence) *Suppose the policy r is a tax on profits and all firms take the voting outcome as given. All voters strictly support the policy and, thus, r is always implemented in equilibrium.*

Electoral influence. Competitive firms take equilibrium wages as given and, therefore, cannot affect voters' payoffs through their production choices. As a result, no competitive firm j has an incentive to pay the cost γ and send a message, since doing so would not affect how voters vote. It follows that the competitive firms continue to always produce $q_j = \underline{q}$ under either policy regime, like in the benchmark without electoral influence.

ℓ instead takes into account how its production will affect wages. So, it may have an incentive to link q_ℓ to the policy outcome. Formally, if ℓ wants to influence voting, it chooses the message $m_\ell = (q_\ell^r, q_\ell^{nr})$ that solves the following optimization problem:

$$\max_{m_\ell} \ \theta_\ell(p - w^{nr})q_\ell^{nr} + (1 - \theta_\ell)(p - w^*)q_\ell^* \tag{P}$$

subject to

$$\mu(\mathcal{I}) \geq \frac{m}{2}, \tag{MR}$$

where w^* ($w^{\mathcal{P}}$) is the equilibrium wage when ℓ produces q_ℓ^* ($q_\ell^{\mathcal{P}}$), and $\mu(\mathcal{I})$ is the measure of voters who vote against the policy, that is, for whom

$$\underbrace{\theta_\ell \max\{w^{nr}, v_i\} + (1 - \theta_\ell)\max\{w^*, v_i\}}_{\mathbb{E}[u_i|nr]} \geq \underbrace{\theta_\ell \left[\max\{w^r, v_i\} + \frac{R^r}{m}\right] + (1 - \theta_\ell)\left[\max\{w^*, v_i\} + \frac{R^*}{m}\right]}_{\mathbb{E}[u_i|r]}, \tag{IC_i}$$

where R^* (R^r) is the aggregate transfer to voters when ℓ produces q_ℓ^* (q_ℓ^r).[17]

ℓ chooses (q_ℓ^r, q_ℓ^{nr}) to maximize its profits conditional on the policy not being implemented, under the constraint that at least half of the voters vote against it, which is the majority-rule constraint (MR). When ℓ influences voting, the policy r is not implemented on the equilibrium path. In equilibrium, ℓ then sticks to the production plan in m_ℓ and produces q_ℓ^{nr} with probability θ_ℓ

[17] ℓ correctly anticipates that the competitive firms will not try to influence the elections. Therefore, the equilibrium outcomes (aggregate production and wages) in Program (P) are those implied by market clearing when the competitive firms operate at full capacity under either policy regime.

(in which case $\pi_\ell = (p - w^{nr})q_\ell^{nr}$), and deviates from it and chooses the ex-post optimal production q_ℓ^* with probability $1 - \theta_\ell$ (in which case $\pi_\ell = (p - w^*)q_\ell^*$). Still, ℓ can use both q_ℓ^{nr} and q_ℓ^r to sway voters against the policy, since both affect the voters' incentive-compatibility constraint (IC_i) through the market-clearing wages w^{nr} and w^r, respectively, and q_ℓ^r also affects the transfer R^r.

Satisfying (MR) may not be possible for any $(q_\ell^r, q_\ell^{nr}) \in [0, \overline{q}]^2$, in which case we say that influencing voting is not feasible. Next, we characterize the optimal influence strategy (i.e., the solution to Program P) assuming that ℓ can and wants to influence voting. We characterize the conditions under which this is the case in Section 4.1.

For ℓ to turn voter i against the policy, its expected wage and transfer under r must be small, and the expected wage under nr must be large, so that i prefers to give up on the transfer to keep the higher wage. Similar to Section 3.2, voters with worse outside options (lower v_i) are easier to sway, as they are more exposed to wage effects. That means that the median-voter theorem (Black 1958) continues to hold also here. Hence, for ℓ to influence voting, it is sufficient to make the median type at least weakly better off in expectation if r fails.

Proposition 2 (Active influence) *Suppose the policy r is a tax on profits. The optimal way for ℓ to influence voting is to threaten to shut down production ($q_\ell^r = 0$) if r is implemented, which would result in the lowest possible wage $\underline{w}^r$ and transfer $\underline{R}^r$, and to promise to produce more than in the benchmark where ℓ takes the voting outcome as given if r is not implemented, $q_\ell^{nr} \geq q_\ell^*$:*

1. *If threatening to shut down production is sufficient to sway the median voter against r, ℓ produces the same as in the benchmark in equilibrium, i.e., $q_\ell^{nr} = q_\ell^*$ and $w^{nr} = w^*$.*
2. *Otherwise, ℓ promises q_ℓ^{nr} that makes the median voter indifferent between r and nr. That is, $q_\ell^{nr} > q_\ell^*$ such that $w^{nr} = \frac{A}{2} + \frac{\underline{R}^r}{m} + \frac{1-\theta_\ell}{\theta_\ell}\frac{R^*}{m}$, where $w^{nr} > w^*$.*

The best way to make the expected wage and transfer under the policy r small is to threaten to shut down if the policy is implemented: A lower q_ℓ^r reduces the labor demand and, therefore, the market-clearing wage w^r. It is also the case that ℓ makes less profits when it produces less, which reduces the tax revenue and, thus, the value of the transfer R^r. The optimal threat for ℓ is thus

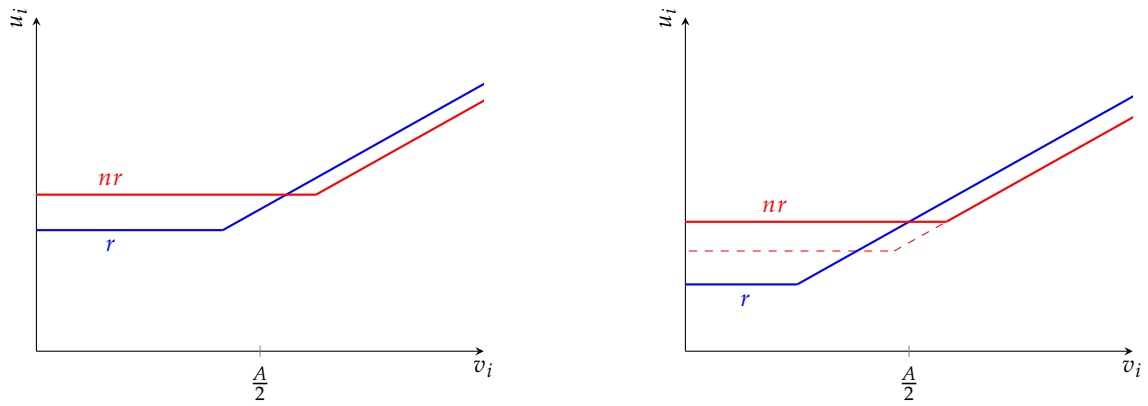


Figure 3: Illustration of voters' utility functions under the two policy regimes.
The flat segments represent the expected utility of voters who work in the local economy in each regime (i.e., the expected value of $w + \frac{R}{m}$), and the increasing segments represent the utility of those who take their outside options (i.e., the expected value of $v_i + \frac{R}{m}$). The median voter is $A/2$. Types for whom the blue line is above the red line are in favor of r, and vice versa.
Left: Scenario where threats ($q_\ell^r = 0$) alone are enough to sway enough voters against r.
Right: Scenario where ℓ has to employ both threats and promises ($q_\ell^{nr} > q_\ell^*$) to sway enough voters against r. The dotted line describes voters' utilities if ℓ had instead set $q_\ell^{nr} = q_\ell^*$.

to say that it will shut down if r passes, which would result in the lowest possible wage $\underline{w}^r$ and transfer $\underline{R}^r$.[18]

This threat may be enough to sway the majority of voters against r. If that is the case, ℓ does not need to distort its production choices on the equilibrium path—it can produce the same as in the benchmark without electoral influence ($q_\ell^{nr} = q_\ell^*$), where it solves an unconstrained problem. If the threat alone is not enough, ℓ will also have to promise to increase production if r fails, to make the policy even less attractive. That is, ℓ needs to choose q_ℓ^{nr} above q_ℓ^*, so that the equilibrium wage w^{nr} is above the benchmark level w^*. Producing more than the unconstrained optimum is, all else equal, costly for ℓ. So, the firm makes just enough promises to make the median voter indifferent between the two policies. In this case, the majority-rule constraint is binding in equilibrium, and it pins down the optimal value of q_ℓ^{nr}.[19]

[18]The competitive firms benefit from the wage reduction and, thus, make more profits when q_ℓ^r decreases. Assumption 1.(ii) ensures that the price p is sufficiently large that R still decreases when ℓ produces less. Without this assumption, R may be larger when ℓ shuts down, in which case the optimal threat may involve producing *more* under r so as to reduce aggregate profits and, thus, depress the transfer to voters. Since this would also increase wages, this is an optimal threat from the perspective of minimizing voters' overall welfare under r only in knife-edge cases. Our insights carry through if we allow for these knife-edge cases, but the exposition becomes more cumbersome.
[19]When ℓ makes concessions, the IC constraint must hold with equality for $v_i = A/2$ and fail for $v_i > A/2$, since the median voter must

Figure 3 illustrates the results in Proposition 2. A simple way to understand ℓ's influence strategy is to evaluate (IC_i) at the optimal message $(0, q_\ell^{nr})$, and rewrite it as

$$\underbrace{\theta_\ell\Big(\max\{w^{nr}, v_i\} - \max\{\underline{w}^r, v_i\}\Big)}_{\textit{Exp. wage differential}} \geq \underbrace{\frac{\mathbb{E}[R]}{m}}_{\textit{Exp. transfer}}, \tag{10}$$

where $\mathbb{E}[R] = \theta_\ell \underline{R}^r + (1 - \theta_\ell)R^*$.

Intuitively, ℓ influences the election by making the expected wage in the local labor market larger if r fails. This wage differential offsets the expected transfer and, thus, sway voter i against the policy only if i is exposed to these wage fluctuations: For v_i large, i always takes its outside option, so it is not affected by the difference between w^{nr} and $\underline{w}^r$. For v_i small, i always works in the local economy, so it fully internalizes this wage differences.

4 The Economics of Electoral Monopsonies

Having established how ℓ can use its leverage over employment to influence political outcomes, we use the model to study the economics of this form of electoral interference. We focus on the active channel, so the policy r is always a tax on profits (that is, $T_k = \tau(p - w)q_k$ and $R = \delta\tau(p - w)Q$) in the analyses in this section, except for when we describe the interactions with the passive channel in Section 4.4.

4.1 When Does the Dominant Employer Influence Voting?

We begin by characterizing the conditions under which electoral influence arises in equilibrium.[20]

Corollary 1 (Conditions for active influence) *ℓ influences voting in equilibrium iff the following two conditions are jointly satisfied:*

1. *(**Feasibility**) The median voter is against redistribution when ℓ makes the largest possible promise,*

be indifferent between r and nr. This requires $w^{nr} > A/2 \geq \underline{w}^r$, which yields the expression for w^{nr} in Proposition 2, Part 2.

[20] Whenever ℓ does not influence voting, the equilibrium is the same as in the benchmark where ℓ takes the voting outcome as given.

that is, $(q_\ell^r, q_\ell^{nr}) = (0, \overline{q})$*, which is equivalent to*

$$\max\{w^{nr}, \frac{A}{2}\} \geq \max\{\underline{w}^r, \frac{A}{2}\} + \frac{\underline{R}^r}{m} + \frac{1-\theta_\ell}{\theta_\ell}\frac{R^*}{m}. \tag{11}$$

2. *(**Profitability**)* ℓ *is better off influencing voting than paying the tax, which is equivalent to*

$$\theta_\ell(p - w^{nr})q_\ell^{nr} - \gamma \geq (\theta_\ell - \tau)(p - w^*)q_\ell^*. \tag{12}$$

ℓ is able and willing to influence voting when two conditions are met. First, it must be feasible to sway the median voter against the policy. Since r becomes relatively less attractive when q_ℓ^{nr} increases (through the higher wage w^{nr}), this requires that the median voter prefers nr when ℓ makes the largest possible promise, $q_\ell^{nr} = \overline{q}$. Second, even when it is feasible, influence is costly for ℓ: Sending the message is costly and ℓ may have to produce more than its unconstrained optimal production, which reduces its profits. These costs then must be smaller than the cost of the policy for influence to be profitable.[21]

Next, we describe how labor-market concentration affects the feasibility condition.[22]

Proposition 3 (Role of labor market concentration) *Electoral influence is not feasible if either* ℓ*'s employment is a small fraction of total industry employment (that is, if* $\frac{\overline{q}}{N\underline{q}+\overline{q}}$ *is sufficiently small) or total industry employment is a small fraction of voters (that is, if* $\frac{N\underline{q}+\overline{q}}{m}$ *is sufficiently small).*

Proposition 3 implies two necessary conditions for ℓ to be able to influence voting. First, ℓ must have a sufficiently dominant position within the local labor market: If the aggregate production of the competitive firms is too large, ℓ does not have much impact on equilibrium wages. In that case, the threats to shut down under r and the promises to expand under nr do not have a large enough effect on voters' utility to change their preferences over the policy. Second, the local labor market must represent a sufficiently large share of the local electorate: If employment in the local labor market accounts for only a small fraction of voters, changes in ℓ's production affect too few voters to influence the electoral outcome. These two dimensions of concentration motivate the empirical measure of electoral monopsony power that we construct in Section 5.

[21] Throughout the paper we assume that, whenever indifferent, ℓ prefers to influence the election.
[22] For brevity, we describe the comparative statics of the profitability condition in Internet Appendix A.10.

Taken together, the results in this section imply that the active channel can only emerge when a firm is sufficiently dominant both within its industry and within the local economy. Since the competitive firms never send messages in equilibrium, a dominant employer is essential for labor market power to translate into political power under the active channel.

4.2 Effects on Voters

As we discussed earlier, because of the heterogeneity in their outside options, the threats and promises ℓ uses to influence voting do not have the same effect on all voters. Our next step is to study the aggregate and distributional effects of ℓ's electoral influence.

Proposition 4 (Voter welfare & polarization) *Compare the equilibrium where ℓ influences voting to the benchmark without electoral influence. When ℓ influences voting:*

1. *Voters with outside options large enough ($v_i \geq \widetilde{v}$, with $\widetilde{v} < A/2$) are always strictly worse off, including the median voter. Voters with $v_i < \widetilde{v}$ may be worse or better off.*
2. *Even though a majority of voters is strictly worse off, aggregate voter welfare may be larger.*

Voters with outside options sufficiently large that they never participate in the local labor market are always worse off when ℓ influences voting compared to the benchmark without electoral influence (where r always passes and the wage is w^*): They always lose the transfer when ℓ influences voting, but never benefit from the potential increase in wages.

Perhaps surprisingly, the median voter is also always worse off. In the equilibrium with electoral influence, this voter's payoff is largest when ℓ makes promises to influence voting. Even then, however, the median voter is indifferent between (i) the equilibrium path, where r fails but the expected wage is higher than in the benchmark, and (ii) the threat scenario where r passes but ℓ may shut down and, thus, expected wages and transfers are the smallest. Since the threat scenario is always worse than the benchmark equilibrium, the median voter is always strictly worse off when ℓ influences voting, even though this voter is *against* r in equilibrium.

These results have two important implications. First, ℓ's electoral influence generates a political failure: It prevents the implementation of a policy that would have made a majority of voters

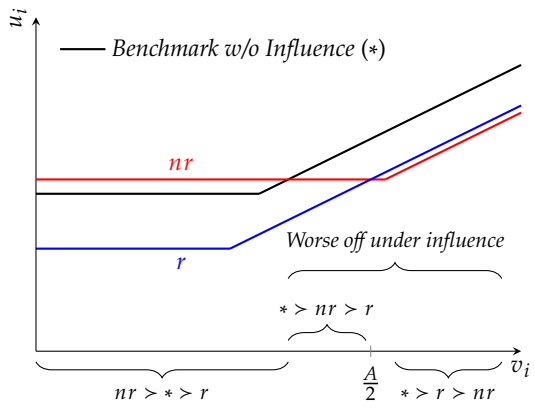


Figure 4: Distributional effects of electoral monopsonies.
Voters' utilities in the benchmark where there is no electoral influence and r is implemented (black line), in the threat scenario where r is implemented but ℓ downsizes (blue line), and the equilibrium where r fails but ℓ produces more than the benchmark (red line). The majority of voters is always worse off under electoral influence, but a minority at the left of the median voter are better off in this example.

better off. Second, this distortion may not be easy to infer from realized voting outcomes alone. For example, in equilibrium the median voter opposes r, even though the same voter would have supported the policy absent ℓ's electoral influence.

By contrast, voters with low outside options may be strictly better off when ℓ influences voting, since they benefit the most from the wage increase when the policy fails and ℓ expands production. Intuitively, the firm cannot *fine-tune* the wage increase—it cannot offer different wages to different types. So, it may have to leave large rents to voters with low outside options to be able to sway the median voter. If its outside option is large enough that the median voter is relatively insulated from the local labor market (so ℓ needs to promise to expand a lot), these rents may even exceed the aggregate value of the transfer in the benchmark. In this case, aggregate voters' welfare is larger when ℓ influences voting, even though a majority of voters is strictly worse off.[23]

These results yield another important implication: Electoral monopsonies need not simply redistribute welfare from voters to firms. Instead, they can redistribute welfare *across* voters, benefiting some groups at the expense of others. As a result, this form of electoral interference can generate strongly polarized political preferences within the same community. Figure 4 illustrates

[23]On the firms' side, ℓ is always better off when it influences voting, but the competitive firms may be worse off, since they make less profits when ℓ goes through with its promises to expand production if r fails (see Internet Appendix A.9).

the results in Proposition 4.

4.3 Political Constraints

In this section, we show how ℓ's electoral influence constrains the set of politically feasible policies and derive implications for socially desirable policy platforms.

We consider two candidates running in the election: One candidate (h) plays the role of a constrained, benevolent planner: Its objective is to maximize total welfare, but it can only implement policies that are supported by a majority of voters. The other candidate (b) is aligned with ℓ's interest, so always runs on a pro-business, no-transfer agenda. In Internet Appendix C.7, we show that the same qualitative insights arise if b chooses its platform to maximize its chances to be elected (as in, e.g., Downs 1957).[24]

h chooses the tax level τ to maximize the sum of aggregate voters' and firms' welfare. Since h always runs on a tax agenda and b on a no-tax agenda, here r (nr) means that h (b) won the election. Welfare under policy $\mathcal{P} \in \{nr, r\}$ is

$$\mathcal{W}^{\mathcal{P}} = \underbrace{(1 - \mathbb{1}_{\mathcal{P}}\tau)\mathbb{E}[(p - w)Q \mid \mathcal{P}] - \gamma \mathbb{1}_{m_\ell}}_{\textit{Firms}} + \underbrace{\mathcal{V}^{\mathcal{P}}}_{\textit{Voters}} \tag{13}$$

where $Q = q_\ell + N\underline{q}$, the indicator $\mathbb{1}_{m_\ell}$ equals 1 if ℓ sends a message m_ℓ and 0 otherwise, and $\mathcal{V}^{\mathcal{P}}$ is

$$\mathcal{V}^{\mathcal{P}} = \int_0^A \mathbb{E}[\max\{w, v_i\} \mid \mathcal{P}]\frac{m}{A}dv_i + \mathbb{1}_{\mathcal{P}}\tau\delta\mathbb{E}[(p - w)Q \mid \mathcal{P}]. \tag{14}$$

The expectations in $\mathcal{W}^{\mathcal{P}}$ and $\mathcal{V}^{\mathcal{P}}$ are taken with respect to q_ℓ (since ℓ produces as in the message m_ℓ with probability θ_ℓ, and q_ℓ^* otherwise).

First-best allocation. Before characterizing h's optimal policy platform, it is useful to describe the first-best allocation, that is, the allocation that h would want to implement if it could directly dictate which policy is implemented and how much firms produce.

[24] We study the case where both candidates are office-motivated (as in Downs' classical study) in Internet Appendix C.6.

Lemma 2 (First best) *In the first-best allocation, firms never send any messages and the policy is implemented iff* $\delta > 1$. *If* δ *is not much larger than* 1 ($\delta \in (1, \overline{\delta}]$), *all firms operate at full capacity.*

Sending messages to voters is costly, so h does not want any firm (including ℓ) to send messages in the first best. Since h maximizes aggregate welfare, it wants to implement the policy only when redistributing profits to voters generates a net positive value for the economy (i.e., when $\delta > 1$). Abstracting from redistribution, the surplus generated in the labor market is maximized when all firms operate at full capacity.[25] If the net positive value of redistribution is not too large (δ not much larger than 1), welfare is maximized when labor market surplus is also maximized. If δ is very large, h may prefer to limit production, to maintain high profits and generate value through redistribution. To simplify the exposition, we consider the former case in the analysis.

Assumption 2 *Suppose* $\delta \in (1, \overline{\delta}]$, *so the policy is socially desirable and all firms produce at full capacity in the first best.*

From an aggregate welfare perspective, there are two potential sources of inefficiency in equilibrium under Assumption 2. First, a typical deadweight loss deriving from ℓ's market power, which leads to too little production and employment compared to the first best: ℓ anticipates that increased production will lead to higher wages and erode profits, so it may choose to operate at less than full capacity in equilibrium. Second, a political economy friction, since redistribution is socially desirable but may not be implemented in equilibrium (Section 3.3).

The interaction of these two frictions creates a tradeoff for h. When winning the election is possible, h either chooses the policy platform that maximizes welfare conditional on winning the election, or the one that forces ℓ to make more concessions to voters (to influence voting and have the business-friendly candidate win the election). In the first case, h gets to implement the policy, thus mitigating the political economy friction in the model. In the second case, h uses ℓ's willingness to influence the election to move its production closer to the first-best level (assuming $q_\ell^{nr} > q_\ell^*$), thus mitigating the deadweight loss from ℓ's market power. Whenever h wins the election, ℓ produces at the benchmark level q_ℓ^*, which is typically smaller than the first-best level

[25] Since the product price is exogenous, and wages are transfers between firms and workers, surplus is maximized when firms operate at full capacity, so that they maximize the revenues generated in the local economy.

$\overline{q}$. So, h cannot mitigate both frictions at the same time.

Politically constrained optimum. For a given τ, the model we described above is equivalent to our main model of active influence in Section 3.3, so all the results we derived there carry through. h chooses $\tau \in \mathcal{T} \subseteq [0, \overline{\tau}]$, with $\overline{\tau} < 1$ being the most aggressive redistribution policy in the choice set $\mathcal{T}$.[26] h always wins the election if ℓ chooses not to influence voting, and it always loses if ℓ interferes. As we discussed in Section 4.1, ℓ influences the election in equilibrium when the feasibility (Inequality 11) and profitability (Inequality 12) conditions hold. When choosing its policy platform, h then takes into account which policies will induce ℓ to influence the election, and with what consequences on total welfare.

Proposition 5 (Optimal platform) *h chooses the welfare-maximizing of the following two strategies:*

1. ***(Best politically feasible)*** *Choose the largest policy $\tau \in \mathcal{T}$ for which electoral influence is either not feasible or not profitable for ℓ, provided such a policy exists. In this case, h wins the election and implements the policy.*
2. ***(Best politically infeasible)*** *Choose the largest policy $\tau \in \mathcal{T}$ for which electoral influence is both feasible and profitable for ℓ, provided such a policy exists. In this case, h loses the election but forces ℓ to make larger promises, moving its expected production closer to the first-best level.*

When influence is both feasible and profitable for ℓ at $\tau = \overline{\tau}$, then $\overline{\tau}$ is the best politically infeasible policy, and $\tau < \overline{\tau}$ the best politically feasible one.[27] Intuitively, if τ is sufficiently close to 0, ℓ prefers paying the tax to incurring the cost of sending the message. So, h wins the election only if it runs on a more moderate platform, with τ small enough that ℓ prefers not to influence voters.[28] The alternative is to run on a politically infeasible but more aggressive platform ($\tau = \overline{\tau}$), which is more attractive to voters and, thus, forces the firm to make more concessions.[29]

[26] $\overline{\tau} < 1$ ensures that firms' optimal production choices are always unique in equilibrium (at $\tau = 1$, firms' after-tax profit is always zero, so they are indifferent over how much they produce).

[27] The politically infeasible platform is optimal if $q_\ell^{nr} > q_\ell^*$, δ is close to 1, and γ is close to 0. In this case, the welfare gains from redistribution and the cost of ℓ's message are negligible, but there is a strictly positive welfare gain from moving ℓ's production closer to its first-best level. The feasible platform is always optimal if $q_\ell^{nr} = q_\ell^*$, since then ℓ does not make any promise to influence voting.

[28] The feasibility condition is hardest to satisfy at $\tau = \overline{\tau}$, since, all else equal, voters benefit more from a more aggressive policy. When influence is feasible at $\tau = \overline{\tau}$, it is then also feasible at $\tau < \overline{\tau}$.

[29] By the same logic as above, the value of q_ℓ^{nr} that satisfies the median-voter IC constraint increases with τ.

Perhaps the most interesting implication of these results is how the optimal platform may *appear* disconnected from the preferences of the electorate in equilibrium. When the politically feasible agenda is optimal, ℓ does not influence voting in equilibrium. If this agenda is more moderate, and voters fail to account for the strategic interaction between h and ℓ, h's platform then seems *too* moderate compared to their preferences, as they would have preferred the most aggressive tax policy. When instead the aggressive but politically infeasible agenda is optimal, ℓ makes sufficiently large concessions to voters to turn the median voter against redistribution. In this case, h running on the most aggressive tax policy may again appear disconnected from the preferences of the majority of voters in equilibrium.

These results suggest another way in which this form of electoral influence may be difficult to counteract in practice: Electoral monopsonies may call for socially desirable platforms that appear disconnected from the preferences expressed by voters in equilibrium. So, even a well-intentioned candidate—who wants to maximize welfare—may appear too moderate or too extreme in equilibrium.

4.4 Additional Analyses

In this section, we briefly discuss some other implications of the baseline model and its extensions. The complete analysis and explanation of these results is in the Internet Appendix.

Active vs. passive influence. In Internet Appendix C.1, we study how the active and passive channels interact when the policy directly affects firms' production decisions, such as the output tax in Section 3.2. We show that these two channels can be either substitutes or complements. On the one hand, if voters already internalize the firm's interests (as they anticipate that the policy will depress wages), ℓ has less need to actively intervene in the political process. On the other hand, active influence may be more effective when some voters already internalize ℓ's interests (as the feasibility and profitability conditions become easier to satisfy). The interaction of these two forces can generate a non-monotonic relationship between the economic costs of a policy and firms' political engagement. For example, firms may be most vocal against mildly distortionary policies (i.e., policies with relatively small direct effects on employment), and remain relatively

silent about either highly distortionary or non-distortionary policies. This also suggests that active and passive influence may often operate simultaneously in practice, which makes them difficult to distinguish empirically.

Uninformed voters. In Internet Appendix B.3, we consider a version of the model where voters are imperfectly informed about the economic costs of the policy (e.g., whether r will force ℓ to shutdown), and learn about these costs from ℓ's message m_ℓ. In some equilibria, ℓ exaggerates the negative effects of the policy, but voters only partly adjust for this bias. This allows ℓ to sway the public against r even when the policy would have had no effect on its production choices. These insights have two important implications. First, firms can influence voting also by exploiting voters' incomplete information about the effects of a policy. In practice, these effects are often difficult for voters to assess, making this channel potentially important. Second, incomplete information creates a role for firms to inform voters. Firms may play this role by educating voters about the true economic consequences of policies, but also to exploit voters' limited information to influence electoral outcomes in their favor.

Competition policy. In Internet Appendix C.3, we study the role of competition policy by considering a variation of the model where voters vote on policies that directly affect the degree of employer concentration in the local economy.[30] Policies that decrease concentration dilute ℓ's market power and, therefore, its leverage over voters, reducing its ability to influence electoral outcomes. If the decrease in concentration is sufficiently large, these policies always receive a majority of votes. Otherwise, ℓ can still use its influence to sway voters against them (or in favor of policies that promote consolidation), by the same logic as in the main model. This points to a new, labor market channel for the self-reinforcing loop between economic and political power: Concentrated employers acquire influence over electoral outcomes and can use that influence to support policies that preserve their future market power.[31]

[30] For example, the election may involve candidates with different approaches to competition policy, with r representing a political agenda that facilitates the entry of new firms (e.g., reduce barriers to entry), whereas nr represents a more incumbents-friendly agenda (e.g., relax merger restrictions and increase barriers to entry).

[31] Other channels for this loop between economic and political power (e.g., lobbying and campaign donations) have been studied and discussed in the literature (e.g., Zingales 2017; Callander et al. 2022).

Campaign donations. In Internet Appendix C.2, we study how electoral monopsony power interacts with another form of firms' political engagement: Campaign spending. We analyze an extension of our baseline model where ℓ can also transfer resources to the business-friendly candidate, who uses them to fund campaign ads to sway voters toward its platform. We show that electoral monopsony power and campaign donations are substitutes at the *intensive* margin, as firms with greater ability to directly influence workers rely less on campaign spending to shape political outcomes. At the same time, they are complements at the *extensive* margin, since firms with more instruments of influence have stronger incentives to engage in electoral influence in the first place. Put differently, the firms with the strongest incentives to influence politics are also those that can most easily substitute campaign donations with other forms of influence that operate through their employment base. This suggests that observed campaign donations may understate the political influence of concentrated employers.[32]

5 Electoral Relevance: Electoral Monopsony Power and Turnout

The goal of this exercise is to assess whether the mechanism developed in the model and supported by the survey evidence is plausibly quantitatively meaningful at electoral scale. The theory highlights a channel through which electoral monopsony power can shape political behavior by altering how voters perceive the economic consequences of electoral outcomes. For this channel to matter at electoral scale, however, it must be visible on margins that are central to aggregate political outcomes. Voter turnout provides a natural object for this test: Participation is a broad measure of electoral engagement and a primary margin through which local political influence can affect realized vote totals.[33] In this sense, this electoral relevance analysis links the theoretical mechanism to first-order empirical objects.

[32] Bombardini and Trebbi (2011) document an inverted-U relationship between campaign contributions and number of employees in a given sector, but abstract from labor market power.

[33] We show how ℓ's electoral influence affects voter turnout in the model extension with costly voting in Internet Appendix C.8.

5.1 Empirical Measure of Electoral Monopsony Power (EMP)

Proposition 3 shows that a dominant employer can influence local elections only if it accounts for a sufficiently large share of employment within its industry and the industry itself represents a sufficiently large share of the local labor market. We use these insights to construct an empirical measure of electoral monopsony power that combines within-industry employer concentration with the importance of the industry in the county's employment base.

We measure the electoral monopsony power of industry j in county c as

$$\text{EMP}_{jc,t} = \left(s_{jc,t}\right)^{\alpha} \cdot \left(\sqrt{HHI_{jc,t}}\right)^{1-\alpha}, \tag{15}$$

where $s_{jc,t} = \frac{emp_{jc,t}}{\sum_j emp_{jc,t}} * 100$ is the share of county employment in industry j in percentage-point terms, and $\sqrt{HHI_{jc,t}}$ is the square root of the within-industry Herfindahl-Hirschman Index for industry j in county c, which is also expressed in percentage-point terms.[34]

The parameter $\alpha \in [0, 1]$ governs the relative importance of the industry's local employment share versus within-industry employer concentration in shaping electoral power. The structure of Eqn. (15) is intentionally flexible. When $\alpha = 1$, electoral power derives solely from the industry's share of county employment. When $\alpha = 0$, it reflects only within-industry employer concentration. Intermediate values of α allow for joint influence. The special case $\alpha = 0.5$, which we use in our main analysis, corresponds to a geometric mean of the two components:

$$\text{EMP}_{jc,t} = \sqrt{\left(s_{jc,t}\right) \cdot \left(\sqrt{HHI_{jc,t}}\right)}.$$

To obtain our measure of overall electoral monopsony power in a given county, we aggregate industry-level electoral monopsony power across industries using pre-period local industry shares:

$$\text{EMP}_{c,t} = \sum_{j \in \mathcal{J}} s_{jc,t_0} \cdot \text{EMP}_{jc,t}, \tag{16}$$

where $\mathcal{J}$ is the set of industries and t_0 denotes the baseline year.

[34] Denote $emp_{kjc,t}$ the employment of firm k in industry j and county c, and $emp_{jc,t} = \sum_k emp_{kjc,t}$ the total employment of industry j in county c. The within-industry HHI is $HHI_{jc,t} = \sum_k \left(\frac{emp_{kjc,t}}{emp_{jc,t}} \cdot 100\right)^2$. Since the HHI is computed using percentage employment shares, $\sqrt{HHI_{jc,t}}$ is also expressed in percentage-point terms. In the implementation, we estimate $HHI_{jc,t}$ from County Business Patterns establishment-size bins using bin midpoint employment values.

In the main implementation, we set $t_0 = 2000$ and measure post-period electoral monopsony power in 2014, the last electoral cycle before the 2016 election. Weighting by baseline industry shares fixes the local exposure weights before the period over which concentration changes are measured, reducing concerns that subsequent changes in local employment composition mechanically affect the construction of the county-level index.

We compute electoral monopsony power for all U.S. counties, with its geographic distribution shown in Figure 5. For the median U.S. county, the dominant industry (the one with the largest EMP_{jc}) has a level of within-industry concentration equivalent to an industry with five equally sized firms and accounts for 22.4% of the county's workforce.

5.2 Data

Our primary dataset consists of three components: Voter records, County Business Patterns (CBP) data, and tract-level characteristics. We use the CBP data to construct county-industry measures of employer concentration and county employment shares, as they provide detailed industry-level employment and establishment counts at the county level. These data allow us to measure changes in electoral monopsony power during the pre-measurement period (2000–2014), which we relate to subsequent voter turnout.

The voter records are sourced from L2, a non-partisan data vendor commonly used in both political campaigns and academic research. The L2 data include detailed information on all registered voters, such as birth year, gender, and ethnicity, with each voter assigned a unique ID for identification purposes. In addition, the data include information on individuals' political partisanship. In 34 states and the District of Columbia, L2 assigns political affiliation based on self-reported voter registration. In the remaining states, L2 infers party affiliation using a range of data sources, including primary election participation, demographic characteristics, exit polls, and commercial lifestyle data. L2 data are widely used by political campaigns, and prior academic research has evaluated and validated the accuracy of the partisanship measures in voter files.[35] Importantly, conditional on an individual appearing in the 2020 L2 vintage, the dataset also

[35] Bernstein et al. (2022) compare L2 partisanship measures to state voter files; Brown and Enos (2021) validate L2 partisanship using survey data; and Pew (2018) benchmark multiple commercial voter file providers against microdata from Pew national surveys.

contains historical records for that individual, including registration dates and voting history.

For the voting analysis, we restrict the sample to Democratic and Republican voters in counties with party-affiliation histories, and to voters whose party affiliation does not change over the sample period. We use these records to construct individual-level turnout outcomes. We define $Voted_i$ as the share of even-year general and primary elections in which individual i voted since 2014, relative to the number of such elections in which the individual was eligible to vote.

We supplement these data with a set of pre-period county characteristics that capture local demographic, economic, and labor-market conditions before the main period of analysis. These controls are measured primarily in 2000 and are drawn from the U.S. Census, including poverty rates, homeownership rates, public-assistance receipt, unemployment rates, median household income, Black population shares, average years of education, and median age. We also use 1999 county-level population, births, deaths, and infant deaths from NHGIS. These variables allow us to account for county-level baseline economic conditions, demographic composition, and population dynamics.

Summary statistics for each source of data are reported in Table IA2 (survey), Table IA3 (county-level), and Table IA4 (individual-level).

5.3 Empirical Specification

Our objective is to estimate the relationship between electoral monopsony power and voter turnout. A naïve implementation of this analysis would directly estimate the relationship between EMP_c and individual-level turnout without using an instrumental variable approach. A more stringent specification focuses on differential turnout by party affiliation and includes age and tract fixed effects to control for unobserved heterogeneity across demographic groups and geographic areas. The specification takes the form:

$$Voted_i = \beta(\text{EMP}_c \times Republican_i) + X_{ic}\Gamma + \delta_{age \times Republican} + \delta_{tract} + \delta_{state \times Republican} + \epsilon_{ic}, \quad (17)$$

where $Voted_i$ captures the voting propensity of individual i in county c, and $Republican_i$ is an indicator for whether the individual is classified as affiliated with the Republican Party.

The coefficient β captures whether electoral monopsony power is associated with a differential effect on Republican relative to Democratic voter turnout within the same neighborhood. The specification includes X_{ic}, a vector of individual- and county-level controls, age $\times$ Republican fixed effects ($\delta_{age \times Republican}$) that allow turnout differences across age cohorts to vary by party affiliation, tract fixed effects (δ_{tract}) that absorb neighborhood-level heterogeneity, and state $\times$ Republican fixed effects ($\delta_{state \times Republican}$) that absorb state-specific differences in turnout between Republican and Democratic voters.

The main effect of EMP_c is omitted because it is collinear with the tract fixed effects, which already absorb all variation in electoral monopsony power at the local level. By including these fixed effects, the model improves identification by focusing on within-tract variation in how Republican and Democratic voters respond to electoral monopsony power. However, while an improvement over the naïve specification, this approach may still suffer from endogeneity concerns, as there could remain a correlation between EMP_c and unobserved local or individual-level factors after conditioning on fixed effects.

To address remaining endogeneity concerns, we use a leave-one-state-out shift-share instrument that predicts changes in the within-industry concentration component of electoral monopsony power while holding baseline local exposure fixed.[36] The instrument isolates exposure to national changes in within-industry employer dominance rather than variation in the countywide component of EMP. For each industry j and county c, we compute national industry concentration excluding county c's state, and use the change between the baseline and post periods to construct

$$Z_c = \sum_{j \in \mathcal{J}} s_{jc,t_0} \left[\sqrt{\text{HHI}_{j,-s(c),t_1}} - \sqrt{\text{HHI}_{j,-s(c),t_0}} \right], \tag{18}$$

where $\text{HHI}_{j,-s(c),t}$ is the within-industry HHI for industry j in year t, calculated using all counties outside county c's state.

[36] The leave-one-state-out construction is more conservative than a leave-one-county-out design because it removes not only county c's own contribution to the national industry shock, but also variation from other counties in the same state. This is useful in our setting because labor-market concentration is measured in local industry-labor markets and may be correlated with state-level labor-market institutions or economic shocks (e.g., Azar et al. 2024), while turnout may also respond to state-level election rules and political conditions (e.g., Burden et al. 2014).

The first stage corresponding to our main specification is

$$\text{EMP}_c \times Republican_i = \gamma\,(Z_c \times Republican_i) + X_{ic}\Gamma + \delta_{age\times Republican} + \delta_{tract} + \delta_{state\times Republican} + \varepsilon_{ic}, \tag{19}$$

which includes the same controls and fixed effects as in Eqn. (17), with the error term $\epsilon_{i,c}$ accounting for residual variation.

Our identifying variation exploits the individual-level differential impact of local exposure to national industry shocks conditional on tract, age × Republican, and state × Republican fixed effects. Our design isolates plausibly exogenous variation in measures of local labor market concentration driven by differential exposure to national trends, rather than by local economic or political shocks and, more importantly, variation that is plausibly exogenous to the individual, conditional on individual- and neighborhood-level controls. The identifying assumption is that these national shocks are orthogonal to unobserved county-level characteristics that may be correlated with Republican turnout trends, conditional on fixed effects.[37] By interacting the instrument with Republican affiliation, we estimate how electoral monopsony power differentially affects Republican relative to Democratic voter turnout within the same local geographic and political context, conditional on finely grained demographic and spatial controls.

Choice of baseline time t_0. To select our baseline year for constructing industry shares, t_0, we need to ensure shares do not contaminate the construction of the instrument. Figures IA5 and IA6 show that both concentration and shares were relatively stable from 1998 to 2003, while there is a sharp change in concentration as we enter the Great Recession, and a structural change in the year-by-year dynamics of industrial composition. Given that this period marks a transitional moment in local concentration dynamics, we want to select a baseline year that strictly precedes this period. We thus set our baseline year—for selecting both county-level industrial shares and national trends in industrial concentration—to be the last preceding general election year, 2000. Setting shares prior

[37] Formally, the exclusion restriction requires

$$Cov(Z_c \times Republican_i, T_c \times Republican_i \mid \text{state} \times Republican_i, \text{ tract FE, age} \times Republican_i, X) = 0,$$

where T_c denotes any unobserved county-level trend or shock that differentially affects Republican voters, other than through electoral monopsony power. Equivalently, the identifying assumption rules out within-state, within-tract residual correlation between exposure to leave-one-state-out national concentration shocks and untreated Republican-specific turnout trends.

to the large concentration changes in the mid-2000s minimizes mechanical correlation between the shares and subsequent concentration growth, consistent with the guidance in Goldsmith-Pinkham et al. (2020) on avoiding endogenous timing of shares in shift-share designs.

Balance. To assess whether the identifying variation in the instrument is correlated with pre-existing individual characteristics, we conduct a series of balance tests reported in Figure IA7. We regress a range of predetermined individual characteristics and pre-period outcomes on the instrument interacted with Republican affiliation, using the same fixed-effects structure as in the main specifications:

$$B_{i,pre} = \gamma(Z_c \times Republican_i) + X_{ic}\Gamma + \delta_{age \times Republican} + \delta_{tract} + \delta_{state \times Republican} + \epsilon_{i,c}. \quad (20)$$

where $B_{i,pre}$ are pre-determined individual characteristics.

All regressions include census-tract fixed effects, so identification relies on within-tract comparisons across individuals with different exposure levels. The specifications also incorporate the same additional fixed effects used in the main analysis. The outcomes span demographic characteristics from the voter file, housing and wealth measures from CoreLogic, and credit characteristics from Experian. Demographic variables include gender, race, marital status, homeownership status, age at first registration, estimated education and income, and household count. For homeowners, we additionally examine new construction status, holding period, and return. Finally, using an anonymized subsample of North Carolina voters matched to Experian records, we analyze credit score, mortgage indicators, and loan performance measures. We find no evidence of systematic differential exposure across these pre-determined characteristics; observable covariates are well balanced across exposure levels.

Instrument Relevance. Table 2 Panel B presents the first-stage regression results, which assess the relationship between the instrumental variable and electoral monopsony power. Our preferred specification is column (3) which reports the estimate from the first-stage regression corresponding to the baseline specification in Eqn. (19). The coefficients on the instrument interacted with Republican affiliation are positive and statistically significant. The associated F-statistics (F-stat

between 66 and 68) indicate that the instrument is strongly correlated with the instrumented variable, supporting the relevance condition for the IV analysis.

5.4 Main Empirical Results: Swaying Electoral Participation

To assess the relationship between electoral monopsony power and voter behavior, we estimate the effect of electoral monopsony power (EMP) on Republican voter turnout according to Eqn. (19). To account for broader structural shifts in the labor market, we instrument for electoral monopsony power using national industry shocks as described above.

We present the baseline results in Table 2 Panel A. Across specifications, higher electoral monopsony power is associated with greater electoral participation among registered Republicans. The interaction between EMP and Republican affiliation is positive and statistically significant in both the OLS and IV specifications. The OLS estimate implies an economically meaningful increase in Republican turnout of approximately 2.7 percentage points for a one-standard-deviation increase in EMP exposure.[38] The IV estimates are slightly larger in magnitude (our preferred IV estimate is 3.1 percentage points), suggesting that the corresponding OLS correlations may be conservative under the identifying assumptions. For context, from 1976 through 2024, the average popular-vote margin was 5.7 percentage points (3.2 since 2000).

Viewed through the lens of our theoretical framework, these findings suggest that electoral monopsony power can meaningfully shape political participation at the local level: In highly concentrated labor markets, dominant employers may have greater leverage over workers and local communities, potentially increasing the salience of business-friendly political platforms among voters whose economic prospects are closely tied to local firms.[39] To illustrate the potential aggregate implications of these local effects, Figure 6 compares actual Electoral College outcomes with those that arise in a counterfactual where all firms within each county-industry cell are equally sized and, as a result, electoral monopsony power is smaller. The effects on state-level vote margins are large enough to alter the presidential winner of some states. In 2016 and 2024, these

[38] Republicans account for about 43% of our sample (Table IA4).

[39] In all but four counties—Gilpin County (CO), Decatur County (IA), Arthur County (NE), and Oglala Lakota County (SD)—the employment-weighted industry partisan skew (based on OpenSecrets donation data) favors Republicans, covering 99.97% of the electorate. Consistent with this, Cohen et al. (2019) show that CEOs of S&P 1500 firms (2000–2017) are three times more likely to be Republican than Democrat.

effects could have been enough to change the presidential outcome altogether.[40]

Robustness. Internet Appendix E.1 reports a series of additional analyses that help interpret the turnout results. First, the estimates are not simply capturing the presence of large employers: In horse-race specifications that control directly for the local prevalence of large firms, the EMP $\times$ *Republican* interaction remains positive and statistically significant, while the coefficients on the large-firm controls are smaller and less stable. Second, the results do not appear to reflect product-market (rather than labor-market) concentration: When we control for local industrial tradability as a proxy for product-market competition (e.g., Mian and Sufi 2014), the turnout effects remain similar. Third, we discuss why selective hiring is unlikely to explain the results: In short, the estimates are based on individual-level voting behavior among registered voters, and the increase in participation is concentrated among already-registered Republicans. Fourth, we show that the estimates are robust to interacting Republican affiliation with a broad set of pre-period county characteristics, including local economic conditions and demographic composition. Finally, we show that the results are robust to sequentially excluding industries with the largest Rotemberg weights (Goldsmith-Pinkham et al. 2020).

6 Conclusions

This paper introduces the concept of electoral monopsony: A setting in which dominant employers leverage labor market power to shape democratic outcomes. We combine original survey evidence, a formal political economy model, and individual-level voting data to show how concentrated employer power can translate into electoral influence.

Our theoretical framework distinguishes two channels linking market power to political power. Under a passive channel, voters internalize how policies affect wages and employment. We show that this channel yields an ambiguous link between market power and political power: Greater concentration does not necessarily generate more support for business-friendly policies. By contrast, under an active channel, dominant firms strategically condition production—through

[40] We present construction details in Appendix E.2.

credible threats and promises—on electoral outcomes. In this case, market power translates directly into political power: A sufficiently dominant employer can sway the median voter in favor of business-friendly policies, even when these policies would not have passed otherwise, and even when the majority of voters are economically worse off as a result.

The model generates sharp distributional predictions. Voters with limited outside options are more exposed to wage effects, so they are easier to sway for firms, and may even benefit from this form of electoral interference when firms promise to expand if the business-friendly policies pass. Meanwhile, voters with stronger outside options are systematically worse off when firms interfere. Electoral monopsonies therefore produce endogenous polarization: They can realign political coalitions along lines of economic dependence rather than income alone, offering a novel explanation for support of pro-business platforms among economically vulnerable voters.

Our original survey evidence provides direct micro-level support for the active channel, by documenting that employer political communication is widespread and disproportionately concentrated among major local employers. Workers employed by large, locally dominant firms are significantly more likely to report exposure to political messaging, discussions linking elections to firm expansion or layoffs, and perceived influence on both career opportunities and voting behavior. These patterns provide micro-level support for the active channel of influence modeled in the paper: Employers do not merely benefit from workers' passive internalization of firm interests, but actively communicate, frame, and sometimes condition economic outcomes on electoral results.

In terms of empirical electoral relevance, using a shift-share design linking employer concentration to individual voting records, we show that greater exposure to electoral monopsony power increases Republican voter turnout. Quantitatively, our estimates imply that absent electoral monopsonies, the 2016 and 2024 presidential elections would likely have produced a different outcome.

Our results show that labor market structure can endogenously shape the boundaries of democratic choice. When dominant employers internalize the political consequences of their economic decisions, electoral outcomes reflect not only voters' underlying preferences but also firms' strategic incentives. In such environments, policies supported by a majority may nonetheless

be defeated—not through lobbying or campaign finance, but through the quieter mechanism of economic dependence in concentrated local labor markets. By highlighting this channel, our findings contribute to a growing literature on the economic foundations of political power and raise important normative questions about democratic accountability where employment is highly concentrated.

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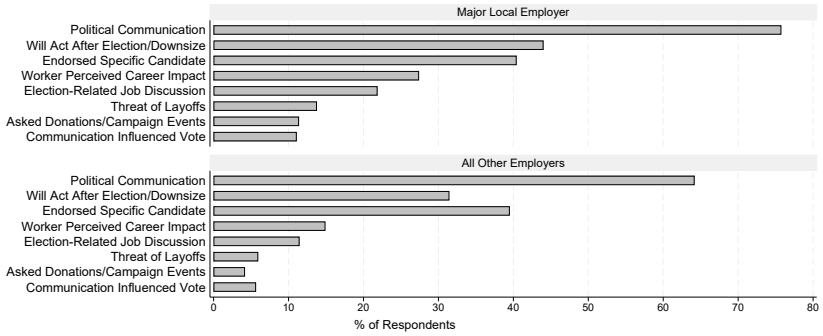
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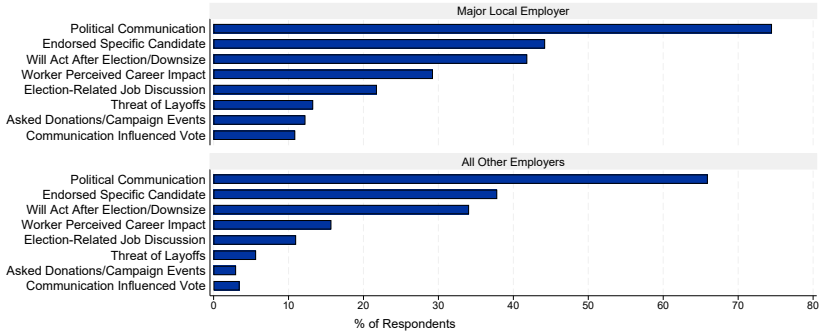
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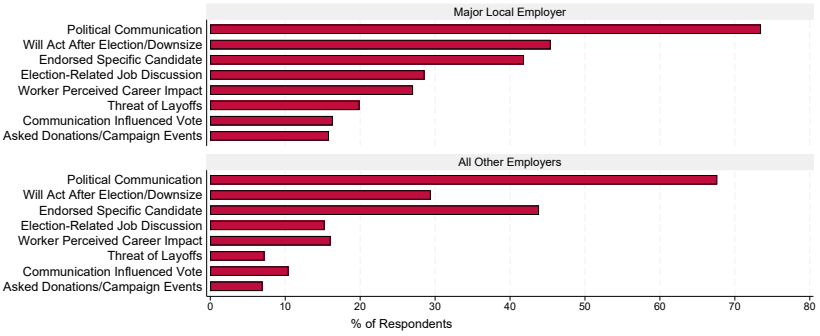
Figure 1: Reported Employer Political Activity among Major and Non-Major Local Employers



(a) All Survey Respondents



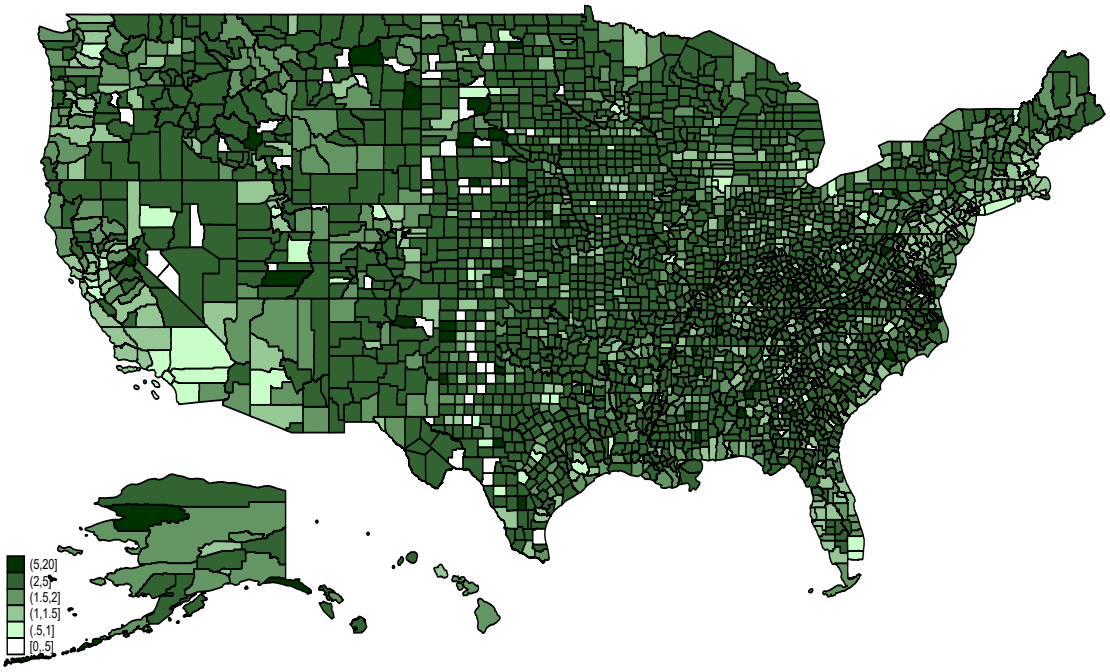
(b) Democratic Survey Respondents



(c) Republican Survey Respondents

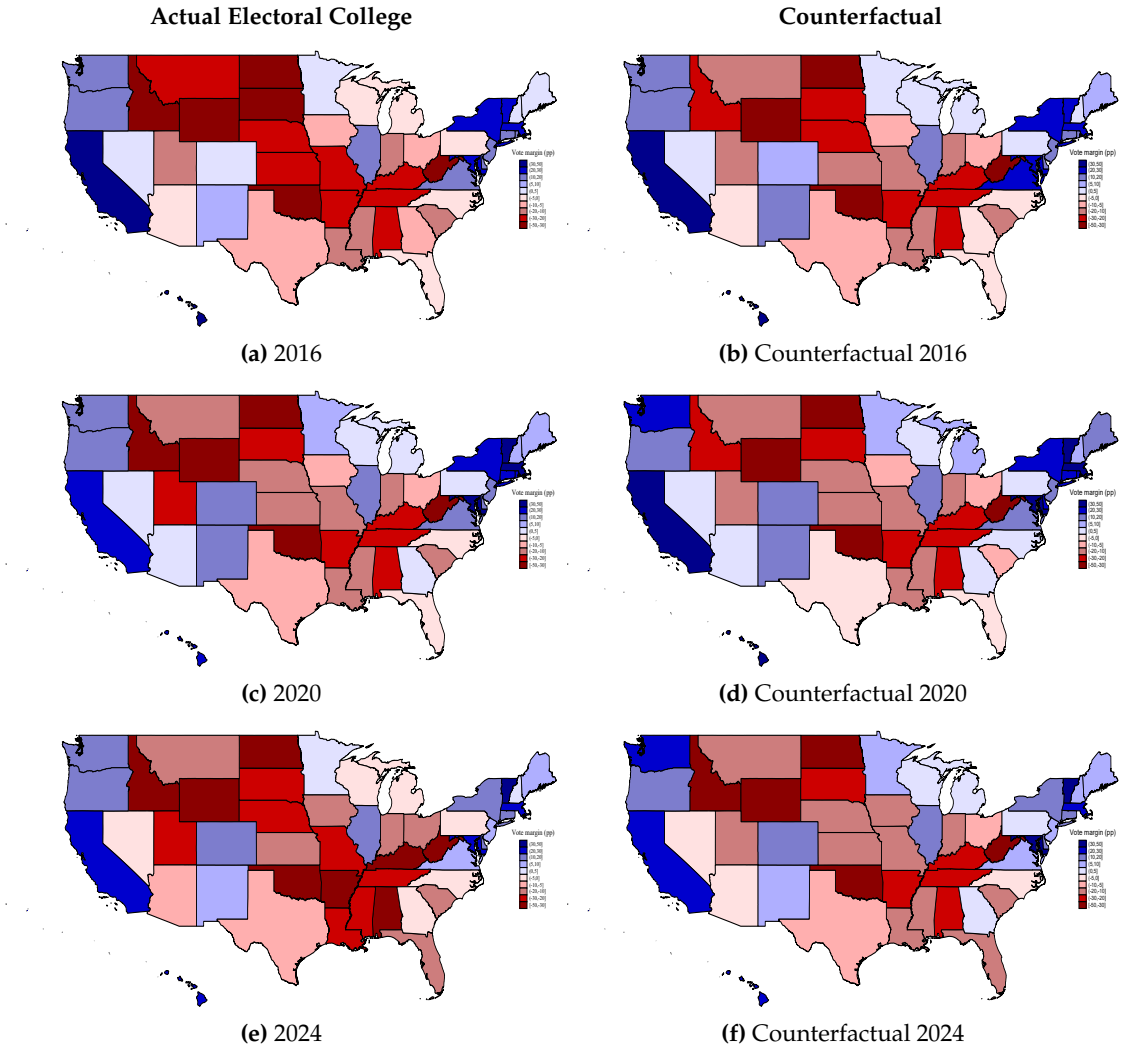
This figure reports the share of survey respondents who report exposure to different forms of employer political activity, separately for workers employed by major local employers and by other employers. Outcomes include political communication, discussions linking elections to job security or firm actions, endorsements of political candidates, and requests for campaign donations or participation in campaign-related events. Responses are based on an original survey of U.S. workers which is described in Appendix D. Bars represent the percentage of respondents reporting each activity. Panel (a) presents results for all respondents. Panel (b) presents results for respondents self-identified with the Democratic Party. Panel (c) presents results for respondents self-identified with the Republican Party.

Figure 5: Geographical Distribution of Electoral Monopsony Power



This figure maps county-level Electoral Monopsony Power (EMP), an empirical measure designed to capture the conditions under which dominant employers can exert electoral influence, as formalized in Proposition 3 and Section 5. County-level EMP is constructed by aggregating industry-level electoral power within each county according to Eqns. (15) and (16) with $\alpha = 0.5$ – which assigns equal weight to within-industry concentration and the industry's share of county employment. Higher values indicate counties where large, concentrated employers are more likely to have the scale and coordination necessary to influence local electoral outcomes. The measure is constructed using County Business Patterns data.

Figure 6: Counterfactual of the Electoral College



(a) 2016 **(b)** Counterfactual 2016

(c) 2020 **(d)** Counterfactual 2020

(e) 2024 **(f)** Counterfactual 2024

This figure compares actual Electoral College outcomes with those that arise in a counterfactual where all firms have the same size and, thus, electoral monopsony power is smaller. Panels (a), (c), and (e) report the actual state-level presidential vote margins (in percentage points) in the 2016, 2020, and 2024 elections, respectively. Panels (b), (d), and (f) report the vote margins obtained by setting local-level concentration to the level implied by equally-sized firms in each industry-county cell. States are colored by the Democratic minus Republican vote margin, with positive values indicating Democratic victories and negative values indicating Republican victories. We present construction details in Appendix E.2.

Table 1: Survey Evidence

	(1) Political Communications	(2) Will Respond to Election	(3) Endorsed Candidate	(4) Layoff	(5) Campaigning Requested	(6) HR Discussion	(7) Vote Influenced	(8) Career Impact	(9) Policy Issues Discussed	(10) Policy Views Known	(11) Election-policy Effects Discussed
Panel A: No Controls											
Major Local Employer	0.1158***	0.1256***	0.0091	0.0784***	0.0721***	0.1041***	0.0542***	0.1248***	0.1236***	0.0634***	0.0520**
	(0.0209)	(0.0228)	(0.0230)	(0.0147)	(0.0134)	(0.0181)	(0.0136)	(0.0197)	(0.0232)	(0.0233)	(0.0226)
N. obs.	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083
Panel B: With Controls											
Major Local Employer	0.0916***	0.1008***	0.0184	0.0731***	0.0696***	0.0786***	0.0409***	0.1124***	0.1036***	0.0355	0.0716***
	(0.0247)	(0.0263)	(0.0263)	(0.0170)	(0.0155)	(0.0207)	(0.0158)	(0.0223)	(0.0271)	(0.0265)	(0.0263)
N. obs.	1,859	1,859	1,859	1,859	1,859	1,859	1,859	1,859	1,859	1,859	1,859
Race FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Gender FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Education FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Income FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Party FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Note: This table reports estimates from regressions relating survey measures of major local employer status to measures of workplace political activity and perceived political influence. Survey details are provided in Appendix D. The independent variable *Major Local Employer* is an indicator equal to one if the respondent reports that their employer is one of the largest employers in their town or county. The dependent variables are binary indicators for whether respondents report: political communication by the employer, communications by the employer that they will respond to election outcome, employer endorsements of political candidates, discussions of layoffs or firm actions in the context of elections, solicitation of campaign donations or events, discussions with supervisors or human resources personnel about elections, employee's perceived influence on their voting behavior, employee's perceived impact on their career opportunities, policy issues discussed by the employer, employee's knowledge of employer's policy views, and discussions of election-policy effects by the employer. Panel A reports specifications without additional controls. Panel B includes controls for race, gender, education, industry, income, and political party fixed effects. All regressions are estimated using OLS. Robust standard errors are reported in parentheses. *** 1%, ** 5%, * 10% significance level.

Table 2: Effects of Electoral Monopsony Power on Voters' Electoral Engagement

	OLS	IV: Shift Share 2000–14	
	(1)	(2)	(3)
Panel A: Voting Percentage			
EMP × Republican	0.0268***	0.0427***	0.0316***
	(0.0032)	(0.0065)	(0.0073)
Republican	0.0367***	0.0514***	
	(0.0023)	(0.0062)	
Panel B: First Stage			
Shift-Share$_{00-14}$ × Republican		0.5060***	0.4133***
		(0.0620)	(0.0501)
Republican		-0.7793***	
		(0.0499)	
First-stage F-stat		66.59	67.98
N. obs.	80,187,990	80,187,990	80,187,990
N. Clusters	1,697	1,697	1,697
Tract	Yes	Yes	Yes
Age	Yes	Yes	Yes
State × Republican	No	No	Yes
Age × Republican	No	No	Yes

Note: This table reports OLS and IV estimates of the effects of electoral monopsony power on voter turnout, measured using voting percentage. Panel A reports second-stage estimates. Panel B reports the corresponding first-stage regressions for the IV specifications, where the dependent variable is EMP × Republican. The main interaction term EMP × Republican captures heterogeneous effects by party affiliation. All models include tract and age fixed effects. Column (3) additionally includes state-by-party and age-by-party fixed effects. IV specifications use the leave-one-out shift-share instrument interacted with Republican affiliation. Standard errors are clustered at the county level. The reported first-stage F-statistic tests the excluded instrument. *** 1%, ** 5%, * 10% significance level.

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A Proofs

A.1 Proof of Proposition 1

We prove Proposition 1 in three steps. In Step One (Step Two) we characterize the equilibrium in the competitive benchmark (main model) as a function of the tax level τ. Step Three shows that, depending on the parameters, political support for r can be larger or smaller in the main model.

In the remainder of this proof, we use M to denote the main model, C to denote the competitive benchmark, and $\overline{Q}$ to denote aggregate production capacity in both models ($\overline{Q} := \overline{q} + N\underline{q} = N^c\underline{q}$). The labor-market clearing wage is $w = \frac{A}{m}Q$, where Q denotes aggregate output.

Step One: Competitive Benchmark. Given expected wage $\mathbb{E}[w]$ and tax level τ, a competitive firm j produces $q_j \in [0, \underline{q}]$ only if the expected (per-unit) profit margin is nonnegative. j produces at capacity if $p - \mathbb{E}[w] - \mathbb{1}_{\mathcal{P}}\tau > 0$, shuts down if $p - \mathbb{E}[w] - \mathbb{1}_{\mathcal{P}}\tau < 0$, and is indifferent over $q_j \in [0, \underline{q}]$ if $p - \mathbb{E}[w] - \mathbb{1}_{\mathcal{P}}\tau = 0$. The equilibrium therefore depends on whether the expected profit margin $p - \mathbb{E}[w] - \mathbb{1}_{\mathcal{P}}\tau$ is strictly positive, exactly zero, or negative.

When all N^c firms produce at capacity, we have $Q = N^c\underline{q} = \overline{Q}$, $w = \frac{A}{m}\overline{Q}$, and the per-unit profit margin is $p - \frac{A}{m}\overline{Q} - \mathbb{1}_{\mathcal{P}}\tau$. This is always the case when the policy is not implemented ($\mathcal{P} = nr$), since the per-unit profit margin $p - \frac{A}{m}\overline{Q}$ is positive in this case by Assumption 1.(ii). If the policy is implemented ($\mathcal{P} = r$), depending on the value of τ, we have one of three possible types of equilibria:

(C1) Positive profits ($\tau < \tau^C$). If τ is sufficiently small, all firms continue to produce at capacity also under r. The profit margin $p - \frac{A}{m}\overline{Q} - \tau$ is strictly positive for $\tau < \tau^C$, where $\tau^C := p - \frac{A}{m}\overline{Q}$. So, for $\tau < \tau^C$, all firms make positive profits and produce $\underline{q}$ in equilibrium.

(C2) Zero profits ($\tau^C \leq \tau < p$). When $\tau \in [\tau^C, p)$, all firms making positive profits and producing at capacity is no longer sustainable in equilibrium. So, the profit margin must be zero in equilibrium and aggregate output must satisfy $Q \leq \overline{Q}$. Since we have $p - \mathbb{E}[w] - \mathbb{1}_{\mathcal{P}}\tau = 0$, the equilibrium can be in mixed-strategy in this region, with firms randomizing over production levels.

Formally, firm j selects a probability distribution over its output, $\sigma_j \in \Delta([0, \underline{q}])$, to solve

$$\max_{\sigma_j} \mathbb{E}[(p - w - \tau)q_j]. \tag{A1}$$

Since firms are ex ante identical, we restrict attention to symmetric equilibria, in which all firms use the same distribution σ on $[0, \underline{q}]$ and, thus, aggregate production is $Q = N^c\mathbb{E}_\sigma[q]$.[1]

The profit margin being zero requires $p - \tau = \frac{A}{m}Q$, which implies $Q = \frac{m}{A}(p - \tau)$. $Q \leq \overline{Q}$ then requires $\tau \geq p - \frac{A}{m}\overline{Q} \equiv \tau^C$, and $Q > 0$ requires $\tau < p$. So, for any $\tau^C \leq \tau < p$, any distribution $\sigma \in \Delta([0, \underline{q}])$ satisfying $N^c\mathbb{E}_\sigma[q] = \frac{m}{A}(p - \tau)$ represents an equilibrium of the game, with aggregate output $Q = \frac{m}{A}(p - \tau)$

[1] Throughout the paper, we make the common assumption that with a continuum of i.i.d. random variables, the empirical mean equals the expectations with probability 1 (see, e.g., Judd 1985). It follows that all the equilibria in this region and in region (M2) in the main model have the same aggregate outcomes Q and w, independently of whether firms play mixed strategies and, if they do, independently of the realizations of each firm's individual production choice.

and equilibrium wage $w = p - \tau$.

(C3) Market breakdown ($\tau \geq p$). If $\tau \geq p$, production is no longer profitable even at the lowest wage $w = 0$. So, no firm produces in equilibrium and, thus, $Q = 0$, and $w = 0$.

Step Two: Main Model. We now characterize the equilibrium in the main model (M). Given expected wage $\mathbb{E}[w]$ and tax level τ, each competitive firm j chooses its output the same as in C: produces at capacity if $p - \mathbb{E}[w] - \mathbb{1}_{\mathcal{P}}\tau > 0$, shuts down if $p - \mathbb{E}[w] - \mathbb{1}_{\mathcal{P}}\tau < 0$, and is indifferent if $p - \mathbb{E}[w] - \mathbb{1}_{\mathcal{P}}\tau = 0$. ℓ chooses q_ℓ taking into account how that will affect the equilibrium wage $w = \dfrac{A}{m}(q_\ell + \int_0^N q_j \, dj)$.

If the tax is not implemented ($\mathcal{P} = nr$) and all competitive firms produce at capacity, ℓ solves

$$\max_{q_\ell \in [0,\overline{q}]} \left(p - \frac{A}{m}(q_\ell + N\underline{q})\right) q_\ell, \tag{A2}$$

which implies $q_\ell = \min\left\{\frac{1}{2}\left(\frac{mp}{A} - N\underline{q}\right), \overline{q}\right\}$.

As before, Assumption 1.(ii) implies that the profit margin is positive in this case ($p - \frac{A}{m}Q > 0$). So, when $\mathcal{P} = nr$, the equilibrium outcomes are the ones described above. If the tax is implemented, $\mathcal{P} = r$, depending on the value of τ, we have one of three possible types of equilibria:

(M1) Positive profits ($\tau < \tau^M$). Suppose all competitive firms produce $\underline{q}$. ℓ then solves

$$\max_{q_\ell \in [0,\overline{q}]} \left(p - \tau - \frac{A}{m}(q_\ell + N\underline{q})\right) q_\ell, \qquad \Rightarrow \qquad q_\ell = \min\left\{\frac{1}{2}\left(\frac{m(p-\tau)}{A} - N\underline{q}\right), \overline{q}\right\}. \tag{A3}$$

The profit margin is $p - \tau - \dfrac{A}{m}(q_\ell + N\underline{q})$, which is strictly positive for all $0 \leq \tau < \tau^M$, with $\tau^M := p - \frac{A}{m}N\underline{q}$. So, for $\tau < \tau^M$, all competitive firms produce at capacity and ℓ chooses $q_\ell = \min\left\{\frac{1}{2}\left(\frac{m(p-\tau)}{A} - N\underline{q}\right), \overline{q}\right\}$ in equilibrium. In this region, q_ℓ is positive ($\tau < \tau^M$ implies $\frac{m(p-\tau)}{A} - N\underline{q} > 0$) but it decreases with τ, while the competitive firms always produce at capacity.

(M2): Zero profits ($\tau^M \leq \tau < p$). When $\tau \in [\tau^M, p)$, positive profits are no longer sustainable in equilibrium, so we must have $p - \mathbb{E}[w] - \mathbb{1}_{\mathcal{P}}\tau = 0$ in this region. This means that the competitive firms may randomize over production levels. Like before, we restrict attention to equilibria where the competitive firms play the same strategies, that is, they choose the same distribution σ on $[0, \underline{q}]$. For any given q_ℓ, this implies an aggregate output $Q = q_\ell + N\int_0^{\underline{q}} q\,\sigma(q)\,dq$.

In principle, ℓ may also want to play a mixed strategy. Formally, ℓ chooses $\sigma_\ell \in \Delta([0, \overline{q}])$ to solve

$$\max_{\sigma_\ell} \ \mathbb{E}[(p - w - \tau)q_\ell]. \tag{A4}$$

Because ℓ internalizes the effect of its output on the expected equilibrium wage, the objective in Eqn. (A4) is concave in q_ℓ, which means there is always a unique value of q_ℓ that maximizes ℓ's expected profits. It follows that ℓ cannot be indifferent between two values of q_ℓ and, thus, it always plays a pure strategy in

equilibrium, even when the competitive firms randomize. In equilibrium, ℓ then solves

$$\max_{q_\ell \in [0,\overline{q}]} \left(p - \frac{A}{m}(q_\ell + N\int_0^{\underline{q}} q\,\sigma(q)\,dq) - \tau\right)q_\ell. \tag{A5}$$

Taking the derivative with respect to q_ℓ yields $p - \frac{A}{m}(q_\ell + N\int_0^{\underline{q}} q\,\sigma(q)\,dq) - \tau - \frac{A}{m}q_\ell$ which, by the profit margin $p - \frac{A}{m}(q_\ell + N\int_0^{\underline{q}} q\,\sigma(q)\,dq) - \tau$ being zero in equilibrium, is always negative for any $q_\ell > 0$. Such a candidate cannot be an equilibrium. Therefore ℓ must choose $q_\ell = 0$ in this region.

Since only the competitive firms produce in this region, we must have $Q \leq N\underline{q}$, which implies $\tau \geq \tau^M$. $Q > 0$ instead requires $\tau < p$. So, similar to before, for any $\tau^M \leq \tau < p$, any distribution $\sigma \in \Delta([0,\underline{q}])$ satisfying $N\int_0^{\underline{q}} q\,\sigma(q)\,dq = \frac{m}{A}(p-\tau)$, and $q_\ell = 0$ together represent an equilibrium of the game, with aggregate output $Q = \frac{m}{A}(p-\tau)$ and equilibrium wage $w = p - \tau$.

Notice that the equilibrium outcomes in this region are the same as in region (C2) of the competitive benchmark, and that we have $\tau^C = p - \frac{A}{m}\overline{Q} < p - \frac{A}{m}N\underline{q} = \tau^M$, since $\overline{Q} > N\underline{q}$.

(M3): Market breakdown ($\tau \geq p$). Like before, if $\tau \geq p$, production is no longer profitable even at the lowest wage $w = 0$. So, we have $Q = 0$, and $w = 0$ in equilibrium.

Step Three: Voting. Having characterized equilibrium production and wages in each model, we can compare the political support for the policy across models. Voter i supports r if

$$\Delta U(v_i) := u_i^r - u_i^{nr} = \max\{w^r, v_i\} - \max\{w^{nr}, v_i\} + \frac{\delta\tau Q^r}{m} > 0, \tag{A6}$$

where w^r and Q^r are the equilibrium wages and output under $\mathcal{P} = r$, and w^{nr} is the equilibrium wage under $\mathcal{P} = nr$.[2]

In both the benchmark and the main model, we always have $Q^{nr} \geq Q^r$ and, thus, $w^{nr} \geq w^r$ in equilibrium. It follows that the $\Delta U(v_i)$ function above always increases with v_i, so that types with larger outside options are more willing to support r. This means that voters can be ordered by their willingness to vote against the policy, so the median type's preference decides the voting outcome (Black 1958).

$\tau \in (0, \tau^C)$: benchmark has more support for policy r. $\tau \in (0, \tau^C)$ implies we are in region (C1) in the competitive benchmark, and region (M1) in the main model (recall that $\tau^C < \tau^M$). In the benchmark, we have $Q^r = \overline{Q}$ and $w^r = w^{nr}$, so $\Delta U(v_i)$ is positive for all voters and r always passes. In the main model, ℓ produces less when $\tau > 0$ (which implies that $Q^r < Q^{nr}$ and $w^r < w^{nr}$). The median voter supports r iff

$$\max\{w^r, A/2\} + \frac{\delta\tau Q^r}{m} > \max\{w^{nr}, A/2\}, \tag{A7}$$

implying a cutoff $\delta^M = \frac{m\left(\max\{w^{nr},A/2\} - \max\{w^r,A/2\}\right)}{\tau Q^r} \geq 0$ below which r does not pass in the main model (with

[2] As we explained in Footnote 1, for a given set of parameters, all the equilibria of the zero-profit regions (in both the main and benchmark models) have the same aggregate outcomes Q and w, independently of whether firms play mixed strategies and, if they do, independently of the realizations of each firm's individual production choice. It follows that (a) the expression in Inequality (A6) is constant across realizations of firms' mixed strategies (and production draws), hence the expectation equals the expression itself, and (b) the condition applies to every equilibrium in this region.

equality when the median voter is outside the labor market under both regimes, in which case r passes for all $\delta > 0$). So, for $\tau \in (0, \tau^C)$ the policy has enough political support to be implemented in the competitive benchmark, whereas in the main model it is implemented only if $\delta \geq \delta^M$ also holds.

$\tau \in (\tau^M, p)$: main model has more support for policy r. $\tau \in (\tau^M, p)$ implies we are in regions (C2) in the competitive benchmark and (M2) in the main model, where the expected profit margins are zero in equilibrium in both models. As a result, we have $Q^r = \frac{m}{A}(p-\tau)$ and $w^r = p-\tau$ in both models. If the tax is not implemented, $Q^{nr} = \overline{Q}$ in the benchmark, and $Q^{nr} = q_\ell + N\underline{q}$ in the main model. So, w^{nr} is (at least weakly) larger in the benchmark.

If $q_\ell = \overline{q}$ in equilibrium, we have $q_\ell + N\underline{q} = \overline{Q}$ under nr also in the main model. In this case, aggregate production in the benchmark is the same as in the main model both under r and nr, so there is no difference in the voting outcome across models. Therefore, we focus on the case when $q_\ell < \overline{q}$ in equilibrium under nr.[3] We further assume $\overline{Q} > m/2$ (which implies $\frac{A}{m}\overline{Q} > \frac{A}{2}$), so that the median voter works under nr in the competitive benchmark.[4]

r fails in the benchmark but passes in the main model if the following inequalities hold:

$$\underbrace{\max\left\{\frac{A}{m}\overline{Q}, \frac{A}{2}\right\}}_{u^{nr}_{A/2} \text{ in } C} > \underbrace{\max\left\{p-\tau, \frac{A}{2}\right\} + \frac{\delta\tau\frac{m}{A}(p-\tau)}{m}}_{u^{r}_{A/2} \text{ in } C \,\&\, M} > \underbrace{\max\left\{\frac{A}{m}(q_\ell + N\underline{q}), \frac{A}{2}\right\}}_{u^{nr}_{A/2} \text{ in } M}, \tag{A8}$$

where the first inequality implies that r fails in the benchmark (since the median voter prefers nr), and the second implies that r passes in the main model (since the median voter prefers r). By the same logic, r passes in the benchmark but fails in the main model if the reverse ordering holds.

$q_\ell < \overline{q}$ implies $q_\ell + N\underline{q} < \overline{Q}$. This means that the left-hand side of the first inequality in Eqn. (A8) (the median voter's utility under nr in the benchmark) is larger than the right-hand side of the second inequality (the median voter's utility under nr in the main model), since the equilibrium wage is larger under nr in the benchmark. The middle term increases with δ and, at $\delta = 0$, is smaller than $\max\left\{\frac{A}{m}(q_\ell + N\underline{q}), \frac{A}{2}\right\}$.[5] It follows that there always exist values of δ for which the middle term lies in between $\max\left\{\frac{A}{m}\overline{Q}, \frac{A}{2}\right\}$ and $\max\left\{\frac{A}{m}(q_\ell + N\underline{q}), \frac{A}{2}\right\}$, and thus both inequalities hold.

The results above show that there exist parameter values for which Eqn. (A8) holds. By contrast, the reverse ordering never holds, since the median voter's utility under nr is (at least weakly) larger in the benchmark than in the main model. This implies that, within this region for τ, r always passes in the main model if it passes in the benchmark, but may fail in the benchmark when it passes in the main model. Therefore, support for r is (at least weakly) greater in the main model than in the competitive benchmark. ■

[3] Formally, this means $\frac{1}{2}\left(\frac{m(p-\tau)}{A} - N\underline{q}\right) < \overline{q}$.

[4] Otherwise, the median voter's outside option exceeds the equilibrium wage even when all firms produce at full capacity, so its utility under nr does not depend on aggregate production and, thus, the voting outcome is identical across models.

[5] Under r, we have $p - \tau = \frac{A}{m}(N\int_0^{\overline{q}} q\,\sigma(q)\,dq)$ in equilibrium in both models, which is strictly smaller than both $\frac{A}{m}(q_\ell + N\underline{q})$ and $\frac{A}{m}\overline{Q}$.

A.2 Proof of Lemma 1

In the benchmark, a proportional profit tax does not distort firms' marginal production incentives. Hence the equilibrium production profile is identical under nr and r. Competitive firms therefore produce at capacity, and the dominant firm ℓ chooses q_ℓ to maximize $(p - w(q_\ell))q_\ell$, which yields an equilibrium wage w^* and strictly positive total industry before-tax profits $\Pi^* \equiv \pi_\ell^* + N\pi_j^* > 0$.[6]

Applying the voting condition (A6), for any voter i we obtain

$$\Delta U(v_i) = \left(\max\{w^*, v_i\} + \frac{R^*}{m}\right) - \max\{w^*, v_i\} = \frac{R^*}{m}, \tag{A9}$$

where the aggregate transfer is $R^* \equiv \delta\tau(p - w^*)Q^*$. Since $\delta > 0$, $\tau > 0$, and $\Pi^* > 0$, we have $R^* > 0$ and thus $\Delta U(v_i) > 0$ for all i. Therefore every voter strictly prefers redistribution, and the realized allocation is the Benchmark Equilibrium. ■

Benchmark equilibrium. For later reference, we collect here the equilibrium allocation and profit expressions in the benchmark without ℓ's influence. The dominant firm ℓ chooses a production level that solves Program (9), yielding production, wage and aggregate output

$$q_\ell^* = \min\left\{\frac{1}{2}\left(\frac{mp}{A} - N\underline{q}\right), \overline{q}\right\}, \quad w^* = \min\left\{\frac{1}{2}\left(p + \frac{A}{m}N\underline{q}\right), \overline{w}\right\}, \quad Q^* = \min\left\{\frac{mp}{2A} + \frac{N\underline{q}}{2}, \overline{Q}\right\}. \tag{A10}$$

Under policy r, total redistribution equals $R^* = \delta\tau(\pi_\ell^* + N\pi_j^*) = \delta\tau(p - w^*)Q^*$.

A.3 Ordering of voters

Before proving Proposition 2, we establish a property of voters that we use repeatedly in the proofs that follow. We show that if there exists a voter type $\tilde{v}$ who is against policy r, then any voter with $v_i < \tilde{v}$ is also against r. Hence, the voting outcome is determined by the median type $A/2$.

Lemma A.3.1 (Voting with electoral influence) *Suppose the policy r is a tax on profits, and fix the wages w^r and w^{nr}, and the redistribution R. If there exists a voter type $\tilde{v}$ who is against r, then any voter i with type $v_i < \tilde{v}$ is also against r. It follows that the voting outcome is determined by the preferences of the median type, $A/2$.*

Proof Start from (IC_i), cancel the common term $(1 - \theta_\ell)\max\{w^*, v_i\}$ from both sides and divide by $\theta_\ell(> 0)$. The condition for voting against the policy simplifies to:

$$\max\{w^{nr}, v_i\} \geq \max\{w^r, v_i\} + \frac{R^r}{m} + \frac{1 - \theta_\ell}{\theta_\ell}\frac{R^*}{m} \tag{A11}$$

with $R^r = \delta\tau(p - w^r)Q^r > 0$ and $R^* = \delta\tau(p - w^*)Q^* > 0$.

Step One: Voter opposing r is employed under nr ($\tilde{v} < w^{nr}$). Suppose that there exists $\tilde{v}$ such that (A11) is satisfied, i.e.,

$$\max\{w^{nr}, \tilde{v}\} \geq \max\{w^r, \tilde{v}\} + \frac{R^r}{m} + \frac{1 - \theta_\ell}{\theta_\ell}\frac{R^*}{m}. \tag{A12}$$

[6] This follows from Assumption 1.

Assume by contradiction that $\tilde{v} \geq w^{nr}$. Since $w^{nr} \geq w^r$ (otherwise Inequality (A12) cannot be satisfied), the condition $\tilde{v} \geq w^{nr}$ implies that $\max\{w^{nr}, \tilde{v}\} = \tilde{v}$ and $\max\{w^r, \tilde{v}\} = \tilde{v}$. Then Eqn. (A12) simplifies to $0 \geq \frac{R^r}{m} + \frac{1-\theta_\ell}{\theta_\ell}\frac{R^*}{m}$, which cannot be true since both R^r and R^* are strictly positive under Assumption 1. Hence $\tilde{v} < w^{nr}$.

Step Two: If $\tilde{v}$ opposes r, all $v_i < \tilde{v}$ oppose r. If $\tilde{v}$ opposes r, Inequality (A12) must hold. For any $v_i < \tilde{v}$, since $w^{nr} > \tilde{v} > v_i$, then $\max\{w^{nr}, v_i\} = w^{nr} = \max\{w^{nr}, \tilde{v}\}$. Moreover, $\tilde{v} > v_i$ implies $\max\{w^r, \tilde{v}\} \geq \max\{w^r, v_i\},$. It follows that

$$\max\{w^{nr}, v_i\} = \max\{w^{nr}, \tilde{v}\} \geq \max\{w^r, \tilde{v}\} + \frac{R^r}{m} + \frac{1-\theta_\ell}{\theta_\ell}\frac{R^*}{m} \tag{A13}$$

$$\geq \max\{w^r, v_i\} + \frac{R^r}{m} + \frac{1-\theta_\ell}{\theta_\ell}\frac{R^*}{m}. \tag{A14}$$

Therefore, (A11) holds for type $v_i (< \tilde{v})$ as well, i.e., voter i is also against the policy r.

Since $v_i \sim U[0, A]$, the set of voters who are against r is an interval $[0, v^\circ]$ for some v°, with mass of opposing voters $m\, v^\circ/A \geq m/2$ iff $v^\circ \geq A/2$. Hence a majority opposes r iff the median type $A/2$ does. ■

A.4 Proof of Proposition 2

We proceed in two steps. First, we show that, among all influence plans, it is optimal for ℓ to choose the strongest feasible threat under redistribution r ($q^r_\ell = 0$). Second, given $q^r_\ell = 0$, we characterize the optimal value of q^{nr}_ℓ.

Step One: The optimal threat is shutdown, $q^r_\ell = 0$. Consider any influence plan $m_\ell = (q^r_\ell, q^{nr}_\ell)$ such that the median voter votes agains the policy r, i.e., Inequality (A11) holds for $v_i = A/2$:

$$\max\{w^{nr}, \frac{A}{2}\} \geq \max\{w^r, \frac{A}{2}\} + \frac{R^r}{m} + \frac{1-\theta_\ell}{\theta_\ell}\frac{R^*}{m}. \tag{A15}$$

We show that among feasible threats, setting $q^r_\ell = 0$ minimizes the right-hand side of the constraint (it minimizes both the wage component and the transfer component).

Under regime r, market clearing implies $w^r = \frac{A}{m}(N\underline{q} + q^r_\ell)$, which is increasing in q^r_ℓ. Hence, $\max\{w^r, A/2\}$ is minimized at $q^r_\ell = 0$. Redistribution per-capita under r is concave quadratic in q^r_ℓ and given by

$$\frac{R^r(q^r_\ell)}{m} = \delta\tau\left(p - \frac{A}{m}(N\underline{q} + q^r_\ell)\right)\frac{N\underline{q} + q^r_\ell}{m}. \tag{A16}$$

A concave function on a closed interval is minimized at one of the boundaries. Let q^{alt}_ℓ denote the point at which redistribution equals its value at zero: $\frac{R^r(q^{alt}_\ell)}{m} = \frac{R^r(0)}{m}$. Solving yields $q^{alt}_\ell = \frac{m}{A}p - 2N\underline{q}$. Under Assumption 1.(ii), which imposes $\frac{m}{A}p > \overline{q} + 2N\underline{q}$, we have $q^{alt}_\ell > \overline{q}$. Since the expression in Eqn. (A16) has a maximum at $q^{alt}_\ell/2$, the first point at which redistribution equals $R(0)$ again is larger than $\overline{q}$. Hence, the transfer function attains its minimum on $[0, \overline{q}]$ at the boundary $q^r_\ell = 0$, and thus $R^r(q^r_\ell) \geq R^r(0)$ for all $q^r_\ell \in [0, \overline{q}]$, with strict inequality for all $q^r_\ell \in (0, \overline{q}]$. Thus the transfer term in the voting constraint is also (uniquely) minimized at $q^r_\ell = 0$.

Combining the two components, we have shown that the right-hand side of Inequality (A15) is minimized at $q_\ell^r = 0$ (the last term is constant in q_ℓ^r). Since the firm's objective in Program (P) depends only on the no-redistribution outcomes (policy r is off the equilibrium path under successful influence), it is then optimal for ℓ to set $q_\ell^r = 0$.

Let $\underline{w}^r$ and $\underline{R}^r$ denote the wage and transfer at $q_\ell^r = 0$. The competitive firms' production schedule implies aggregate output $Q^r = N\underline{q}$. Inequality (A15) then becomes

$$\max\left\{w^{nr}, \frac{A}{2}\right\} \;\geq\; \max\left\{\underline{w}^r, \frac{A}{2}\right\} + \frac{\underline{R}^r}{m} + \frac{1-\theta_\ell}{\theta_\ell}\frac{R^*}{m}. \tag{A17}$$

where the wage $\underline{w}^r$ (pinned down by the labor-market clearing condition (3)) is

$$\underline{w}^r = \frac{A}{m} N\underline{q}, \tag{A18}$$

and the aggregate transfer $\underline{R}^r$ is

$$\underline{R}^r = \delta\tau\left(p - \frac{A}{m}N\underline{q}\right)N\underline{q}. \tag{A19}$$

Step Two: Optimal production under nr (threats-only vs. threats+concessions). In determining production under nr, firm ℓ seeks to set the equilibrium wage w^{nr} as close as possible to the benchmark equilibrium wage w^* (as defined in Eqn. (A10)), since deviations from the profit-maximizing quantity q_ℓ^* are costly.

We define $\Gamma(q_\ell^{nr})$ as the difference between the median voter's utility under nr and r divided by θ_ℓ:

$$\Gamma(q_\ell^{nr}) \equiv \max\left\{w^{nr}(q_\ell^{nr}), \frac{A}{2}\right\} - \left(\max\left\{\underline{w}^r, \frac{A}{2}\right\} + \frac{\underline{R}^r}{m} + \frac{1-\theta_\ell}{\theta_\ell}\frac{R^*}{m}\right). \tag{A20}$$

The voting constraint is satisfied if and only if $\Gamma(q_\ell^{nr}) \geq 0$. The terms in the parenthesis are constant with respect to q_ℓ^{nr}, while the first term is weakly increasing in q_ℓ^{nr} (since the equilibrium wage $w^{nr}(q_\ell^{nr})$ is strictly increasing in production). Thus, $\Gamma(q_\ell^{nr})$ is a continuous and weakly increasing function. Hence, whenever the constraint is feasible, there exists a cutoff $\underline{q}_\ell^{nr} \in [0, \overline{q}]$ such that Inequality (A17) holds iff $q_\ell^{nr} \geq \underline{q}_\ell^{nr}$. Since profits under nr are strictly concave and uniquely maximized at q_ℓ^*, the firm optimally chooses the quantity in the feasible set $[\underline{q}_\ell^{nr}, \overline{q}]$ that is closest to q_ℓ^*. The resulting optimal choice q_ℓ^{nr} is unique and yields two cases:

(a) Threats-only. If $\Gamma(q_\ell^*) \geq 0$ (meaning $q_\ell^* \geq \underline{q}_\ell^{nr}$), the unconstrained profit-maximizing quantity is feasible. The firm sets $q_\ell^{nr} = q_\ell^*$ and $w^{nr} = w^*$. The threat of shutdown alone is sufficient to win the election without distorting equilibrium outcomes.

(b) Threats+concessions. If $\Gamma(q_\ell^*) < 0$ (meaning $q_\ell^* < \underline{q}_\ell^{nr}$), that is, if threats alone coupled with the benchmark wage on the equilibrium path are insufficient to satisfy Inequality (A17), then ℓ must increase production above q_ℓ^*. Optimality requires deviating as little as possible, so the firm sets production exactly at the binding cutoff, $q_\ell^{nr} = \underline{q}_\ell^{nr}$. Consequently, $q_\ell^{nr} > q_\ell^*$, the corresponding wage satisfies $w^{nr} > w^*$, and the optimal wage is determined by the binding median voter constraint (A17):

$$w^{nr*} = \max\left\{w^{nr}(q_\ell^{nr}), \frac{A}{2}\right\} = \max\left\{\underline{w}^r, \frac{A}{2}\right\} + \frac{\underline{R}^r}{m} + \frac{1-\theta_\ell}{\theta_\ell}\frac{R^*}{m}. \tag{A21}$$

This completes the proof. ■

A.5 Proof of Proposition 3

Influencing the election is feasible only if the median voter is against redistribution under the most favorable message for ℓ, namely $(q_\ell^r, q_\ell^{nr}) = (0, \overline{q})$. This condition is equivalent to

$$\begin{aligned} &\max\left\{\frac{A}{m}(N\underline{q}+\overline{q}), \frac{A}{2}\right\} - \max\left\{\frac{A}{m}N\underline{q}, \frac{A}{2}\right\} \\ &\quad - \frac{\delta\tau}{m}\left(p - \frac{A}{m}N\underline{q}\right)N\underline{q} - \frac{1-\theta_\ell}{\theta_\ell}\left[p - \frac{A}{m}(q_\ell^* + N\underline{q})\right](q_\ell^* + N\underline{q})\frac{\tau\delta}{m} \;\geq\; 0, \end{aligned} \tag{A22}$$

where $q_\ell^* = \min\left\{\frac{1}{2}\left(\frac{mp}{A} - N\underline{q}\right), \overline{q}\right\}$.

The first line in Inequality (A22) is the largest wage gain that ℓ can create for the median voter by promising full production under nr and shutting down under r. The last two terms are the expected transfers the median voter gives up by voting against r.

Concentration within the local labor market. We first show that Inequality (A22) fails when $\frac{\overline{q}}{N\underline{q}+\overline{q}}$ is sufficiently small. The largest possible wage gain from ℓ's promise is bounded above by the wage effect of moving ℓ from zero production to full capacity:

$$\max\left\{\frac{A}{m}(N\underline{q}+\overline{q}), \frac{A}{2}\right\} - \max\left\{\frac{A}{m}N\underline{q}, \frac{A}{2}\right\} \leq \frac{A}{m}\overline{q}. \tag{A23}$$

Assumption 1(ii) implies $p > \frac{A}{m}(\overline{q}+2N\underline{q})$ and therefore $p - \frac{A}{m}N\underline{q} > \frac{A}{m}(N\underline{q}+\overline{q})$. It follows that the transfer generated under the shutdown threat satisfies

$$\frac{\delta\tau}{m}\left(p - \frac{A}{m}N\underline{q}\right)N\underline{q} > \frac{\delta\tau A}{m^2}(N\underline{q}+\overline{q})N\underline{q}. \tag{A24}$$

If total industry employment is already small relative to the electorate, i.e., $\frac{\overline{q}+N\underline{q}}{m} \leq \frac{1}{2}$, feasibility fails (see Concentration within the community). So we can focus on case $\frac{N\underline{q}+\overline{q}}{m} > \frac{1}{2}$. Then Inequality (A24) implies

$$\frac{\delta\tau}{m}\left(p - \frac{A}{m}N\underline{q}\right)N\underline{q} > \frac{\delta\tau A}{2m}N\underline{q}. \tag{A25}$$

Combining Inequalities (A23) and (A25), the wage gain from the largest possible promise is strictly smaller than the transfer in the threat scenario whenever $\frac{A}{m}\overline{q} < \frac{\delta\tau A}{2m}N\underline{q}$, or equivalently whenever $\frac{\overline{q}}{N\underline{q}+\overline{q}} < \frac{\delta\tau}{2+\delta\tau}$.

In that case, the first line of Inequality (A22) is smaller than the third term alone. Since the fourth term in Inequality (A22) also subtracts a nonnegative transfer, the left-hand side of Inequality (A22) is strictly negative. Thus the feasibility condition fails.

Concentration within the community. We now show that Inequality (A22) fails when $\frac{N\underline{q}+\overline{q}}{m}$ is sufficiently small. In particular, suppose $\frac{N\underline{q}+\overline{q}}{m} \leq \frac{1}{2}$. Then $\frac{A}{m}(N\underline{q}+\overline{q}) \leq \frac{A}{2}$, and $\frac{A}{m}N\underline{q} \leq \frac{A}{2}$.

Hence the first two terms in Inequality (A22) are equal and cancel:

$$\max\left\{\frac{A}{m}(N\underline{q}+\overline{q}), \frac{A}{2}\right\} - \max\left\{\frac{A}{m}N\underline{q}, \frac{A}{2}\right\} = 0. \tag{A26}$$

But Assumption 1(ii) implies $p - \frac{A}{m}N\underline{q} > 0$.

Since $N\underline{q} > 0$, $\delta > 0$, and $\tau > 0$, the third term in Inequality (A22) is strictly negative. The fourth term is weakly negative. Therefore, the left-hand side of Inequality (A22) is strictly negative, so the feasibility condition fails. ■

A.6 Proof of Proposition 4

We compare welfare in the equilibrium with electoral influence to the benchmark without influence. The proof proceeds in three steps. We first characterize who gains or loses at the individual level, then derive aggregate voter welfare.

Step One: Individual voter welfare. Voter i's expected utility is $u_i^{nr} = \theta_\ell \max\{w^{nr}, v_i\} + (1-\theta_\ell)\max\{w^*, v_i\}$ in the equilibrium with electoral influence, and $u_i^* = \max\{w^*, v_i\} + R^*/m$ in the benchmark equilibrium. Below, we distinguish between the threats-only case (where $w^{nr} = w^*$) and the case where ℓ uses also concessions (where $w^{nr} > w^*$) when comparing u_i^{nr} and u_i^*.

(a) Threats-only. If $w^{nr} = w^*$, given that $R^* > 0$, we have

$$u_i^{nr} = \max\{w^*, v_i\} < \max\{w^*, v_i\} + \frac{R^*}{m} = u_i^* \quad \forall i. \tag{A27}$$

So, all voters are worse off under electoral influence if ℓ uses only threats to influence voting.

(b) Threats+concessions. When $w^{nr} > w^*$, the median's voter IC constraint binds in equilibrium, which implies

$$\max\left\{w^{nr}, \frac{A}{2}\right\} = \max\left\{\underline{w}^r, \frac{A}{2}\right\} + \frac{\underline{R}^r}{m} + \frac{1-\theta_\ell}{\theta_\ell}\frac{R^*}{m}. \tag{A28}$$

First, we compare the median voter's (med's) equilibrium utility $u_{med}^{nr} = \theta_\ell \max\{w^{nr}, A/2\} + (1-\theta_\ell)\max\{w^*, A/2\}$ versus the benchmark utility $u_{med}^* = \max\{w^*, A/2\} + R^*/m$. Substituting Eqn. (A28) into $u_{med}^{nr} - u_{med}^*$ yields

$$u_{med}^{nr} - u_{med}^* = \theta_\ell\left(\max\left\{\underline{w}^r, \frac{A}{2}\right\} - \max\left\{w^*, \frac{A}{2}\right\} + \frac{\underline{R}^r - R^*}{m}\right). \tag{A29}$$

Since we have $\underline{w}^r < w^*$ and $\underline{R}^r < R^*$, the RHS of the equation is strictly negative, which implies $u_{med}^{nr} < u_{med}^*$ for any $\theta_\ell > 0$.

Since $w^{nr} > w^*$, for any $v_i \geq A/2$, we have $\max\{w^{nr}, v_i\} - \max\{w^*, v_i\} \leq \max\{w^{nr}, A/2\} - \max\{w^*, A/2\}$.

It follows that we can write

$$\begin{aligned} u_i^{nr} - u_i^* &= \theta_\ell \Big(\max\{w^{nr}, v_i\} - \max\{w^*, v_i\} \Big) - \frac{R^*}{m} \\ &\leq \theta_\ell \Big(\max\{w^{nr}, \frac{A}{2}\} - \max\{w^*, \frac{A}{2}\} \Big) - \frac{R^*}{m} = u_{med}^{nr} - u_{med}^*. \end{aligned} \tag{A30}$$

Hence, since $u_{med}^{nr} < u_{med}^*$, all voters with $v_i \geq A/2$ are also worse off under electoral influence. Since $u_i^{nr} - u_i^*$ is continuous in v_i and is strictly negative at $v_i = A/2$, a positive-measure interval just below the median type is also strictly worse off.

For low v_i, the utility comparison can go either way. If $v_i \leq \min\{w^{nr}, w^*\}$, then $u_i^{nr} - u_i^* = \theta_\ell(w^{nr} - w^*) - \frac{R^*}{m}$, so such voters can be better off under political influence if the utility gain from the expected wage increase exceeds the loss from the foregone transfer. More generally, when $w^* < v_i < w^{nr}$ we have $u_i^{nr} - u_i^* = \theta_\ell(w^{nr} - v_i) - \frac{R^*}{m}$, so the sign remains ambiguous for sufficiently low v_i. Figure IA1 illustrates a numerical example where the lowest v_i types are better off under electoral influence. This completes the proof for Part 1 of Proposition 4.

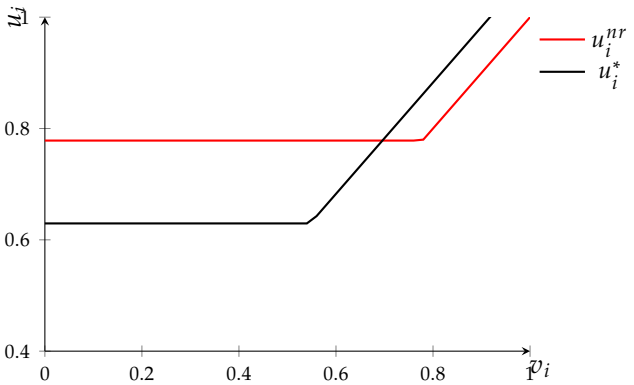


Figure IA1: Distributional effects of electoral monopsonies. Parameters: $\theta_\ell = 1$, $\gamma \to 0$, $\delta = 1$, $\tau = 0.5$, $N = 1$, $\underline{q} = 1/16$, $\overline{q} = 0.5$, $p = 1$, $A = 3/2$, $m = 1$.

Step Two: Aggregate voter welfare. Aggregate voters' welfare is $\mathcal{V} \equiv \int_0^A u_i \frac{m}{A} dv_i$. In the benchmark, the policy is always r and aggregate voters' welfare is

$$\mathcal{V}^* = \int_0^A \left(\max\{w^*, v_i\} + \frac{R^*}{m} \right) \frac{m}{A} dv_i = \frac{m}{A} \left(\frac{A^2 + (w^*)^2}{2} \right) + R^* = \frac{mA}{2} + \frac{m(w^*)^2}{2A} + R^*. \tag{A31}$$

In the equilibrium with electoral influence, nr is always implemented and aggregate voters' welfare is

$$\mathcal{V}^{nr} = \int_0^A \left(\theta_\ell \max\{w^{nr}, v_i\} + (1 - \theta_\ell) \max\{w^*, v_i\} \right) \frac{m}{A} dv_i = \frac{mA}{2} + \frac{m}{2A} \left(\theta_\ell (w^{nr})^2 + (1 - \theta_\ell)(w^*)^2 \right). \tag{A32}$$

Hence

$$\mathcal{V}^{nr} - \mathcal{V}^* = \theta_\ell \frac{m}{2A} \left((w^{nr})^2 - (w^*)^2 \right) - R^*. \tag{A33}$$

Below, we compare $\mathcal{V}^{nr}$ and $\mathcal{V}^*$ and distinguish between the threats-only case and two different cases

where ℓ also uses promises (one where the median voter works in the benchmark, the other where it doesn't).

(a) Threats-only. When $w^{nr} = w^*$, we have $\mathcal{V}^{nr} - \mathcal{V}^* = -R^* < 0$.

(b) Threats+promises, with $w^* \geq A/2$. The median voter works in the benchmark when $w^* \geq A/2$. Their utility in the benchmark is $u^*_{med} = w^* + R^*/m$ and in the equilibrium with electoral influence is $u^{nr}_{med} = \theta_\ell w^{nr} + (1-\theta_\ell)w^*$ (since $w^{nr} > w^* \geq A/2$). From Step One, we already established that $u^{nr}_{med} < u^*_{med}$ for any $\theta_\ell > 0$, so we obtain the following upper bound in the wage concession:

$$\theta_\ell w^{nr} + (1-\theta_\ell)w^* < w^* + R^*/m \quad \Rightarrow \quad w^{nr} - w^* < \frac{R^*}{m\theta_\ell}. \tag{A34}$$

Factor the difference of squares in Eqn. (A33), and applying the bound (A34), we obtain

$$\mathcal{V}^{nr} - \mathcal{V}^* = \theta_\ell \frac{m}{2A}(w^{nr} + w^*)(w^{nr} - w^*) - R^* < \frac{R^*}{2A}(w^{nr} + w^*) - R^*. \tag{A35}$$

Since wages are bounded above by A (since $w = Q\frac{A}{m}$ and, by Assumption 1.(i), we have $Q < m$), we have $(w^{nr} + w^*) \leq 2A$. So, the RHS of Inequality (A35) is negative, which implies $\mathcal{V}^{nr} - \mathcal{V}^* < 0$.

(c) Threats+promises, with $w^* < A/2$. Using Eqn. (A33), aggregate voter welfare is higher when ℓ influences voting, $\mathcal{V}^{nr} - \mathcal{V}^* \geq 0$, if

$$\theta_\ell \frac{m}{A}\frac{(w^{nr})^2 - (w^*)^2}{2} \;\geq\; R^*. \tag{A36}$$

Inequality (A36) holds in the numerical example in Figure IA1, which illustrates a situation where $\mathcal{V}$ is larger under electoral influence. This completes the proof for Part 2 of Proposition 4. ■

A.7 Proof of Lemma 2

In the first best, h chooses both which policy is implemented and how much firms produce. Let $Q \in [0, \overline{Q}]$ define its choice of total output. The corresponding wage is $w(Q) = \frac{A}{m}Q$, before-tax profit is $\Pi(Q)$, and transfer under r is $R(Q) = \delta\tau\Pi(Q)$. Voter welfare under policy $\mathcal{P} \in \{nr, r\}$ is

$$\mathcal{V}^{\mathcal{P}}(Q) = \frac{mA}{2} + \frac{A}{2m}Q^2 + \mathbb{1}_{\mathcal{P}}\tau\delta\Pi(Q). \tag{A37}$$

Welfare under policy $\mathcal{P} \in \{nr, r\}$ is

$$\mathcal{W}^{\mathcal{P}}(Q) = \mathcal{V}^{\mathcal{P}}(Q) + (1 - \mathbb{1}_{\mathcal{P}}\tau)\Pi(Q), \tag{A38}$$

since h does not want any firm (including ℓ) to send messages.

Step One: First-best implements policy r iff $\delta > 1$. Fix any feasible $Q \in [0, \overline{Q}]$. To determine whether redistribution is socially desirable from a total welfare perspective, it suffices to compare $\mathcal{W}^r(Q)$ and $\mathcal{W}^{nr}(Q)$ pointwise for each feasible Q:

$$\mathcal{W}^r(Q) - \mathcal{W}^{nr}(Q) = \tau(\delta - 1)\Pi(Q). \tag{A39}$$

Assumption 1.(ii) implies that profits are non-negative for any feasible Q. The term in square brackets

in Eqn. (A39) is then weakly positive. Therefore the sign of the equation depends on the sign of $(\delta - 1)$. It follows that r strictly dominates nr and, thus, the first-best implements policy r iff $\delta > 1$.

Step Two: First-best output when $\delta > 1$. Having established that the first-best chooses r iff $\delta > 1$, we focus on this case and maximize $\mathcal{W}^r(Q)$ over $Q \in [0, \overline{Q}]$. Welfare under r is

$$\mathcal{W}^r(Q) = \frac{mA}{2} + \frac{A}{2m}Q^2 + (1 - \tau + \tau\delta)\Pi(Q). \tag{A40}$$

Collecting the terms that are independent on Q, and substituting $\Pi(Q) = pQ - A/mQ^2$, welfare becomes

$$\mathcal{W}^r(Q) = const + \left[p(1 + \tau(\delta - 1)\mathbb{1}_{\mathcal{P}})Q - \frac{A}{m}\left(\frac{1}{2} + \tau(\delta - 1)\mathbb{1}_{\mathcal{P}}\right)Q^2\right], \tag{A41}$$

which, without considering the constraint $Q \in [0, \overline{Q}]$, is maximized at

$$Q^{\text{uc}}(\delta) = \frac{mp}{A} \cdot \frac{1 + \tau(\delta - 1)}{1 + 2\tau(\delta - 1)}. \tag{A42}$$

Since $Q^{\text{uc}}(\delta)$ is continuous and decreasing in δ and $\lim_{\delta \to 1} Q^{\text{uc}}(\delta) = mp/A > \overline{Q}$ by Assumption 1(ii), there exists $\overline{\delta} > 1$ such that $Q^{\text{uc}}(\delta) \geq \overline{Q}$ for all $1 < \delta \leq \overline{\delta}$. For such δ, $Q^{\text{uc}}(\delta)$ lies weakly above the feasible set $[0, \overline{Q}]$, and since $\mathcal{W}^r(Q)$ is strictly concave, the function is increasing on $[0, \overline{Q}]$. It follows that the capacity constraint binds and the first-best choice is $Q^*(\delta) = \overline{Q}$ for all $1 < \delta < \overline{\delta}$. Because $Q = \overline{Q}$ requires every firm to operate at capacity, this completes the proof. ■

A.8 Proof of Proposition 5

We proceed in three steps. First, we characterize when electoral influence is feasible and profitable as a function of τ. Second, we derive the optimal agenda conditional on whether h wins or loses. Third, we compare the resulting welfare levels.

Preliminaries. Policy r passes if influence is not feasible (ℓ cannot influence voting) or it is not profitable (ℓ can influence voting but chooses not to).

(a) Feasibility. Recall that, to sway the election, ℓ must induce the median voter to weakly prefer nr over r. Formally, this requires

$$\Gamma(q_\ell^{nr}; \tau) \equiv \max\left\{w^{nr}(q_\ell^{nr}), \frac{A}{2}\right\} - \max\left\{\underline{w}^r, \frac{A}{2}\right\} - \frac{\underline{R}^r(\tau)}{m} - \frac{1 - \theta_\ell}{\theta_\ell}\frac{R^*(\tau)}{m} \geq 0, \tag{A43}$$

where $\Gamma(q_\ell^{nr}; \tau)$ denotes the median voter's net gain from opposing redistribution, emphasizing its dependence on the promise q_ℓ^{nr} and the policy parameter τ.

Political influence is *feasible* if the median voter constraint holds at the maximal promise $q_\ell^{nr} = \overline{q}$, that is, if $\Gamma(\overline{q}; \tau) \geq 0$. Equivalently, define

$$C_f \equiv \{\tau \in \mathcal{T} \mid \Gamma(\overline{q}; \tau) \geq 0\}. \tag{A44}$$

The set C_f is the set of tax rates in the choice set $\mathcal{T}$ at which ℓ can make sufficient promises under nr to turn the median voter against redistribution. Since $\underline{R}^r(\tau)$ and $R^*(\tau)$ are weakly increasing in τ, feasibility is

hardest to satisfy at $\tau = \overline{\tau}$. Hence, if $\overline{\tau} \in C_f$, then C_f is nonempty and influence is feasible for all $\tau \in \mathcal{T}$.[7] If instead $\overline{\tau} \notin C_f$, then ℓ cannot sway the election against h at $\tau = \overline{\tau}$.

(b) Profitability. Conditional on feasibility, let $q_\ell^{nr}(\tau)$ denote the least costly promise that satisfies the median-voter constraint, i.e., $q_\ell^{nr}(\tau) \in \arg\min_{q \in [q_\ell^*, \overline{q}]} \{q : \Gamma(q;\tau) \geq 0\}$. Influence is profitable for ℓ if the gain from avoiding redistribution exceeds the cost of the required promises plus the cost γ of sending the message. Define

$$\Delta(\tau) \equiv \theta_\ell[p - w^{nr}(q_\ell^{nr}(\tau))]q_\ell^{nr}(\tau) - \gamma - (\theta_\ell - \tau)(p - w^*)q_\ell^*. \tag{A45}$$

Then influence is profitable at τ iff $\Delta(\tau) \geq 0$. Let

$$C_p \equiv \{\tau \in C_f \mid \Delta(\tau) \geq 0\}. \tag{A46}$$

Thus, C_p is the set of politically infeasible agendas for h. For every $\tau \in C_p$ picked by h, influence is both feasible and profitable. ℓ influences the election, h loses, and r is not implemented.

On the contrary, the set of politically feasible agendas for h is $\mathcal{T} \setminus C_p$. For every $\tau \in \mathcal{T} \setminus C_p$, electoral influence is either infeasible or unprofitable. Hence ℓ does not influence voting, h wins by Lemma 1, and r is implemented.

We now characterize the optimal agenda conditional on whether h wins or loses the election.

Best politically feasible agenda First, consider agendas at which h wins and, thus, r is implemented. Because the tax is non-distortionary, ℓ produces q_ℓ^* whenever h wins. Therefore,

$$\mathcal{W}^r(\tau) = \frac{mA}{2} + \frac{m(w^*)^2}{2A} + (\tau(\delta - 1) + 1)\,\Pi^*. \tag{A47}$$

Differentiating yields $\frac{d\mathcal{W}^r(\tau)}{d\tau} = (\delta - 1)\Pi^*$. Assumption 2 implies $\delta > 1$, so welfare is strictly increasing in τ whenever h wins. Hence, conditional on choosing a politically feasible agenda, h optimally chooses the largest tax rate in $\mathcal{T} \setminus C_p$,

$$\tau^{PF} \in \arg\max_{\tau \in \mathcal{T} \setminus C_p} \tau, \tag{A48}$$

provided that $T \setminus C_p$ is nonempty and the maximum exists. If the maximum is not attained, replace $T \setminus C_p$ by $\sup\{T \setminus C_p\}$ and let h choose a sequence of agendas in $T \setminus C_p$ converging to this supremum from below.

Best politically infeasible agenda Next, consider agendas in C_p at which h loses and, thus, r is not implemented. If h chooses $\tau \in C_p$, then influence is both feasible and profitable, so ℓ influences the election and r is not implemented.

Increasing $\tau \in C_p$ no longer *directly* affects equilibrium welfare through the redistribution, since r is not implemented in equilibrium. However, a higher τ forces ℓ to make more promises to sway the election: Voters forgo a larger transfer under policy r, so ℓ must offer weakly larger concessions under nr to make the median voter indifferent. Hence, $q_\ell^{nr}(\tau)$ is weakly increasing in τ on C_p.

Next, we show that these larger promises increase total welfare. Recalling Eqn. (A37) and Eqn. (A38), total welfare under nr is

$$\mathcal{W}^{nr}(\tau) = \frac{mA}{2} + \frac{A}{2m}\left(\theta_\ell(Q^{nr}(\tau))^2 + (1 - \theta_\ell)(Q^*)^2\right) + (\theta_\ell \Pi^{nr}(\tau) + (1 - \theta_\ell)\Pi^*) - \gamma. \tag{A49}$$

[7] Since $\Gamma(\overline{q};\tau)$ decreases with τ, $\Gamma(\overline{q};\overline{\tau}) \geq 0$ implies $\Gamma(\overline{q};\tau) \geq 0$ also for all $\tau < \overline{\tau}$.

Substituting $\Pi^{nr}(\tau) = (p - w^{nr}(\tau))Q^{nr}(\tau)$ and $w^{nr}(\tau) = \frac{A}{m}Q^{nr}(\tau)$, and collecting the terms that are independent of τ, which represent an additive constant, we have

$$\begin{aligned}\mathcal{W}^{nr}(\tau) &= \theta_\ell \left[\frac{A}{2m}(Q^{nr}(\tau))^2 + \left(p - \frac{A}{m}Q^{nr}(\tau) \right) Q^{nr}(\tau) \right] + \text{const} \\ &= \theta_\ell \left[pQ^{nr}(\tau) - \frac{A}{2m}(Q^{nr}(\tau))^2 \right] + \text{const}.\end{aligned} \tag{A50}$$

Recall that $Q^{nr}(\tau) = q_\ell^{nr}(\tau) + N\underline{q}$. Differentiating with respect to τ then yields

$$\frac{\partial \mathcal{W}^{nr}(\tau)}{\partial \tau} = \theta_\ell \left(p - \frac{A}{m}(q_\ell^{nr}(\tau) + N\underline{q}) \right) \frac{\partial q_\ell^{nr}(\tau)}{\partial \tau}. \tag{A51}$$

From Assumption 1.(ii) we have $p > \frac{A}{m}(\overline{q} + 2N\underline{q})$, which means that the term in parenthesis is positive, whereas q_ℓ^{nr} increases with τ. Hence, conditional on choosing a politically infeasible agenda, h optimally chooses the largest tax rate in C_p:

$$\tau^{PI} \in \arg\max_{\tau \in C_p} \mathcal{W}^{nr}(\tau) = \arg\max_{\tau \in C_p} \tau, \tag{A52}$$

provided that C_p is nonempty and the maximum exists. If the maximum is not attained, replace τ^{PI} by $\sup C_p$ and let h choose a sequence of agendas in C_p converging to this supremum from below.

Optimal Agenda. The two sets C_p and $\mathcal{T} \setminus C_p$ partition $\mathcal{T}$. Therefore, every agenda either leads h to win because electoral influence is infeasible or unprofitable, or leads h to lose because electoral influence is both feasible and profitable.

From the above, the best politically feasible agenda is $\tau^{PF} \in \arg\max_{\tau \in \mathcal{T} \setminus C_p} \tau$, provided that such an agenda exists. Under this agenda, h wins and implements r. The best politically infeasible agenda is $\tau^{PI} \in \arg\max_{\tau \in C_p} \tau$, provided that such an agenda exists. Under this agenda, h loses, but forces ℓ to make the largest production promises among all agendas that induce electoral influence.

Therefore, h compares the welfare generated by these two candidate agendas, $\mathcal{W}^r(\tau^{PF})$ and $\mathcal{W}^{nr}(\tau^{PI})$, whenever both candidates exist. If only one of the two sets is nonempty, h chooses the unique available candidate. Hence h chooses the welfare-maximizing of the following two strategies: the largest policy for which electoral influence is either infeasible or unprofitable, and the largest policy for which electoral influence is both feasible and profitable. This proves proposition. ■

A.9 Additional Welfare Results

Firm ℓ. The dominant firm ℓ can always choose *not* to influence voting, i.e., it can replicate the benchmark allocation (q_ℓ^*, w^*) and accept the after-tax payoff $(1-\tau)(p - w^*)q_\ell^*$. So, if ℓ choose to influence, it must achieve a (at least weakly) larger payoff. By revealed preference, ℓ is then weakly (strictly except knife edge-cases) better off under influence.

Competitive firms. Each competitive firm j's payoff is $(1-\tau)(p - w^*)\underline{q}$ in the benchmark, and $\theta_\ell(p - w^{nr})\underline{q} +$

$(1-\theta_\ell)(p-w^*)\,\underline{q}$ in the equilibrium with electoral influence. Consider the set of parameters for which influence is feasible and profitable (at least weakly) for ℓ. If τ is sufficiently close to 1, j is better off under electoral influence.

Now suppose $\theta_\ell = 1$, $\gamma \to 0$, and the other parameters are such that ℓ is indifferent between influencing the election or not, which implies $(1-\tau)\,(p-w^*)\,q_\ell^* = (p-w^{nr})\,q_\ell^{nr}$. Since $q_\ell^{nr} > q_\ell^*$ (which is necessary for ℓ to be indifferent when $\gamma \to 0$), we have $(1-\tau)\,(p-w^*) > p-w^{nr}$. It follows that $(1-\tau)\,(p-w^*)\,\underline{q} > (p-w^{nr})\,\underline{q}$, which means that j is better off in the benchmark in this case.

Total welfare. Let $\Pi^{\mathcal{P}}$ denote the *before–tax, before-*γ sum of all firms' profits under policy outcome $\mathcal{P} \in \{r, nr\}$. If ℓ does not influence voting, policy r passes, so aggregate welfare, which comprises voters' and firms' welfare, is $\mathcal{W}^* = \mathcal{V}^* + (1-\tau)\Pi^*$. When ℓ successfully influences voting, the realized policy is nr, no tax is collected and welfare is

$$\mathcal{W}^{nr} = \mathcal{V}^{nr} + [\theta_\ell \Pi^{nr} + (1-\theta_\ell)\Pi^* - \gamma]. \tag{A53}$$

Below, we consider the threats-only case (where $w^{nr} = w^*$). In this case, ℓ's production in the equilibrium with electoral influence is the same as in the benchmark ($q_\ell^{nr} = q_\ell^*$ and, thus, $w^{nr} = w^*$ and $\Pi^{nr} = \Pi^*$). The only difference with the benchmark is then that the tax is not implemented and voters receive no transfer. From Step Two of Proof of Proposition 4, we have $\mathcal{V}^{nr} = \mathcal{V}^* - R^*$, where $R^* = \delta\tau\Pi^*$ is the total transfer in the benchmark. Thus the welfare differential induced by political influence is

$$\mathcal{W}^{nr} - \mathcal{W}^* = (-R^*) + (\Pi^* - (1-\tau)\Pi^*) - \gamma = -R^* + \tau\Pi^* - \gamma = \tau\Pi^*(1-\delta) - \gamma. \tag{A54}$$

For $0 < \delta < 1$, redistribution is socially wasteful, so we have $\mathcal{W}^{nr} - \mathcal{W}^* > 0$ for γ sufficiently close to 0. For $\delta > 1$, redistribution is socially beneficial, so we have $\mathcal{W}^{nr} - \mathcal{W}^* < 0$. Hence, total welfare may be larger or smaller under electoral influence in this case, depending on δ. ■

A.10 Comparative Statics of Profitability

In this section, we describe how the profitability condition (Inequality 12) changes with different measures of labor market concentration. Define the profitability of influencing the election as

$$\Delta \equiv \theta_\ell \pi_\ell(q_\ell^{nr}) - \gamma - (\theta_\ell - \tau)\pi_\ell(q_\ell^*), \tag{A55}$$

where $\pi_\ell(q_\ell) = (p - w(q_\ell))q_\ell$ and electoral influence is profitable if and only if $\Delta \geq 0$.

For simplicity, we focus on interior solutions for q_ℓ^{nr} and q_ℓ^*, so that Δ is differentiable.

Preliminaries. We begin by describing how Δ changes with a given parameter t. Since both q_ℓ^{nr} and q_ℓ^* generally depend on the parameter t, we can write

$$\Delta = \Delta\big(q_\ell^{nr}(t),\, q_\ell^*(t),\, t\big)\,. \tag{A56}$$

Applying the chain rule, the total derivative of Δ with respect to t is

$$\frac{d\Delta}{dt} = \frac{\partial \Delta}{\partial q_\ell^{nr}}\frac{dq_\ell^{nr}}{dt} + \frac{\partial \Delta}{\partial q_\ell^*}\frac{dq_\ell^*}{dt} + \frac{\partial \Delta}{\partial t}. \tag{A57}$$

Using the definition of Δ, this becomes

$$\frac{d\Delta}{dt} = \theta_\ell \underbrace{\frac{\partial \pi_\ell(q_\ell^{nr})}{\partial q_\ell^{nr}}}_{\leq 0} \frac{dq_\ell^{nr}}{dt} - (\theta_\ell - \tau) \underbrace{\frac{\partial \pi_\ell(q_\ell^*)}{\partial q_\ell^*}}_{=0} \frac{dq_\ell^*}{dt} + \frac{\partial \Delta}{\partial t}, \tag{A58}$$

where the last term captures the direct effect of t on Δ, holding q_ℓ^{nr} and q_ℓ^* fixed.

When q_ℓ^* is interior, its optimality implies $\frac{\partial \pi_\ell(q_\ell^*)}{\partial q_\ell^*} = 0$, so the second term in Eqn. (A58) disappears. This also implies $\frac{\partial \pi_\ell(q_\ell^{nr})}{\partial q_\ell^{nr}} < 0$ whenever $q_\ell^{nr} > q_\ell^*$.

Equation (A58) shows that a parameter affects the profitability of influence through two channels: A direct effect on profits holding the firm's promises fixed, and an indirect effect through the equilibrium level of promises required to sway the median voter. We analyze these two channels in turn.

Concentration within the local labor market. We first study the effects of concentration within the local labor market. Similar to Proposition 3, we measure concentration by the size of the competitive fringe, $N\underline{q}$. A larger fringe corresponds to a less concentrated labor market.

Analysis. Using the equilibrium wage $w(q_\ell) = \frac{A}{m}(q_\ell + N\underline{q})$, we can write

$$\frac{\partial \Delta}{\partial (N\underline{q})} = -\theta_\ell \frac{A}{m} q_\ell^{nr} + (\theta_\ell - \tau)\frac{A}{m} q_\ell^* < -\theta_\ell \frac{A}{m}(q_\ell^{nr} - q_\ell^*) \leq 0. \tag{A59}$$

The direct effect of a larger competitive fringe is therefore negative: Intuitively, a larger competitive fringe reduces ℓ's profits by increasing the equilibrium wages, both when ℓ influences voting and when it doesn't. However, the impact on ℓ is larger (more negative) when it influences the election: In that case, ℓ produces more than in the benchmark ($q_\ell^{nr} \geq q_\ell^*$), so the increase in wages is relatively more costly. Also, ℓ does not pay taxes when r fails, so it fully internalizes the wage increase.

The indirect effect operates through the equilibrium promises required to influence the median voter. When ℓ does not need any promises ($q_\ell^{nr} = q_\ell^*$), the first term in Eqn. (A58) also disappears, in which case $\frac{\partial \Delta}{\partial (N\underline{q})}$ captures the overall effect of $N\underline{q}$ on Δ. If the firm makes promises, we have $w^{nr} = \frac{A}{2} + \frac{\underline{R}^r}{m} + \frac{1-\theta_\ell}{\theta_\ell}\frac{R^*}{m}$. Using the equilibrium wage, we can then write

$$q_\ell^{nr} = \frac{m}{A}\left[\frac{A}{2} + \frac{\underline{R}^r}{m} + \frac{1-\theta_\ell}{\theta_\ell}\frac{R^*}{m}\right] - N\underline{q}, \tag{A60}$$

where $R^* = \delta\tau\left(\frac{mp^2}{4A} - \frac{A(N\underline{q})^2}{4m}\right)$ and $\underline{R}^r = \delta\tau(p - \frac{A}{m}N\underline{q})N\underline{q}$.

Differentiating q_ℓ^{nr} with respect to $N\underline{q}$ yields:

$$\frac{dq_\ell^{nr}}{d(N\underline{q})} = \frac{1}{A}\left[\underbrace{\frac{\partial \underline{R}^r}{d(N\underline{q})}}_{>0} + \frac{1-\theta_\ell}{\theta_\ell}\underbrace{\frac{\partial R^*}{d(N\underline{q})}}_{<0}\right] - 1, \tag{A61}$$

since, under Assumption 1, $\underline{R}^r$ increases and R^* decreases with $N\underline{q}$ when q_ℓ^* is interior.

Unlike the direct effect, the indirect effect is generally ambiguous. On the one hand, a larger competitive fringe reduces the effects of ℓ's threat to shut down, by keeping employment and tax revenues in the threat scenario up. This effect makes r relatively more attractive and, therefore, increases the promises needed to influence voting. On the other hand, if ℓ does not follow up on the threat and produces q_ℓ^* (which occurs with probability $1-\theta_\ell$), competition reduces the tax revenue R^*. This effect makes r relatively *less* attractive and, therefore, reduces the promises needed to influence voting.

Notice that if θ_ℓ is sufficiently close to 1, ℓ can influence voting without making any promises when $N\underline{q}$ is sufficiently close to 0, since then the tax revenue approaches 0 and, thus, the policy does not have any benefit to voters in the threat scenario. This fact, together with the direct effect of $N\underline{q}$ on Δ being negative, proves the following lemma.

Lemma A.10.1 *If messages are sufficiently credible (θ_ℓ is sufficiently close to 1), the set of parameters for which the profitability of influence (Inequality 12) holds is largest in the limit where the production of the competitive firms approaches zero ($N\underline{q} \to 0$).*

Lemma A.10.1 shows that, when ℓ's messages are sufficiently credible, competition by the fringe firms reduces the profitability of electoral influence, which means that ℓ has the strongest incentives to influence the election when it has no competition in the labor market. This has a similar implication to the results in Proposition 3: Electoral influence is more likely to occur when ℓ has a sufficiently dominant position in the local labor market.

Concentration within the community. We next study the effects of concentration within the community. Similar to Proposition 3, we use the mass of voters m as a proxy for this form of concentration, with a larger m corresponding to a community for which the local labor market is less important.

Analysis. Using the equilibrium wage $w(q_\ell) = \frac{A}{m}(q_\ell + N\underline{q})$, we can similarly write

$$\frac{\partial \Delta}{\partial m} = \theta_\ell \frac{AQ^{nr}q_\ell^{nr}}{m^2} - (\theta_\ell - \tau)\frac{AQ^*q_\ell^*}{m^2} > \theta_\ell \frac{A}{m^2}(Q^{nr}q_\ell^{nr} - Q^*q_\ell^*) \geq 0, \tag{A62}$$

since $q_\ell^{nr} \geq q_\ell^*$ and $Q^{nr} \geq Q^*$.

The direct effect of a larger mass of voters is therefore positive: Intuitively, a larger m increases ℓ's profits by reducing the equilibrium wages (since m also increases the labor supply), both when ℓ influences voting and when it doesn't. However, the impact on ℓ is larger (more positive) when it influences the election: In that case, ℓ produces more than in the benchmark ($q_\ell^{nr} \geq q_\ell^*$), so the reduction in wages is relatively more beneficial. Also, ℓ does not pay taxes when r fails, so it fully internalizes the wage reduction.

Like above, the indirect effect operates through the equilibrium promises. Differentiating q_ℓ^{nr} with

respect to m yields:

$$\frac{dq_\ell^{nr}}{dm} = \frac{1}{2} + \frac{1}{A}\left[\underbrace{\frac{d\underline{R}^r}{dm}}_{>0} + \frac{1-\theta_\ell}{\theta_\ell}\underbrace{\frac{dR^*}{dm}}_{>0}\right], \tag{A63}$$

The indirect effect reduces the profitability of electoral influence. A larger mass of voters reduces equilibrium wages, thereby increasing firm profits under both the benchmark and the threat scenario. Since tax revenues increase in firm profits, redistribution becomes more valuable to voters under both outcomes. Consequently, the median voter becomes harder to persuade against r, forcing ℓ to make larger promises under nr.

Since the direct and indirect effect pull in opposite directions, the overall effect of m on the profitability of influence is generally ambiguous.

B Active Channel Microfoundations

In this Appendix, we describe simple microfoundations for the general framework of the active channel we presented in Section 3.3. Like in the main analysis, we use $*$ to denote equilibrium outcomes in the benchmark where ℓ takes the voting outcomes as given.

B.1 Reputation for Partisanship

In this section, we describe how the dominant firm ℓ can make its production contingent on the voting outcome through its reputation for influencing elections, even though it cannot directly commit to a production menu based on whether the policy passes the vote. This version of the model microfounds the case with $\theta_\ell = 1$ in the general framework in Section 3.3.

Framework. We consider a repeated-game version of the baseline model. Time is discrete and the horizon is infinite ($t \in \{0, ..., \infty\}$). ℓ is long-lived and discounts future payoff at rate $\beta \in (0, 1)$, and makes choices based on the discounted value of its current and future profits. Voters are either short-lived, or choose only based on their current utility, as the way they play in the equilibrium is still a best-response to their conjecture about how the firm behaves within the period.

We model reputation via trigger strategies (see, e.g., Mailath and Samuelson 2006): In an equilibrium with electoral influence, voters expect ℓ to follow the equilibrium strategy described in Proposition 2 (threats and promises to influence voters) in every period. So, the median voter is against r and, thus, the policy is not implemented on the equilibrium path.

If ℓ deviates (by not producing q_ℓ^{nr} after nr is adopted, or by producing positive output if r is adopted) in one period, voters *punish* the firm by supporting r in all subsequent periods. We assume that the parameters are such that $q_\ell^{nr} > q_\ell^*$ (e.g., δ is large enough that ℓ needs to make promises to influence the election). This ensures that deviations can be detected by voters, since ℓ is expected to make concessions on the equilibrium path.

Analysis. Since the parameters stay constant, if it is profitable to influence voting at time t, it is also profitable to do it at time $t+1$, and so on. Consider an equilibrium with electoral influence. On the equilibrium path, ℓ produces q_ℓ^{nr} and earns profits $(p - w^{nr})q_\ell^{nr}$ in each period. So, the discounted value of its future payoffs is:

$$\underbrace{\frac{(p - w^{nr})q_\ell^{nr} - \gamma}{1 - \beta}}_{\textit{Eqm payoff}}. \tag{B1}$$

If ℓ deviates in one period, all voters support r in all subsequent periods. When deviating, ℓ produces the ex-post optimal production q_ℓ^* in the deviation period and all subsequent periods. ℓ then gains $(p - w^*)q_\ell^*$ immediately, but thereafter earns only $(1 - \tau)(p - w^*)q_\ell^*$ in each period. So, the discounted value of deviating is:

$$\underbrace{(p - w^*)q_\ell^* - \gamma}_{\textit{Deviation period}} + \underbrace{\frac{\beta}{1 - \beta}(1 - \tau)(p - w^*)q_\ell^*}_{\textit{Continuation value after deviation}}. \tag{B2}$$

Thus, the condition for ℓ to prefer the influence equilibrium is:

$$\frac{(p - w^{nr})q_\ell^{nr} - \gamma}{1-\beta} \geq (p - w^*)q_\ell^* - \gamma + \frac{\beta}{1-\beta}(1-\tau)(p - w^*)q_\ell^*, \tag{B3}$$

which can be rearranged as

$$(p - w^{nr})q_\ell^{nr} - \beta\gamma \geq (1 - \beta\tau)(p - w^*)q_\ell^*. \tag{B4}$$

In the limit $\beta \to 1$, Inequality (B4) converges to the profitability condition in our main model (Inequality 12) when $\theta_\ell = 1$. So, ℓ's willingness to influence voting here also depends on the firm's patience β.

Lastly, since the threat to shut down ($q_\ell^r = 0$) is off-the-equilibrium-path, we need to check that, in the off-equilibrium nodes where voters choose r, ℓ must still prefer to honor the threat and earn zero profits to preserve its reputation, rather than deviating to earn the positive current-period profit $(1-\tau)(p - w^*)q_\ell^*$ and facing the benchmark forever. This is equivalent to

$$\underbrace{0 - \gamma + \frac{\beta}{1-\beta}((p - w^{nr})q_\ell^{nr} - \gamma)}_{\textit{Continuation value from honoring the threat}} \geq (1-\tau)(p - w^*)q_\ell^* - \gamma + \frac{\beta}{1-\beta}(1-\tau)(p - w^*)q_\ell^*, \tag{B5}$$

which is equivalent to

$$\beta[(p - w^{nr})q_\ell^{nr} - \gamma] \geq (1-\tau)(p - w^*)q_\ell^*. \tag{B6}$$

In the limit $\beta \to 1$, Inequality (B6) also converges to the profitability condition in the main model when $\theta_\ell = 1$. These results imply that if influencing voting is feasible and profitable within the period (i.e., if the conditions in Corollary 1 hold), there always exists a value of β large enough that both Inequalities (B4) and (B6) hold, so that the firm prefers the equilibrium with electoral influence and the threat to shut down is sequentially rational. In this case, ℓ's concern with maintaining its reputation for influencing the election acts as a commitment device that makes its threats and promises credible in equilibrium.

B.2 Options to Relocate

In this section, we describe how the dominant firm ℓ can make its production contingent on the voting outcome through its options to relocate production across different communities, even though it cannot directly commit to a production menu based on whether the policy passes the vote. This version of the model microfounds the case with $\theta_\ell \in (0, 1]$ in the general framework in Section 3.3.

Framework. We consider a version of our baseline model with two different communities, $c = 1, 2$, each with its own local labor market and policy regime. Community 1 is the one we analyze in the main model, where voters choose whether to implement policy r (r means a tax rate τ_1 on the profits generated by any firm in the community; nr means no tax). Community 2 has a fixed tax rate $\tau_2 \in (0, \tau_1)$. The dominant firm ℓ operates plants in both communities and, except for the tax rate, the two communities are identical. We use the subscript c to indicate the equilibrium outcomes in each community, and the notation $\tau_1^{\mathcal{P}}$, with $\tau_1^{\mathcal{P}} \in \{0, \tau_1\}$, to denote the tax rate in community 1 under policy $\mathcal{P}$.

Before voting takes place in community 1, ℓ can pay a cost γ to invest in organizational flexibility. This can be interpreted as an investment in organizational flexibility that allows the firm to reallocate future production across locations (e.g., maintain excess capacity in alternative plants, keep permits active for future expansions, or invest in technologies that make production easier to move across locations). If ℓ does

not pay this cost, capacity is plant-specific and the firm faces the constraint $q_{\ell,c} \leq \overline{q}$, for $c = 1, 2$. If it pays the cost, then with probability θ_ℓ, capacity becomes transferable across communities and ℓ chooses $(q_{\ell,1}, q_{\ell,2})$ subject only to $q_{\ell,1} + q_{\ell,2} \leq 2\overline{q}$. With probability $1 - \theta_\ell$ capacity remains plant-specific. The parameter θ_ℓ captures the firm's operational flexibility (i.e., its ability to reallocate production).

This approach relates to the literature on the location choices of multinational firms (e.g., Helpman et al. 2004) and to the literature on real options under uncertainty (e.g., Dixit 1989), since ℓ pays a cost to keep the flexibility to allocate production after the voting outcome. Whether the firm invested in flexibility is public information; this information is analogous to the message m_ℓ in the main model (more on this shortly). The outcome of the investment realizes after voting takes place.

Analysis. We proceed by backward induction. We first characterize how ℓ's production choices and equilibrium wages depend on whether it has the option to relocate production. We then discuss how ℓ can use this option strategically to influence the election.

Equilibrium production. The equilibrium wage is always $w_c = \frac{A}{m}(q_{\ell,c} + N\underline{q})$. The equilibrium value of $q_{\ell,c}$ depends on whether the firm can move production capacity across communities.

No options to relocate. If ℓ cannot relocate production capacity across plants, it solves the following optimization problem:

$$\max_{\{q_{\ell,c}\}} \sum_c (1 - \tau_c)(p - w_c) q_{\ell,c}, \tag{B7}$$

subject to $\underbrace{q_{\ell,c} \in [0, \overline{q}]}_{\textit{Individual capacity const.}}$, for $c = 1, 2$.

The problems of choosing $q_{\ell,1}$ and $q_{\ell,2}$ are independent in Program (B7). So, in both communities, ℓ chooses the same production level as in the benchmark without electoral influence in Section 3.3, that is

$$q^*_{\ell,1} = q^*_{\ell,2} = q^*_\ell = \min\left\{\frac{1}{2}\left(\frac{mp}{A} - N\underline{q}\right), \overline{q}\right\}. \tag{B8}$$

Options to relocate. If ℓ can relocate production, the optimization problem becomes:

$$\max_{\{q_{\ell,c}\}} \sum_c (1 - \tau_c)(p - w_c) q_{\ell,c}, \tag{B9}$$

subject to $\underbrace{q_{\ell,1} + q_{\ell,2} \leq 2\overline{q}}_{\textit{Aggregate capacity const.}}$ and $q_{\ell,c} \geq 0$, for $c = 1, 2$.

If $q^*_\ell < \overline{q}$, the aggregate capacity constraint is slack and ℓ simply chooses q^*_ℓ in each community, regardless of the tax rates. In this case, relocation does not change the equilibrium outcomes and, therefore, never occurs in equilibrium. Therefore, we focus on the case $q^*_\ell = \overline{q}$ in what follows.

Assumption B.2.1 *ℓ operates at full capacity in both communities if it cannot reallocate production across communities, that is, $\frac{1}{2}\left(\frac{mp}{A} - N\underline{q}\right) > \overline{q}$, so that $q^*_\ell = \overline{q}$.*

Under Assumption B.2.1, ℓ cannot reach the unconstrained optimal level of production under the individual capacity constraint. In this case, ℓ may benefit from being able to reallocate production across communities,

as that may allow it to get closer to the unconstrained optimum. Below, we describe how the firm allocates production across communities under this assumption.

Since the aggregate capacity constraint in this case binds, we can substitute $q_{\ell,2} = 2\overline{q} - q_{\ell,1}$ and rewrite Program (B9) as a single-dimensional problem

$$(1-\tau_1^{\mathcal{P}})\left(p - \frac{A}{m}(N\underline{q} + q_{\ell,1})\right)q_{\ell,1} + (1-\tau_2)\left(p - \frac{A}{m}(N\underline{q} + 2\overline{q} - q_{\ell,1})\right)(2\overline{q} - q_{\ell,1}), \tag{B10}$$

subject to $q_{\ell,1} \in [0, 2\overline{q}]$.

Assuming an interior solution, this yields optimal production choices

$$q_{\ell,1}^{flex} = \overline{q} - \underbrace{\frac{(\tau_1^{\mathcal{P}} - \tau_2)\left(p\frac{m}{A} - N\underline{q} - 2\overline{q}\right)}{2(2 - \tau_1^{\mathcal{P}} - \tau_2)}}_{\textit{Optimal relocation}}, \tag{B11}$$

and $q_{\ell,2}^{flex} = 2\overline{q} - q_{\ell,1}^{flex}$.

If r passes, since $\tau_1^{\mathcal{P}} = \tau_1 > \tau_2$, we have $q_{\ell,1}^{flex} < q_\ell^*$. This means that ℓ's optimal response to policy r is to relocate some production from community 1 to the lower-taxes community 2. If the right-hand side of Eqn. (B11) is negative, the firm prefers to fully shutdown production in community 1. If r fails, we have $\tau_1^{\mathcal{P}} = 0 < \tau_2$ and, thus, $q_{\ell,1}^{flex} > q_\ell^*$. In this case, community 1 is the lower-taxes community, so ℓ wants to move some of its production in community 2 to community 1 when r fails. This equilibrium responses offer a microfoundation for ℓ's threats and promises in Section 3.3.

Voting. The reallocation of production capacity generates the same wage effects as in the main model. If ℓ does not invest in flexibility, voters in community 1 anticipate that production will be $q_{\ell,1}^* = \overline{q}$. This corresponds to the case when $m_\ell = \emptyset$ in the main model. If ℓ invests in flexibility, voters anticipate that, with probability θ_ℓ, the firm will have the option to relocate, in which case ℓ's production will be $q_{\ell,1}^{flex} < \overline{q}$ if r passes, and $q_{\ell,1}^{flex} > \overline{q}$ if r fails. This corresponds to the case when $m_\ell = (q_\ell^r, q_\ell^{nr})$ in the main model, with the exception that now the relevant capacity constraint is the one conditional on ℓ being able to relocate capacity across communities, that is, $m_\ell \in [0, 2\overline{q}]^2$.

In what follows, we assume that these effects are large enough to sway voters against r (that is, the median voter is against r when (q_ℓ^r, q_ℓ^{nr}) are as implied by $q_{\ell,1}$ in Eqn. B11), and describe the conditions under which ℓ uses its organizational flexibility as a strategic investment to influence the electoral outcome.

Benchmark without electoral influence. In this version of the model, the investment in operational flexibility has both a (i) strategic, political value, since it allows ℓ to influence the policy regime in community 1, and (ii) non-strategic value, since reallocating production allows firms to increase its overall profits even holding the policy regime fixed.

We first study the non-strategic value of flexibility by considering a benchmark where ℓ takes the voting outcome as fixed (similar to the benchmark without electoral influence in the main model). Suppose ℓ believes that community 1 always supports policy r, so that $\tau_1^{\mathcal{P}} = \tau_1$. In this case, organizational flexibility is valuable only because it allows ℓ to reallocate production toward the lower-tax community 2.

Since $q^*_{\ell,1} = q^*_{\ell,2} = \overline{q}$ under Assumption B.2.1, ℓ's aggregate profits when it cannot reallocate production across communities are

$$\Pi^{no\ flex} = (2 - \tau_1 - \tau_2)(p - w(\overline{q}))\overline{q}. \tag{B12}$$

The flexibility investment succeeds with probability θ_ℓ. So, holding $\tau_1^{\mathcal{P}}$ fixed at τ_1, ℓ's expected aggregate profits when it invests in flexibility (gross of the investment cost γ) are

$$\Pi^{flex} = \theta_\ell \left[(1 - \tau_1)(p - w(q^{flex}_{\ell,1}))q^{flex}_{\ell,1} + (1 - \tau_2)(p - w(q^{flex}_{\ell,2}))q^{flex}_{\ell,2} \right] + (1 - \theta_\ell)\Pi^{no\ flex}, \tag{B13}$$

where $q^{flex}_{\ell,1}$ and $q^{flex}_{\ell,2}$ are evaluated at $\tau_1^{\mathcal{P}} = \tau_1$.

In this case, ℓ does not invest in organizational flexibility iff

$$\Pi^{no\ flex} > \Pi^{flex} - \gamma. \tag{B14}$$

When Inequality (B14) holds, the gains from reallocating production toward the lower-tax community are too small to justify the cost of maintaining organizational flexibility. As a result, ℓ operates both plants independently and produces $q^*_{\ell,c} = \overline{q}$ in each community. Since the equilibrium wage in community 1 does not depend on the policy regime, r always wins the election in this case.

Electoral influence through organizational flexibility. Now suppose that ℓ understands that investing in flexibility will sway the public against r in community 1, so it internalize both the strategic and non-strategic value of its organizational flexibility.

In this case, the expected aggregate profits gross of the investment costs are

$$\Pi^{flex+infl} = \theta_\ell \left[(p - w(q^{flex}_{\ell,1}))q^{flex}_{\ell,1} + (1 - \tau_2)(p - w(q^{flex}_{\ell,2}))q^{flex}_{\ell,2} \right] + (1 - \theta_\ell)(2 - \tau_2)(p - w(\overline{q}))\overline{q}, \tag{B15}$$

where $q^{flex}_{\ell,1}$ and $q^{flex}_{\ell,2}$ are evaluated at $\tau_1^{\mathcal{P}} = 0$.

ℓ invests in flexibility iff

$$\Pi^{flex+infl} - \gamma \geq \Pi^{no\ flex}. \tag{B16}$$

Since investing in flexibility now affects both production allocation and electoral outcomes, we always have $\Pi^{flex+infl} > \Pi^{flex}$. It follows that there always exists a value of γ such that

$$\Pi^{flex+infl} - \gamma \geq \Pi^{no\ flex} > \Pi^{flex} - \gamma, \tag{B17}$$

in which case the firm invests in flexibility only when it internalizes also its political value.

These results show how the firm can influence local politics by leveraging its ability to relocate production across locations. This extension microfounds the case with $\theta_\ell \in (0, 1]$ in Section 3.3. The flexibility investment plays the role of the message m_ℓ: When the investment is undertaken, voters understand that the firm may reallocate production in response to the electoral outcome, which generates the same threat-and-promise structure as in the baseline model.

B.3 Uninformed Voters

In this section, we present an alternative microfoundation for the active channel, in a setting where voters are imperfectly informed about the economic consequences of the policy and learn about these consequences from the dominant firm's message m_ℓ. The benchmark without electoral influence here is the no-communication case, in which voters evaluate the policy using their prior belief about its economic effects.

Framework. We assume that the dominant firm ℓ can be one of two types: opportunistic ($\Theta = O$) and honest ($\Theta = \mathcal{H}$). ℓ privately observes its type and sends its public message m_ℓ before the election, with $m_\ell = \emptyset$ representing no announcement, and $m_\ell = (q_\ell^r, q_\ell^{nr})$ representing a plan to produce q_ℓ^r if policy r passes, and q_ℓ^{nr} if nr passes. To simplify the analysis, here we restrict the set of possible messages to two possible production levels, $m_\ell \in \{0, \overline{q}\}^2$.

The honest type always sends a message $m_\ell = (0, \overline{q})$. The idea is that this type has some unmodeled reasons why the contingent plan $(0, \overline{q})$ is ex-post optimal and, therefore, incentive-compatible for them. A simple example is that the honest type has (a) an opportunity to relocate production at no cost to a community with lower tax rates if r wins, and (b) will relocate some of its production to the community where voting takes place if r fails, similar to Internet Appendix B.2. This follows the classical approach of modeling incomplete information about players' payoff (Kreps and Wilson 1982; Milgrom and Roberts 1982).

The opportunistic type does not have any incentives to relocate or expand conditional on the policy, but weighs the benefit of pooling with the honest type (i.e., also send $m_\ell = (0, \overline{q})$) to influence the election against the cost of sending the message γ.[8] $\rho \in (0, 1)$ denotes the prior probability that ℓ is an honest type. Voters do not observe the actual realization of Θ, but update their beliefs based on the observed message m_ℓ. Let $\widehat{\theta}_\ell(m_\ell) := \Pr(\Theta = \mathcal{H} \mid m_\ell)$ denote the posterior belief that ℓ is an honest type, and $P(nr \mid m_\ell)$ the probability that policy nr is implementd following message m_ℓ.

Relation to influence technology in Section 3.3. In our baseline model of the active channel, voters believe that ℓ follows its announced production plan with the true probability θ_ℓ. Here, $\theta_\ell = 0$ for the opportunistic type, and $\theta_\ell = 1$ for the honest type. However, voters are uncertain about the firm's incentives, and may therefore assign positive probability that ℓ is an honest type even when it is ultimately opportunistic. After observing the message m_ℓ, voters form posterior beliefs $\widehat{\theta}_\ell(m_\ell) = \Pr(\Theta = \mathcal{H} \mid m_\ell)$ that the firm will follow through on its announcement. When the firm is opportunistic, this version of the model maps back to our baseline model if we allow voters' beliefs to be potentially biased in equilibrium ($\widehat{\theta}_\ell \neq \theta_\ell$) and depend on the firm's message m_ℓ, as we describe below.

Analysis. Since there is private information, the equilibrium concept in this version of the model is Perfect Bayesian Equilibrium. Below, we describe the equilibrium characterization. We discuss the implications of the analysis at the end of this section.

Benchmark with no communication. Without communication, voters vote on the policy based on their prior beliefs ρ. The median voter supports nr iff the median-voter IC constraint (Eqn. A15) holds when $\widehat{\theta}_\ell = \rho$, that is,

$$\max\left\{w^{nr}(\overline{q}), \frac{A}{2}\right\} \geq \max\left\{\underline{w}, \frac{A}{2}\right\} + \frac{R^r}{m} + \frac{1-\rho}{\rho}\frac{R^*}{m}. \tag{B18}$$

[8] The cost γ here may represent the reputational cost of sending false messages about the firm's production plan.

To be consistent with the main analysis, we focus on the case in which Inequality (B18) fails, so that the policy outcome is r in the benchmark without electoral influence.

Assumption B.3.1 *The parameters are such that Inequality (B18) fails, so policy r always passes in the benchmark without communication/electoral influence.*

Equilibria with communication. For the opportunistic type, sending $m_\ell = (0, \overline{q})$ rather than $\emptyset$ changes the probability that nr is adopted from $P(nr \mid \emptyset)$ to $P(nr \mid (0, \overline{q}))$. If r fails, ℓ saves an amount $\tau(p - w^*)q_\ell^*$ in taxes. Hence, ℓ prefers to send the message iff

$$\Big(P(nr \mid (0, \overline{q})) - P(nr \mid \emptyset)\Big) \cdot \tau(p - w^*)q_\ell^* \geq \gamma. \tag{B19}$$

This condition determines whether the opportunistic type pools with the honest type, mixes, or separates.

Pooling. In a candidate pooling equilibrium, the opportunistic type always sends the same message as the honest type ($m_\ell = (0, \overline{q})$). Bayes' rule then implies $\widehat{\theta}_\ell((0, \overline{q})) = \rho$, so the on-path posterior coincides with the prior and the electoral outcome is the same as in the no-communication benchmark. Under Assumption B.3.1, voters choose r when $\widehat{\theta}_\ell((0, \overline{q})) = \rho$, which implies $P(nr \mid (0, \overline{q})) = 0$. Inequality (B19) therefore fails and a pooling equilibrium does not exist in this case.

Partial-pooling. In a candidate partial-pooling equilibrium, the opportunistic type sends the same message as the honest type ($m_\ell = (0, \overline{q})$) with probability $\lambda \in (0, 1)$, and sends no message ($m_\ell = \emptyset$) with probability $1 - \lambda$. Bayes' rule then implies posterior beliefs $\widehat{\theta}_\ell((0, \overline{q})) = \frac{\rho}{\rho + (1-\rho)\lambda}$ and $\widehat{\theta}_\ell(\emptyset) = 0$. Since $\lambda \in (0, 1)$, we have $\rho < \widehat{\theta}_\ell((0, \overline{q})) < 1$. Hence, seeing $m_\ell = (0, \overline{q})$ raises voters' posterior belief above their prior. The median voter supports nr after observing this message iff

$$\max\left\{w^{nr}(\overline{q}), \frac{A}{2}\right\} \geq \max\left\{\underline{w}, \frac{A}{2}\right\} + \frac{\underline{R}^r}{m} + \lambda \frac{1-\rho}{\rho} \frac{R^*}{m}. \tag{B20}$$

Because $\lambda \in (0, 1)$, the right-hand side of Inequality (B20) is strictly below the right-hand side of Inequality (B18). Thus, there exist parameter values for which voters choose r in the no-communication benchmark, but choose nr in the candidate partial-pooling equilibrium. For the opportunistic type to be willing to randomize, it must be indifferent between sending and not sending the message. In the relevant parameter configurations where sending the message changes the electoral outcome from r to nr, this requires $\tau(p - w^*)q_\ell^* = \gamma$.[9]

This equilibrium provides an alternative microfoundation for the active channel in the baseline model: When ℓ is opportunistic and sends the message $m_\ell = (0, \overline{q})$, voters assign positive probability that the policy will affect employment, even though the firm does not ultimately adjust its production to the policy regime. This causes the policy r to fail when *all* voters would have been better off under the policy: Since ℓ is opportunistic, voter i's utility is $\max\{w^*, v_i\}$ under nr, whereas it would have been $\max\{w^*, v_i\} + \frac{R^*}{m}$ under r. So, in this version of the model and equilibrium, all voters are strictly worse off when the firm is opportunistic and sends messages about how it will respond to the policy.

[9] In this case, ℓ is indifferent between sending $m_\ell = (0, \overline{q})$ and $m_\ell = \emptyset$, so any λ such that Inequality (B20) holds is incentive-compatible for the firm. Alternatively, λ can be interpreted as arising from heterogeneity in the opportunistic type's messaging cost γ, with types with γ below a certain threshold always sending $m_\ell = (0, \overline{q})$, and types above the threshold always sending $m_\ell = \emptyset$. In this version of the model, λ would be the probability that γ is below the threshold.

Separating. In a separating equilibrium, the opportunistic type always sends $\emptyset$. Bayes' rule then implies $\widehat{\theta}_\ell((0,\overline{q})) = 1$ and $\widehat{\theta}_\ell(\emptyset) = 0$. Never sending the message is incentive-compatible for the opportunistic type if $\tau(p - w^*)q_\ell^* < \gamma$. The median voter then supports nr after observing $m_\ell = (0,\overline{q})$ iff

$$\max\left\{w^{nr}(\overline{q}), \frac{A}{2}\right\} \geq \max\left\{\underline{w}, \frac{A}{2}\right\} + \frac{\overline{R}^r}{m}. \tag{B21}$$

Notice that, without Assumption B.3.1, we can have parameter configurations where Inequality (B18) fails (so that r passes in the benchmark) but Inequality (B21) holds (so that r fails iff the firm is honest). In this case, the firm's communication changes the electoral outcome by revealing that the policy is actually distortionary, since only the honest type engages in political communication.

Discussion of results. The results above offer two important insights. First, firms can influence voting also by exploiting voters' incomplete information about the effects of the policy, by exaggerating its negative effects (as in the partial-pooling equilibrium when ℓ is opportunistic). In practice, the economic impact of a political agenda may be hard to fully grasp for voters, so this channel may be especially important in practice. Second, incomplete information creates a role for firms to inform voters. Firms may play this role by educating voters about the true economic consequences of policies (as in the separating equilibrium), or instead exploit voters' uncertainty to influence electoral outcomes in their favor (as in the partial-pooling equilibrium).

C Additional Theoretical Analyses

C.1 Active vs. Passive Channel

In this section, we explore the interactions between the active and passive channels of influence, by studying ℓ's influence problem (P) when the policy r is the output tax in Section 3.2 ($\pi_k = (p-w)q_k - \tau^q q_k$ and $u_i = \max\{w, v_i\} + \frac{\delta\tau^q Q}{m}$). We use the superscript q for the output tax, and π for the profit tax.

We derive two sets of results. First, we compare the equilibrium outcomes when r is the output tax with those when r is the profit tax in Section 3.3 ($\pi_k = (p-w)q_k(1-\tau^\pi)$ and $u_i = \max\{w, v_i\} + \frac{\delta\tau^\pi(p-w)Q}{m}$). This comparison illustrates how electoral influence changes between non-distortionary policies (where only the active channel is possible) and distortionary policies (where both channels are possible). This analysis sheds light on the interactions of the two channels. Second, we describe how ℓ's optimal influence strategy changes with the output tax rate. This second analysis illustrates how the level of firms' political engagement can be non-monotonic in the cost of the policy.

Under the output tax, the influence problem is the same as when the policy is non-distortionary, except for the RHS of the voter incentive-compatibility constraint, which now becomes

$$\begin{aligned}
&\theta_\ell \underbrace{\max\{w^{nr}, v_i\}}_{\textit{Promises}} + (1-\theta_\ell)\max\{w^*, v_i\} \\
&\geq \theta_\ell \underbrace{\left[\max\{w^r, v_i\} + \frac{R^q(q_\ell^r)}{m}\right]}_{\textit{Threats}} + (1-\theta_\ell)\underbrace{\left[\max\{w^{*,r}, v_i\} + \frac{R^q(q_\ell^{*,r})}{m}\right]}_{\textit{Passive influence}}, \qquad (IC_i^q)
\end{aligned}$$

where $R^q(q_\ell) = \delta\tau^q(N\underline{q} + q_\ell)$ describes the output tax revenue as a function of q_ℓ, $q_\ell^{*,r}$ describes the ex-post optimal production level when r passes (i.e., q_ℓ that maximizes $(p-w-\tau^q)q_\ell$), and $w^{*,r}$ is the corresponding equilibrium wage.

The LHS side of (IC_i^q) is the same as under the profit tax, since it describes i's utility when the policy is not implemented ($\mathbb{E}[u_i \mid nr]$). As we discussed in Section 3.2, some voters may be against r even when ℓ does not send any message, since they internalize that the wage will be lower ($w^{*,r} < w^*$) if the policy passes. This is captured by the passive channel term on the RHS of (IC_i^q).

Preliminaries To simplify the analysis, we focus on interior solutions for q_ℓ^*, so that ℓ always produces strictly less under the output tax ($\overline{q} > q_\ell^* > q_\ell^{*,r}$).[10] We also impose the following additional conditions on the parameters:

Assumption C.1.1 *We assume:*

(i) The output tax τ^q is small enough that the competitive firms continue to operate at full capacity under r, that is, $\tau^q < p - w^{*,r}$.

(ii) If the policy is implemented in equilibrium, the tax revenue is the same across policy specifications, that is, $\tau^q Q^{*,r} = \tau^\pi(p-w^*)Q^*$.

[10] Formally, this implies $\overline{q} > \frac{1}{2}\left(\frac{mp}{A} - N\underline{q}\right)$

Assumption C.1.1.(i) ensures that the profit margin $p - w^{*,r} - \tau^q$ is always positive also under the output tax, which simplifies the analysis in two ways. First, it means that the equilibrium is always in pure strategies, since firms are never indifferent between different output levels. Second, it implies that the competitive firms always operate at fully capacity under both policy specifications, so that we can focus on how each specification affects the dominant firm ℓ. Part (ii) ensures that, whenever the policy is implemented in equilibrium, the tax revenue is the same under both policy specifications. This simplifies the comparison of the equilibrium outcomes across specifications, since the policy generates the same benefits to voters in equilibrium.[11]

Next, we describe how the key elements of the equilibrium characterization differ across policy specifications. We later use these differences to show why the active and passive channels may substitute for or reinforce one another.

Voting. First, we compare the median-voter's support against r (which determines the voting outcome and, thus, ℓ's optimal influence strategy) under the two policy specifications.

Under the output tax, the median voter is against r if

$$\theta_\ell \left[\max\{w^{nr}, \frac{A}{2}\} - \max\{w^r, \frac{A}{2}\} - \frac{R^q(q_\ell^r)}{m}\right] + (1-\theta_\ell)\left[\max\{w^*, \frac{A}{2}\} - \max\{w^{*,r}, \frac{A}{2}\} - \frac{R^q(q_\ell^{*,r})}{m}\right] \geq 0, \quad (IC^q)$$

where $R^q(q_\ell) = \delta\tau^q(N\underline{q} + q_\ell)$.

Under the profit tax, the median voter is against r if

$$\theta_\ell \left[\max\{w^{nr}, \frac{A}{2}\} - \max\{w^r, \frac{A}{2}\} - \frac{R^\pi(q_\ell^r)}{m}\right] - (1-\theta_\ell)\frac{R^\pi(q_\ell^*)}{m} \geq 0, \quad (IC^\pi)$$

where $R^\pi(q_\ell) = \delta\tau^\pi(p - w(q_\ell))(N\underline{q} + q_\ell)$, and $w(q_\ell)$ is the market-clearing wage for a given q_ℓ.

Under Assumption C.1.1, since $R^q(q_\ell^{*,r}) = R^\pi(q_\ell^*)$, subtracting the LHS of Inequality (IC^π) from that of Inequality (IC^q) yields

$$\Delta IC^q = (1-\theta_\ell)\underbrace{\left[\max\{w^*, \frac{A}{2}\} - \max\{w^{*,r}, \frac{A}{2}\}\right]}_{\substack{\text{Wage differential when } \ell \text{ does not} \\ \text{follow through on } m_\ell}} + \frac{\theta_\ell}{m}\underbrace{\left[R^\pi(q_\ell^r) - R^q(q_\ell^r)\right]}_{\substack{\text{Redistribution differential} \\ \text{under threat } q_\ell^r}}. \quad (C1)$$

For a given message $m_\ell = (q_\ell^r, q_\ell^{nr})$, ΔIC^q describes the additional component on the utility differential $\mathbb{E}[u_{med} \mid nr] - \mathbb{E}[u_{med} \mid r]$ when the policy is the output tax and, thus, the passive channel is at play. The first term is the wage differential when ℓ does not follow through on its threats and promises (i.e., chooses its ex-post optimal production levels instead of q_ℓ^{nr} and q_ℓ^r). This arises because ℓ's ex-post optimal production does not respond to the profit tax, while it does respond to the output tax. The second term reflects how the threat q_ℓ^r affects redistribution and, therefore, the benefit of the policy to voters.

Feasibility and profitability. The optimal strategy for ℓ to influence the election is the same as in the main

[11] If the policy is implemented, the aggregate production is $Q^{*,r} = N\underline{q} + q_\ell^{*,r}$ under the output tax, and $Q^* = N\underline{q} + q_\ell^*$ under the profit tax, since ℓ does not send any messages and always chooses the ex-post optimal production level. So, the total tax revenues are $R^q = \delta\tau^q Q^{*,r}$ and $R^\pi = \delta\tau^\pi(p - w^*)Q^*$.

model (Proposition 2): $m_\ell = (0, q_\ell^{nr})$, where the optimal value of q_ℓ^{nr} is the ex-post optimal production if threats alone are enough to sway the median voter, otherwise it is the smallest possible value that makes the median voter indifferent between r and nr.

Next, we describe the conditions under which ℓ is able and willing to influence the election. Similar to the main model, influencing voting is feasible if the median voter is against r when $m_\ell = (0, \overline{q})$. So the differential effect under the output tax is ΔIC^q evaluated at $q_\ell^r = 0$.

Under the output tax, influence is profitable for ℓ if

$$\theta_\ell \pi_\ell(q_\ell^{nr}) + (1 - \theta_\ell)\pi_\ell(q_\ell^*) - \gamma - \pi_\ell^q(q_\ell^{*,r}) \geq 0, \tag{Π^q}$$

where $\pi_\ell(q_\ell) = (p - w(q_\ell))q_\ell$, $\pi_\ell^q(q_\ell) = (p - w(q_\ell))q_\ell - \tau^q q_\ell$, and $w(q_\ell) = \frac{A}{m}(q_\ell + N\underline{q})$.

Under the profit tax, influence is profitable for ℓ if

$$\theta_\ell \pi_\ell(q_\ell^{nr}) + (1 - \theta_\ell)\pi_\ell(q_\ell^*) - \gamma - \pi_\ell^\pi(q_\ell^*) \geq 0, \tag{Π^π}$$

where $\pi_\ell^\pi(q_\ell) = (p - w(q_\ell))q_\ell(1 - \tau^\pi)$.

Holding q_ℓ^{nr} fixed, subtracting the LHS of Inequality (Π^π) from that of Inequality (Π^q) yields

$$\Delta\Pi^q = \underbrace{\pi_\ell^\pi(q_\ell^*) - \pi_\ell^q(q_\ell^{*,r})}_{\textit{After-tax profit differential}}, \tag{C2}$$

which is the difference in ℓ's after-tax profits under r across policy specifications.

Interactions between channels. The passive channel substitutes for the active channel when ℓ is *less* likely to engage in active influence (i.e., pay the cost γ and send the message $m_\ell = (0, q_\ell^{nr})$) under the output tax compared to the profit tax. By contrast, the passive channel complements the active one when ℓ is *more* likely to engage in active influence under the output tax.

The redistribution term in ΔIC^q needs to be evaluated at the optimal threat, $q_\ell^r = 0$. This term can be positive or negative, so this effect can generate either substitutability (when $R^\pi(0) > R^q(0)$, so that the output tax generates less redistribution and, thus, is less attractive to the public in the threat scenario where ℓ shuts down) or complementarity (when $R^\pi(0) < R^q(0)$, by the opposite logic). The wage differential in ΔIC^q and the profit differential $\Delta\Pi^q$ can always be signed. So, our descriptions below focuses on how these two affects the interaction of the two channels.

Substitutability through wage effects. The wage differential in ΔIC^q (Eqn. C1) is a source of substitutability between the active and passive channel of influence. ℓ's ex-post optimal production is smaller under the output tax than under the profit tax, which implies that equilibrium wages are also smaller, $w^{*,r} < w^*$. This means that the wage differential in ΔIC^q is always nonnegative, i.e.,

$$(1 - \theta_\ell) \underbrace{\left[\max\{w^*, \frac{A}{2}\} - \max\{w^{*,r}, \frac{A}{2}\}\right]}_{\substack{\textit{Wage differential when } \ell \textit{ does not} \\ \textit{follow through on } m_\ell}} \geq 0 \tag{C3}$$

Intuitively, the median voter's support for r is smaller when the policy has a negative effect on ℓ's ex-post optimal production, so that its IC constraint is easier to satisfy. The reason is that, when the policy is distortionary, voters internalize the negative consequences on wages even if ℓ does not follow through on its threats. So, there is less need for ℓ to directly intervene to influence the median voter. Notice that, for this effect to matter, we need $\theta_\ell < 1$, otherwise ℓ always sticks to its threat $q_\ell^r = 0$ and there is no difference between wages under r across policy specifications. Intuitively, since the firm threatens to shut down under both specifications, the true effects of the policy only matters if these threats are not fully credible.

All else equal (that is, holding $R^\pi(0) = R^q(0)$), this effect reduces the need for ℓ to directly intervene to influence the election under the output tax. To see this, consider the extreme case where the median voter is already against r under the output tax (since $w^{*,r} < w^*$, (IC^q) can be satisfied even when $q_\ell^r = q_\ell^{*,r}$ and $q_\ell^{nr} = q_\ell^*$). ℓ then does not need to influence voting, since the tax is never implemented in equilibrium. By contrast, under the profit tax, r is always implemented if the firm does not send any message (IC^π cannot be satisfied when $q_\ell^r = q_\ell^{nr} = q_\ell^*$).

As we describe below, when the passive channel alone is not enough to sway the public against the output tax, the same effect described above generates complementarity between the two channels.

Complementarity through feasibility. The first source of complementarity is the feasibility condition, which holds when the median voter's IC constraint is satisfied at $m_\ell = (0, \overline{q})$. Since the wage effect makes the output tax relatively less attractive to the median voter, there exist parameter specifications for which active influence is only feasible under the output tax, even though it would be profitable under both policy specifications.

Complementarity through profitability. A second source of complementarity is the profitability condition. There are two channels for this source of complementarity. The first channel is the profit differential in $\Delta\Pi^q$ (Eqn. C2). We show that the profit differential in $\Delta\Pi^q$ is always positive, so the profitability condition is easier to satisfy under the output tax.

Lemma C.1.1 *Holding fixed the tax revenue (i.e., under Assumption C.1.1) and focusing on interior solutions $\overline{q} > q_\ell^* > q_\ell^{*,r}$, ℓ's after-tax profits are larger under the profit tax than under the output tax. That is, the output tax imposes a larger cost on ℓ.*

An implication of holding the tax revenue the same across policy specifications is that the output tax must impose a relatively larger cost per unit of production compared to the profit tax, since ℓ distort its production (i.e., chooses $q_\ell^{*,r} < q_\ell^*$, which reduces before-tax profits) to mitigate the cost of the output tax. The combination of the distortion in production and the larger per-unit cost of the tax means that ℓ makes less profits under the output tax than under the profit tax. So, the firm has a larger incentive to intervene against the output tax.

The second channel operates through the optimal promises, that is, the optimal value of q_ℓ^{nr}. As we discussed above, holding $R^\pi(0) = R^q(0)$, the wage effect in Inequality (IC^q) makes it easier to sway the median voter against r. So ℓ needs to make less promises (that is, can choose q_ℓ^{nr} closer to q_ℓ^*) to sway the public against the output tax. Since promises are costly for the firm, this makes the profitability condition easier to satisfy under the output tax.

Non-monotonic patterns of engagement. Figure IA2 illustrates a numerical example where the interaction between the active and passive channels generates a non-monotonic relationship between the output tax τ^q and ℓ's engagement in electoral influence.

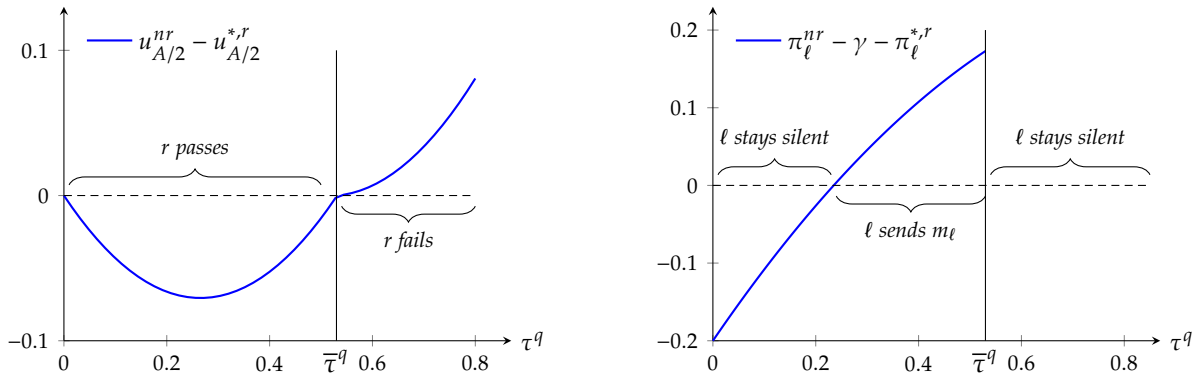


Figure IA2: Non-monotonic patterns of engagement. Parameters: $\theta_\ell = 1$, $\gamma = 0.2$, $\delta = 1$, $N = 1$, $\underline{q} = 1/16$, $p = 1$, $A = 1/2$, $m = 1$.
Left: Median voter utility differential between nr and r absent electoral influence.
Right: Profitability of electoral influence.

The left panel plots the median voter's utility differential between nr and r absent electoral influence. When τ^q is small, the policy is only mildly distortionary, so the median voter supports r. As τ^q increases, the voter increasingly internalizes the adverse effects of the policy on future wages and employment, and eventually (i.e., for $\tau^q > \overline{\tau}^q$) prefers nr even without intervention by ℓ. The right panel plots the profitability condition for electoral influence. When τ^q is small, influence is not profitable because the policy has only limited effects on ℓ's profits. For intermediate values of τ^q, influence becomes profitable and ℓ actively intervenes in the election. For $\tau^q \geq \overline{\tau}^q$, however, the passive channel alone is strong enough to make the median voter oppose the policy, so ℓ can remain silent.

Proof of Lemma C.1.1 We need to show that $\Delta\Pi^q > 0$. By (C2), the after-tax profit differential is

$$\Delta\Pi^q = \pi^\pi_\ell(q^*_\ell) - \pi^q_\ell(q^{*,r}_\ell) = (p - w^*)q^*_\ell(1 - \tau^\pi) - (p - w^{*,r} - \tau^q)q^{*,r}_\ell. \tag{C4}$$

Since we focus on interior solutions for ℓ's ex-post optimal production, we have $q^*_\ell = \frac{1}{2}(\frac{mp}{A} - N\underline{q})$ and $q^{*,r}_\ell = \frac{1}{2}(\frac{m(p-\tau^q)}{A} - N\underline{q})$, so we can write

$$q^{*,r}_\ell = q^*_\ell - \frac{m\tau^q}{2A}, \qquad Q^{*,r} = Q^* - \frac{m\tau^q}{2A}. \tag{C5}$$

Using again $q^*_\ell = \frac{1}{2}(\frac{mp}{A} - N\underline{q})$ and $q^{*,r}_\ell = \frac{1}{2}(\frac{m(p-\tau^q)}{A} - N\underline{q})$, we can also write

$$p - w^* = p - \frac{A}{m}(N\underline{q} + q^*_\ell) = \frac{A}{m}q^*_\ell, \tag{C6}$$

and

$$p - w^{*,r} - \tau^q = p - \frac{A}{m}(N\underline{q} + q^{*,r}_\ell) - \tau^q = \frac{A}{m}q^{*,r}_\ell. \tag{C7}$$

Using Assumption C.1.1.(ii) (i.e., $\tau^q Q^{*,r} = \tau^\pi (p - w^*) Q^*$), we can write

$$\tau^\pi (p - w^*) q_\ell^* = \tau^q \frac{Q^{*,r}}{Q^*} q_\ell^*. \tag{C8}$$

Substituting the expressions in (C6), (C7) and (C8) into the one for $\Delta\Pi^q$ in (C4) gives

$$\Delta\Pi^q = (p - w^*) q_\ell^* - \tau^q Q^{*,r} \frac{q_\ell^*}{Q^*} - (p - w^{*,r} - \tau^q) q_\ell^{*,r} = \frac{A}{m} (q_\ell^*)^2 - \tau^q Q^{*,r} \frac{q_\ell^*}{Q^*} - \frac{A}{m} (q_\ell^{*,r})^2. \tag{C9}$$

Using (C5),

$$\begin{aligned} \Delta\Pi^q &= \frac{A}{m} (q_\ell^*)^2 - \tau^q \left(Q^* - \frac{m\tau^q}{2A} \right) \frac{q_\ell^*}{Q^*} - \frac{A}{m} \left(q_\ell^* - \frac{m\tau^q}{2A} \right)^2 \\ &= \frac{m(\tau^q)^2}{4A} \left(\frac{2q_\ell^*}{Q^*} - 1 \right) = \frac{m(\tau^q)^2}{4A} \frac{q_\ell^* - N\underline{q}}{N\underline{q} + q_\ell^*}. \end{aligned} \tag{C10}$$

$q_\ell^* = \frac{1}{2}(\frac{mp}{A} - N\underline{q})$ implies $\frac{mp}{A} = N\underline{q} + 2q_\ell^*$. Using Assumption 1.(ii) (i.e., $p\frac{m}{A} > \overline{q} + 2N\underline{q}$) and $q_\ell^* < \overline{q}$, we can write

$$N\underline{q} + 2q_\ell^* = p\frac{m}{A} > \overline{q} + 2N\underline{q} > q_\ell^* + 2N\underline{q}. \tag{C11}$$

Therefore, $q_\ell^* > N\underline{q}$ and hence $\Delta\Pi^q > 0$. ■

C.2 Campaign Donations

In this section, we allow ℓ to influence voters also through campaign donations. We model campaign donations as in Persson and Tabellini (2002): We assume that the firm can transfer resources to the business-friendly candidate (b), who uses them to fund campaign ads to sway voters toward their platform. The objective is to study how ℓ combines electoral monopsony power and campaign donations to secure political support for the business-friendly policy.

Let $\Delta U(v_i) \equiv u_i^{nr} - u_i^r$ denote voter i's monetary utility difference between policy nr and policy r. Let $\Im_i \geq 0$ denote the ideological bias in favor of nr that seeing the campaign ad induces in voter i. Generating a bias $\Im_i$ costs the party (and hence the firm) $\eta(\Im_i)$, where η is increasing and convex in $\Im_i$. The politician can send campaign ads targeted on the voters' demographics, which in our model are represented by their reservation wages v_i. Voter i supports policy nr whenever the combination of his monetary utility gains and ideological bias are sufficient to make nr weakly preferred to r, that is, $\Delta U(v_i) + \Im_i \geq 0$. The set of voters who ultimately support nr is then

$$\mathcal{S} \equiv \{v_i \in [0, A] : \Delta U(v_i) + \Im_i \geq 0\}. \tag{C12}$$

If ℓ wants to influence voting, it chooses the message m_ℓ to maximize its payoff net of campaign and messaging costs:

$$\max_{m_\ell} \quad \theta_\ell (p - w^{nr}) q_\ell^{nr} + (1 - \theta_\ell)(p - w^*) q_\ell^* - C_p(m_\ell) - \gamma \mathbb{1}_{m_\ell}, \tag{C13}$$

where $C_p(m_\ell)$ denotes the minimum campaign spending needed to persuade a majority:

$$C_p(m_\ell) \equiv \min_{\{\Im_i \geq 0\}} \int_0^A \eta(\Im_i)\, \frac{m}{A}\, dv_i \quad \text{s.t.} \quad \mu(\mathcal{S}) \geq \frac{m}{2}, \tag{C14}$$

and $\mu(\mathcal{S})$ denotes the measure of voters who support nr.

In the objective function in Program (C13), we use the convention that when $m_\ell = \emptyset$, we have $q_\ell^{nr} = q_\ell^*$.

Proposition C.2.1 (Electoral monopsonies vs. campaign donations) *Compare ℓ's campaign spending C_p when the firm can use both the active channel and campaign donations to influence voting, to a benchmark where it can only use campaign donations. In equilibrium, C_p may be smaller or larger than in the benchmark. In some cases, ℓ resorts only to the active channel (i.e., chooses $C_p = 0$) to influence the election.*

Proposition C.2.1 shows how electoral monopsony power interacts with campaign contributions as forms of political engagement. In equilibrium, electoral monopsony power and campaign spending can be substitutes or complements. They tend to be substitutes at the *intensive* margin: The ability to directly shape workers' voting behavior allows ℓ to rely less on political ads to influence electoral outcomes. Intuitively, by creating some direct economic exposure to the policy, ℓ's threats and promises can be enough alone to sway certain voters (those with low reservation wages v_i), and they reduce the amount of ads necessary to sway the others. By contrast, they tend to be complements at the *extensive* margin: When ℓ can use both levers to influence voters, it is more likely to be able to sway the election; all else equal, this gives the firm stronger incentives to engage in political activity (including campaign spending) in the first place.

Proof of Proposition C.2.1 Let C_p^B denote firm ℓ's equilibrium campaign spending when campaign donations are the only available instrument, and let C_p^{AC} denote its equilibrium campaign spending when both the active channel and campaign donations are available. We show that C_p^{AC} can be either smaller or larger than C_p^B, and that in some cases the firm optimally sets $C_p^{AC} = 0$ and relies only on the active channel.

Benchmark: campaign donations only. Start from the benchmark where the firm cannot use the active channel. Then the only way to influence the election is through campaign donations. In this case, for every voter i, $\Delta U(v_i) = -\frac{R^*}{m}$, so the firm must cover the full ideological gap for at least half of the voters. The minimum campaign spending required is $C_p^B = \frac{m}{2}\,\eta\left(\frac{R^*}{m}\right)$, provided that doing so is profitable compared to accepting policy r, i.e.

$$\frac{m}{2}\,\eta\left(\frac{R^*}{m}\right) \leq \tau(p - w^*)q_\ell^*. \tag{C15}$$

If this inequality fails, then influencing the election is not worth it, and the firm chooses $C_p^B = 0$.

Case 1: campaign spending is smaller when both channels are available. Suppose now that the active channel is available, and that threats alone are enough to secure majority support. Formally, assume $\Gamma(q_\ell^*) \geq 0$, where $\Gamma(\cdot)$, defined in (A20), is the median voter's utility difference $\Delta U/\theta_\ell$, so the median voter is already persuaded by the active channel when $m_\ell = (0, q_\ell^*)$.

In this case, the cost for ℓ of influencing the election only through the active channel is then γ. The cost of influencing the election only through campaign spending is instead $\frac{m}{2}\,\eta\left(\frac{R^*}{m}\right)$. If

$$\tau(p - w^*)q_\ell^* \geq \frac{m}{2}\,\eta\left(\frac{R^*}{m}\right) > \gamma, \tag{C16}$$

then ℓ chooses $C_p^B = \frac{m}{2}\,\eta\left(\frac{R^*}{m}\right) > 0$ and $C_p^{AC} = 0$.

More generally, even if threats do not fully eliminate the need for campaign spending, any voter support generated by the active channel reduces the remaining gap that campaign donations must cover. In that sense, having access to both channels tend to reduce campaign spending relative to the benchmark.

Case 2: campaign spending is larger when both channels are available. Now consider a case when threats alone are not enough to secure majority support, so that $\Gamma(q_\ell^*) < 0$. Suppose also that promises are not feasible because production is constrained at $\overline{q} = q_\ell^*$. So, influencing the election is not feasible through the active channel alone.

Further assume that (C15) is not satisfied. Then, in the benchmark where campaign donations are the only tool, flipping the election is not profitable, and the firm chooses $C_p^B = 0$.

When the active channel is also available, the firm can use threats to reduce part of the ideological gap. This lowers the campaign spending needed to persuade the remaining voters relative to the benchmark. Let the minimum campaign spending needed in this case be C_p^{AC}, which is smaller than $\frac{m}{2}\,\eta\left(\frac{R^*}{m}\right)$. If

$$C_p^{AC} + \gamma \leq \tau(p - w^*)q_\ell^*, \tag{C17}$$

then influencing the election becomes profitable when both channels are available. In equilibrium, the firm uses both threats and campaign donations to flip the election, so $C_p^{AC} > C_p^B = 0$.

Putting these cases together, campaign spending when both channels are available can be smaller or larger than in the campaign-donations-only benchmark. In some cases, the firm relies only on the active channel and makes no campaign contribution. ■

C.3 Competition Policy

In this section, we study the role of competition policy by considering a variation of the model where voters vote on policies that affect the degree of employer concentration in the local economy.

Framework. We consider the case where policy regime r increases the mass of competitive firms in the economy, from N to $N^r > N$. By contrast, the alternative regime (nr) decreases the mass of competitive firms from N to $N^{nr} < N$. This captures settings where the election involves candidates with different approaches to competition policy, with r representing a political agenda that facilitates the entry of new firms (e.g., reduce barriers to entry), whereas nr represents a more incumbents-friendly agenda (e.g., relax merger restrictions and increase barriers to entry).

The pro-competition agenda benefits voters but hurts the incumbent firms (those that continue to exist both under r and nr), since, absent electoral influence, equilibrium wages are larger when there are more competitive firms in the economy. The equilibrium here changes with the policy regime also in the benchmark without electoral influence, so we use the superscript $*, \mathcal{P}$ to denote the benchmark equilibrium under policy $\mathcal{P}$, with $\mathcal{P} \in \{r, nr\}$. Assumption 1 here holds for both values of N, which requires $\bar{q} + N^r \underline{q} \leq m$ and $\frac{m}{A}p > \overline{q} + 2N^r \underline{q}$. The remainder of the model is unchanged. To simplify the exposition, here we set $\theta_\ell = 1$.

Analysis. The analysis follows three steps. First, we describe how voters choose between polices and the implication for voting outcomes. Second, we describe the benchmark without electoral influence. This sets the stage for the last step, where we describe the optimal influence strategy and main results.

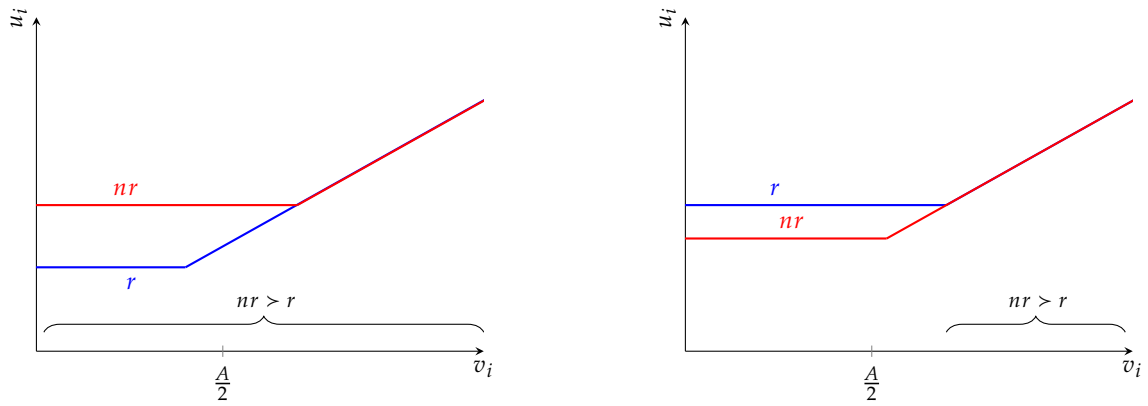


Figure IA3: Illustration of voters' utility functions under the two policy regimes.
The flat segments represent the expected utility of voters who work in the local economy in each regime, and the increasing segments represent the utility of those who take their outside options. The median voter is $A/2$. Types for whom the red line is equal to or larger than the blue line are in favor of nr.
Left: Case where $Q^{nr} \geq Q^r$ and policy r never passes.
Right: Case where $Q^{nr} < Q^r$ and policy r passes if the median voter works in the local economy. Voters that do not work receive their reservation utility, are thus indifferent and support nr.

Voting. Similar to the main model, voter i supports r if

$$\Delta U(v_i) := u_i^r - u_i^{nr} = \max\{w^r, v_i\} - \max\{w^{nr}, v_i\} > 0. \tag{C18}$$

In principle, the effects of the policy on the incumbent firms could generate alignment in the political preferences of firms and workers, similar to the passive channel of influence in Section 3.2. However, absent ℓ's electoral influence, here r always benefits workers (since $w^{*,r} > w^{*,nr}$) and hurts the incumbent firms (ℓ and $j \in [0, N^{nr}]$, since we always have $\pi_k^{*,r} < \pi_k^{*,nr}, k \in \{\ell, j\}$ for these firms). Unlike Section 3.2, then, workers' own internalization of the effects of the policy does not generate alignment between workers and incumbent firms. Instead, workers and firms always prefer opposite policies unless ℓ tries to influence the election.

If $Q^{nr} \geq Q^r$ and, thus, $w^{nr} \geq w^r$, all voters are against r, since $\Delta U(v_i) \leq 0$ for all v_i. Otherwise (i.e., $Q^{nr} < Q^r$ and, thus, $w^{nr} < w^r$), the $\Delta U(v_i)$ function decreases with v_i, so that types with larger outside options are less willing to support r. This is the opposite of the main model, where these types were *more* willing to support r. Intuitively, since there is no direct redistribution to voters and the benefits of r flow through higher equilibrium wages, here voters that are less exposed to the local labor market benefit less from r. This means that we need to consider two different cases. (i) If $Q^{nr} \geq Q^r$, r never passes, since all voters are against it. (ii) If $Q^{nr} < Q^r$, voters can be ordered by their willingness to vote against the policy, so the median type's preference decides the voting outcome. These results are illustrated in Figure IA3.

Benchmark without electoral influence. In the benchmark where all firms, including ℓ, take the voting outcome as given, the equilibrium outcomes are the same as in the main model, except that here N changes

with the policy regime. We have

$$q_\ell^{*,\mathcal{P}} = \min\left\{\frac{1}{2}\left(\frac{mp}{A} - N^{\mathcal{P}}\underline{q}\right), \overline{q}\right\}, \quad w^{*,\mathcal{P}} = \min\left\{\frac{1}{2}\left(p + \frac{A}{m}N^{\mathcal{P}}\underline{q}\right), \overline{w}^{\mathcal{P}}\right\}, \quad Q^{*,\mathcal{P}} = \min\left\{\frac{mp}{2A} + \frac{N^{\mathcal{P}}\underline{q}}{2}, \overline{Q}^{\mathcal{P}}\right\}, \tag{C19}$$

where $\overline{Q}^{\mathcal{P}} = N^{\mathcal{P}}\underline{q} + \overline{q}$, and $\overline{w}^{\mathcal{P}} = \frac{A}{m}\overline{Q}^{\mathcal{P}}$.

Inequality (C18) implies that voters who don't work in the local economy are always indifferent whether r is implemented or not. Since we assume that voters support nr when indifferent, there is always some support for nr in this version of the model. To be consistent with the main model, we consider the case where Inequality (C18) holds for the median voter when w^r and w^{nr} are evaluated at their benchmark equilibrium values $w^{*,r}$ and $w^{*,nr}$, so that r is always implemented in the benchmark.

Assumption C.3.1 *In the benchmark without electoral influence, the median voter supports policy r, so this policy is implemented in equilibrium. This is the case iff* $\min\left\{\frac{1}{2}\left(p + \frac{A}{m}N^r\underline{q}\right), \overline{w}^r\right\} > \frac{A}{2}$, *which implies* $w^{*,r} > \frac{A}{2}$.

Under Assumption C.3.1, the median voter works under policy r in the benchmark without electoral influence. Since $w^{*,r} > w^{*,nr}$, it follows that this voter strictly prefers r, so the policy always passes in the benchmark. This creates an incentive for ℓ to influence the election.

Electoral influence. The influence problem is the same as in the main model (Program P), except that the voters' incentive-compatibility constraint here becomes

$$\max\{w^{nr}, v_i\} \geq \max\{w^r, v_i\}. \tag{C20}$$

In order to influence the election, ℓ uses the same mechanism of threats ($q_\ell^r = 0$, to depress w^r) and promises ($q_\ell^{nr} > q_\ell^{*,nr}$, to increase w^{nr}). Threats alone are enough to sway the public against r when, at $q_\ell^r = 0$ and $q_\ell^{nr} = q_\ell^{*,nr}$, we have either (a) $w^{*,nr} \geq w^r$, so that everyone is against r, or (b) $w^{*,nr} < w^r < \frac{A}{2}$, so that the median voter no longer works in the local economy under either policy regimes, and so is (weakly) against r. If this is not the case, ℓ has to also give some concessions to voters: That is, setting $q_\ell^{nr} > q_\ell^{*,nr}$ such that $w^{nr} = w^r$.

Next, we describe when electoral influence is feasible and profitable for ℓ in this version of the model. Electoral influence is feasible iff the median voter is against r at the largest possible promise $q_\ell^{nr} = \overline{q}$, which is equivalent to

$$\max\{w^{nr}(\overline{q}), A/2\} - \max\{w^r(0), A/2\} \geq 0, \tag{C21}$$

where $w^{nr}(\overline{q}) = \frac{A}{m}(N^{nr}\underline{q} + \overline{q})$ and $w(0) = \frac{A}{m}N^r\underline{q}$.

The profitability condition becomes

$$\pi_\ell^{nr}(q_\ell^{nr}) - \gamma \geq \pi_\ell^r(q_\ell^{*,r}), \tag{C22}$$

where $\pi_\ell^{nr}(q_\ell^{nr})$ is ℓ's equilibrium profits under nr, when its production q_ℓ^{nr} is as implied by the optimal influence strategy, and $\pi_\ell^r(q_\ell^{*,r})$ is the equilibrium profits in the benchmark without electoral influence.

The equilibrium characterization is therefore parallel to the main active-channel model. If either Inequality C21 or C22) fail, ℓ does not influence the election, and r is implemented. If both conditions hold, ℓ sends the message $m_\ell = (0, q_\ell^{nr})$, the median voter supports nr, and nr is implemented.

Benefits of competition policy. The increase in the mass of competitive firms associated with policy r benefits voters in two distinct ways. First, it increases wages and employment opportunities in the local economy. This is the traditional economic benefit of competition policy in our framework. Second, it reduces ℓ's ability to influence electoral outcomes. As the number of competing employers grows, the dominant firm's employment represents a smaller fraction of the local labor market. Consequently, the wage gap ℓ can create through threats and promises becomes smaller.

These two benefits reinforce one another. To see this, consider the feasibility condition in Eqn. (C21). Holding fixed N^{nr}, an increase in N^r raises the wage that voters can expect if r is implemented, even when ℓ threatens to shut down production. As a result, larger increases in competition make electoral influence more difficult. If the increase in competition is sufficiently large, the feasibility condition fails and ℓ cannot prevent the implementation of the pro-competition policy. Thus, competition policy can generate a virtuous cycle in which greater competition reduces labor-market power and, in turn, weakens the political influence that stems from that power.

Limits of competition policy. At the same time, our framework also highlights a limitation of competition policy. The same employer concentration that creates economic distortions can also distort political outcomes. When the increase in competition associated with policy r is relatively modest, ℓ may still be able to influence the election and convince voters to support the more incumbent-friendly regime nr. In this case, voters oppose a policy that would reduce future employer concentration, since current concentration distorts their political preferences.

This mechanism points to a new labor-market channel through which economic and political power can reinforce one another. Concentrated employers acquire influence over electoral outcomes and can use that influence to support policies that preserve or expand their market power. As a result, policies that would weaken employer concentration may face political resistance, creating a self-reinforcing feedback loop between economic and political power.

C.4 Firm Ideology

Our baseline model assumes that ℓ opposes the policy r because it reduces its profits. But firms may communicate with workers for purely ideological reasons, even when the policy has no direct effect on their profits. In this section, we consider a variation of the model where firms' objective functions include a direct ideological payoff linked to the implementation of the policy. We show that the main insights from the main model carry through.

Framework. We assume that the policy r does not impose any taxes on firms, but firm k (through its owners, or executives) experiences an ideological payoff T_k only if r is implemented. Firm k's payoff under policy $\mathcal{P} \in \{r, nr\}$ is

$$\pi_k = (p - w)q_k - \mathbb{1}_{\mathcal{P}} T_k. \tag{C23}$$

T_k may differ across firms to reflect heterogeneity in political preferences (e.g., $T_k > 0$ for firms who oppose r, and $T_k < 0$ for those who support it). Since only the dominant firm engages in electoral influence in equilibrium, the relevant case for our analysis is when ℓ opposes r, that is, $T_\ell > 0$.

If r is implemented, each voter receives a fixed benefit $R > 0$, so that voter i's utility is:

$$u_i = \max\{w, v_i\} + \mathbb{1}_{\mathcal{P}} R, \tag{C24}$$

where R here represents a benefit to voters that is not funded by a transfer from firms.

To simplify the exposition, we set $\theta_\ell = 1$.

Analysis. We let $w(q_\ell) = \frac{A}{m}\left(N\underline{q} + q_\ell\right)$ denote the market-clearing wage when the dominant firm produces q_ℓ and the competitive firms produce $\underline{q}$. Following the same notation as the main model, we write $w^r \equiv w(q_\ell^r)$, $w^{nr} \equiv w(q_\ell^{nr})$, and $w^* \equiv w(q_\ell^*)$ for the equilibrium wages associated with the production levels q_ℓ^r, q_ℓ^{nr}, and the benchmark q_ℓ^*.

Voting. Given the wages (w^r, w^{nr}), voter i supports nr if

$$\Delta U(v_i) := u_i^{nr} - u_i^r = \max\{w^{nr}, v_i\} - \max\{w^r, v_i\} - R \;\geq\; 0. \tag{C25}$$

Like in the main model, voters with lower outside options are more exposed to local wages and hence easier to sway, so $\Delta U(v_i)$ is decreasing in v_i and the median type $v_i = A/2$ decides the outcome.

Benchmark without electoral influence. If ℓ sends no message, the voting outcome does not affect its production choices. The firm chooses q_ℓ^* under both policy regimes, so wages are the same under r and nr, i.e., $w^r = w^{nr} = w^*$. Since every voter receives the fixed benefit $R > 0$ from policy r, every voter strictly prefers r in the benchmark. Hence, absent electoral influence, policy r is elected and ℓ's payoff is $(p - w^*)q_\ell^* - T_\ell$. Because $T_\ell > 0$, this creates an incentive for ℓ to influence the election against r.

Electoral influence. As in the main active-channel model, the dominant firm can send a public message $m_\ell = (q_\ell^r, q_\ell^{nr}) \in [0, \overline{q}]^2$ at cost $\gamma > 0$, where q_ℓ^r (q_ℓ^{nr}) is the production levels under policy regime r (nr). The message induces nr iff Inequality (C25) holds for the median voter $v_i = A/2$. ℓ incurs the ideological cost T_ℓ only if r is implemented and, conditional on the policy being implemented, the value of T_ℓ is independent of the firm's production level. It follows that ℓ's optimization problem has the same properties as in the main model and, therefore, the optimal menu has the same threat-and-promise structure. The threat $q_\ell^r = 0$ is off the equilibrium path when nr wins, so it is costless to the firm. The promise is the smallest $q_\ell^{nr} \geq q_\ell^*$ that leaves the median voter indifferent (with $q_\ell^{nr} = q_\ell^*$ when the threat alone suffices). The ideological stake T_ℓ thus bears only on whether ℓ sends the message, not on its content.

Electoral influence is feasible iff the median voter is against r at the threat $q_\ell^r = 0$ and the largest possible promise $q_\ell^{nr} = \overline{q}$:

$$\max\left\{w(\overline{q}), \frac{A}{2}\right\} \;\geq\; \max\left\{w(0), \frac{A}{2}\right\} + R. \tag{C26}$$

If Inequality (C26) fails, no feasible message can make the median voter support nr, and r is implemented. When influence is feasible, ℓ sends the message iff its payoff under nr exceeds its payoff under r. Sending the message yields $(p - w^{nr})q_\ell^{nr} - \gamma$; not sending it yields $(p - w^*)q_\ell^* - T_\ell$. Thus, the profitability condition in this version of the model is

$$(p - w^{nr})\, q_\ell^{nr} - \gamma \geq (p - w^*)\, q_\ell^* - T_\ell, \tag{C27}$$

or, equivalently,

$$T_\ell \geq \gamma + \left[(p - w^*)\, q_\ell^* - (p - w^{nr})\, q_\ell^{nr}\right]. \tag{C28}$$

The equilibrium characterization is therefore parallel to the main active-channel model. If either (C26) or (C27) fails, ℓ does not send any message, voters support r, and policy r is implemented. If both conditions

hold, ℓ sends the message $m_\ell = (0, q_\ell^{nr})$, the median voter supports nr, and policy nr is implemented.

C.5 Introducing Product Markets

So far, we have assumed that firms sell their products outside the local economy at an exogenous price p. In this section, we consider the case where firms sell directly to local voters. Production therefore affects voters not only through the labor market by changing wages and employment, but also through the product market, by changing the price of the local good. The environment is that of the baseline active-channel model (Section 3.3), with two modifications introduced below. We show that the main insights from the baseline model carry through, with the new insight that, when ℓ is both a major employer and a producer in the local economy, its electoral influence extends beyond workers to local consumers.

Framework. Each voter i is described by two attributes: Its outside option $v_i \sim U[0, A_v]$ and its valuation for consuming the local good $d_i \sim U[0, A_d]$. Since the voting game becomes less tractable in environments with multidimensional types (Austen-Smith and Banks, 2005; Gershkov et al., 2019), we assume perfect positive correlation between these two dimensions.[12] This means that there exists a single scalar type $t_i \sim U[0, 1]$ such that $v_i = A_v t_i$ and $d_i = A_d t_i$, and thus a single ordering of voters governs both markets. To simplify the exposition, we set $\theta_\ell = 1$.

Given wage w and price p, voter i's utility is

$$u_i = \underbrace{\max\{w,\, A_v t_i\}}_{\text{labor market}} + \underbrace{\max\{A_d t_i - p,\, 0\}}_{\text{product market}} + \mathbb{1}_{\mathcal{P}} \frac{R^r}{m}, \tag{C29}$$

where the product market term reflects that voter i buys one unit of the good whenever her valuation $A_d t_i$ exceeds the price p, and $\mathbb{1}_{\mathcal{P}} R^r/m$ is the per-voter benefit of policy r.

Given the optimal production, consumption, and labor choices, market clearing pins down the equilibrium price p and wage w. A voter consumes the good iff $A_d t_i \geq p$, i.e. iff $t_i \geq p/A_d$. Thus, for $p \in [0, A_d]$, aggregate product demand is

$$D(p) = m \frac{A_d - p}{A_d}. \tag{C30}$$

Similarly, a voter works in the local labor market if $w \geq v_i = A_v t_i$. Thus, for $w \in [0, A_v]$, aggregate labor supply is $S(w) = w \frac{m}{A_v}$, like in the main model. Since each unit of output requires one unit of labor, for a given aggregate production Q, the equilibrium satisfies

$$D(p) = Q = S(w). \tag{C31}$$

We impose the following analogue of Assumption 1.

Assumption C.5.1 *We assume (i)* $\overline{q} + N\underline{q} \leq m$ *and (ii)* $\dfrac{mA_d}{A_d + A_v} > \overline{q} + 2N\underline{q}$.

Assumption C.5.1.(i) guarantees that the local product and labor markets clear. Assumption C.5.1.(ii) guarantees that aggregate industry profit is lowest when the dominant firm shuts down, $q_\ell = 0$, and that

[12] Positive correlation between v_i and d_i captures the idea that agents with better outside options have higher income and, therefore, a higher willingness to pay for the product. For a discussion of how the results would change if v_i and d_i were perfectly negatively correlated, see Role of the correlation assumption.

the competitive firms always operate at full capacity in equilibrium (since $p > w$; for details, see Derivations for Assumption C.5.1).

Analysis. The analysis follows three steps. First, we characterize how voters choose between the two policies. Second, we describe the benchmark without electoral influence. In the last step, we characterize ℓ's optimal influence strategy and the equilibrium outcomes. For regime-specific values we write $w^{\mathcal{P}} \equiv w(q_\ell^{\mathcal{P}})$ and $p^{\mathcal{P}} \equiv p(q_\ell^{\mathcal{P}})$.

Voting. Under a message $m_\ell = (q_\ell^r, q_\ell^{nr})$, voter i supports nr iff

$$\Delta U(t_i) = [\max\{w^{nr}, A_v t_i\} - \max\{w^r, A_v t_i\}] + [\max\{A_d t_i - p^{nr}, 0\} - \max\{A_d t_i - p^r, 0\}] - \frac{R^r}{m} \geq 0. \quad \text{(C32)}$$

The labor and product market channels have different effects across types: A higher wage under nr benefits low types, who are more likely to work, while a lower price under nr benefits high types, who are more likely to consume. Hence, ΔU is non-monotonic and, therefore, the pro-nr coalition may form at *both* tails of the type distribution—workers at the bottom and consumers at the top. This is the key departure from the baseline model, where ΔU is monotonic and, thus, the median voter always determines the voting outcome (Black 1958). To focus on this novelty, in what follows we restrict attention to the case where the support for nr comes from two disconnected regions of the type distribution, in which case nr wins iff the aggregate mass of voters within these two regions is at least one-half. We discuss the case where the two regions overlap at the end of the proof of Lemma C.5.1.

Lemma C.5.1 (Voting with labor and product markets) *Fix $w^{nr} \geq w^r$ and $p^{nr} \leq p^r$ and assume $w^{nr}/A_v \leq p^{nr}/A_d$. Then $\Delta U(t_i)$ in (C32) is quasi-convex in t_i: It is weakly decreasing, constant at its minimum $-R^r/m$ over a middle interval, then weakly increasing. The set of types supporting nr is the union of a worker group, $[0, t_L]$ and a consumer group $[t_H, 1]$, with*

$$t_L = \frac{w^{nr} - R^r/m}{A_v}, \qquad t_H = \frac{p^{nr} + R^r/m}{A_d}, \quad \text{(C33)}$$

where the worker group is nonempty iff $w^{nr} - w^r \geq R^r/m$ and the consumer group is nonempty iff $p^r - p^{nr} \geq R^r/m$ (otherwise $t_L = 0$ and $t_H = 1$, respectively). Policy nr is implemented iff this union represents at least half of voters,

$$t_L + (1 - t_H) \geq \frac{1}{2}. \quad \text{(C34)}$$

Figure IA4 illustrates the results in Lemma C.5.1.

Role of the correlation assumption. The two-group coalition is a feature of the positive-correlation case. If the outside option and willingness to pay were instead perfectly negatively correlated—formally $d_i = A_d(1 - t_i)$, so that the same low-t agents both work and consume—the product market term would become decreasing in t_i, the labor and product market effects would operate on the same types and, therefore, we would obtain the same median-voter characterization of the main model.

Benchmark without electoral influence. If firm ℓ sends no message, the profit tax is non-distortionary, so this firm chooses q_ℓ^* under both regimes and $w^r = w^{nr}$, $p^r = p^{nr}$. Then $\Delta U(t_i) = -R^r/m < 0$ for every t_i, so

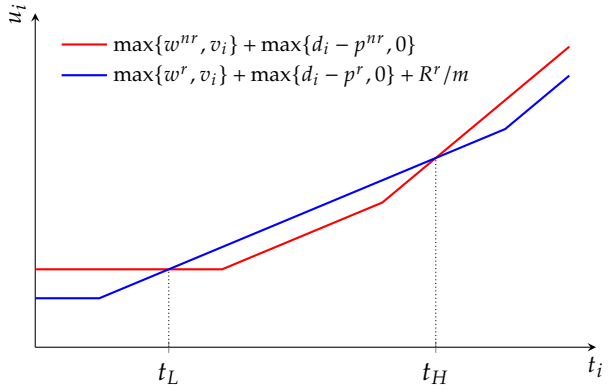


Figure IA4: Pro-nr coalition in the model with a local product market. The utility functions cross at the worker cutoff t_L, where $w^{nr} = v_i + R^r/m$, and at the consumer cutoff t_H, where $d_i - p^{nr} = R^r/m$. Policy nr is preferred by workers ($t_i \leq t_L$), who gain from the higher wage, and by consumers ($t_i \geq t_H$), who gain from the lower price. The middle group $[t_L, t_H]$ prefers r for the transfer.

every voter strictly prefers r and, thus, r is implemented.[13]

Electoral influence. ℓ chooses its message to make the pro-nr coalition a majority at the smallest cost to its on-path profit.

Consider first the promise q_ℓ^{nr}. Raising q_ℓ^{nr} raises the wage w^{nr} and lowers the price p^{nr}; the first raises t_L and the second lowers t_H, so a larger promise enlarges the coalition at both ends—drawing in more workers at the bottom of the type distribution and more consumers at the top. Promising to produce more than the unconstrained optimum q_ℓ^* is costly, so ℓ makes the smallest promise that secures a majority. This means that the optimal value of q_ℓ^{nr} is q_ℓ^* if the threat alone is enough, and is the value at which the majority condition (C34) holds with equality otherwise.

Consider next the threat q_ℓ^r. The sets of voters supporting nr are non-empty if $t_L \geq w^r/A_v$ and $t_H \leq p^r/A_d$. Since w^r increases and p^r decreases with q_ℓ^r, then both conditions are easier to satisfy at $q_\ell^r = 0$. Conditional on these sets being non-empty, the pro-nr coalition decreases with the transfer R^r. Since the transfer R^r is minimized at $q_\ell^r = 0$, then $q_\ell^r = 0$ also maximizes the pro-nr coalition. Overall, the threat to shut down generates the most support against r. Since the threat is off-the-equilibrium path, ℓ always sets $q_\ell^r = 0$ when it wants to influence the election.

In sum, the threat-and-promise structure is the same as in the baseline model. What is new is that the promise enlarges the coalition along two margins, wages and prices, rather than the single labor-market margin of the main model.

Influence is feasible iff a majority is attainable under the threat $q_\ell^r = 0$ and the largest possible promise $q_\ell^{nr} = \overline{q}$, that is

$$t_L + (1 - t_H) \geq 1/2 \tag{C35}$$

[13] The only difference with our baseline model is that ℓ here internalizes the effect of its production on both the wage w and the product price p, which creates an additional incentive to limit production.

where t_L is the largest t_i for whom

$$\max\{w^{nr}, A_v t_i\} \geq \max\{\underline{w}^r, A_v t_i\} + \frac{\underline{R}^r}{m} \tag{C36}$$

and t_H is the smallest t_i for whom

$$\max\{A_d t_i - p^{nr}, 0\} \geq \max\{A_d t_i - p^r, 0\} + \frac{\underline{R}^r}{m}. \tag{C37}$$

When influence is feasible, ℓ sends the message iff its payoff from inducing nr exceeds its after-tax benchmark payoff under r:

$$(p^{nr} - w^{nr})\, q_\ell^{nr} - \gamma \;\geq\; (1-\tau)\,(p^* - w^*)\, q_\ell^*. \tag{C38}$$

The equilibrium characterization is therefore parallel to the main active-channel model. If either (C35) or (C38) fails, ℓ does not send a message and r is implemented; if both hold, ℓ sends $m_\ell = (0, q_\ell^{nr})$ and nr is implemented. The key new insight from this extension is that ℓ's political influence is no longer confined to the labor market. When the dominant firm is also a producer in the local economy, it affects voters through both wages and consumer prices, allowing it to influence workers and consumers alike.

Proof of Lemma C.5.1 A voter of type t_i works under regime $\mathcal{P}$ iff $t_i \leq w^{\mathcal{P}}/A_v$ and consumes iff $t_i \geq p^{\mathcal{P}}/A_d$. Since $w^{nr} \geq w^r$ and $p^{nr} \leq p^r$, the thresholds are ordered $w^r/A_v \leq w^{nr}/A_v$ and $p^{nr}/A_d \leq p^r/A_d$.

Consider first the case $w^{nr}/A_v \leq p^{nr}/A_d$. Evaluating (C32) over the resulting five intervals gives

$$\Delta U(t_i) = \begin{cases} (w^{nr} - w^r) - R^r/m, & t_i \leq w^r/A_v, \\ w^{nr} - A_v t_i - R^r/m, & w^r/A_v < t_i \leq w^{nr}/A_v, \\ -R^r/m, & w^{nr}/A_v < t_i < p^{nr}/A_d, \\ A_d t_i - p^{nr} - R^r/m, & p^{nr}/A_d \leq t_i < p^r/A_d, \\ (p^r - p^{nr}) - R^r/m, & t_i \geq p^r/A_d. \end{cases} \tag{C39}$$

Thus ΔU is continuous and piecewise linear, with successive slopes $0, -A_v, 0, A_d, 0$: constant, then strictly decreasing, then constant at its minimum $-R^r/m$ on $(w^{nr}/A_v,\ p^{nr}/A_d)$, then strictly increasing, then constant — in particular, quasi-convex. The set of voters that support nr is $\{t_i : \Delta U(t_i) \geq 0\}$, is the union of a worker group $[0, t_L]$ and a consumer group $[t_H, 1]$.

The worker group is nonempty iff $w^{nr} - w^r \geq R^r/m$ and when that is the case its boundary t_L lies on the strictly decreasing segment — the flat first segment being everywhere nonnegative — where $\Delta U(t_i) = w^{nr} - A_v t_i - R^r/m = 0$, so $t_L = (w^{nr} - R^r/m)/A_v$. The consumer group is nonempty iff $p^r - p^{nr} \geq R^r/m$, and when that is the case its boundary t_H lies on the strictly increasing segment where $\Delta U(t_i) = A_d t_i - p^{nr} - R^r/m = 0$, thus yielding $t_H = (p^{nr} + R^r/m)/A_d$. Hence w^r and p^r enter only through nonemptiness of the two groups, not through the cutoffs. The combined mass $t_L + (1 - t_H)$ gives (C34).

When $w^{nr}/A_v \leq p^{nr}/A_d$, the worker and consumer groups do not overlap, and their combined mass $t_L + (1 - t_H)$ gives exactly condition (C34). If instead $w^{nr}/A_v > p^{nr}/A_d$, there is an overlap of voters who both work and consume under nr, meaning they receive both the wage and price benefits. Because their combined utility gains are larger, the total mass of the pro-nr coalition strictly exceeds $t_L + (1 - t_H)$. Therefore, (C34) serves as a sufficient condition for successful influence globally, and influence is only easier in the

overlap case. ■

Derivations for Assumption C.5.1 For any feasible production profile,

$$0 \leq Q = q_\ell + \int_0^N q_j dj \leq \overline{q} + N\underline{q} < m. \tag{C40}$$

$D(p)$ is continuous and strictly decreasing from m to 0 on $[0, A_d]$. Given aggregate production $Q < m$, then there exists a unique product-market clearing price $p(Q) \in [0, A_d]$ satisfying $D(p(Q)) = Q$. Solving for this price gives

$$p(Q) = A_d \left(1 - \frac{Q}{m}\right). \tag{C41}$$

Likewise, since $S(w)$ is continuous and strictly increasing from 0 to m on $[0, A_v]$, given aggregate production $Q < m$, there exists a unique labor-market clearing wage $w(Q) \in [0, A_v]$ satisfying $S(w(Q)) = Q$. Solving for this wage gives

$$w(Q) = A_v \frac{Q}{m}. \tag{C42}$$

Assumption C.5.1 implies that we always have $Q < m$, so there always exist a pair (p, w) that clears both the product and labor markets at the same time.

Assumption C.5.1.(ii) guarantees that the competitive firms produces at capacity in equilibrium, or equivalently, $p(Q) - w(Q) > 0$. The equilibrium product margin is

$$p(Q) - w(Q) = A_d - \frac{A_d + A_v}{m} Q. \tag{C43}$$

Since $p(Q)$ is decreasing in Q, and $w(Q)$ is increasing in Q, $p(Q) - w(Q)$ is decreasing in Q. The largest aggregate output for which profit margins are still nonnegative is then the value of Q for which $p(Q) - w(Q) = 0$, which is $Q^0 = \frac{mA_d}{A_d + A_v}$. By Assumption C.5.1.(ii), $Q^0 > \overline{q} + 2N\underline{q} \geq \overline{q} + N\underline{q} \geq Q$. It follows that we always have $p(Q) - w(Q) > 0$ in equilibrium. Like in the main model, since competitive firms are price takers and earn a strictly positive margin on each unit, they always operate at full capacity in equilibrium: $q_j = \underline{q}$ for all j.

We can write aggregate output as a function of ℓ's production, $Q(q_\ell) = N\underline{q} + q_\ell$. Substituting this function into (C41) and (C42) yields

$$p(q_\ell) = A_d \left(1 - \frac{N\underline{q} + q_\ell}{m}\right), \qquad w(q_\ell) = A_v \frac{N\underline{q} + q_\ell}{m}. \tag{C44}$$

Assumption C.5.1.(ii) also preserves the logic that ℓ's optimal threat is to shutdown, $q_\ell^r = 0$. Voter i's utility from production q_ℓ is

$$U_i(q_\ell) = \max\{w(q_\ell), v_i\} + \max\{d_i - p(q_\ell), 0\} + \frac{R(q_\ell)}{m}. \tag{C45}$$

Since $w(q_\ell)$ is increasing in q_ℓ and $p(q_\ell)$ is decreasing in q_ℓ, $\max\{w(q_\ell), v_i\} + \max\{d_i - p(q_\ell), 0\}$ is weakly increasing in q_ℓ for every voter i. Hence $q_\ell = 0$ minimizes voters' direct wage-price payoff. It remains to

verify that shutdown also minimizes the redistributive component of policy r. Total redistribution is

$$\frac{R(q_\ell)}{m} = \frac{\delta\tau}{m}[p(q_\ell) - w(q_\ell)](N\underline{q} + q_\ell) = \frac{\delta\tau}{m}\left[A_d(N\underline{q} + q_\ell) - \frac{A_d + A_v}{m}(N\underline{q} + q_\ell)^2\right]. \tag{C46}$$

which is concave quadratic in q_ℓ^r. A concave function on a closed interval is minimized at one of the boundaries. Let q_ℓ^{alt} denote the point at which redistribution equals its value at zero: $\frac{R(q_\ell^{alt})}{m} = \frac{R(0)}{m}$. Solving yields $q_\ell^{alt} = \frac{mA_d}{A_d+A_v} - 2N\underline{q}$. Under Assumption 1.(ii), which imposes $\frac{mA_d}{A_d+A_v} > \overline{q} + 2N\underline{q}$, we have $q_\ell^{alt} > \overline{q}$. Therefore, $\frac{R(q_\ell)}{m} \geq \frac{R(0)}{m}$ for all $q_\ell \in [0, \overline{q}]$. Hence, as in the main model, the optimal threat is $q_\ell^r = 0$.

C.6 Downsian Competition

In this section, we study a variation of the model of electoral competition in Section 4.3 where both candidates (including h) choose their policies to maximize their chances to get elected, like in the classical models of Downsian competition (Downs 1957). We show that ℓ uses the same strategy as in the main model to influence the election, with the same effects on the equilibrium outcomes.

Framework. Both candidates simultaneously choose their policy platforms, which are the profit tax rates $\tau_h, \tau_b \in \mathcal{T}$, where $\mathcal{T} \subseteq [0, \overline{\tau}]$ denotes the policy choice set, with $\overline{\tau} < 1$ (0) being the most (least) aggressive redistribution policy in this set. Each candidate receives an exogenous private benefit from being elected, so its payoff is proportional to the probability with which the candidate wins the election. After observing the two platforms, firm ℓ chooses whether to send the message m_ℓ at cost $\gamma > 0$. Having observed τ_h and τ_b, voters cast their votes. Since the two candidates are ex-ante symmetric in this version of the model, we assume that voter i votes for each candidate with probability one half if she is indifferent between their policy proposals. The remainder of the model is unchanged. To simplify the exposition, here we set $\theta_\ell = 1$.

Let $R^c(q_\ell)$ denote the transfer to voters when candidate $c \in \{h, b\}$ wins the election. ℓ can send messages $m_\ell = (q_\ell^h, q_\ell^b) \in [0, \overline{q}]^2$, where q_ℓ^c is the production level if candidate c wins. Therefore, conditional on candidate c winning and a message m_ℓ, voter i's payoff is

$$u_i^c = \max\{w(q_\ell^c), v_i\} + \frac{R^c(q_\ell^c)}{m}, \tag{C47}$$

with $q_\ell^c = q_\ell^*$ when $m_\ell = \emptyset$, and ℓ's after-tax profit is

$$\pi_\ell^c(q_\ell^c) = (1 - \tau^c)\left[p - w(q_\ell^c)\right] q_\ell^c - \gamma\, \mathbb{1}_{m_\ell}, \tag{C48}$$

where $\mathbb{1}_{m_\ell}$ takes the value 1 if the firm sends a message ($m_\ell \neq \emptyset$) and 0 otherwise.

Analysis. The analysis follows three steps. First, we describe how voters choose between candidates and the implication for voting outcomes. Second, we describe the benchmark without electoral influence. This sets the stage for the last step, where we describe the optimal influence strategy and main results.

Voting under Downsian competition. Similar to the main model, voter i supports candidate c if

$$\Delta U(v_i) := u_i^c - u_i^{-c} = \max\{w(q_\ell^c), v_i\} + \frac{R^c(q_\ell^c)}{m} - \max\{w(q_\ell^{-c}), v_i\} - \frac{R^{-c}(q_\ell^{-c})}{m} > 0. \tag{C49}$$

If ℓ does not condition its production on the voting outcome (i.e., if $m_\ell = \emptyset$ and, thus, $q_\ell^c = q_\ell^{-c} = q_\ell^*$), the wage is the same across candidates. It follows that i supports c iff $R^c(q_\ell^*) > R^{-c}(q_\ell^*)$ which, given that the tax base is the same, implies $\tau_c > \tau_{-c}$. Intuitively, if the firm does not try to influence the election, voters support the candidate that promises more taxes on firms and, thus, more redistribution to voters.

By contrast, ℓ favors the lower-tax candidate, say c. Similar to the main model, then ℓ chooses $q_\ell^c > q_\ell^{-c}$, to make it costly for voters to vote for $-c$. In this case, we have $w(q_\ell^c) > w(q_\ell^{-c})$, which implies that $\Delta U(v_i)$ decreases with v_i. This implies that voters can be ordered by their willingness to vote for each candidate, so the median type's preference decides the voting outcome (Black 1958).

Let $\Pr(c \mid m_\ell, \tau_c, \tau_{-c})$ denote the probability that candidate c wins after voters observe the platforms and ℓ's message. Candidate $-c$ wins with complementary probability $1 - \Pr(c \mid m_\ell, \tau_h, \tau_b)$. From the results discussed above, it follows that we have

$$\Pr(c \mid m_\ell, \tau_h, \tau_b) = \begin{cases} 1, & u_{A/2}^c > u_{A/2}^{-c} \\ 1/2, & u_{A/2}^c = u_{A/2}^{-c} \\ 0, & u_{A/2}^c < u_{A/2}^{-c} \end{cases} \tag{C50}$$

where $u_{A/2}$ denotes u_i (Eqn. C47) evaluated at the median voter's type $v_i = A/2$.

Benchmark without electoral influence. As we discussed above, when ℓ does not link its production to the electoral outcome, all voters prefer the higher-tax candidate. In this case, electoral competition drives both candidates to the largest possible tax rate in the choice set $\mathcal{T}$ ($\overline{\tau}$).[14] Therefore, similar to the main model, the largest possible rate is always implemented in equilibrium in the benchmark without electoral influence.

Electoral Influence. In an equilibrium where ℓ intervenes to influence the election, each candidate chooses its platform to maximize its probability of winning, *anticipating* both the other candidate's choice and how ℓ's intervention will affect voting. We solve the game backward: First, we characterize, for any pair of platforms, whether the firm intervenes and which candidate wins. We then use this characterization to derive the candidates' equilibrium platforms.

Optimal way to influence voting. If both candidates run on the same tax rate, ℓ is indifferent between which candidate wins. Since sending the message is costly, the firm then chooses $m_\ell = \emptyset$. Voters are then also indifferent between the two candidates, so each candidate wins with probability one half.

Now suppose the two candidates choose different tax rates, with $\tau_c < \tau_{-c}$, so that ℓ supports the lower-tax candidate c. Similar to the main model, the optimal influence strategy is to set $q_\ell^{-c} = 0$ (to make it as costly as possible for voters to choose $-c$) and the lowest possible q_ℓ^c such that

$$\max\{w(q_\ell^c), \frac{A}{2}\} + \frac{R^c(q_\ell^c)}{m} > \max\{w(0), \frac{A}{2}\} + \frac{R^{-c}(0)}{m}. \tag{C51}$$

Unlike the main model, Inequality (C51) is strict in this version of the model, since we have assumed that voters vote for each candidate with equal probability when they are indifferent. So, the set of winning promises is $(\widetilde{q}_\ell^c, \overline{q}]$, where $\widetilde{q}_\ell^c$ is the value of q_ℓ^c at which Inequality (C51) holds with equality. Since this set is open at $\widetilde{q}_\ell^c$, the cost-minimizing promise is characterized by the limit $q_\ell^c \to \widetilde{q}_\ell^c$, so we assume that ℓ

[14] If c chooses a tax rate lower than $\overline{\tau}$, $-c$ can always *capture* all voters by offering a higher tax rate.

sets $q_\ell^c = \widetilde{q}_\ell^c + \epsilon$, with $\epsilon \to 0$. By continuity of the firm's profit, the profitability condition (C52) below can equivalently be evaluated at $q_\ell^c = \widetilde{q}_\ell^c$.

Like in the main model, when influencing the election is feasible (i.e., if Inequality (C51) holds at $q_\ell^c = \overline{q}$), it is also profitable for ℓ if, at the optimal value for q_ℓ^c, the following condition holds:

$$(1 - \tau_c)(p - w(q_\ell^c))q_\ell^c - \gamma \geq (1 - \tau_{-c})(p - w(q_\ell^*))q_\ell^*. \tag{C52}$$

Next, we use these results to characterize the conditions under which the two extreme policies ($\overline{\tau}$ and 0) are always implemented in equilibrium. $\overline{\tau}$ captures the redistributive agenda, and 0 captures the business-friendly agenda from the main model.

Equilibrium with $\tau_h = \tau_b = \overline{\tau}$. Suppose there does not exist a $\tau_{-c} \in \mathcal{T}$, with $\tau_{-c} < \overline{\tau}$, for which ℓ is both willing and able to influence the election in favor of $-c$ when $\tau_c = \overline{\tau}$. In this case, the unique equilibrium is $\tau_h = \tau_b = \overline{\tau}$. To see why, suppose $-c$ chooses $\tau_{-c} < \overline{\tau}$. Then c always wins the election with probability 1. So, $\tau_c = \tau_{-c} = \overline{\tau}$ is the unique pair of mutually best responses in this case and, therefore, the unique equilibrium of the game. This is always the case when γ is sufficiently large (e.g., $\gamma \to \infty$) since, in that case, it is never profitable for ℓ to influence the election.

Equilibrium with $\tau_h = \tau_b = 0$. Suppose that for all $\tau_{-c} \in \mathcal{T}$, with $\tau_{-c} > 0$, ℓ is able and willing to influence the election in favor of c when $\tau_c = 0$. Then, the unique equilibrium is $\tau_h = \tau_b = 0$. To see why, suppose $-c$ chooses $\tau_{-c} > 0$. Then c always wins the election with probability 1. So, $\tau_c = \tau_{-c} = 0$ is the unique pair of mutually best responses and, therefore, the unique equilibrium of the game. This is always the case when γ and δ are both sufficiently small (e.g., $\gamma, \delta \to 0$) since, in that case, it is always feasible and profitable for ℓ to influence the election.

C.7 Social Planner vs. Office-Motivated Candidate

In this section, we study a variation of the model of electoral competition in Section 4.3 where, instead of always running on a no-tax agenda, candidate b chooses its policy platform to maximize its chance to get elected. We characterize the conditions under which the candidate playing the role of a benevolent planner h and the dominant firm ℓ use the same equilibrium strategies as in the main model, with the same effects on the equilibrium outcomes.

Framework. The framework is the same as in Section C.6, except that here only b is office-motivated, while h chooses its platform to maximize total welfare (which we define below). We use the same notation as in Section C.6, with the voters' payoff if candidate $c \in \{h, b\}$ wins the election being

$$u_i^c = \max\{w(q_\ell^c), v_i\} + \frac{R^c(q_\ell^c)}{m}, \tag{C53}$$

and ℓ's after-tax profits being

$$\pi_\ell^c(q_\ell^c) = (1 - \tau_c)\left[p - w(q_\ell^c)\right] q_\ell^c - \gamma\, \mathbb{1}_{m_\ell}. \tag{C54}$$

Given candidates' policy choices $\{\tau_c, \tau_{-c}\}$, total welfare here is

$$\mathcal{W}^{\mathcal{P}}(\tau_c, \tau_{-c}) = \underbrace{\mathbb{E}[(1 - \tau_{\mathcal{P}})(p - w)Q \mid \mathcal{P}] - \gamma \mathbb{1}_{m_\ell}}_{\textit{Firms}} + \underbrace{\mathcal{V}^{\mathcal{P}}}_{\textit{Voters}}, \tag{C55}$$

where $\mathcal{P}$ here is the winning candidate, and $\mathbb{1}_{m_\ell}$ is 1 if ℓ intervenes to influence the election in favor of the lower-tax candidate, and 0 otherwise.

To simplify the exposition, here $\mathcal{W}^{\mathcal{P}}(\tau_c, \tau_{-c})$ does not include b's private benefit from being elected. This means that h chooses its platform to maximize the sum of firms' and voters' surplus, and does not care about which candidate is elected.

Analysis. The characterization of how voters choose between candidates, and the implication for ℓ's favored candidate and optimal influence strategy from Section C.6 also continue to hold. For brevity, we defer to that section (subsection Voting under Downsian competition and subsection Optimal way to influence voting) for these characterizations. Below, we use these results to describe a simple condition (Assumption C.7.1) under which, in equilibrium, h chooses between the same policy platforms as in Section 4.3 (the aggressive but politically infeasible agenda or the moderate but politically feasible in Proposition 5), with similar implications on the equilibrium outcomes.[15] To simplify the exposition, we assume that the policy choice set is $\mathcal{T} = \{0, \underline{\tau}, \overline{\tau}\}$, where $\underline{\tau}$ captures the moderate agenda.

Assumption C.7.1 *ℓ is willing and able to influence the election from a candidate with $\tau = \overline{\tau}$ to one with $\tau \in \{0, \underline{\tau}\}$, but is either unwilling or unable to influence the election from a candidate with $\tau = \underline{\tau}$ to one with $\tau = 0$.*

A sufficient condition for Assumption C.7.1 is that the parameters are such that influencing the election is always feasible, which requires $\max\{w(\overline{q}), A/2\} > \max\{w(0), A/2\} + R^{\overline{\tau}}(0)/m$ [16], and is always profitable except when the higher tax rate is $\underline{\tau}$, which requires

$$\begin{cases} (1-\underline{\tau})(p - w(q_\ell^c(\overline{\tau}, \underline{\tau})))q_\ell^c - \gamma \geq (1-\overline{\tau})(p - w(q_\ell^*))q_\ell^* & \text{(profitable influence in favor of } \underline{\tau} \text{ against } \overline{\tau}) \\ (p - w(q_\ell^c(\overline{\tau}, 0)))q_\ell^c - \gamma \geq (1-\overline{\tau})(p - w(q_\ell^*))q_\ell^* & \text{(profitable influence in favor of } 0 \text{ against } \overline{\tau}) \\ (p - w(q_\ell^c(\underline{\tau}, 0)))q_\ell^c - \gamma < (1-\underline{\tau})(p - w(q_\ell^*))q_\ell^*. & \text{(unprofitable influence in favor of } 0 \text{ against } \underline{\tau}) \end{cases} \tag{C56}$$

where $q_\ell^c(\tau_c, \tau_{-c})$ is the smallest promise needed to turn the median voter against τ_c, in favor of a lower tax τ_{-c}.

Moderate but politically feasible agenda. Under Assumption C.7.1, if it wants to do so (that is, provided that $\mathcal{W}^{\underline{\tau}}(\underline{\tau}, \underline{\tau}) \geq \mathcal{W}^{\underline{\tau}}(\overline{\tau}, \underline{\tau})$), h can always implement the moderate agenda and achieve welfare $\mathcal{W}^{\underline{\tau}}(\underline{\tau}, \underline{\tau})$ by running on $\tau_h \in \{0, \underline{\tau}\}$.

To see why, consider a candidate equilibrium where the candidates' platforms are $\tau_h = \tau_b = \underline{\tau}$ (with each candidate winning the election with probability 1/2). In this equilibrium, total welfare is $\mathcal{W}^{\underline{\tau}}(\underline{\tau}, \underline{\tau})$. First, consider b's best response to $\tau_h = \underline{\tau}$. If b chooses $\tau_b = \overline{\tau}$, h then is the lower-tax candidate, and ℓ is willing and able to influence the election in favor of h. So, b never wins the election and, thus, this deviation is not profitable for b. If b chooses $\tau_b = 0$, ℓ is either unwilling or unable to influence the election in favor of b. In this case, voters support the higher-tax candidate h, and b again never wins the election. So, $\tau_b = \underline{\tau}$ is b's best response to $\tau_h = \underline{\tau}$.

[15] In the benchmark without electoral influence (where ℓ does not link its production to the voting outcome), similar to Section 4.3, all voters prefer the higher-tax candidate. In this case, h chooses $\tau_h = \overline{\tau}$ to maximize welfare (under Assumption 2, $\delta \geq 1$, so $\mathcal{W}$ increases with the tax rate implemented in equilibrium). b then does the same to maximize its chances to get elected. So, in the benchmark, the equilibrium tax rate is always $\overline{\tau}$.

[16] The feasibility condition is the hardest to satisfy when the higher tax rate is $\overline{\tau}$ and the lower tax rate is 0, so that the redistribution differential is the largest.

Next, consider h's best response to $\tau_b = \underline{\tau}$. If h chooses $\tau_h = \overline{\tau}$, then ℓ is willing and able to influence the election in favor of b. Hence, b wins the election with probability 1, and social welfare is $\mathcal{W}^{\underline{\tau}}(\overline{\tau}, \underline{\tau})$. If this is smaller than the candidate's equilibrium welfare $\mathcal{W}^{\underline{\tau}}(\underline{\tau}, \underline{\tau})$, h does not want to deviate to $\tau_h = \overline{\tau}$. If h chooses $\tau_h = 0$, then ℓ is not willing or able to influence the election in favor of h. So, voters elect the higher-tax candidate b and, thus, social welfare is $\mathcal{W}^{\underline{\tau}}$, the same as in the candidate equilibrium. So, deviating to $\tau_h = 0$ is never a (strictly) profitable deviation either. This proves that, when $\mathcal{W}^{\underline{\tau}}(\underline{\tau}, \underline{\tau}) \geq \mathcal{W}^{\underline{\tau}}(\overline{\tau}, \underline{\tau})$,[17] there always exists an equilibrium $\tau_h = \tau_b = \underline{\tau}$ in this case.

Lastly, by the discussion above, h can implement the same equilibrium policy and, thus, welfare by choosing $\tau_h = 0$, since then b's best response is to choose $\tau_b = \underline{\tau}$, so that ℓ is not willing to influence the election and b always wins.

Aggressive but politically infeasible agenda. An alternative for h is to run on a politically infeasible platform $\tau_h = \overline{\tau}$ and induce welfare $\mathcal{W}^0(\overline{\tau}, 0)$ in equilibrium. This is because, under Assumption C.7.1, it is then (weakly) optimal for b to choose $\tau_b = 0$, since this candidate anticipates that ℓ will influence the election in its favor. Like in the main model, this may be socially desirable if ℓ needs to choose $q_\ell^b > q_\ell^*$, and this has a sufficiently large effect on welfare (since it moves aggregate production closer to its first-best level).

Notice that, unlike in the main model and in the case of the moderate agenda, h here cannot ensure that $\mathcal{P} = 0$ (and the associated welfare $\mathcal{W}^0(\overline{\tau}, 0)$) is the unique equilibrium outcome, since b is indifferent between winning the election on $\tau_b = 0$ or $\tau_b = \underline{\tau}$, and ℓ is willing and able to influence the election in either case under Assumption C.7.1. So, when h chooses $\tau_h = \overline{\tau}$, the possible equilibrium outcomes are $\mathcal{P} = 0$, with welfare $\mathcal{W}^0(\overline{\tau}, 0)$, or $\mathcal{P} = \underline{\tau}$, with $\mathcal{W}^{\underline{\tau}}(\overline{\tau}, \underline{\tau})$.

C.8 Probabilistic Voting with Ideology

In this section, we extend the analysis by allowing for (i) probabilistic voting through idiosyncratic shocks that capture the cost of voting, and (ii) ideological warm-glow (Andreoni 1990; Bénabou and Tirole 2010) from supporting either policy. We show that the qualitative insights from the main model continue to hold. The key new implication is that, because voting is costly, the firm's influence operates not only by swaying some voters against r, as in the main model, but also by increasing turnout among voters who are who already prefer nr for ideological reasons. To simplify the exposition, we focus on the full commitment case ($\theta_\ell = 1$).

In this version of the model, firm ℓ's problem is to maximize expected profits:

$$\max_{q_\ell^r, q_\ell^{nr} \in [0, \overline{q}]} \pi_\ell^{nr} \Pr(nr) + \pi_\ell^r (1 - \Pr(nr)) \tag{C57}$$

where $\pi_\ell^{\mathcal{P}}$ denotes the firm's after-tax profits under $\mathcal{P} \in \{r, nr\}$ and $\Pr(nr)$ denotes the probability that the no-redistribution regime wins the election. Both q_ℓ^{nr} and q_ℓ^r enter through two channels: directly through conditional profits $\pi_\ell^{\mathcal{P}}$, and indirectly through the election probability $\Pr(nr)$.

Let agent i's monetary utility gain from no-redistribution (nr) relative to redistribution (r) be

$$\Delta U(v_i) \equiv \max\{w^{nr}, v_i\} - \max\{w^r, v_i\} - \frac{R}{m}. \tag{C58}$$

[17] The difference between $\mathcal{W}^{\underline{\tau}}(\overline{\tau}, \underline{\tau}) - \mathcal{W}^{\underline{\tau}}(\underline{\tau}, \underline{\tau})$ is the welfare differential induced by ℓ's electoral influence, that is, the expected welfare gains from ℓ promising to produce more than q_ℓ^* net of the cost of the message γ. If ℓ can influence the election without having to make any promises, then the welfare differential is negative and, therefore, h strictly prefers $\mathcal{W}^{\underline{\tau}}(\underline{\tau}, \underline{\tau})$.

In addition to monetary payoffs, voting reflects ideology and an idiosyncratic turnout cost. Let $\mathfrak{I}_i$ denote voter i's ideological bias toward nr (a warm-glow payoff for voting against r), where $\mathfrak{I}_i \in \{+\iota, 0, -\iota\}$ and $\iota > 0$. We assume the population is partitioned into three ideological groups: a fraction λ_{nr} have $\mathfrak{I}_i = +\iota$ (pro-nr), a fraction λ_r have $\mathfrak{I}_i = -\iota$ (pro-r), and the remaining fraction $\lambda_0 = 1 - \lambda_{nr} - \lambda_r$ have $\mathfrak{I}_i = 0$ (non-ideological). Each voter draws a private voting cost $c_i \sim U[0, c]$ and votes for nr if $\Delta U(v_i) + \mathfrak{I}_i \geq c_i$. Symmetrically, voter i votes for r if $-(\Delta U(v_i) + \mathfrak{I}_i) \geq c_i$, and abstains otherwise. For simplicity, we assume that the primitive random variables (v_i, $\mathfrak{I}_i$, and c_i) are mutually independent.

We assume ideology is sufficiently strong to fix the direction of preferences. In particular, ι is large enough that pro-nr voters never prefer r, and pro-r voters never prefer nr, for any economic type v_i.[18] Thus, the mass of voters who vote for nr in equilibrium is

$$\mu(nr) = \lambda_{nr}\, \mathbb{E}_v[\Pr(\Delta U(v_i) + \iota \geq c_i)] + \lambda_0\, \mathbb{E}_v[\Pr(\Delta U(v_i) \geq c_i)]\,, \tag{C59}$$

and the mass who vote for r is

$$\mu(r) = \lambda_r\, \mathbb{E}_v[\Pr(-\Delta U(v_i) + \iota \geq c_i)] + \lambda_0\, \mathbb{E}_v[\Pr(-\Delta U(v_i) \geq c_i)]\,. \tag{C60}$$

To map vote shares into a smooth probability distribution function over policy regimes, we assume the election outcome is subject to an aggregate popularity shock ξ, realized after the firm's choice, with smooth CDF $H(\cdot)$. The no-redistribution regime wins if:

$$M(nr) \equiv \frac{\mu(nr)}{\mu(nr) + \mu(r)} \geq \frac{1}{2} + \xi. \tag{C61}$$

Consequently, the probability of victory is $\Pr(nr) = \Pr\left(\xi \leq M(nr) - \frac{1}{2}\right) = H\left(M(nr) - \frac{1}{2}\right)$ which is strictly increasing and differentiable in $M(nr)$, $H'(\cdot) > 0$.[19]

Impact of production on vote shares. To characterize the firm's optimal strategy, we trace how its production choices affect the election probability through their effect on wages, transfers, and voter turnout.

The utility differential (C58) responds to production choices through wages and transfers:

$$\frac{\partial \Delta U(v_i)}{\partial w^{nr}} = \mathbf{1}_{\{v_i \leq w^{nr}\}} \geq 0, \quad \frac{\partial \Delta U(v_i)}{\partial w^{r}} = -\mathbf{1}_{\{v_i \leq w^{r}\}} \leq 0, \quad \frac{\partial \Delta U(v_i)}{\partial R} = -\frac{1}{m} < 0, \tag{C62}$$

with $\partial w^{nr}/\partial q_\ell^{nr} > 0$, $\partial w^{r}/\partial q_\ell^{r} > 0$, and $\partial R/\partial q_\ell^{r} > 0$ locally at $q_\ell^r = 0$.[20] Wage changes affect ΔU only for workers ($v_i \leq w^{\mathcal{P}}$), while transfer changes affect all voters uniformly. Let $\mathcal{L}^{\mathcal{P}} := \{v_i : v_i \leq w^{\mathcal{P}}\}$ denote the set of voters participating in the labor market under regime $\mathcal{P}$.

Not all voters respond to these shifts in ΔU. Under $c_i \sim U[0, c]$, the probability that type v_i with ideology

[18] Specifically, $\Delta U(v_i) + \iota \geq 0$ for all v_i in the pro-nr group and $\Delta U(v_i) - \iota \leq 0$ for all v_i in the pro-r group. However, they may abstain if the voting cost c_i is sufficiently high. By contrast, non-ideological voters ($\mathfrak{I}_i = 0$) may support either regime depending on $\Delta U(v_i)$ and c_i.

[19] The aggregate shock ξ smooths the majority rule cutoff, so small changes in the vote share $M(nr)$ translate into smooth changes in the victory probability $\Pr(nr) = H\left(M(nr) - \frac{1}{2}\right)$, with local sensitivity governed by $H'(\cdot)$. Without ξ (that is, under deterministic majority rule), the win probability becomes a step function, $\Pr(nr) = \mathbf{1}\{M(nr) \geq \frac{1}{2}\}$, like in our main model.

[20] Locally at the threat point $q_\ell^r = 0$, the marginal revenue is $\frac{\partial R}{\partial q_\ell^r} = \delta\tau\left(p - \frac{2A}{m}(N\underline{q} + q_\ell^r)\right)$. This is strictly positive because Assumption 1(ii) implies the condition $\frac{m}{A}p > 2N\underline{q}$.

$\mathfrak{I}_i$ votes nr is linear on the interval $0 < \Delta U(v_i) + \mathfrak{I}_i < c$ with slope $1/c$, and flat elsewhere.[21] To capture the responsive margin (the set of voters whose turnout responds to marginal changes in $\Delta U(v_i)$), we define the set of voters who are marginally movable towards nr and r as:

$$\mathcal{S}_{nr} := \{v_i : 0 < \Delta U(v_i) + \iota < c\}\ ,\ \ \mathcal{S}_r := \{v_i : 0 < -\Delta U(v_i) + \iota < c\},\ \ \mathcal{S}_0 := \{v_i : 0 < |\Delta U(v_i)| < c\} \tag{C63}$$

where $\mathcal{S}_{nr}$ and $\mathcal{S}_r$ denote the swing voters in the pro-nr and pro-r groups, respectively, and $\mathcal{S}_0$ denotes the neutral swing voters, which partitions into $\mathcal{S}_0^{nr} := \{v_i : 0 < \Delta U(v_i) < c\}$ and $\mathcal{S}_0^{r} := \{v_i : -c < \Delta U(v_i) < 0\}$. Within these sets, the probability of voting changes with slope $1/c$ per unit change in $\Delta U(v_i)$. Outside these sets, the probability is either 0 or 1 and unresponsive to marginal changes.

Combining these building blocks, we can compute how the voting masses respond to production. For promises (an increase in q_ℓ^{nr}), only w^{nr} changes, so only swing-set workers under nr respond:

$$\frac{\partial \mu(nr)}{\partial q_\ell^{nr}} = \frac{1}{c}\frac{\partial w^{nr}}{\partial q_\ell^{nr}}\left[\lambda_{nr}\Pr(v_i \in \mathcal{S}_{nr} \cap \mathcal{L}^{nr}) + \lambda_0 \Pr(v_i \in \mathcal{S}_0^{nr} \cap \mathcal{L}^{nr})\right] \geq 0, \tag{C64}$$

$$\frac{\partial \mu(r)}{\partial q_\ell^{nr}} = -\frac{1}{c}\frac{\partial w^{nr}}{\partial q_\ell^{nr}}\left[\lambda_{r}\Pr(v_i \in \mathcal{S}_{r} \cap \mathcal{L}^{nr}) + \lambda_0 \Pr(v_i \in \mathcal{S}_0^{r} \cap \mathcal{L}^{nr})\right] \leq 0. \tag{C65}$$

For threats (a change in q_ℓ^r), both w^r and R change. The wage channel affects only swing-set workers under r; the transfer channel affects all swing-set voters:

$$\frac{\partial \mu(nr)}{\partial q_\ell^{r}} = -\frac{1}{c}\left[\frac{\partial w^r}{\partial q_\ell^r}\left(\lambda_{nr}\Pr(v_i \in \mathcal{S}_{nr} \cap \mathcal{L}^{r}) + \lambda_0 \Pr(v_i \in \mathcal{S}_0^{nr} \cap \mathcal{L}^{r})\right) + \frac{1}{m}\frac{\partial R}{\partial q_\ell^r}\left(\lambda_{nr}\Pr(v_i \in \mathcal{S}_{nr}) + \lambda_0 \Pr(v_i \in \mathcal{S}_0^{nr})\right)\right] \leq 0,$$

$$\frac{\partial \mu(r)}{\partial q_\ell^{r}} = \frac{1}{c}\left[\frac{\partial w^r}{\partial q_\ell^r}\left(\lambda_{r}\Pr(v_i \in \mathcal{S}_{r} \cap \mathcal{L}^{r}) + \lambda_0 \Pr(v_i \in \mathcal{S}_0^{r} \cap \mathcal{L}^{r})\right) + \frac{1}{m}\frac{\partial R}{\partial q_\ell^r}\left(\lambda_{r}\Pr(v_i \in \mathcal{S}_{r}) + \lambda_0 \Pr(v_i \in \mathcal{S}_0^{r})\right)\right] \geq 0. \tag{C66}$$

By the quotient rule, the vote share $M(nr) = \mu(nr)/[\mu(nr) + \mu(r)]$ satisfies

$$\frac{\partial M(nr)}{\partial q_\ell^{nr}} = \frac{\mu(r)\frac{\partial \mu(nr)}{\partial q_\ell^{nr}} - \mu(nr)\frac{\partial \mu(r)}{\partial q_\ell^{nr}}}{(\mu(nr)+\mu(r))^2} \geq 0, \qquad \frac{\partial M(nr)}{\partial q_\ell^{r}} = \frac{\mu(r)\frac{\partial \mu(nr)}{\partial q_\ell^{r}} - \mu(nr)\frac{\partial \mu(r)}{\partial q_\ell^{r}}}{(\mu(nr)+\mu(r))^2} \leq 0, \tag{C67}$$

with strict inequalities whenever at least one swing set has positive measure among the affected voter types. Since $\Pr(nr) = H(M(nr) - 1/2)$ and $H'(\cdot) > 0$, these signs carry over to the election probability:

$$\frac{\partial \Pr(nr)}{\partial q_\ell^{nr}} > 0, \qquad \frac{\partial \Pr(nr)}{\partial q_\ell^{r}} < 0. \tag{C68}$$

[21] Specifically, the CDF is piecewise linear: $\Pr(x \geq c_i)$ equals 0 for $x \leq 0$, x/c for $0 < x < c$, and 1 for $x \geq c$.

ℓ's optimal strategy. Define the profit differential $\Delta\pi := \pi_\ell^{nr} - \pi_\ell^r$, which is strictly positive whenever the firm strictly prefers nr to r. Differentiating (C57) with respect to q_ℓ^{nr} and q_ℓ^r yields:

$$\frac{\partial}{\partial q_\ell^{nr}}\Big[\pi_\ell^{nr}\Pr(nr) + \pi_\ell^r(1-\Pr(nr))\Big] = \frac{\partial \pi_\ell^{nr}}{\partial q_\ell^{nr}} \cdot \Pr(nr) \;+\; \Delta\pi \cdot \frac{\partial \Pr(nr)}{\partial q_\ell^{nr}}, \tag{C69}$$

$$\frac{\partial}{\partial q_\ell^{r}}\Big[\pi_\ell^{nr}\Pr(nr) + \pi_\ell^r(1-\Pr(nr))\Big] = \frac{\partial \pi_\ell^{r}}{\partial q_\ell^{r}} \cdot (1-\Pr(nr)) \;+\; \Delta\pi \cdot \frac{\partial \Pr(nr)}{\partial q_\ell^{r}}. \tag{C70}$$

In each expression, the first term is the direct effect of production on conditional profits, and the second term captures the return to electoral influence — the firm's profit stake in the election, $\Delta\pi$, times the sensitivity of the election outcome to its production choice. Since $\Delta\pi > 0$, $\partial \Pr(nr)/\partial q_\ell^{nr} > 0$, and $\partial \Pr(nr)/\partial q_\ell^{r} < 0$, the electoral term pushes the firm to raise q_ℓ^{nr} and lower q_ℓ^r relative to what conditional profit maximization alone would imply. At an interior optimum, the direct-profit and electoral terms exactly offset, with the firm accepting a marginal conditional-profit loss in exchange for electoral gain:

$$\frac{\partial \pi_\ell^{nr}}{\partial q_\ell^{nr}} = -\frac{\Delta\pi}{\Pr(nr)} \cdot \frac{\partial \Pr(nr)}{\partial q_\ell^{nr}} < 0, \qquad \frac{\partial \pi_\ell^{r}}{\partial q_\ell^{r}} = -\frac{\Delta\pi}{1-\Pr(nr)} \cdot \frac{\partial \Pr(nr)}{\partial q_\ell^{r}} > 0. \tag{C71}$$

The first condition says the firm produces under nr past the profit-maximizing optimum (promises); the second says it produces under r below that point (threats).

The complete shutdown threat ($q_\ell^r = 0$) is optimal when the electoral term dominates at zero output:

$$-\Delta\pi \cdot \frac{\partial \Pr(nr)}{\partial q_\ell^{r}}\bigg|_{q_\ell^r=0} \geq (1-\Pr(nr)) \cdot \frac{\partial \pi_\ell^{r}}{\partial q_\ell^{r}}\bigg|_{q_\ell^r=0}. \tag{C72}$$

The right side is the forgone conditional profit from not producing under r. The left side is the electoral benefit of the threat. To see what drives it, note that $\partial \Pr(nr)/\partial q_\ell^r = H'(M(nr) - 1/2) \cdot \partial M(nr)/\partial q_\ell^r$, where $\partial M(nr)/\partial q_\ell^r$ depends on the density of swing-set voters among the workforce (through (C65)–(C66)). So the left side is large when there are many swing-set workers and when the election is sensitive to vote-share changes, that is, when $H'(M(nr) - 1/2)$ is large. This occurs when the election is close and the aggregate shock distribution is concentrated.

D Survey Appendix

This appendix documents the survey instrument used in the analysis, including eligibility criteria, fielding details, and the exact classes of questions used to construct the survey-based measures. The survey was designed to measure exposure to political activity in the workplace, perceptions of employer influence, and related political attitudes and behaviors.

D.1 Survey Administration

The survey was administered online using Qualtrics and fielded in December 2025 through Prolific. Eligibility was restricted to U.S. residents aged 25 or older with full-time employment status, as determined by Prolific's prescreening criteria. Respondents completed the survey once and received monetary compensation upon completion.

Prior to beginning the survey, respondents viewed an informed consent form describing the purpose of the study and their rights as participants. Participation was voluntary and anonymous, respondents could skip any question, and they could exit the survey at any time without penalty. The median completion time was approximately five minutes. All study procedures were approved by the relevant institutional review board.

D.2 Survey Content and Variable Construction

The survey consists of five blocks. Below we list the questions in each block and describe how responses are used in the analysis.

Block 1: Employer characteristics and local labor market conditions. Respondents report whether their employer is one of the largest employers in their town or county. They assess local labor market outside options by answering a Likert-scale question on how easy it would be to find a similar job with another employer in the same area. Respondents also describe their employer's current employment situation, indicating whether the organization appears to be hiring, reducing staff, or remaining stable. These variables are used to proxy for employer salience and worker bargaining position.

Block 2: Employer political communications. Respondents indicate whether their employer has communicated about political issues, including: (i) government programs affecting households through taxes or benefits; (ii) how election outcomes could lead to changes in laws or policies; (iii) how the firm might respond to political developments (e.g., expansion or layoffs); (iv) support for specific political candidates; and (v) government policies affecting businesses (e.g., taxation or equal employment laws). Responses are recorded on five-point Likert scales from "Definitely not" to "Definitely yes." The survey also records the channels through which such communications occurred (e.g., email, in-person events, informal conversations).

Block 3: Workplace political discussion and actions. To measure peer-level exposure, respondents report whether they have discussed elections, candidate preferences, or firm employment prospects with coworkers. The survey also asks whether supervisors or human resources personnel have discussed political issues in the context of job security or contract negotiations. Additional questions capture whether

the employer has publicly endorsed political candidates, organized campaign-related events, or solicited political donations within the workplace.

Block 4: Perceived influence and comfort. Respondents assess whether their employer's political positions affect their own career opportunities or the firm's future prospects. They also report whether employer political activity has influenced their voting decisions. Comfort with political discussion at work is measured using a five-point scale ranging from "Extremely uncomfortable" to "Extremely comfortable." These measures are used to construct indices of perceived political influence and workplace political pressure.

Block 5: Political attitudes and demographics. Respondents report age, race, ethnicity, gender, state and county of residence, educational attainment, industry of employment, household income, and political affiliation. The survey concludes with an open-ended question inviting respondents to describe any experiences they have had with politics in their workplace. Demographic variables are used as controls in the empirical analysis.

D.3 Coding Notes

Unless otherwise stated, Likert-scale responses are coded so that higher values correspond to greater exposure to or agreement with employer political activity. Binary indicators are constructed for whether respondents report any exposure to employer political communications or actions. Open-ended responses are not used in the main analysis but are retained for qualitative validation.

D.4 Survey Questions

Block 1: Employer characteristics and local labor market conditions.

Q1: Would you say your employer is one of the largest employers in your town or county?

a) Definitely yes (1)
b) Probably yes (2)
c) Might or might not (3)
d) Probably not (4)
e) Definitely not (5)

Q2: If you had or wanted to leave your current job, how easy would it be to find a similar job with another employer in your town or county?

a) Extremely difficult (1)
b) Somewhat difficult (2)
c) Neither easy nor difficult (3)
d) Somewhat easy (4)
e) Extremely easy (5)

Q3: How would you describe your employer's current situation? Does it seem like the organization needs to hire more people, reduce staff, or stay about the same?

a) Definitely hire more people (1)
b) Probably hire more people (2)
c) Stay about the same (3)
d) Probably reduce staff (4)
e) Definitely reduce staff (5)

Block 2: Employer political communications.

Q4: Do you know where your employer stands on government programs that use business profits to help households through taxes or benefits?

a) Definitely not (1)
b) Probably not (2)
c) Might or might not (3)
d) Probably yes (4)
e) Definitely yes (5)

Q5: Has your employer ever communicated about how the results of an upcoming election could lead to changes in laws or government policies?

a) Definitely not (1)
b) Probably not (2)
c) Might or might not (3)
d) Probably yes (4)
e) Definitely yes (5)

Q6: Has your employer ever communicated about how the company might respond to the current political situation, for example, by taking actions such as downsizing?

a) Definitely not (1)
b) Probably not (2)
c) Might or might not (3)
d) Probably yes (4)
e) Definitely yes (5)

Q7: Has your employer ever expressed support for a specific political candidate in internal communications?

a) Definitely not (1)
b) Probably not (2)
c) Might or might not (3)
d) Probably yes (4)
e) Definitely yes (5)

Q8: Has your employer ever communicated about possible government policies, such as raising taxes on some businesses to fund public programs, or laws promoting equal hiring and workplace treatment?

a) Definitely not (1)
b) Probably not (2)
c) Might or might not (3)
d) Probably yes (4)
e) Definitely yes (5)

Q9: How did these communications take place? (Check all that apply.)

a) By email (1)
b) By letter (2)
c) In an in-person event (3)
d) Informally, by text (4)
e) Informally, in person (5)
f) Other (6)
g) N/A (7)

Block 3: Workplace political discussion and actions.

Q1: Have you ever discussed with your colleagues an upcoming election and how this will affect your employer's outlook?

a) Definitely not (1)
b) Probably not (2)
c) Might or might not (3)
d) Probably yes (4)
e) Definitely yes (5)

Q2: Have you ever talked with your coworkers about which candidates your employer preferred in past elections?

a) Definitely not (1)
b) Probably not (2)
c) Might or might not (3)
d) Probably yes (4)
e) Definitely yes (5)

Q3: Have you ever talked with your coworkers about whether your company might expand or lay off workers as a result of an election?

a) Definitely not (1)
b) Probably not (2)

c) Might or might not (3)
d) Probably yes (4)
e) Definitely yes (5)

Q4: Has a supervisor or human resources manager ever talked about how an upcoming election might affect your job or contract during contract negotiations?

a) Definitely not (1)
b) Probably not (2)
c) Might or might not (3)
d) Probably yes (4)
e) Definitely yes (5)

Q5: Has your employer publicly endorsed one candidate for an upcoming election?

a) Definitely not (1)
b) Probably not (2)
c) Might or might not (3)
d) Probably yes (4)
e) Definitely yes (5)

Q6: Has your employer organized a campaign event or solicited donations in support of specific candidates for an upcoming election within your workplace?

a) Definitely not (1)
b) Probably not (2)
c) Might or might not (3)
d) Probably yes (4)
e) Definitely yes (5)

Q7: Has your employer ever discussed possible layoffs or company expansion in the context of an endorsement of a political candidate?

a) Definitely not (1)
b) Probably not (2)
c) Might or might not (3)
d) Probably yes (4)
e) Definitely yes (5)

Block 4: Perceived influence and comfort.

Q1: Do you think your employer's stances on political issues or candidates affect your own career opportunities or the company's future prospects?

a) Definitely not (1)
b) Probably not (2)
c) Might or might not (3)
d) Probably yes (4)
e) Definitely yes (5)

Q2: Do you think your employer's positions on political issues or candidates have ever influenced how you voted in an election?

a) Definitely not (1)
b) Probably not (2)
c) Might or might not (3)
d) Probably yes (4)
e) Definitely yes (5)

Q3: How do you feel about your employer talking about political issues at work?

a) Extremely uncomfortable (1)
b) Somewhat uncomfortable (2)
c) Neither comfortable nor uncomfortable (3)
d) Somewhat comfortable (4)
e) Extremely comfortable (5)

E Additional Empirical Analyses

E.1 Electoral Relevance: Robustness Tests

Electoral Monopsony Power versus Large Firms. Table IA5 Panel A presents a horse-race specification contrasting the effects of electoral monopsony power against the prevalence of large firms on Republican electoral participation. The objective is to distinguish electoral monopsony power from simple firm size. Across specifications, the estimates for the EMP $\times$ *Republican* interaction remain positive and significant after controlling for the local prevalence of large firms. In contrast, the large-firm controls are smaller, less stable, or statistically weaker. These patterns indicate that the turnout effects are not simply a consequence of the presence of large employers. To be clear, it is not our interpretation that firm size is irrelevant for political influence,[22] but rather that electoral monopsony power captures a distinct form of local labor-market leverage.

Product Market Concentration. Table IA5 Panel B investigates whether electoral monopsony power is partly channeled through product market competition. We examine this by controlling for the tradability of local industries, following the idea that local product-market conditions should matter more in predominantly nontradable industries (e.g., Mian and Sufi 2014). The EMP$\times$*Republican* coefficients remain positive and significant after accounting for local industrial tradability. These results suggest that the effects of electoral monopsony power on turnout are not explained by differences between tradable and non-tradable local economies, and are more consistent with a labor-market channel than with a product-market concentration channel.

Selective Hiring. One potential interpretation is that the patterns documented in Table 2 could be attributed to differential hiring or shifts in workforce composition. Our empirical design uses individual-level voter data and focuses on voting behavior among registered voters after conditioning on party affiliation and detailed geographic and demographic characteristics. The increase in Republican electoral participation is concentrated among individuals already affiliated with the Republican Party, which points to greater engagement at the intensive margin rather than to firms hiring more Republican workers into concentrated labor markets. Because these effects emerge at the individual level after holding constant detailed local fixed effects and party-specific controls, they are unlikely to be driven solely by selective hiring. Instead, the results point to mechanisms of mobilization, persuasion, or increased political salience in response to economic dependence on dominant employers.

Robustness to County-level Pre-period Characteristics. Table IA6 examines sensitivity to the inclusion of additional pre-period county characteristics, interacted with Republican affiliation. These controls include measures of local economic conditions – poverty rates, percentage of area classified as rural, public assistance, unemployment, and median income – as well as demographic characteristics including racial composition, educational attainment, age structure, and vital statistics. Across specifications, the estimated interaction between electoral monopsony power and Republican affiliation remains positive and stable.

Excluding Industries with Largest Rotemberg Weights. Table IA7 evaluates the sensitivity of the results to the composition of the shift-share instrument by sequentially excluding industries with the largest

[22] For instance, using Brazilian data, Aparicio and Avenancio-León (2022) show that large firms benefit more from making corporate political contributions than smaller firms.

Rotemberg weights, which we compute following the methodology in Goldsmith-Pinkham et al. (2020). The estimates remain similar across leave-one-industry-out specifications for voting participation, indicating that the turnout results are not driven by any single industry contributing disproportionately to identification.

E.2 Electoral College Back-of-the-Envelope Calculation: Construction

This section provides details on the counterfactual exercise underlying Figure 6. The objective is to quantify the portion of the observed Republican vote total in each county that is associated with local electoral monopsony power, and then to aggregate these county-level adjustments to the state level in order to recover the implied Electoral College map.

The goal is to ask how the 2016, 2020, and 2024 election would have changed if local labor markets had exhibited substantially less employer concentration. To construct this benchmark, we replace the observed firm-size distribution within each county-industry cell with one in which all firms are of equal size, while holding fixed the number of firms and the industry composition of each county. We then use the estimated effect of electoral monopsony power on Republican turnout to infer the corresponding change in county vote totals for each election.

Counterfactual measure of electoral monopsony power. We begin from the county-industry decomposition of electoral monopsony power:

$$EMP_{jc} = \sqrt{(s_{jc}) \cdot \left(\sqrt{HHI_{jc}}\right)} \tag{E1}$$

The counterfactual we consider imposes that all firms have the same size, holding fixed the number of firms in each county-industry cell and in each county. Let N_{jc} denote the number of firms in industry j and county c, and let

$$N_c = \sum_j N_{jc} \tag{E2}$$

denote the total number of firms in county c.

Under the equal-firm-size counterfactual, each firm in county-industry cell (j, c) has employment share $1/N_{jc}$ within the cell, and the county employment share of industry j is simply the firm share,[23] which imply

$$HHI_{jc}^{CF} = \frac{1}{N_{jc}}; \quad s_{jc}^{CF} = \frac{N_{jc}}{N_c}. \tag{E3}$$

Substituting these counterfactual objects into the measure gives

$$EMP_{jc}^{CF} = \sqrt{\left(s_{jc}^{CF}\right) \cdot \left(\sqrt{HHI_{jc}^{CF}}\right)} = \sqrt{\left(\frac{N_{jc}}{N_c}\right) \cdot \sqrt{\left(\frac{1}{N_{jc}}\right)}} = \sqrt{\frac{N_{jc}^{0.5}}{N_c}}. \tag{E4}$$

[23] To simplify the exposition, here we omit the scaling factor ($*100$) from the expressions for HHI_{jc} and s_{jc}.

We then aggregate across industries within county c to obtain the county-level counterfactual measure

$$EMP_c^{CF} = \sum_j EMP_{jc}^{CF}. \tag{E5}$$

In the data, we construct this measure using County Business Patterns (CBP) establishment counts at the county × two-digit NAICS level. For each county-industry cell, we merge the CBP establishment counts with the county-industry support used in the baseline electoral monopsony measure, compute EMP_{jc}^{CF} and sum across industries within county. We then standardize the resulting county-level variable by its cross-county standard deviation:

$$\widetilde{EMP}_c^{CF} = \frac{EMP_c^{CF}}{sd(EMP_c^{CF})}. \tag{E6}$$

Mapping the estimated effect into county vote totals. The county-level voting counterfactual uses the estimate from Table 2, Panel A, column (3), which we denote by $\hat{\beta}$, which represents the effect of a one-standard-deviation increase in electoral monopsony power on Republican vote participation.

For each county c, let R_c denote the observed Republican presidential vote total, D_c the Democratic vote total, and T_c total votes cast. We also construct the standardized baseline electoral monopsony measure,

$$\widetilde{EMP}_c = \frac{EMP_c}{sd(EMP_c)}. \tag{E7}$$

As one benchmark, we could use this standardized measure to remove entirely the baseline electoral monopsony component from observed Republican votes:

$$R_c^{adj} = \frac{R_c}{1 + \hat{\beta}\,\widetilde{EMP}_c}. \tag{E8}$$

This expression removes from the observed Republican vote total the component associated with the estimated effect of local electoral monopsony power, and it would represent a world where there is no scope for electoral monopsony power.

Instead, we assume a more conservative counterfactual which replaces the baseline county measure with the counterfactual measure constructed under equal firm size. We implement this as

$$R_c^{CF} = \frac{R_c}{1 + \hat{\beta}\left(\widetilde{EMP}_c - \widetilde{EMP}_c^{CF}\right)}. \tag{E9}$$

Thus, the Republican vote total is adjusted in proportion to the gap between the observed standardized electoral monopsony measure and the standardized counterfactual measure implied by the equal-firm-size benchmark. Intuitively, the exercise asks how many Republican votes would remain if the component of local electoral monopsony power attributable to firm-size concentration above this benchmark were removed.

Lastly, notice that applying the absolute percentage-point estimate $\hat{\beta}$ directly as a proportional adjustment to observed aggregate vote totals gives a conservative approximation of the aggregate effect, since it implicitly assumes a baseline turnout of 100 percent among registered voters. Because actual baseline turnout is lower, our adjustment intentionally underestimates the proportional reduction in votes.

Aggregation from counties to states. After constructing the counterfactual Republican vote total for each county, we aggregate the county data to the state level:

$$R_s^{CF} = \sum_{c \in s} R_c^{CF}, \qquad R_s = \sum_{c \in s} R_c, \qquad D_s = \sum_{c \in s} D_c, \qquad T_s = \sum_{c \in s} T_c. \tag{E10}$$

The observed state vote margin is

$$Margin_s^{obs} = 100 \left(\frac{D_s}{T_s} - \frac{R_s}{T_s} \right). \tag{E11}$$

Because the counterfactual only adjusts Republican votes, the state-level counterfactual turnout is

$$T_s^{CF} = T_s + R_s^{CF} - R_s. \tag{E12}$$

The counterfactual Democratic-minus-Republican margin is then

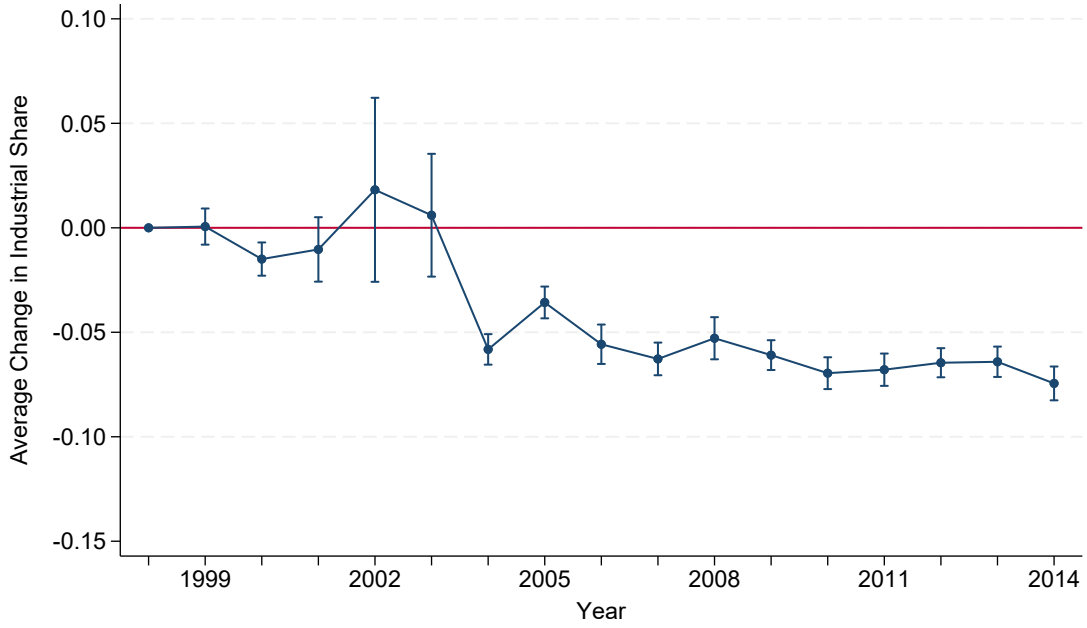
$$Margin_s^{CF} = 100 \left(\frac{D_s}{T_s^{CF}} - \frac{R_s^{CF}}{T_s^{CF}} \right). \tag{E13}$$

A state is classified as Democratic in the data if $D_s > R_s$, and Democratic in the counterfactual if $D_s > R_s^{CF}$. Electoral College votes are then summed across states under the observed and counterfactual winners. The map in Figure 6 reports state-level Democratic-minus-Republican vote margins under the observed data and under the counterfactual. Positive values indicate Democratic victories, while negative values indicate Republican victories. States that switch sign between $Margin_s^{obs}$ and $Margin_s^{CF}$ are those whose Electoral College allocation changes in the counterfactual exercise.

Interpretation. This exercise is intentionally partial equilibrium. It holds fixed Democratic vote totals and adjusts only the Republican vote total by removing the component associated with the reduced-form estimate of local electoral monopsony power. Accordingly, the counterfactual should be interpreted as an illustrative accounting exercise rather than as a general-equilibrium election simulation. Its purpose is to illustrate the aggregate electoral implications of the county-level effects documented in Section 5.4.

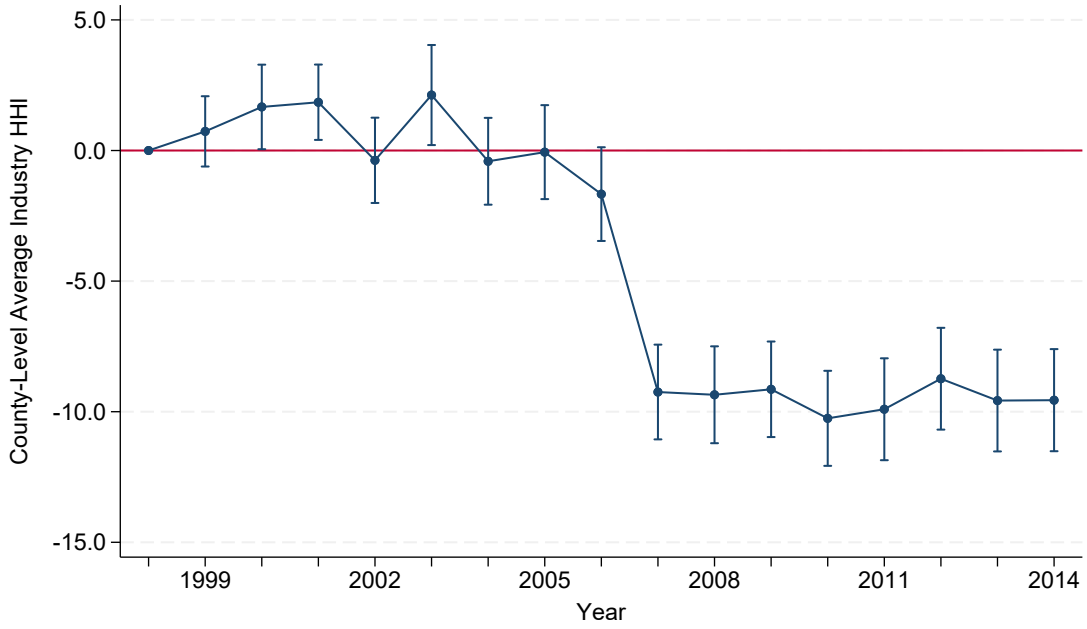
F Internet Appendix Figures and Tables

Figure IA5: Average %Change in Industrial Share



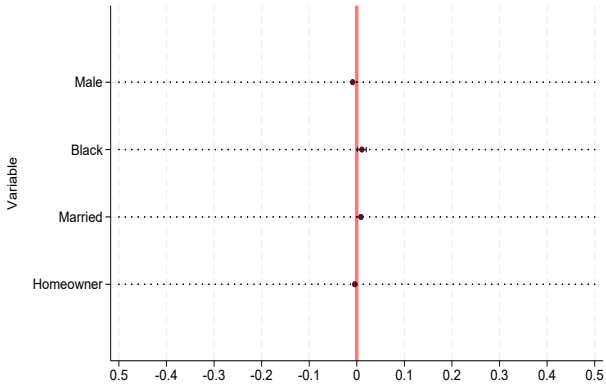
This figure shows trends in the yearly percentage change in average industry employment shares across U.S. counties, computed using County Business Patterns data. The dependent variable is the industry-level annual percentage change in employment share within each county. The plotted coefficients correspond to year fixed effects from a regression of the annual percentage change in industry share on a full set of year indicators, absorbing 2-digit NAICS industry fixed effects. Coefficients are normalized relative to the omitted base year. The figure reports point estimates and 95% confidence intervals clustered by county.

Figure IA6: Trends in Average Industrial Concentration at the Local Level

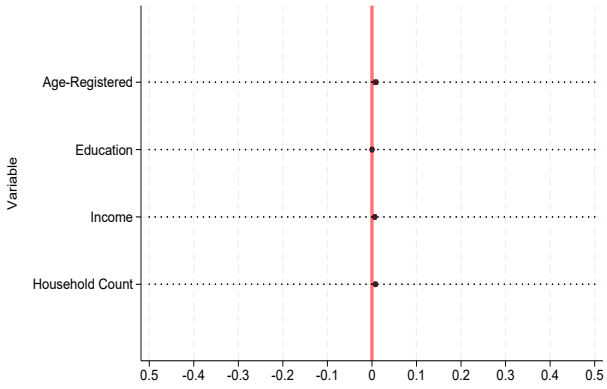


This figure shows trends in industrial concentration across U.S. industries measured using the Herfindahl–Hirschman Index (HHI) computed from County Business Patterns data. The dependent variable is the industry-level HHI. The plotted coefficients correspond to year fixed effects from a regression of HHI on a full set of year indicators, absorbing 2-digit NAICS industry fixed effects. Coefficients are normalized relative to the omitted base year. The figure reports point estimates and 95% confidence intervals clustered by county.

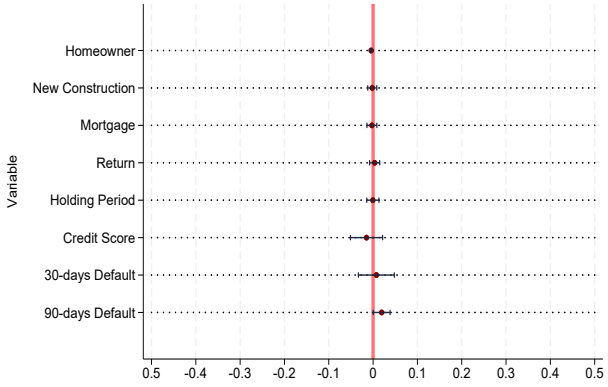
Figure IA7: Balance of Exposure to the Instrument on Pre-Period Individual Characteristics



(a) Dummy Characteristics from Voting Records



(b) Continuous Characteristics from Voting Records



(c) Characteristics from Property & Credit Records

This figure reports balance tests that regress predetermined individual characteristics on the instrument interacted with Republican affiliation. Predetermined individual characteristics in panel (a) are dummy variables, while variables in panels (b)–(c) have been standardized into z-scores. All specifications include census-tract, birth-year, and state–party fixed effects. Credit characteristics also include year-of-credit-report fixed effects. Characteristics "New construction", "Mortgage", "(housing) Return", and "Holding Period" in Panel (c) come from Corelogic, and condition on the individual being a homeowner. Characteristics "Credit Score", "30-days Default", and "90-days Default" come from a subsample of voters in North Carolina with an Experian record, and as such condition on the individual having a credit record. Standard errors are clustered at the county level.

Table IA1: Qualitative Evidence on Employer Political Influence

Category	Representative Responses
(1) Coercion and Job-Related Threats	*"My employer manipulates employees with threat of job loss in order to coax their votes for far-right, extremist Republican candidates."*
	"In a past job, my employer was very vocal about the party they would support and employees should support - especially in regard to the area's congressman and senator - as the "other side" might pass legislation that could results in severe layoffs or even the termination of the business. It was a national tax preparing business."
	"My employers speaks often about layoffs if Trump changes immigration laws."
(2) Organized Political Mobilization	*"Not me but my spouse.....She used to work for a large company that encouraged people to get involved in their internal PAC to try direct the employees how to vote. If you didn't join the PAC, it was silently held against you. Not officially but silently."*
	"Our company is very much into our PAC and many politicians come to our workplace. We have had our CEO make an annoucement about coming to meet local politicans and bring our checkbooks."
	"Our company owner's have hosted fundraisers for political candidates and invited us to attend."
(3) Managerial Persuasion and Communication	*"People on the leadership team often make comments about politicians that they don't like. I am someone who believes that politics should stay out of your work but that's just how I was raised. I believe everyone should be entitled to their opinion and to vote for whoever they want. I just don't think it's right to impose your opinion on your coworkers, especially those that work under you, so it's a power dynamic difference."*
	"Sometimes I feel they want to push us to vote a certain way (which I ignore)."
	"HR once emailed me that because of Obama's policies, healthcare would be significantly more expensive that year."
(4) Linking Firm Outcomes to Electoral Results	*"We've had our company say that they could expand or contract due to tax policies and tariffs."*
	"The political discussions revolve around how the candidates policies effect our business prospects."
	"We have had messages indicating how the outcomes of elections may impact our budgets."

Notes: This table reports examples to an open-ended, optional question ("Would you like to share any experiences you've had with politics in your workplace?") at the end of our survey. Categories (1)–(3) capture direct employer-driven political influence, while category (4) captures how employers link firm outcomes to electoral results.

Table IA2: Survey Summary Statistics

Panel A: Employer political activity and perceived influence (N : 2,083)					
Variable	Mean	SD	Major employer	Other employer	Difference
Any political communication	0.67883	0.467	0.757	0.642	0.116***
Election-related employer discussion	0.35478	0.479	0.440	0.314	0.126***
Employer policy views known	0.35094	0.477	0.386	0.334	0.052**
Employer discussed policy issues	0.39510	0.489	0.479	0.355	0.124***
Employer endorsed candidate	0.39798	0.490	0.404	0.395	0.009
Employer linked elections to layoffs	0.08449	0.278	0.138	0.059	0.078***
Asked for campaign donations/events	0.06481	0.246	0.114	0.042	0.072***
Election-related HR/job discussion	0.14786	0.355	0.219	0.114	0.104***
Employer influenced vote	0.07393	0.262	0.111	0.057	0.054***
Employer politics affected career	0.18915	0.392	0.274	0.149	0.125***
Comfort with workplace politics	-0.25024	0.813	-0.207	-0.271	0.064*
Age	41.74928	10.738	41.795	41.728	0.067
Black	0.11095	0.314	0.124	0.105	0.020
Hispanic	0.07973	0.271	0.082	0.079	0.004
Female	0.41691	0.493	0.407	0.421	-0.014
Democrat	0.44717	0.497	0.440	0.450	-0.010
Republican	0.27378	0.446	0.293	0.264	0.029
Approx. years of education	15.73487	2.298	16.036	15.593	0.443***
Household income	104,231	73,353	109,491	101,741	7,750**

Panel B: Respondent and employer characteristics (N : 2,083)					
Variable	Mean	SD	P25	Median	P75
Age	41.749	10.738	33.000	40.000	49.000
Approx. years of education	15.735	2.298	14.000	16.000	16.000
Major local employer	0.321	0.467	N/A	N/A	N/A
Household income	104,231	73,353	55,000	87,000	135,000

Notes: This table reports summary statistics for the survey sample after excluding respondents with duration below 120 seconds. Panel A reports means for employer political activity and perceived influence variables in the full sample and separately by whether the respondent works for a major local employer. The difference column reports the coefficient from a robust regression of each outcome on the major-local-employer indicator. Panel B reports respondent and employer characteristics. Panel C reports the distribution of categorical controls. *, **, and *** denote significance at the 10%, 5%, and 1% levels.

Table IA3: Summary Statistics – County Characteristics

Variable	Mean	SD	P25	Median	P75
County characteristics (N : 1,702)					
EMP_{2014}, 2014	5.576	4.443	2.966	4.487	6.841
County population, 1999	101,000	328,000	10,977	25,512	69,502
Log county population, 1999	10.285	1.457	9.304	10.147	11.149
Poverty rate, 2000	0.144	0.067	0.097	0.130	0.177
Homeownership rate, 2000	0.733	0.077	0.695	0.747	0.784
Public assistance share, 2000	0.036	0.024	0.023	0.031	0.042
Male unemployment rate, 2000	0.059	0.035	0.039	0.053	0.071
Total unemployment rate, 2000	0.059	0.030	0.039	0.054	0.071
Female unemployment rate, 2000	0.059	0.029	0.039	0.054	0.072
Median household income, 2000	35,122	9,074	29,470	33,435	39,044
Log median household income, 2000	10.437	0.242	10.291	10.417	10.572
Black population share, 2000	0.077	0.139	0.003	0.013	0.077
Average years of education, 2000	12.168	1.002	11.564	12.140	12.698
Births, 1999	1,415	5,189	135	332	879
Deaths, 1999	876	2,409	120	257	638
Infant deaths, 1999	9.578	31.656	1.000	2.000	7.000
Median age, 2000	37.391	4.085	35.200	37.600	39.900

Notes: This table reports summary statistics for county-level characteristics. Columns report the mean, standard deviation, 25th percentile, median, and 75th percentile. Variables measured in 2000 are drawn from the U.S. Census. Variables measured in 1999, including county population, births, deaths, and infant deaths, are drawn from NHGIS. EMP_{2014} is computed from using County Business Patterns data using Eqn. (15) and standardized as a z-score.

Table IA4: Summary Statistics: Main Empirical Sample

Variable	Mean	SD
N : 80, 187, 990		
Voted	0.412	0.310
Republican	0.428	0.495
Democrat	0.572	0.495
Political donor	0.020	0.138
Black	0.110	0.313
White / European	0.625	0.484
Hispanic	0.124	0.329
Male	0.456	0.498
Age in 2020	52.227	18.723
Birth year	1967.773	18.723
Registration year	2002.777	12.713
Registered in or after 2015	0.222	0.416
Age at registration	34.873	14.880
Education	2.011	1.820
Household income class	6.984	2.785

Notes: This table reports summary statistics for the main individual-level voting-record sample built from the updated compact employment-share preamble. Columns report the mean and standard deviation. The sample is restricted to Democratic or Republican voters in counties with party-no-change information and to voters with no party change.

Table IA5: Electoral Monopsony Power, Firm Size, and Tradability on Voters' Electoral Engagement

	OLS	IV	IV
	(1)	(2)	(3)
Panel A: Horse Race Between Electoral Monopsony Power and Firm Size			
EMP × Republican	0.0149***	0.0281***	0.0176***
	(0.0023)	(0.0064)	(0.0065)
Republican × Large-Firm Percentage	-0.1212***	-0.0214	-0.0796*
	(0.0306)	(0.0562)	(0.0434)
Republican	0.0261***	0.0156***	
	(0.0038)	(0.0059)	
Panel B: Robustness to Local Levels of Tradability			
EMP × Republican	0.0183***	0.0289***	0.0210***
	(0.0022)	(0.0043)	(0.0048)
Tradable Share × Republican	0.0087	-0.0362	-0.0743
	(0.0790)	(0.0819)	(0.0653)
Republican	0.0123***	0.0148***	
	(0.0039)	(0.0043)	
N. obs.	80,187,990	80,187,990	80,187,990
N. Clusters	1,697	1,697	1,697
Tract FE	Yes	Yes	Yes
Age FE	Yes	Yes	Yes
State × Republican FE	No	No	Yes
Age × Republican FE	No	No	Yes

Note: This table reports OLS and IV estimates of the effect of electoral monopsony power on voting participation, as measured by voting percentage. Panel A controls for the county employment share in firms with 500 or more employees interacted with Republican affiliation. Panel B controls for the county employment-weighted tradable-industry share interacted with Republican affiliation. The main interaction term EMP × Republican captures heterogeneous effects by party affiliation. All specifications include tract and age fixed effects. Column (3) additionally includes party-state and party-age fixed effects. IV specifications use the leave-one-out shift-share instrument interacted with Republican affiliation. Standard errors are clustered at the county level. *** 1%, ** 5%, * 10% significance level.

Table IA6: Electoral Monopsony Power on Voters' Voting Percentage: Robustness to Inclusion of Additional Controls

Panel A: Republican × County-level Economic Controls					
County Control$_{pre}$:	Poverty Rate$_{pre}$ × $Rep.$	Percentage Rural$_{pre}$ × $Rep.$	Public Assistance$_{pre}$ × $Rep.$	Unemployment$_{pre}$ × $Rep.$	Median Income$_{pre}$ × $Rep.$
	(1)	(2)	(3)	(4)	(5)
EMP × Republican	0.0216***	0.0242	0.0206***	0.0211***	0.0227***
	(0.0047)	(0.0180)	(0.0046)	(0.0047)	(0.0058)
Panel B: Republican × County-level Demographic Controls					
County Control$_{pre}$:	Percentage Black$_{pre}$ × $Rep.$	Average Education$_{pre}$ × $Rep.$	Birth Rate$_{pre}$ × $Rep.$	Death Rate$_{pre}$ × $Rep.$	Median Age$_{pre}$ × $Rep.$
	(6)	(7)	(8)	(9)	(10)
EMP × Republican	0.0140***	0.0200***	0.0212***	0.0208***	0.0224***
	(0.0048)	(0.0060)	(0.0050)	(0.0051)	(0.0056)
N. obs.	80,187,990	80,187,990	80,187,990	80,187,990	80,187,990
N. Clusters	1,697	1,697	1,697	1,697	1,697
Tract FE	Yes	Yes	Yes	Yes	Yes
Age FE	Yes	Yes	Yes	Yes	Yes
State × Republican FE	Yes	Yes	Yes	Yes	Yes
Age × Republican FE	Yes	Yes	Yes	Yes	Yes

Note: This table reports IV estimates of the effect of electoral monopsony power on voting participation, as measured by voting percentage, after controlling for pre-period county characteristics interacted with individual political affiliation. Panel A assesses robustness to the inclusion of additional county-level economic controls, measured prior to the sample period and interacted with Republican affiliation. Specifically, each column adds one county-level pre-period control – poverty rate, rural share, public assistance participation, unemployment rate, or median household income – interacted with Republican affiliation. Panel B assesses robustness to the inclusion of additional county-level demographic controls, also measured prior to the sample period and interacted with Republican affiliation. The controls include the percentage of Black residents, average educational attainment, birth rate, death rate, and median age. The endogenous regressor is EMP × Republican and the excluded instrument is the leave-one-out shift-share instrument interacted with Republican affiliation. All specifications include tract and age fixed effects, as well as interactions between Republican affiliation and state and age. Standard errors are clustered at the county level. *** 1%, ** 5%, * 10% significance level.

Table IA7: Electoral Monopsony Power on Voter Turnout: Robustness to Excluding High-Rotemberg-Weight Industries

Excluded Industry:	Manufacturing	Health Care & Social Assistant	Transportation & Warehousing	Accommodation & Food Services	Agriculture Forestry, Fishing & Hunting
	(1)	(2)	(3)	(4)	(5)
EMP × Republican	0.0163**	0.0208***	0.0212***	0.0215***	0.0218***
	(0.0068)	(0.0044)	(0.0054)	(0.0049)	(0.0053)
N. obs.	80,187,990	80,187,990	80,187,990	80,187,990	80,187,990
N. Clusters	1,697	1,697	1,697	1,697	1,697
Tract FE	Yes	Yes	Yes	Yes	Yes
Age FE	Yes	Yes	Yes	Yes	Yes
State × Republican FE	Yes	Yes	Yes	Yes	Yes
Age × Republican FE	Yes	Yes	Yes	Yes	Yes
Rotemberg weight	0.596	0.217	0.126	0.082	0.022
Industry share	11.444	6.485	2.238	5.910	1.036

Note: This table reports IV estimates of the effect of electoral monopsony power on voter turnout. The dependent variable is voting percentage. Each column reports estimates from a specification that excludes one high-Rotemberg-weight industry from the construction of the shift-share instrument. The excluded industry in each column is indicated in the header row labeled "Excluded Industry," with its associated Rotemberg weight reported at the bottom of the table. Rotemberg weights are computed following Goldsmith-Pinkham et al. (2020). Leave-one-industry-out estimates assess the sensitivity of the estimates to excluding industries contributing most strongly to identification. Positive Rotemberg weights sum to 1.102 and negative weights sum to −0.102. All specifications include tract and age fixed effects, as well as interactions between Republican affiliation and state and age. Standard errors are clustered at the county level. *** 1%, ** 5%, * 10% significance level.