How do firms gain political influence? By limiting costly regulation and granting government contracts and favorable court decisions, political influence provides substantial benefits to politically connected firms. However, political connections may be disrupted. When a new politician comes to power, he may bring with him a new set of political connections. This change prompts firms to alter their ownership to accord with political influence. Whether the ownership change is voluntary or coerced, we should see the same empirical pattern: Political turnover should increase turnover in firm ownership. This pattern should be more pronounced in countries with weaker property rights, as policy change is more volatile and firms lack recourse through courts. International data on publicly-traded firms is consistent with the theory.

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