Public-Private Partnerships?  
The Sociopolitical Connections between Business and Government

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Introducing the Transnational Political Connections Project

- Long-run project; presenting the idea and partial research design today.

- Quick note on how important institutional research support is:
  - Funded by IUB Ostrom Workshop grant ($10k).
  - Funded by IUB Tobias Center RA funding ($10k).
  - Funded by IUB Social Science Research Funding Program ($36k).

- These funds were used for a proof-of-concept pilot study, which led to a successful NSF application ($450k).

- Now beginning the 3-year NSF funding term (we’ve already been working on it for about that long).

- Majority of the funds will be used to hire grad RAs to code the explicit connections between politicians and private businesses.

- Today’s goal: get feedback on the project at an early-enough stage that we can implement it at the beginning.
The Roadmap (c. 2018)

1. Currently working with grad/undergrad RAs to develop proof-of-concept on a subset of the data (i.e. Europe).
2. Easily win lots of grants (internal in Spring 2019; NSF and others later in the year).
3. Profit!
Motivating the Transnational Political Connections Dataset

• Why do we need another dataset?
  • To map business’ direct political connections.
  • Create data on interpersonal networks both within and across countries.

• Why this dataset?
  • Because we can do it systematically, and its potential utility is large.
  • Goal: every important politician, in every country, matched to every business, in all formal sectors, from 2010-2020.
Motivating the Transnational Political Connections Dataset

- How does this dataset relate to existing theory, empirics, and questions?
  - Allows tracing of (and variations in) manifestations of the political power of business beyond the implicit forms: revolving doors, campaign contributions, lobbying, etc.
  - Also goes beyond Lindblomian structural power.
  - Promises opportunities at multiple “levels” of analysis.
  - Systematic evaluation of many claims (in critical political economy, public choice, & also mainline political economy) regarding the business-politics nexus and its impact on corruption (real and perceived), industry consolidation, rise of superstar firms, rising inequality, declining labor share, etc.
What is a business?
- A firm included in the Orbis database.
  - Orbis is a proprietary database of over 360mn corporations around the world.
  - Privately-held and publicly-listed (unlike CompuStat).
  - Includes balance-sheet information;
  - Major shareholders, managers, and boards;
  - Economic sector, firm size, reporting authority;
  - Ultimate owners (useful for complex multinational structures).
Conceptualization and Measurement

- **What is a political connection?**
  - When a firm manager, board member, or large shareholder (> 10%) is:
    - A member of parliament/legislature.
    - A cabinet minister.
    - A designated “politically-exposed person”: someone who might be a target of bribery/corruption, e.g. judges, military officials, etc.
    - A known close friend/family member of an MP, cabinet official, head of state/government?
    - Known for being closely connected with a major political party?

- **What is a transnational political connection?**
  - When a firm has a connection to a politician in power outside the jurisdiction in which the firm is registered and operates.
    - E.g., a French parliamentarian serving on the board of a German corporation.
Methodology follows from, and extends Faccio (2006).

She finds (in a series of highly-cited articles) that politically-connected firms:

- Have higher profitability;
- Have higher leverage;
- Are more likely to be bailed out by government;
- Have lower-quality earnings reporting (less market discipline);
- Are more prevalent in higher-corruption societies;
- Are more prevalent when barriers to foreign investment are higher.

We have a lot more data on businesses than she had, so we can match to more politicians in more countries for more years.

Do our data look similar to hers? No (see below).
Dataset Construction and Utility

- Goal is to substantially expand, across firm-type, countries, and time.
- Algorithmic coding process, implemented in Python.
- Firm/person-level:
  - Organized by country official, matched into Orbis data.
    - First by politician (e.g. MP, cabinet minister, PEP) only. Then by extended connections?
    - Linked to balance sheet data.
    - Ability to examine both national/transnational.
  - Analyze firm profitability, market share.
  - Analyze politician success.
- Country-level:
  - Aggregated: % of economy (market cap, assets, output, industry) with political connections. Delineated by sector? Location of ultimate ownership.
  - Link to national-level outcomes: industry consolidation, competition, labor share of income, inequality, regulation, corruption, policy bias.
- System-level:
  - Transnational network of business-politics ties, links to global economic flows.
Percentage of MPs and Ministers With a Business Connection

More connections in 2018 due to rent-seeking trends and/or better data.

Corruption Perceptions and Business-Government Connections, 2000

\[ \beta = -0.014 \]

\[ R^2 = 0.01 \]
Corruption Perceptions and Business-Government Connections, 2018

\[ \beta = 0.46^{**} \]

\[ R^2 = 0.18 \]
Potential Concerns

- Family Connections:
  - How far to go down the family tree?

- Temporal Considerations:
  - Do politicians temporarily divest/shield?
  - Do holdings grow/shrink over tenure in office?
  - Access to historical Orbis data?

- Unobservables:
  - Match to offshore tax havens, when observed?
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