

Public-Private Partnerships?

The Sociopolitical Connections between Business and Government

Sarah Bauerle Danzman¹ & William Kindred Winecoff²

*Ostrom Workshop Research Colloquium, Indiana University Bloomington
September 21, 2020*

¹ Hamilton-Lugar School of Global and International Studies, Indiana University Bloomington

² Department of Political Science, Indiana University Bloomington.

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.

Conceptualization and Measurement

- 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.

Dataset Construction and Dissemination

- 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).

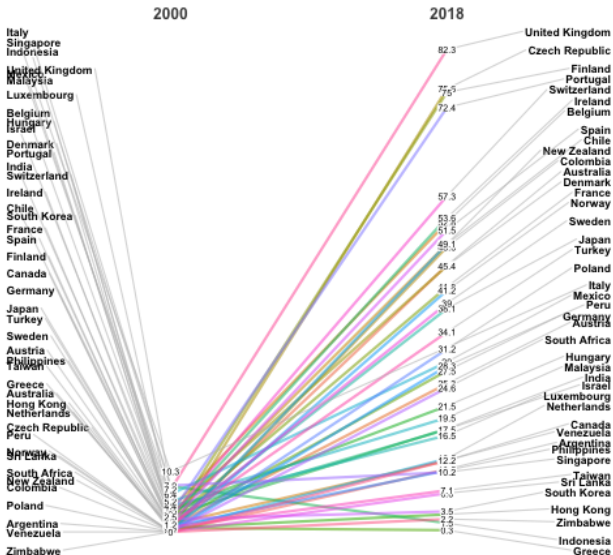
Dataset Construction and Utility

- 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.

Faccio vs TPCP, i

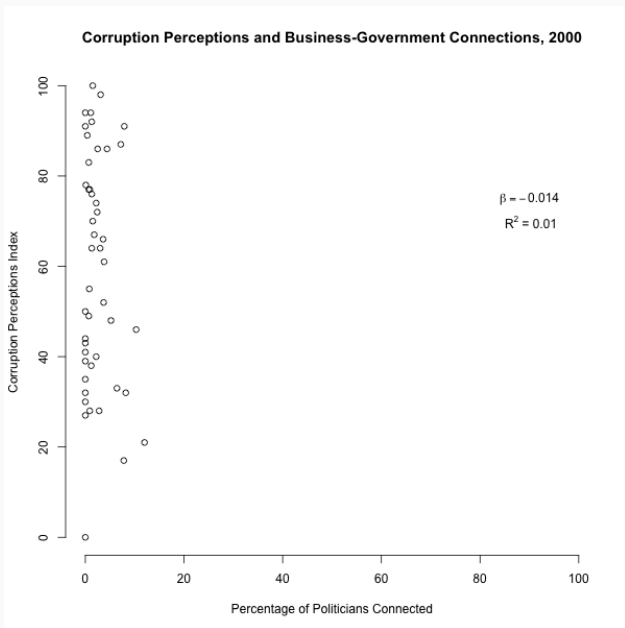
Percentage of MPs and Ministers With a Business Connection

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

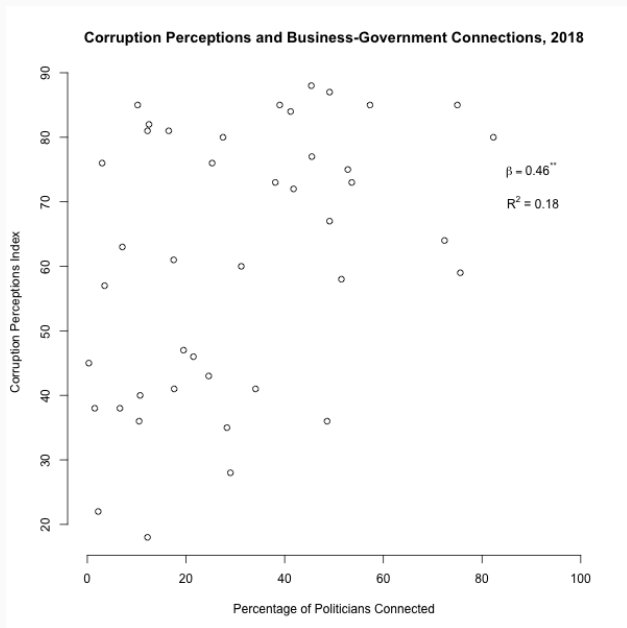


2000 data taken from Faccio (2006); 2018 data collected in the Transnational Business-Government Connections Project

Faccio vs TPCP, ii



Faccio vs TPCP, iii



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?

Public-Private Partnerships?

The Sociopolitical Connections between Business and Government

Sarah Bauerle Danzman¹ & William Kindred Winecoff²

*Ostrom Workshop Research Colloquium, Indiana University Bloomington
September 21, 2020*

¹ Hamilton-Lugar School of Global and International Studies, Indiana University Bloomington

² Department of Political Science, Indiana University Bloomington.