Political Ideology and International Capital Allocation

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In a nutshell

- US investors' ideological alignment with foreign governments shape capital allocation
  - Syndicated corporate loans
  - Equity mutual funds

- Likely driven by investors' beliefs about the economy in the destination country

- Highly recommended paper!
  - Very interesting question
  - Novel and robust findings

My discussion

1. Variation exploited

2. Measurement: foreign governments' ideology

3. Timing of the effect

4. Other questions

Radical parties don’t drive variation!

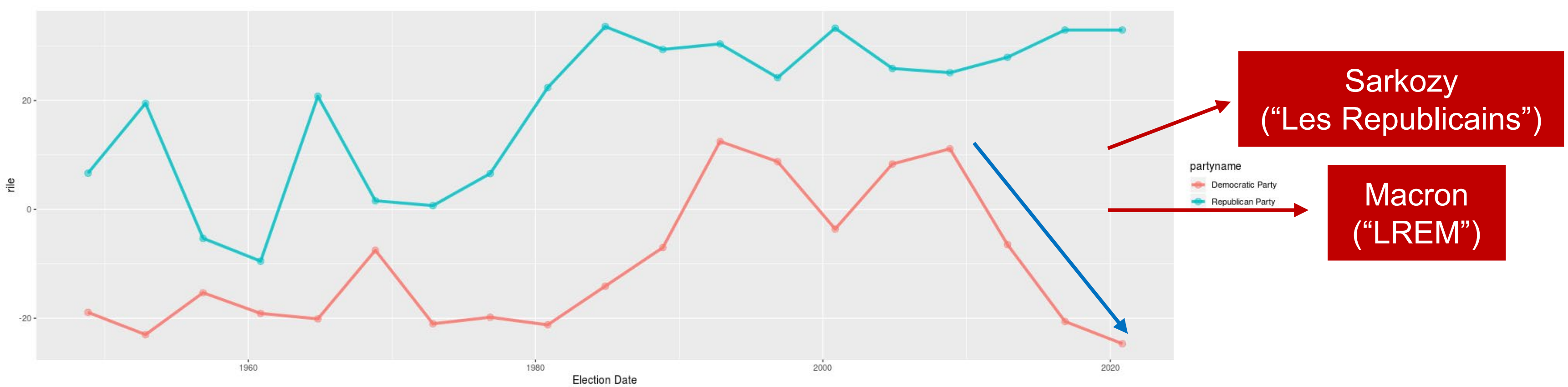
- Elections generating variation in *Distance Increase* are when Rep experience an increase in ideological distance and Dem a decrease, or vice versa

- The (source of) belief disagreement should even be stronger if extreme parties are in power → but highlighted mechanism behind *Distance Increase is* for “centrist/traditional” parties only. Why?

Why don’t radical parties drive variation? (1/2)

- Is it due to features of your empirical setting?

- Rep party is comparatively quite right-wing (ideology score is 0.95; sample median is -0.32; p75 is 0.17)



- Drop in left-right positioning of the Dem party since 2008

Bulgaria	12-May-2013	Rep	Citizens for European Development of Bulgaria (-0.04)	Citizens for European Development of Bulgaria (0.02)
Bulgaria	05-Oct-2014	Rep	Citizens for European Development of Bulgaria (-0.05)	Citizens for European Development of Bulgaria (-0.04)
Bulgaria	26-Mar-2017	Dem	Citizens for European Development of Bulgaria (0.37)	Citizens for European Development of Bulgaria (-0.05)

Why don't radical parties drive variation? (2/2)

- Or, is it really the small ideological deviations that matter the most?
  - If so, this remains puzzling and a more compelling explanation should be provided

- Some suggestions:
  - Look at the symmetry of the effect between Dem and Rep
  - Keep the left-right positioning of Dem and Rep fixed (or predetermined)
  - Presidential effect: is US investors' ideology more important when their ideology aligned with the one of the president?
  - Conduct placebo tests for the "no variation" cases

Proxying for the government party

- Key assumption: *“we use the party with the highest vote share as a proxy for the government party.”* (p. 7)

Di Rupo (PS) government

New Flemish alliance (“N-VA”)

Government formed after 541 days

Country Name	Election Date	Distance Increase	Winning Party (Ideology)	Previous Winning Party (Ideology)
(1)	(2)	(3)	(4)	(5)
Armenia	25-May-2003	Dem	Republican Party of Armenia (1.21)	Unity (-0.03)
Armenia	12-May-2007	Rep	Republican Party of Armenia (0.10)	Republican Party of Armenia (1.21)
Australia				
Australia				
Austria				
Belgium				
Belgium				
Belgium				
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Denmark				
Finland				
France				
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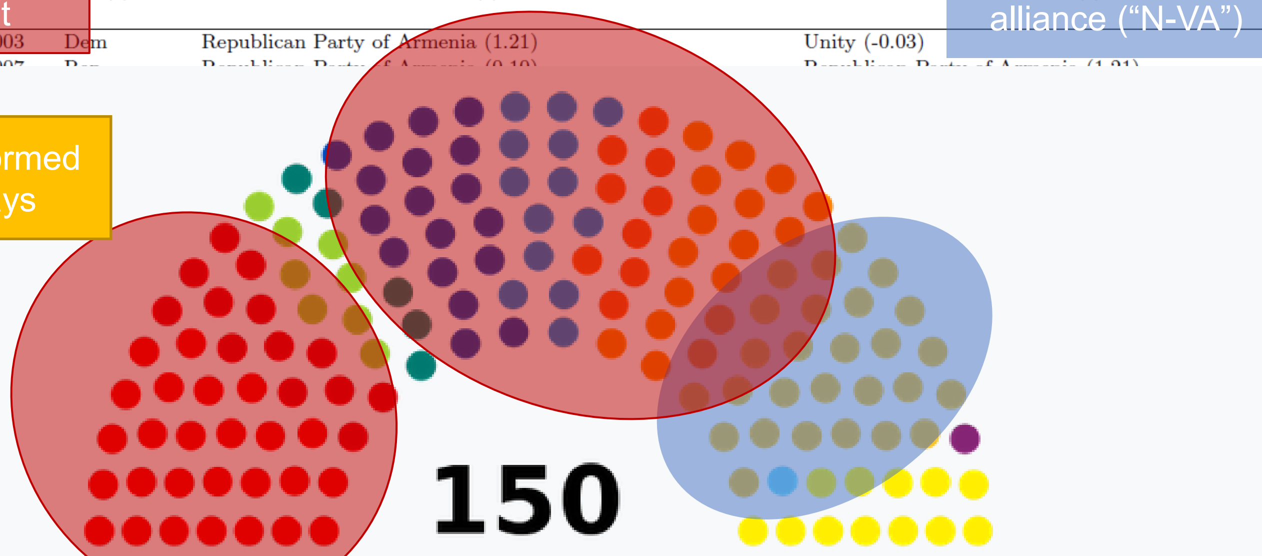
Georgia				
Germany	22-Sep-2002	Dem	Social Democratic Party of Germany (0.16)	Social Democratic Party of Germany (-0.06)
Germany	18-Sep-2005	Dem	Christian Democratic Union/Christian Social Union (1.09)	Social Democratic Party of Germany (0.16)
Germany	27-Sep-2009	Rep	Christian Democratic Union/Christian Social Union (0.37)	Christian Democratic Union/Christian Social Union (1.09)



Party	Votes	%	+/–	Seats	+/–
New Flemish Alliance	1,135,617	17.40	N/A	27	+22

Winning party vs government

- Is Belgium noise (very specific case)?
  - Surely ☺
  - But a quick check in Table IA.4 reveals that this remark applies to many other countries: Germany, New Zealand, etc.

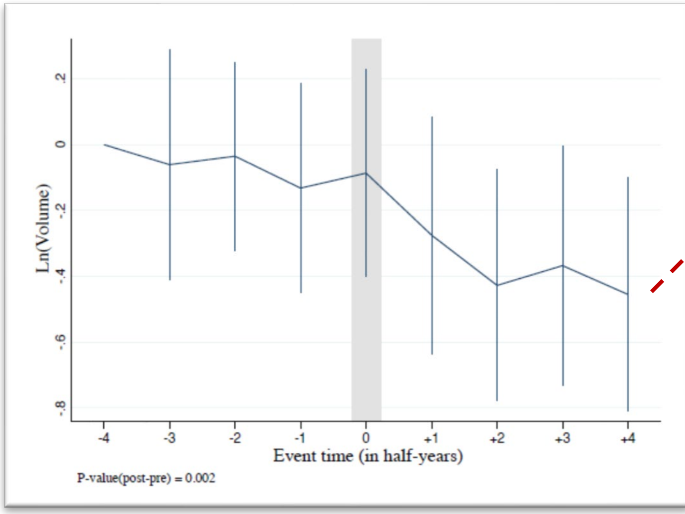
- Thus, government party doesn't seem to matter (cf. Table 6)…

- … but prime minister matters (Table 6) and also the "true" winning party (all other Tables)!

- Suggestion I: Be cautious when (incorrectly) saying *"ideological alignment with <u>foreign governments</u>"*

- Suggestion II: Add evidence that this is the winning party that matters (not the government)
  - Use DPI database to identify governing parties (to maximize sample size relative to Table 6) and then match with Manifesto Project database
  - Explore cross-sectional heterogeneity: parliamentary vs presidential systems; fragmented vs non-fragmented political regimes; etc.
  - Salience: is the effect more pronounced for large economies?

Does ideological alignment matter after all?



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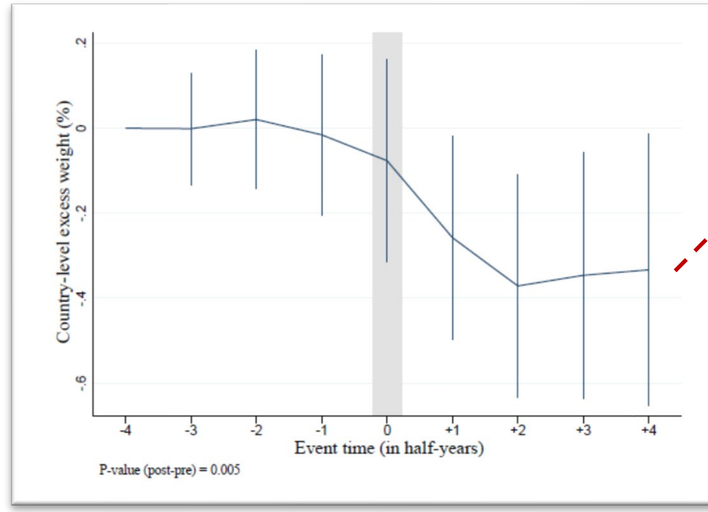

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- What happen when investors learn about the true state of the economy (i.e. when their beliefs are confirmed or infirmed)?

- Do they adjust consequently (over time) their investment strategy?
  - Interesting to further explore the dynamics

Other questions

1. To what extent your results on forecast are driven by both terms of Bush vs Obama? Blinder and Whatson (2016 AER) show that the US economy performs systematically better when the president is a Democrat and this stems from more optimistic expectations about the near-term future

2. What does relationship banking even mean in the context of multinational banks?

3. Ideological alignment on both economic and moral issues play role. Interesting. But what does that suggest? Why does it help to understand the mechanism? According to the belief-alignment story, should only economic issues not matter?

4. To what extent banks' PAC contributions relate to investors' ideology? Can you document that? Can you look instead at party registration of loan officers (cf. work by Janet Gao)?

5. Why don't you also look at inflation forecasts? It matters significantly in your "investment" context

Conclusion

- Takeaway: *ideology matters in models of global capital allocation*

- Super interesting paper

- Suggestions:
  - Further explore types of changes in ideological distance
  - Clarify what you capture in terms of foreign ideology
  - Investigate the dynamics (effects after 3, 4, 5 years)

- Looking forward to read soon the paper in its published version ☺

- Good luck!