The Economic Effects of Political Polarization: Evidence from the Real Asset Market

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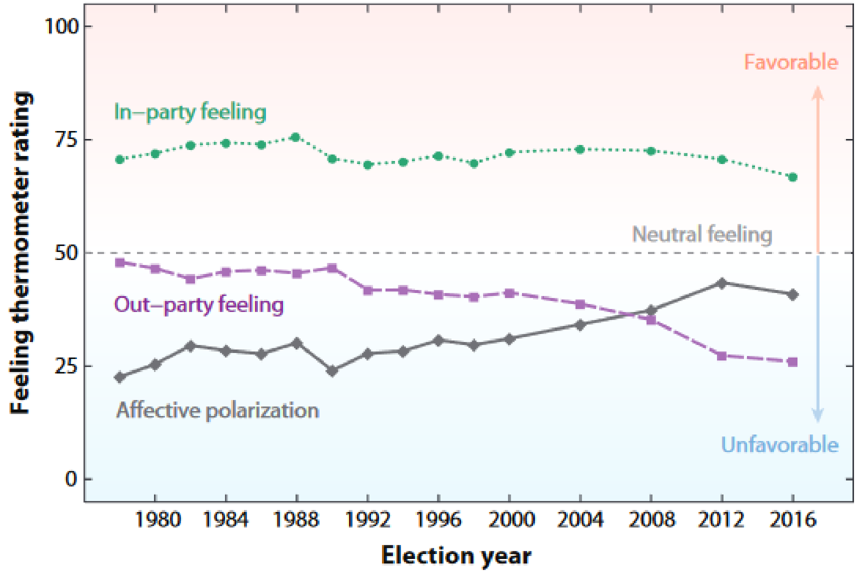
Political Polarization

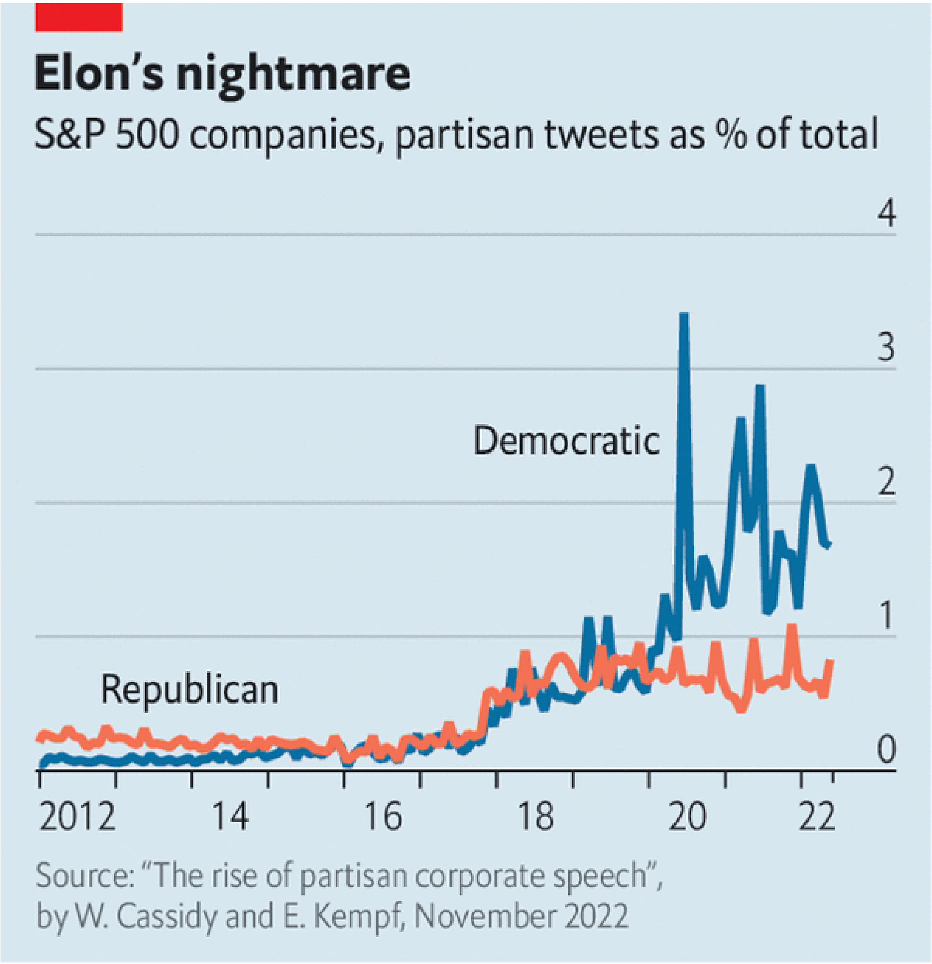
- Political polarization has been rising over the last 40 years in the US (Canen, Kendall and Trebbi 2020)

- Stark evidence of partisan sorting emerges more consistently in other dimensions – particularly in the *affective* polarization of citizens



Source: Iyengar et al. (2019)

The rise of political polarization of firms



The Economist

What this paper does

- Examines partisanship of both acquirers and targets over time
- Classifies firm partisanship by individual contributions of employees
- Finds that from 1979-2019
  - Mergers between politically different firms decline over the period
  - Political similarity across firms positively predict deal announcements
  - Anticipated integration problems likely explain why political divergence drives deal likelihood
  - Politically divergent deals generate lower announcement returns
- Concludes that affective polarization has real economic consequences

Contribution

- One of few papers on the real effects of polarization/partisanship
  - Fos, Kempf and Tsoutsoura (2022 WP) and Cassidy and Kempf (2023 WP): political polarization of firms negatively impacts value
  - Atanassov, Julio and Leng (2023 WP): state legislative polarization affects corporate investment
  - Azzimonti (2018 JME): partisan conflict is associated with lower capital investment rates at the firm level
  - Babenko, Fedaseyeu and Zhang (2022 RFS): implications of the relation between CEO and employee campaign contributions on firm value and employees' labor market outcomes

- Finding of importance of political polarization for M&A is novel

Suggestion 1: partisanship is endogenous

- Firms strategically allocate donations (tons of evidence)

- Even individuals, for which partisanship is highly persistent, political scientists have long appreciated its endogeneity
  - E.g. Page and Jones (1979) and Gerber, Huber and Washington (2010)

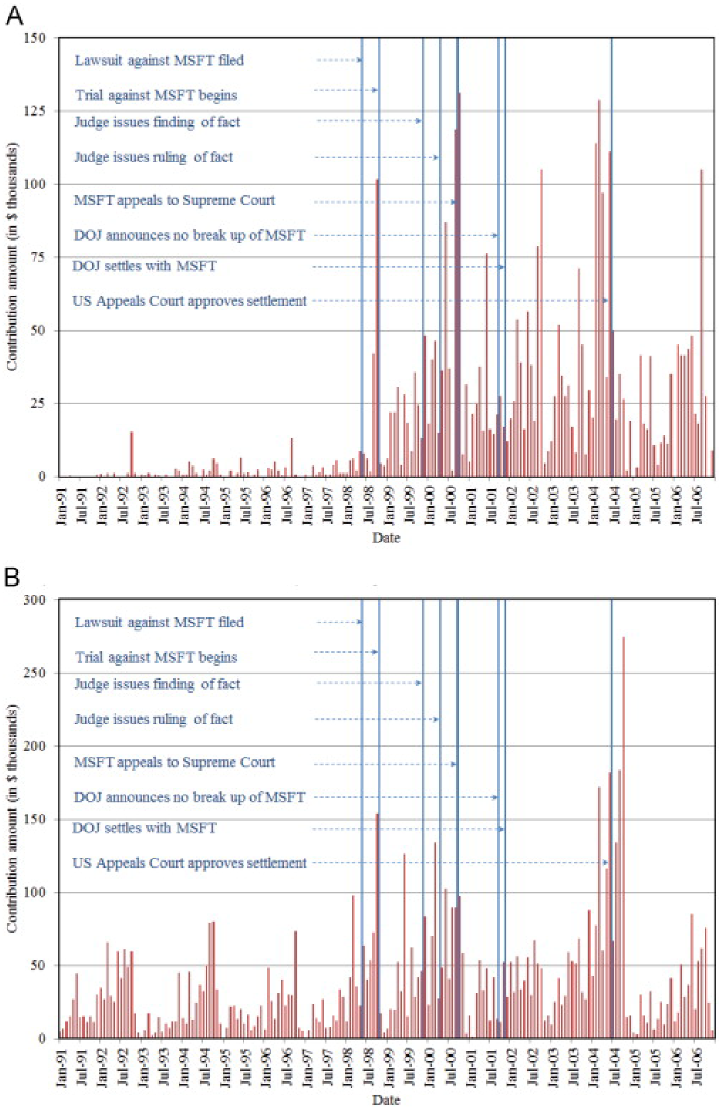
- Instrument or at least acknowledge

Microsoft's antitrust litigation with the DoJ

- Visibly disproportionate political participation from individuals residing close to Microsoft during the firm's antitrust trial

- Ovtchinnikov and Pantaleoni (2012 JFE): individuals contribute to politicians who become more economically relevant as a result of a merger

- Vansteenkiste (2023): use of charitable giving to build local stakeholder support around merger decisions



Source: Ovtchinnikov and Pantaleoni (2012)

Suggestion 2: polarization measurement

- Campaign contributions, unlike individual votes, have the advantage of being publicly observable

- Focus on employees' contributions may suffer from data scarcity
  - E.g. same size firm may have very different number of employees contributing
  - Note clear what are the choices made for firm inclusion in the sample (minimum threshold applied?)
  - Show more statistics about employees' contributions

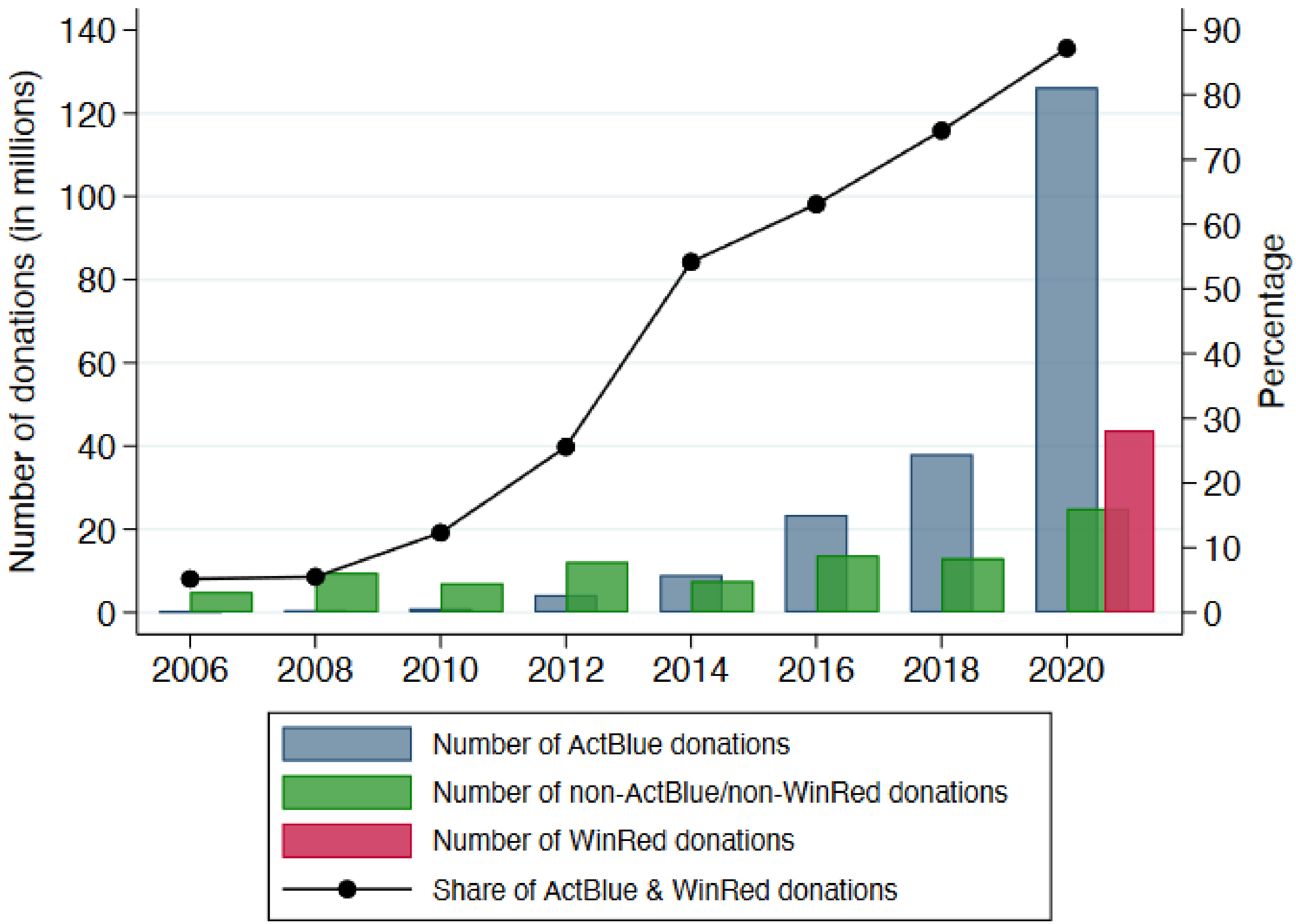
- Emergence of the crowdfunding platforms ActBlue & WinRed
  - Small campaign donors (donors who do not give more than $200) now account for a significant share of total individual contributions (Bouton, Caje, Dewitte and Pons 2023 NBER WP)
  - Not clear whether small contributions are included or not, but in both cases it may affect your results significantly (especially as they are driven by the post-2010 period, i.e., when ActBlue and WinRed emerge but also Citizens United vs FEC)

The rise of individual campaign contributions

Election cycle	No. of individuals	Total amount ($ M)
1992	894,819	711.00
1994	843,601	577.48
1996	1,239,586	1,053.13
1998	1,017,883	818.53
2000	1,717,011	1,683.68
2002	1,451,373	1,505.96
2004	2,535,661	2,180.16
2006	1,866,545	1,637.80
2008	3,636,060	3,222.43
2010	2,147,290	1,963.85
2012	3,838,820	4,755.50
2014	2,264,840	2,670.22
2016	17,786,563	6,540.15
2018	16,507,682	5,647.00
2020	80,409,784	13,010.10

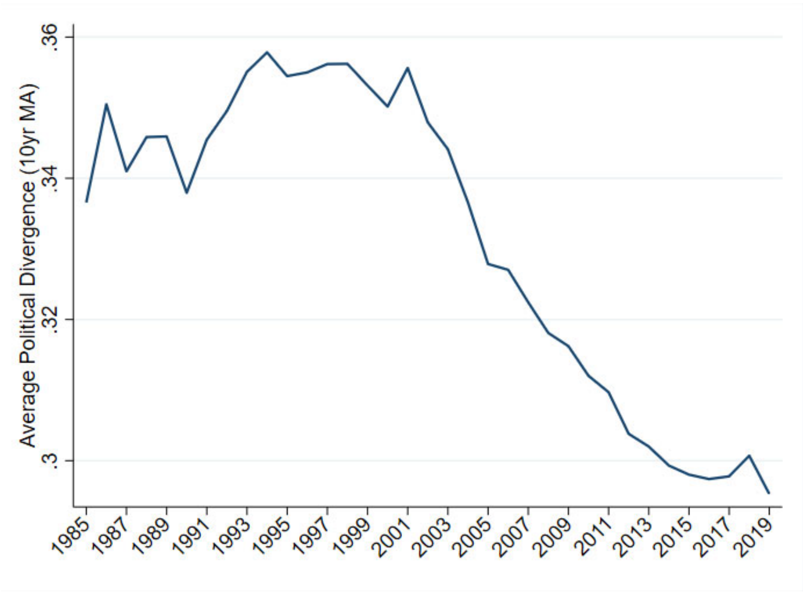
Source: Lambert and Zhang own data collection (from FEC)

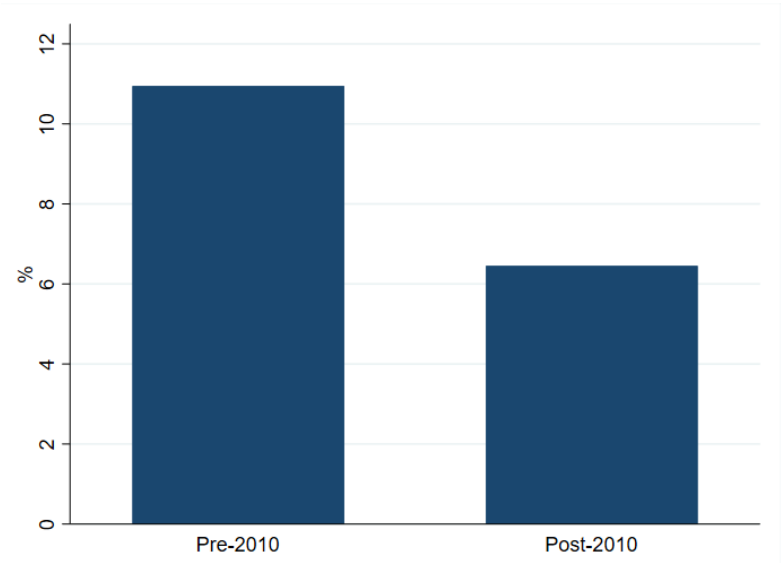
The rise of small donors



Source: Bouton, Caje, Dewitte and Pons (2023)

Do the results hold before 2010?





Suggestion 3: consequences for targets?

- Combined firms may converge politically due to workforce restructuring (firms may have a political agenda)
  - Also explore the political divergence of top management vs rank-and-file employees
  - Examine workforce political leaning of the combined firms in the years following the acquisitions
  - Explore industry variation? The effect may be starker in some industries (e.g. media)

French Sunday newspaper on strike over hiring of rightwing editor

Critics fear impending Bolloré takeover will see Journal du Dimanche focus on identity politics and culture war

Vincent Bolloré has put his ideological mark on outlets he controls © AFP/Getty Images

Adrienne Klasa and **Leila Abboud** in Paris JUNE 25 2023

Le Journal du Dimanche

French newspaper faces mass departures over appointment of rightwing editor

Journal du Dimanche staff had protested at arrival of Geoffroy Lejeune ahead of impending takeover by billionaire Vincent Bolloré

Sarah White in London AUGUST 1 2023

My take

- Paper documents the importance of rising political polarization for M&A at the deal and aggregate levels

- Fascinating and timely topic

- Highly recommended paper

- My suggestions:
  1. Instrument partisanship/polarization
  2. Improve transparency of some choices made about contribution data and investigate impact on results (especially post 2010)
  3. Further explore post-acquisition consequences for targets

- Good luck!