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Political Ownership

Timm Betz
Amy Pond

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Timm Betz* Amy Pond†

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Abstract

Political connections provide substantial benefits to firms. We emphasize the ownership of firms as an important channel through which political connections operate, and identify a resulting link between turnover in the political leadership and turnover in the ownership of firms: Political turnover prompts newly politically connected individuals to take, and disconnected individuals to cede, ownership of firms. This pattern should be more pronounced among firms with more immobile assets, because these are more vulnerable to government policy and have more to gain from political connections. Moreover, firms that experience changes to ownership, caused by political turnover, should pay less taxes. Analyses of firm-level data on the owners of companies in 68 middle-income countries are consistent with the theory.

Keywords: firm ownership; political turnover; political connections; political risk; policy uncertainty; corruption

JEL codes: P14, P16, P26, P48, H1, H13

*Assistant Professor, TUM School of Governance and Hochschule für Politik, Technical University of Munich. Email: timm.betz@tum.de.

†Assistant Professor, Texas A&M University. Email: apond@tamu.edu.

How does political turnover affect the economy? A large political economy literature highlights the connections between political and economic markets. Political turnover, through its competitive effects, encourages policy innovation and is a basic condition for political accountability (Dahl, 1967).[1] Electoral competition ensures that policy failures are pointed out by the opposition and addressed by the incumbent or by a successor (Becker, 1983; Wittman, 1989; Baba, 1997; Kono, 2006).

Yet, political turnover also results in policy change and, in the run-up to such changes, increased policy uncertainty (Bloom, 2009; Arezki and Fetzer, 2019). Governments have substantial policy-making powers and can enact preferential policies that reward supporters or punish opponents. Policy changes connected to political turnover can be costly to firms, especially those with connections to the prior leader (Fisman, 2001; Earle and Gehlbach, 2015), but political turnover also opens up opportunities to privilege new firms. To gain influence in such contests and to thwart costly policies, firms often lobby policymakers (Grossman and Helpman, 1994; Cooper, Gulen and Ovtchinnikov, 2010). Alternatively, those with more mobile assets may gain influence by threatening to exit or to abstain from investment if their preferred policies are not implemented (Bates and Lien, 1985; Przeworski and Wallerstein, 1988; Boix, 2003). Multinational firms may gain influence through relationships with local firms (Henisz, 2000; Johns and Wellhausen, 2016), and local firms may seek ties to foreign firms that enjoy privileged treatment (Markus, 2015; Betz and Pond, 2019).

In this paper, we explore a related consequence of political turnover. We argue that political turnover is likely to lead to changes to firm ownership. We begin with two observations. First, firm owners with political connections frequently earn elevated profits on the same assets relative to firm owners that lack political connections (Krueger, 1974; Faccio, 2006; Szakonyi, 2018). Second, political turnover leads to a shift in political connections and

[1]For example, many measures of democracy emphasize the presence of political turnover through free and fair elections (Cheibub, Gandhi and Vreeland, 2010; Boix, Miller and Rosato, 2013; Marshall, Jaggers and Gurr, 2017).

political support coalitions (Albertus and Menaldo, 2012; Leeds, Mattes and Vogel, 2009; Mattes, Leeds and Matsumura, 2016). For instance, the new leader may come from a different region or ethnic group or may have a different education or professional background (Chwieroth, 2007; Dreher et al., 2009; Earle and Gehlbach, 2015; Horowitz and Fuhrmann, 2018). When influence stems from political connections, the economic fate of firms and the political fate of their patrons are often closely tied together.

We identify the ownership of firms as an important channel through which political connections operate, and point to changes in the ownership of firms as a distributional consequence of political turnover. Because political connections and thus some of the policy consequences of political turnover are specific to owners, a firm's value is specific to owners as well: the value of a firm for an owner with political connections is higher than for an owner lacking connections. Owners that lost political connections are willing to sell their assets at a lower price than before, and owners that gained political connections are willing to purchase assets at a higher price than before. Political turnover thus creates an environment in which the ownership of firms is likely to be transferred across individuals.

The benefits of these transfers are frequently tilted toward the politically connected. Several authors document politically connected takeovers in Eastern Europe (Markus and Charnysh, 2017; Gray, Kelemen and Teo, 2019). These takeovers often follow a similar pattern. A politically connected individual or "raider" claims that firm owners committed a crime – for instance alleging fraud or tax evasion in a sympathetic court. This causes the firm's value to drop. The firm can then be purchased for a fraction of its former value, regardless of the outcome of the court case. Because the raider has political connections, court proceedings are likely to reinforce his legal claims (Markus, 2015, 58-64). This process is simpler if the government is willing to reassign ownership directly. For example, after Viktor Yushchenko was elected President of Ukraine in 2005, the government nationalized a few firms and sold them to new owners in a process called "reprivatization". The firms targeted

– including large steel producer Kryvorizhstal Steel – had few connections to President Yushchenko but their owners were associated with former President Leonid Kuchma and his chosen successor Victor Yanukovych (Åslund, 2005; Earle and Gehlbach, 2015).

We interpret examples of raiding and expropriation as specific, albeit extreme, cases of a broader pattern: Because political connections matter for firms and political connections operate through owners, the ownership of firms reacts to politics as well. When a new politician comes to power, allies are granted preferential policies and take ownership of firms to capitalize on these policy benefits. These effects should be most pronounced for firms for which political connections are important, such that political turnover creates a larger wedge between the profits of connected and unconnected owners: The owners of firms with immobile assets cannot easily move assets out of the government's reach and are therefore more sensitive to policy change (including politically connected raiding). Immobile assets – like steel production in Ukraine, which is capital intensive and requires large furnaces and distribution systems – are difficult to hide from the government and thus are more susceptible to political risk (Vernon, 1971; Bates and Lien, 1985; Boix, 2003). We thus expect that firm ownership is more likely to change during times of political turnover, and the effect of political turnover on firm ownership should be especially large for firms with more immobile assets.

Empirical results from firm-level data are consistent with our expectations. In 68 middle-income countries, we identify direct shareholders of the largest firms in each market using the ownership data in the Orbis database.[2] To measure meaningful turnover in firm ownership, we code changes to the identity of majority shareholders. The focus on majority shareholders ensures that the results are not driven by inconsequential changes to executive boards and differentiates the results from changes to management teams (Kuzman, Talavera and Bellos, 2018). We find that political turnover, defined using the Arghigos dataset (Goemans, Gleditsch and Chiozza, 2016), leads to elevated ownership turnover. The

[2]The data capture owners of both publicly-traded and private companies.

effect is larger among firms with more immobile assets. We report results from a number of different specifications, including with country and industry fixed effects. Because the relationship could be endogenous due to omitted variables, we also report results from instrumental variable specifications, using exogenously timed elections as an instrument for political turnover. Finally, we show that firms whose ownership changed during political turnover pay lower taxes on average than firms without such changes. We also show that political turnover does not correlate with managerial turnover among the firms in our sample, indicating that the ownership of firms is the key channel through which the mechanism operates.

The paper has implications for several lines of inquiry. First, by emphasizing the distinction between firms and their owners, the paper develops a new way of thinking about firm influence. We emphasize political influence through the owners of a firm's assets. Seeking out politically connected owners offers an alternative way of securing political influence for firms, beyond lobbying and structural attributes of the firm. The paper thus complements other studies that examine the use of ownership for political influence, for example through partnerships with foreign owners (Betz and Pond, 2019) or through the issue of stock market securities (Pond and Zafeiridou, 2019). The ownership structure of firms emerges as a theoretically important, and empirically tractable, aspect of modern economies.

Second, we know that political turnover can impose costs on firms through policy uncertainty (Bloom, 2009; Arezki and Fetzer, 2019), inefficient fiscal and monetary cycles (Powell and Whitten, 1993; Clark and Hallerberg, 2000), depressed growth (Aizenman and Marion, 1993; Alesina et al., 1996), and shorter government time horizons (Fortunato and Loftis, 2018). Political turnover creates additional inefficiencies if attempts to forge political connections trump business considerations. Political owners represent what Bhagwati (1982) has labeled 'directly unproductive profit-seeking', and are thus a source of economic inefficiency: When even firm ownership is political, there is no reason to expect competitive

markets and qualified owners to prevail. Political ownership posits a new channel through which attempts to seek political influence suppress economic growth.

Finally, recent research uncovers a surprising pattern: contrary to prominent theories that emphasize asset mobility as a source of firm influence (Vernon, 1971; Bates and Lien, 1985; Boix, 2000, 2003), immobile firms do not appear to pay higher taxes than more mobile firms (Jensen, 2013; Pond and Zafeiridou, 2019; Chen and Hollenbach, 2019). We suggest one explanation for this pattern. Immobile firms are especially susceptible to government policy, and in response more likely to have politically connected owners able to secure policy privileges, such as lower taxation. Of course, this view is not inconsistent with the intuition in the literature. While the observed owners of immobile assets may pay lower taxes, this does not imply that the owners of immobile taxes are treated better in general. For those without connections and for those who become disconnected because of political turnover, immobile assets remain particularly subject to the discretion of governments. Political ownership thus offers one mechanism to reconcile the theoretical expectations about the effects of asset mobility with the reported empirical pattern.

From Political Connections to Political Ownership

Numerous studies document the benefits of political connections for firms (Krueger, 1974; Fisman, 2001; Faccio, 2006; Cooper, Gulen and Ovtchinnikov, 2010; Albertus and Menaldo, 2012; Earle and Gehlbach, 2015). We emphasize the ownership of firms as an important channel through which political connections matter; and we argue that, because political connections matter, the ownership of firms responds to political changes as well. As a consequence, political turnover, which disrupts personal political connections, has vast distributional consequences – beyond ushering in policy change, political turnover results in a redistribution of the ownership of firms, because it affects firm profits and asset values

differentially. Firms with politically connected owners receive preferential policies and are therefore worth more to their owners; firms whose owners lose political connections are worth less. Politically connected, potential owners may take over or purchase assets owned by those who lost political connections. Political turnover thus results in elevated turnover in firm ownership. These effects should be largest among firms with immobile assets, which are subject to political discretion.

Government policies can impose substantial costs and benefits on firms, and frequently these costs and benefits are targeted to individual firms. Indeed, a survey of firms across several countries, including the U.S. and the European Union, concluded that "the government issues companies face are often driven by individual businesses" (Dua, Heil and Wilkins, 2010). Even where laws are written in general terms, governments can rely on policies that affect individual firms. Some of these are advantageous to firms, such as biased selection procedures for government contracts, tax breaks and subsidies, selective enforcement of existing policies, or support in court cases. Governments can also reach for preferential regulatory policies, which mandate the use of specific technologies and products, driving up the profits of firms that produce those.[3] And, of course, governments can rely on policies that have adverse consequences for firms, for example by imposing new regulations and taxes, expropriating individual firms, or by interfering in bureaucratic processes.

Both the profits and the value of a firm's assets are thus exposed to political decisions. The consequences, however, are not distributed evenly across firms. Politically connected firms are more likely to gain favorable treatment and to avert adverse policies. Political connections may come from many sources, including family networks, shared ethnicity, geographic association, education, previous employment, or party affiliation.

[3]For example, in 2003, the U.S. Senate considered a proposal that would have mandated the use of specific technologies to protect digital content from unauthorized reproduction. In prepared remarks, the CEO of Phillips Consumer Electronics North America pointed out "the government [...] should not pick winners and losers. Such government technology-specific mandates are hostile to competition" (United States Congress, Senate Committee on Commerce, Science and Transportation, 2014, p. 50).

One channel through which political connections operate is through the owners of the firm. Firm owners have strong incentives to leverage political connections, which allows them to earn higher profits on the same underlying business than what an owner without political connections would earn (Fisman, 2001; Faccio, 2006). Firms that are owned by individuals with political connections are potentially favored when contracts are awarded and regulations created. And by avoiding costly regulations, taxation, and expropriation, politically connected firms also increase their profits relative to those firms without connections. Additionally, firm owners have few collective action problems: they can use their own political connections to gain preferential treatment. Where policies are targeted to individual firms, coordinating political action across firms is unnecessary and free-rider problems disappear.

Several examples illustrate how political connections allow individual firms to gain privileged treatment from their government. Earle and Gehlbach (2015) highlight a geographic source of political connections in Ukraine: "The old regime was tied to business owners and managers in the eastern part of the country, whereas Viktor Yushchenko, who successfully contested power in 2004 at the ballot box and in the street, had his political base in the west" (709). After the change in leadership, firms in regions supportive of Yushchenko experienced substantial increases in productivity, outperforming firms in regions tied to his predecessor. Earle and Gehlbach attribute these changes to particularistic policies that benefit specific types of firms, including government suppliers.

Government contracts to the private sector are a main channel for governments to reward politically connected owners. Gürakar (2016) notes that the Turkish governing party, the AKP, has amended the country's public procurement law over 150 times within a decade, in the process increasing political discretion over government contracts and allowing the AKP leadership to award high-value contracts to individual firms. Firms whose owners had political connections – for example, shareholders who had family ties to the party leadership or who had ties to other organizations close to the AKP – and shareholders who publicly

supported the AKP faired better in procurement contracts than other firms.

The selective enforcement of government policy provides another example. For years, Tunisian firms owned by former President Ben Ali and his family benefited from corruption in the customs offices when importing foreign goods. Using detailed data from customs offices, Rijkers, Baghdadi and Raballand (2015) show that firms connected to the President through familial ties imported more than other firms. Given the costs involved in international trade and the resulting concentration of trading activity on the largest firms (Bernard and Jensen, 1999), this already suggests that politically connected firms had advantages over non-connected competitors.

At the same time, these politically connected firms consistently reported lower unit values for each imported good, which determine the amount of import duties to be paid. This underreporting of import values thus allowed for lower import tax payments and is, more generally, a form of tax evasion (Fisman and Wei, 2004). In the case of these firms, the systematic underreporting appears to have been facilitated by customs, which selectively turned a blind eye to the underreporting while enforcing customs rules for firms without political connections. In 2009 alone, politically connected firms managed to evade import tax payments of over US$200 million relative to unconnected firms – not even taking into account that these firms may have also engaged in other forms of tariff evasion, such as misclassifying products in categories with lower tariff rates, that may have been facilitated by customs (Rijkers, Baghdadi and Raballand, 2015). With the ouster of Ben Ali in the Arab Spring and the privatization of these firms, previously connected firms lost these privileges relative to other firms, and the gap in reported unit values vanished.

Politically connected owners may also be able to tilt the policy-making process in their favor through informational channels. Much like lobbying, owners with political connections may use their privileged access to policy-makers to provide information to the policy-making process (Hansen, 1991; Austen-Smith, 1993). Individuals with political connections should

have an easier time getting policy-makers to listen to their concerns. Given the biases in information transmission, owners who share familial ties, geographic connections, or an employment history with policy-makers may be perceived as more credible information sources. Of course, just as lobbying firms benefit disproportionately relative to other firms (Roberts, 1990), politically connected owners can use their access to provide information selectively and to ensure that their firms earn excess profits over competitors. And, if policy-makers respond to their constituents, they may favor those they hear from and thus privilege connected individuals.

Perhaps most bluntly, individuals with political connections may take over businesses from owners who lack such connections, knowing that the government will uphold their claims and support them in potential court proceedings. Political connections have been used to legitimize and consolidate suspicious ownership claims. An example from Ukraine illustrates this mechanism. Ownership of the limited-liability firm Khar'kov-Moska, located in the town of Kharkiv, was taken over after a new mayor came to power (Markus, 2015, 54-55). "Based on damning reports from a multitude of inspecting agencies, the municipal court annulled [Khar'kov-Moska's land] lease, after which the Procuracy [local prosecutor] opened nine administrative cases and one criminal case against the firm and its director and imposed an 840,000 hyrvnia ($103,000) fine on the firm for the 'unlawful use of land"' (54). The allegations against the firm intensified, even as a county-level agency acknowledged that the case had nothing to do with infrastructure and the local TV station reported that a local businessman – "who happened to be the mayor's friend" – was interested in the project (Markus, 2015, 55).[4] This pseudo-legal attack continued for two years, after which Khar'kov-Moska abandoned the project. Markus (2015) documents many similar cases of politically-connected raiding (see pp. 58-61 in particular).

The flipside of owners with political connections are groups of individuals who expe-

[4]The mayor's office then blocked the TV station.

rience systematic disadvantages and discrimination. Policies that explicitly disadvantage specific groups of individuals – based, for example, on ethnicity, religion, or geography – make firm ownership less profitable for these individuals. They also allow potential owners to have clearly identified targets, as individuals with political connections can leverage this information into ownership of firms.

Examples of this abound in history. Over centuries, it was made difficult or impossible for Jewish owners to operate certain types of businesses. In Nazi Germany, even before the systematic killings in the Holocaust, Jewish owners were driven out of business gradually and increasingly forcibly (Bajohr, 2004). Penalty taxes on Jewish owners, registration requirements, and other restrictions made it difficult to operate businesses, and the value of a firm was evidently tied to the firm owner's identity. Local policy measures were, sometimes explicitly, motivated by business interests. In the city of Aachen, the state police noted that boycott measures and other policies to exclude Jewish business were "motivated less by national socialist ideology than by economic competition" (cited in Bajohr 2000). In Cologne, a restaurant owner asked the state police to position themselves in front of a competitor's cafe that he intended to take over, hoping to intimidate the Jewish owner. Other businesses used marketing to denounce Jewish competitors and to gain market shares by depicting themselves as 'purely German,' or they canceled contracts with Jewish suppliers (Bajohr, 2000). The discrimination against Jews, both through government policy and private efforts, ensured that firm assets were worth substantially less when owned by Jews.

Foreign firms that lack local connections may also make attractive targets for government predation (Henisz, 2000; Albornoz, Galiani and Heynmann, 2012; Johns and Wellhausen, 2016). Political turmoil in Iran for example led to vast changes in the policies toward foreign owned and affiliated firms, undermining existing claims to ownership and instituting new claims. Before becoming Prime Minister of Iran, Mohammed Mossadegh wrote in opposition to foreign control of Iranian oil reserves: "On behalf of the National Front and

armed with the support of the Iranian people, I declare that Iranians find the prime minister's statements hateful and do not consider legitimate a government that yields to such slave-like baseness. No other way exists but to nationalize the oil" (Afkhami, 2009, 121). After Mossadegh's announcement, then Prime Minister Hajj Ali Razmara was assassinated and the Anglo-Iranian Oil Company (AIOC) was nationalized. The nationalization of the AIOC was celebrated widely in the streets (Ross, 2012).

In short, firms that are owned by individuals with political connections are likely to receive more benefits and pay fewer costs from government policies, while those without connections may become the targets of costly policies. For this reason, for the same underlying firm, individuals with political connections are likely to derive more value from ownership than individuals without connections. Put differently, political connections make the value of a firm's assets specific to owners and drive a wedge between the firm's value for those with and those without political connections.

When a new politician comes to power, he frequently brings with him a new set of political connections. This group is sometimes thought of as the politician's winning or support coalition (Bueno de Mesquita et al., 2003; Leeds, Mattes and Vogel, 2009; Albertus and Menaldo, 2012), but it can also be a smaller group of family, friends, or former colleagues. Political change thus has two important consequences for firms.

First, it potentially leads to new government policies, which may impose new costs and open up new opportunities for firms. These changes can range from large structural reforms, such as privatization efforts, to smaller policy changes, such as environmental regulations. Designing and implementing new policies creates new opportunities for governments to target individual firms. Moreover, uncertainty over the direction of future policy can affect firms differentially. Owners with political connections may have more information about the likely course of policy, and be more confident in their ability to influence future policy debates in their favor.

Second, a change in the political leadership disrupts political connections (Fisman, 2001; Earle and Gehlbach, 2015). Previously connected owners lose their privileged access to policy-makers, and newly connected owners have new sources of influence. Newly connected owners attach a higher value to firm ownership relative to non-connected owners, because they can leverage their political connections to manage policy uncertainty and shape policy in their favor; and previously connected owners perceive a drop in the value of firm ownership relative to before the political change, because they lost their privileged access to policy-makers and, uncertain about the future direction of policy, may want to exit the market. This has an immediate implication: turnover in political connections changes the value of firm ownership for specific individuals and thus leads to turnover in firm ownership, as summarized in the following proposition.

Proposition 1. *Firms are more likely to change ownership when a new politician comes to power.*

While political connections likely provide benefits everywhere, the size of the benefits plausibly depends on firm characteristics and, in particular, characteristics of their assets. Some assets are more mobile than others. Mobile assets can be easily relocated or repurposed to a different use, which is not subject to government oversight. Firms with mobile assets, including liquid financial assets but also intangibles such as intellectual property or trademark rights, can enjoy political influence regardless of the identity of their owner: They can threaten to move their assets abroad or to reallocate their assets to purposes that are more difficult to regulate or tax. This threat grants them influence, and politicians make policy concessions to these firms in order to retain their investment (Bates and Lien, 1985; Boix, 2000, 2003). Firms with mobile assets consequently have less need for political connections, as they have political influence regardless of the identity of the individual firm owner.

In contrast, firms with immobile assets – which include physical assets like plants, property, and equipment – cannot credibly threaten to exit the market and thus lack politi-

cal influence from their asset ownership. For these firms, the identity of the owner becomes more important. When politicians change policy, these firms must cope with the regulation.[5] Immobile asset owners are not only likely to bear the costs of government taxation and regulation, they are also often the first targets for expropriation: Because their assets are difficult to hide, less value is lost during the takeover and the future owner is assured of continued profits. The inability to withhold assets from government regulation and taxation therefore makes the owners of immobile assets especially vulnerable to government policies. The previous examples illustrate the logic of asset mobility. Kryvorizhstal Steel was seized after political turnover in Ukraine. Jewish storefronts were targeted as the Nazi's consolidated their power in Germany. The Anglo-Iranian Oil Company was nationalized in Iran. The physical presence and immobility of their assets made these firms vulnerable to government policy.

One common measure of the extent to which firms and industries are vulnerable to government policy is the prevalence of fixed assets (see Kerner and Lawrence, 2012). Fixed assets include plants, property, and equipment and are thought to be more subject to government discretion than mobile assets. Figure 1 displays the average share of fixed assets for each NACE section.[6] For Figure 1, we drew a random sample of 250,000 firms from Orbis and calculated the average share of fixed assets relative to total assets for each NACE section.

The section values for fixed assets correspond well to conventional wisdom: Political risk is frequently considered pronounced in natural resource extraction, which includes ownership of many fixed assets (Vernon, 1971; Moran, 1973; Kobrin, 1979; Morrison, 2009;

[5]For this reason, firm's with immobile assets lose more value from corporate tax increases (Pond and Zafeiridou, 2019).

[6]A section is similar in specificity to a sector, which is composed of multiple industries – aggregation is necessary here for ease of presentation. In the empirical section below, we use a more disaggregated industry measure, at the four-digit level. For brevity, we exclude the fixed asset values for Other Services, Activities of Extraterritorial Organizations, Household Activities, and Human Health and Social Work Activities.

Jensen and Johnston, 2011; Ross, 2012). On average, 53% of the assets in the mining and quarrying section are fixed. The real estate section has 45% fixed assets. Financial and insurance services have one of the lowest values for fixed assets, only 31%, consistent with the conventional wisdom that these industries are more mobile and consequently harder to regulate, tax, and retain (Mosley, 2000; Freeman and Quinn, 2012; Pond, 2018).

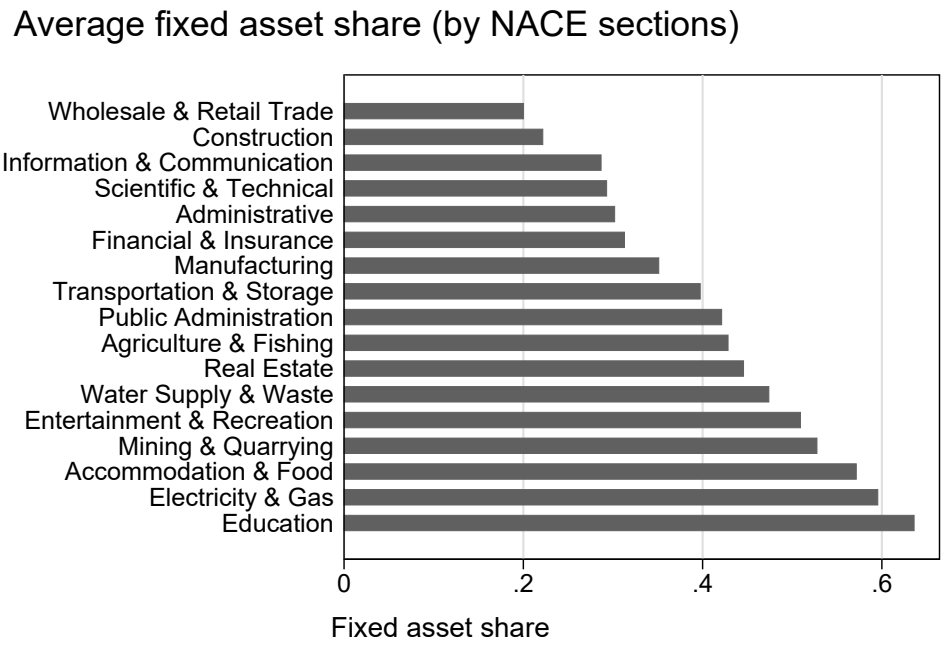

Figure 1: Average share of fixed assets for each NACE section. Data from a random sample of 250,000 firms from Orbis database.

Where a large share of a firm's assets are fixed and immobile, political turnover should thus drive a larger wedge between the firm's value for connected and unconnected owners, resulting in higher turnover rates in ownership for these firms.

Proposition 2. *Changes in ownership during political turnover are more likely among firms with fixed assets.*

Empirical evidence

To evaluate whether evidence is consistent with the theoretical propositions, we gather data on firm activities in 68 middle-income countries, which meet the following criteria. We exclude countries that joined the OECD before 2009, as we expect these countries to have relatively little policy volatility, to rely less on personal connections and extralegal methods of policy influence, and to thus have relatively small gains from manipulating ownership identity. We also exclude countries that are not included in the Archigos data set (Goemans, Gleditsch and Chiozza, 2016), which we use to generate measures of political turnover, or in the ICRG datasets (PRS Group, 2015), which we use to control for investor protections. We also exclude low-income countries by the World Bank classification, which have limited data on business ownership. Finally, we exclude tax havens using the coding from Gravelle (2015), and we exclude Taiwan.[7]

We assemble a data set in the firm-year format. We first require data that measure meaningful changes to firm ownership. For this, we draw on Bureau van Dijk's Orbis database to identify, in each country, individual shareholders for up to the 5,000 largest companies (by operating revenue for the most recent available year). We select the largest companies to mitigate the lack of information on firm characteristics. The data include owners from 2009 to 2018.[8] In many countries, fewer than 5,000 firms with available operating revenue are recorded in the Orbis database, and in some cases the number of reported firms is as low as a few hundred. On average, Orbis lists 4,491 distinct firms with operating revenue per country. Even within this set of large firms, we frequently encounter missing data, and on average have sufficient ownership data to identify changes in ownership, and thus have ownership information for at least two consecutive years, for 2,968 firms for each country

[7]The initial data collection included 69 countries, but Somalia drops out because its firms did not report operating revenue.

[8]Companies that were incorporated after 2009 enter the sample when they were listed.

(with a median of 3,338). In a random collection of firms – rather than the largest firms – missing data become even more prevalent.

The companies in our data set represent a diverse set of firms, with firms from all major industries. Our sample also includes both publicly listed and privately held firms. For publicly listed firms, potential new owners can easily identify majority owners and buy them out. Costly government policies and, for example, litigation against these firms in friendly courts also have an immediate impact on the stock prices of these companies, encouraging the transfer of ownership. At the same time, because publicly listed firms are systematically different from non-listed firms, we do not want to restrict the analysis to these firms only.

Using this ownership data, we identify controlling shareholders as shareholders with an ownership share of at least 50%. Of the individual owners in our data set, 15.9% were majority owners of a firm at some point. Based on this variable, we code a measure of changes in the controlling owner of each firm – that is, a variable measured at the firm-year level. CONTROLLING OWNERSHIP CHANGE is a dummy variable coded one in the year in which a specific shareholder's ownership share rises above 50% for the first time, and in the year a specific shareholder's ownership is reported below 50% for the last time.

The coding thus captures relatively substantial changes in a firm's ownership. It omits meaningful changes that fall short of the threshold for majority ownership, unless those changes also result in a previous majority owner losing control. Similarly, our measure fails to capture transitions between coalitions of owners if no individual owns above 50% of the shares before and after the transition (for instance, one shareholder might own 25% and her partner 26%). Our measure does capture, however, cases where a coalition takes over from an individual whose ownership drops below 50%, as well as cases where an individual takes over from a coalition by gaining control of at least 50% of the shares. In any given year, 13.5% of the firms in our sample experience an ownership change. 36.7% of the firms in our sample experienced an ownership change at least once during the sample period.

To measure political turnover, where a new leader takes power and plausibly supports a different set of constituents, we use data from Archigos (Goemans, Gleditsch and Chiozza, 2016). We code a dummy variable, NEW POLITICAL LEADER, which is one in any year where a new leader comes to power and zero otherwise. Unfortunately for our purposes, the data reach only to 2015. This measure improves on other common measures of political turnover like the Change in the Source of Leader Support dataset (Leeds, Mattes and Vogel, 2009; Mattes, Leeds and Matsumura, 2016), where coverage ends in 2008, such that we would have no overlap with our firm data at all. 15.7% of the country-years in our sample experience a leadership change.

We estimate logit models, with standard errors clustered by the firm to account for arbitrary correlation within firms. All models include year fixed effects to account for common time trends across observations. We include a series of control variables in individual models, which capture both country-specific variables and firm-specific variables, including various fixed effects. Table A.1 reports summary statistics. Once merged, the data set includes 267,789 firm-year observations, which represent 65,214 firms in 68 countries from 2010 to 2015.[9]

Table 1 presents results from logit regression models, estimating the relationship between new political leadership and changes to the identity of the controlling owner. The first column omits control variables, except the year fixed effects. The second column introduces a set of country-level controls including the Polity score, the ICRG quality of government measure, log GDP, change in log GDP,[10] GDP per capita, and trade divided by GDP.[11] The third column adds country fixed effects to this specification. The fourth column introduces firm-level controls, including log operating revenue, log number of employees, and

[9] We lose observations for 2009, because the ownership change variable results from a comparison with the previous year.

[10] We do not lose countries with negative growth, because the log was taken before the difference.

[11] The economic variables come from the World Bank World Development Indicators.

NACE industry fixed effects (at the two-digit, division level; this level of disaggregation distinguishes between "Manufacture of food products" and "Manufacture of beverages", for example.) Although accounting for firm characteristics can be important, these controls reduce the sample size by over 40 percent. The fifth column includes all country- and firm-level controls, including fixed effects, simultaneously.

The results show that on average, political turnover tends to be associated with ownership turnover. The substantive effects are quite large. In the simplest model, reported in column 1, leadership turnover results in an increase in ownership turnover of 26% (from 12.9% to 16.2%).[12] This marginal effect increases slightly with the introduction of country-level controls in column 2 and remains similar with country fixed effects in column 3. The marginal effects increase substantially in size with the introduction of firm-level control variables (which, however, reduce the sample considerably): based on the results in column 4, leadership turnover is associated with an increase in ownership turnover of over 60%, from 12.5% to 20.1%. Similar results obtain in the final model reported in column 5. The effects are statistically significant at the conventional 5% level in all cases.

In the appendix, we report that the results are robust when accounting for several alternative explanations.

Economic expansion Because elections and therefore political turnover may be accompanied by monetary or fiscal expansions (Clark and Hallerberg, 2000), which could also increase turnover in firm ownership, we add controls for monetary and fiscal policy. For monetary policy, we use broad money as a share of GDP from the International Monetary Fund International Financial Statistics. For fiscal policy, we use general government final consumption expenditure, also as a share of GDP, from the World Bank national accounts data.

Political violence Political and economic turnover could result from episodes of domestic

[12] All marginal effects are calculated as average marginal effect, that is, at observed sample values of the independent variables and then averaged across observations in the sample.

violent conflict. For this reason, we add controls for military expenditure as a share of GDP from the Stockholm International Peace Research Institute (SIPRI), the number of peacekeepers in the country from the UN Department of Peacekeeping Operations (logged) and the number of internally displaced persons from the Internal Displacement Monitoring Centre (logged).[13]

Table 1: Political Turnover and Changes to Controlling Ownership

	(1)	(2)	(3)	(4)	(5)
New political leader	0.275***	0.303***	0.292***	0.579***	0.616***
	(0.015)	(0.015)	(0.016)	(0.021)	(0.026)
Polity		0.004***	-0.046***		-0.059**
		(0.001)	(0.006)		(0.029)
ICRG quality of governance		-2.626***	1.582***		5.250***
		(0.092)	(0.341)		(0.484)
Log GDP		0.034***	-0.656***		-1.304***
		(0.006)	(0.229)		(0.396)
Change in log GDP		1.723***	-0.455		-1.121**
		(0.221)	(0.303)		(0.487)
GDP per capita		0.022***	0.027**		0.017
		(0.001)	(0.013)		(0.028)
Trade over GDP		-0.610***	-3.475**		-10.517***
		(0.225)	(1.479)		(2.317)
Log operating revenue				0.060***	-0.007
				(0.007)	(0.008)
Log number of employees				-0.011	-0.036***
				(0.008)	(0.008)
Constant	-2.213***	-2.015***	12.324**	-3.147***	27.371***
	(0.020)	(0.191)	(5.311)	(0.084)	(9.107)
Observations	267,789	267,087	267,087	135,054	134,929
Countries	68	64	64	63	56
Year fixed effects	yes	yes	yes	yes	yes
Country fixed effects	no	no	yes	no	yes
Industry fixed effects	no	no	no	yes	yes

Logit models with robust standard errors in parentheses; clustered by firm. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

[13]That our data is relatively recent (2010 to 2015) rules out the use of some other conventional conflict measures.

Instrumental variable estimates

New political leadership could be endogenous to turnover in firm ownership because of omitted variables. For example, if elections are scheduled when the economy is performing well and if ownership turnover is elevated during periods of rapid growth, political turnover might be associated with ownership turnover. This could explain some of the results reported here, even if political connections play no direct role in changes to firm ownership. To alleviate these concerns, in addition to using control variables, we also use an instrumental variables approach.

For the instrumental variable estimates, we exploit political turnover induced by exogenously timed elections. Exogenously timed elections are an institutional characteristic of presidential systems, which seldom change and are not sensitive to economic conditions. These elections cannot be scheduled during advantageous electoral times, for example when the economy is growing quickly or the incumbent party is popular (Palmer and Whitten, 2000). Moreover, by focusing on exogenously timed elections, our results are not driven by leadership change that follows government failure, which would likely correlate with ownership turnover through omitted variables.

To identify countries with exogenous election timing for executive elections, we use the distinction between presidential systems and parliamentary systems (data from the Database of Political Institutions, Beck et al., 2012). In presidential systems, the executive is not politically dependent on the legislature, and executive elections are the main mechanism for regular change in the executive. In parliamentary systems, in contrast, the legislature can replace the executive even outside regular election intervals. And, if the legislature is dissolved, the executive can call new elections in many parliamentary systems, making election timing an endogenous choice in these parliamentary systems (Smith, 1996). We thus define a dummy variable for executive elections, limiting the sample to countries with presidential systems.

We estimate two-stage least squares models. Because the models are linear, the reported coefficient estimates differ from those reported earlier. The advantage is that the linear two-stage least squares estimator is more robust than non-linear alternatives, such as instrumental variable probit estimators, and requires fewer additional assumptions (Angrist, 2001).

The results are reported in Table 2. Election timing is a strong predictor of new political leadership in our samples. The first-stage F-statistics for the instrumented variables pass common thresholds to rule out problems with weak instruments; for example, in the model in column 2, the first-stage F-statistic on the endogenous variable is 9,461, well beyond the rule-of-thumb threshold of 10 (Stock, Wright and Yogo, 2002). In all models, new political leadership is associated with political turnover. The marginal effects are substantively large as well. Based on the results in column two, Table 2, for example, a new political leader leads to an increase in the rate of ownership turnover of 11.4 percentage points.

Asset mobility and firm ownership

To measure the sensitivity of firms to government policy, we use fixed assets as a share of total assets, a common indicator of asset (im)mobility. Fixed assets are more difficult to move out of the government's reach and more difficult to hide, and therefore more susceptible to political risk (see, e.g., Vernon 1971; Bates and Lien 1985; Frieden 1994; Boix 2000, 2003; Kerner and Lawrence 2012).

Because of the extent of missing data for fixed and total assets at the firm level, we compute a measure at the four-digit NACE level, the most disaggregated level for which we have data on a large number of firms across countries. For this measure, we create a random sample of 250,000 firms for which data on fixed and total assets are available from the Orbis database. Using this random sample, we create a measure of fixed asset shares, computed as fixed assets relative to total assets, that is specific to each four-digit NACE code. (We also

Table 2: 2SLS – Political Turnover and Changes to Controlling Ownership

	(1)	(2)	(3)	(4)	(5)
New political leader	0.107***	0.114***	0.138***	0.205***	0.216***
	(0.008)	(0.008)	(0.009)	(0.021)	(0.021)
Polity		0.003***	-0.018***		-0.014***
		(0.000)	(0.002)		(0.004)
ICRG quality of governance		-0.171***	0.118**		0.890***
		(0.022)	(0.057)		(0.086)
Log GDP		0.018***	0.211***		-0.286***
		(0.001)	(0.041)		(0.087)
Change in log GDP		0.259***	-0.266***		-0.171
		(0.038)	(0.053)		(0.128)
GDP per capita		0.002***	-0.001		-0.003
		(0.000)	(0.002)		(0.004)
Trade over GDP		0.360***	-0.942***		-3.288***
		(0.054)	(0.206)		(0.316)
Log operating revenue				0.012***	0.000
				(0.001)	(0.001)
Log number of employees				-0.015***	-0.008***
				(0.002)	(0.002)
Constant	0.131***	-0.320***	-4.841***	0.079***	6.956***
	(0.002)	(0.041)	(0.975)	(0.015)	(2.054)
Observations	129,421	128,966	128,966	58,116	58,075
Year fixed effects	yes	yes	yes	yes	yes
Country fixed effects	no	no	yes	no	yes
Industry fixed effects	no	no	no	yes	yes

2SLS models with robust standard errors in parentheses; clustered by firm. Instrument: executive elections, sample limited to presidential systems. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

compute a measure specific to each four-digit industry code and country and report those results in the appendix.)

Table 3 reports the same specifications as before, but includes an interaction between the new political leadership variable and the immobility of the firm's assets, using the share of fixed assets by industry to proxy for immobile assets. Figure 2 depicts the marginal effect of a new political leader, as a function of fixed assets, based on Column 2 of Table 3. The evidence is consistent with the expectation that firms with a larger share of fixed assets are more sensitive to political change and thus are more likely to experience ownership turnover in response to political turnover. The effect of political turnover on firm ownership is larger among firms with more fixed assets and increases substantially: from a 2.1 percentage point increase when the fixed asset share is 0 to an increase of 3.6 percentage points when the fixed asset share is at the sample median (of about 30% fixed assets) to a 5.3 percentage point increase when the fixed asset share is at 60%. Both the interaction term and the substantive effect of a new political leader are statistically significant at the 5% level.

Political Ownership and Taxation

One way political connections pay off in a systematic and observable fashion are tax payments. Table 4 provides some suggestive evidence that owners that took over during political turnover tend to pay lower taxes, consistent with the argument that these are politically connected owners who benefit from privileged policies. The sample is considerably smaller than before, because tax data is available for few firms in the data set. Because data are likely missing in a non-random way, the results are illustrative only.

For the dependent variable, we use log taxes paid by each firm. The independent variable is a (likely) politically connected owner: it is coded one for owners that took over during a period of political turnover, and remains coded one until either a new majority owner takes over or a new political leader comes into power. If a new majority owner and

Table 3: Asset Mobility and Changes to Controlling Ownership

	(1)	(2)	(3)	(4)	(5)
New political leader	0.169***	0.184***	0.181***	0.457***	0.472***
	(0.033)	(0.033)	(0.034)	(0.045)	(0.048)
× Fixed assets share	0.337***	0.379***	0.351***	0.390***	0.452***
	(0.094)	(0.094)	(0.094)	(0.125)	(0.130)
Fixed assets share	0.142***	0.114**	0.123**	0.041	0.071
	(0.054)	(0.053)	(0.054)	(0.138)	(0.135)
ICRG quality of governance		-2.632***	1.574***		5.261***
		(0.091)	(0.341)		(0.484)
Polity		0.004***	-0.046***		-0.059**
		(0.001)	(0.006)		(0.028)
Log GDP		0.032***	-0.652***		-1.314***
		(0.006)	(0.229)		(0.396)
Change in log GDP		1.772***	-0.460		-1.138**
		(0.221)	(0.304)		(0.488)
GDP per capita		0.022***	0.027**		0.018
		(0.001)	(0.013)		(0.028)
Trade over GDP		-0.669***	-3.485**		-10.545***
		(0.225)	(1.479)		(2.319)
Log operating revenue				0.060***	-0.006
				(0.007)	(0.008)
Log number of employees				-0.011	-0.036***
				(0.008)	(0.008)
Constant	-2.259***	-2.005***	12.198**	-3.179***	27.559***
	(0.026)	(0.190)	(5.310)	(0.103)	(9.121)
Observations	267,490	266,788	266,788	135,041	134,916
Countries	68	64	64	63	56
Year fixed effects	yes	yes	yes	yes	yes
Country fixed effects	no	no	yes	no	yes
Industry fixed effects	no	no	no	yes	yes

Logit models with robust standard errors in parentheses; clustered by firm. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

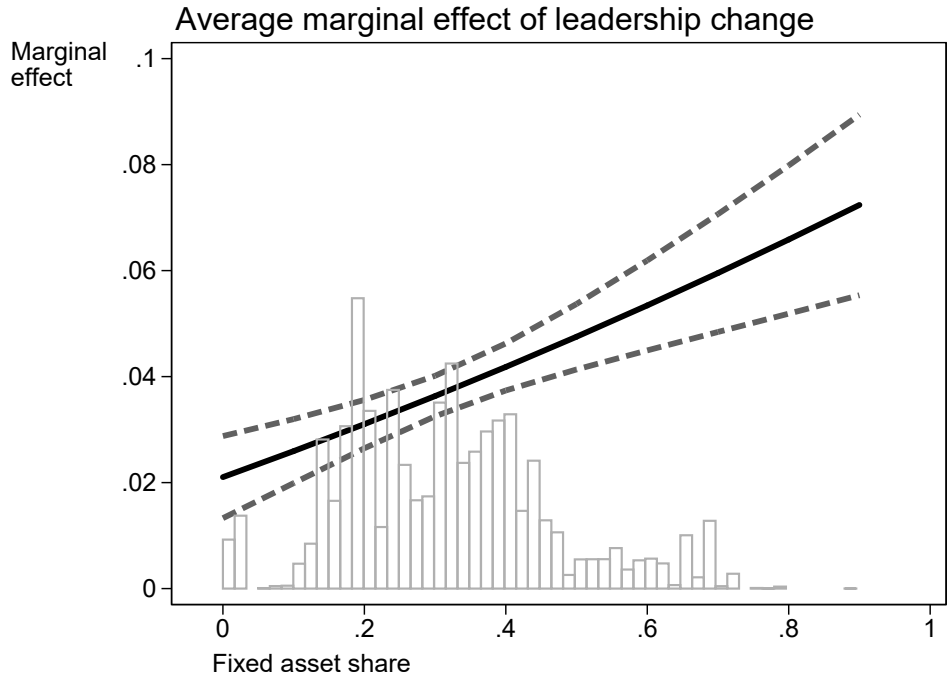

Figure 2: Marginal effect of a new political leader as a function of fixed assets. Average marginal effect (calculated at observed sample values, averaged across observations in the sample; solid line), 95% confidence interval (Delta method; dashed line), and distribution of fixed asset shares in the sample (histogram in the background). Calculated from Column 2 of Table 3.

a new political leader come into power simultaneously, a new politically connected owner is in place, and the variable is coded one again. We report OLS models with standard errors clustered by firm.

The results in Table 4 show that politically connected owners tend to make lower tax payments. Based on the model in column 1, without control variables, politically connected owners pay about 11% less taxes than other owners. The size of the effect decreases considerably with the introduction of control variables, but it remains negative and statistically significant in most models. In column 2, we include log operating revenue and log employees to account for firm size. The size of the effect decreases, such that politically connected owners pay about 3% less taxes. In column 3, we add industry fixed effects. In column 4, we

Table 4: Politically connected owners and tax payments

	(1)	(2)	(3)	(4)	(5)
Connected Owner	-0.628***	-0.163***	-0.149***	-0.096***	0.004
	(0.055)	(0.030)	(0.028)	(0.027)	(0.027)
Log operating revenue		0.893***	0.894***	0.849***	0.833***
		(0.008)	(0.009)	(0.010)	(0.010)
Log number of employees		0.200***	0.136***	0.117***	0.094***
		(0.008)	(0.009)	(0.009)	(0.008)
ICRG quality of governance				1.050***	-0.046
				(0.128)	(0.285)
Polity				-0.003	-0.021
				(0.003)	(0.015)
Log GDP				0.020	0.402*
				(0.013)	(0.228)
Change in log GDP				4.690***	2.263***
				(0.242)	(0.246)
GDP per capita				-0.024***	0.004
				(0.003)	(0.019)
Trade over GDP				-5.720***	4.445***
				(0.401)	(1.146)
Constant	5.513***	-4.798***	-4.773***	-4.607***	-13.300**
	(0.029)	(0.061)	(0.085)	(0.371)	(5.253)
Observations	99,951	79,809	79,382	79,334	79,334
Year fixed effects	yes	yes	yes	yes	yes
Country fixed effects	no	no	no	no	yes
Industry fixed effects	no	no	yes	yes	yes

Logit models with robust standard errors in parentheses; clustered by firm. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

additionally include the previous set of country-level control variables. The effect remains negative and statistically significant in both models. Only in column 5, when we add country fixed effects, does the effect disappear and becomes substantively negligible and statistically no longer significant.

Managerial Turnover

Our theory emphasized the ownership of firms as a key channel through which political connections operate, which creates the link between political turnover and ownership turnover. In Table 5, we present results when focusing instead on managerial turnover, which serves a 'placebo test'. While both ownership and management turnover might follow, for example, poor economic performance or happen during economic crises, the asset value mechanism we emphasized is limited to ownership turnover.

We obtain data on changes to management teams for the firms in our sample from Wharton Research Data Services' (WRDS) Capital IQ People Intelligence. We use the ISIN firm number, and are thus limited to firms that issued securities, to match the Orbis and WRDS datasets. We then code a dummy variable equal to one in any year that a new manager started his or her position or in which a previous manager gave up a position. The variable is zero for firms in years when there is no change in management. The variable is missing for all firms that are not included in the WRDS database and for those that did not report the year of the management change at least once during the time frame covered in the WRDS dataset. We have data for about 11 percent of the observations in our ownership dataset. Management changes are much more frequent than ownership changes, and occur in over 60% of cases in our sample. This high share is partially explained by the large size of some management teams.

Using the dummy variable for managerial turnover, we replicate the empirical specifications reported in Table 1 above, which introduce consecutively year fixed effects; country controls, including country fixed effects; and firm controls, including industry fixed effects. Table 5 reports effectively no effects: a new political leadership has no substantively or statistically significant effect on changes to management teams. For example, based on the results in column 1, a new political leader increases the probability of a change to the management team by merely .16 percentage points; the p-value of the coefficient on new leader is .835.

Table 5: Political Changes and Managerial Changes

	(1)	(2)	(3)	(4)	(5)
New political leader	0.007	-0.004	0.021	0.083	0.087
	(0.033)	(0.033)	(0.033)	(0.056)	(0.064)
ICRG quality of governance		0.144	-0.179		0.988
		(0.277)	(0.710)		(1.195)
Polity		0.011***	-0.024***		-0.002
		(0.004)	(0.009)		(0.040)
Log GDP		0.026*	1.065***		1.347**
		(0.014)	(0.339)		(0.599)
Change in log GDP		1.821***	0.893		0.651
		(0.545)	(0.569)		(0.985)
GDP per capita		-0.009***	-0.054**		-0.114**
		(0.003)	(0.023)		(0.045)
Trade over GDP		0.798	-3.375		-6.194
		(0.556)	(2.157)		(4.723)
Log operating revenue				0.108***	0.162***
				(0.020)	(0.024)
Log number of employees				0.044**	0.090***
				(0.022)	(0.024)
Constant	0.485***	-0.299	-27.192***	-0.901***	-37.474**
	(0.038)	(0.423)	(8.914)	(0.214)	(15.701)
Observations	30,537	30,383	30,381	12,376	12,322
Year fixed effects	yes	yes	yes	yes	yes
Country fixed effects	no	no	yes	no	yes
Industry fixed effects	no	no	no	yes	yes

OLS models with robust standard errors in parentheses; clustered by firm. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. Dependent variable is changes to each firm's management.

The effects are slightly larger in the model reported in column 5, but even here the marginal effect is only 1.7 percentage points (which corresponds to a relative increase of 2.7%), and the effect lacks statistical significance at the conventional levels.

Conclusion

This paper identifies changes in the ownership of firms as a response to political turnover. We emphasize that political connections operate through the ownership of firms, and that

therefore the value of a firm's assets is specific to the firm's owner. This implies that periods of political turnover should be associated with turnover in the ownership of firms. Assembling a new dataset that documents the ownership of firms operating in 68 countries, we present evidence consistent with the theoretical propositions. Changes in political leadership are associated with changes in firm ownership, and the effect is larger among firms with less mobile assets. We also demonstrate that firm owners that take over during political change pay less taxes.

The study is relevant to a broad literature that looks to asset ownership as the source of political preferences and influence. For example, the interests of capital owners and labor are frequently pitted against one another (Lindblom, 1977; Frieden, 1991) and mobile asset owners are thought to have more political influence (Boix, 2003). The literature tends to treat asset ownership as static, but ownership is at times quite flexible. Our paper makes two contributions to this literature. First, we identify cleavages among capital owners, driven by their political connections. Second, deriving political preferences from asset ownership, as is typically the case in the comparative and international political economy literature, becomes less straightforward when asset ownership itself becomes political: political connections, and political preferences, allow individuals to become asset owners, reversing the causal chain in some of these theories.

We focused on a set of middle income countries where we expect political connections to matter for the value of firms. Where politicians can provide policy benefits to their allies and impose costs on the unconnected, we expect to observe a wedge between the value of firms for those with and those without political connections. The conventional wisdom is that developed democracies have strong and credible provision of property rights, undermining government predation (North, Wallis and Weingast, 2009; Earle and Gehlbach, 2015), and they have less corruption, reducing the size of the difference in firm value between those with and those without political connections. We leave to future research to investigate

whether the conventional wisdom is accurate. The lack of professionalized politicians in many countries and the recent ascendency of businessmen as politicians emerge as fruitful areas to look for political connections, even within the set of OECD countries. The current U.S. administration certainly has left the impression among many observers that firms benefit from individual connections to the political leadership. In a dispute over the merger of AT&T and Time Warner, Rep. David Cicilline, for example, suspected that "the White House has weaponized antitrust laws to punish enemies or reward friends" (Johnson, 2019).

Policy uncertainty also emerges as a promising area for research. Political scientists tend to expect beneficial effects of political turnover for accountability and policy efficiency for example. We join recent researchers exploring the downsides of political turnover, most notably from policy uncertainty (Bloom, 2009; Arezki and Fetzer, 2019). That is not to say that these downsides overwhelm the benefits, rather the downsides for economic markets are worth understanding, as are the attempts by citizens and firms to adjust to such uncertainty.

Finally, a large literature places the divide between economic and political elites at the forefront in theories of democratization (Bates and Lien, 1985; North and Weingast, 1989; Ansell and Samuels, 2014). Economic elites seek property rights to protect their assets from government expropriation and predation. These rights are made credible by more inclusive political institutions that grant economic actors policy influence. The congruence between the economic and the political elite in many contexts adds nuances to this understanding of the origins of representative institutions. On the one hand, if the economic elite are the political elite, they may not need to demand property rights to protect against interference from politics.[14] On the other hand, this only applies if elites believe their political position

[14]To explain democratization, scholars have instead looked to the complementarity among democratic policies and asset ownership (for example when skilled labor becomes more valuable to capital owners; see Bourguignon and Verdier, 2000; Hollenbach, 2020 for related arguments) or to the high cost of particularistic pork barrel politics under non-democratic institutions (Lizzeri and Persico, 2004). Where economic elites provide their own property rights, they are unlikely to demand property rights as a public good, which they cannot exclude from their competitors (Sonin, 2003).

is secure. If political power becomes uncertain and political turnover likely, economic elites, particularly those with immobile assets, might look to property rights to guarantee their ownership. Political uncertainty emerges as an important precondition for political and economic elites to demand property rights to protect their assets and perhaps to begin the process of democratic transition.

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Online Appendix

Orbis data were collected for the following countries: Albania, Algeria, Angola, Argentina, Armenia, Azerbaijan, Belarus, Bolivia, Botswana, Brazil, Brunei, Bulgaria, Cameroon, China, Colombia, Congo, Costa Rica, Cote d'Ivoire, Croatia, Cuba, Dominican Republic, Ecuador, Egypt, El Salvador, Gabon, Ghana, Guatemala, Guyana, Honduras, Indonesia, Iran, Iraq, Jamaica, Kazakhstan, Kuwait, Latvia, Libya, Lithuania, Malaysia , Moldova, Mongolia, Morocco, Namibia, Nicaragua, Nigeria, Oman, Papua New Guinea, Paraguay, Peru, Philippines, Qatar, Romania, Russia, Saudi Arabia, Somalia,[15] South Africa, Sri Lanka, Sudan, Suriname, Syria, Thailand, Trinidad and Tobago, Tunisia, Ukraine, United Arab Emirates, Uruguay, Venezuela, Zambia, Zimbabwe.

Table A.1: Summary statistics

Variable	Mean	Std. Dev.	Min.	Max.	N
Controlling ownership change	0.135	0.341	0	1	267,789
New political leader	0.186	0.389	0	1	267,789
Polity	4.223	6.222	-10	10	267,769
Fixed assets share	0.316	0.148	0	0.896	267,490
ICRG quality of governance	0.496	0.101	0.194	0.708	267,747
Log GDP	26.098	1.515	21.544	29.818	267,368
Change in log GDP	0.032	0.031	-0.97	0.803	267,354
GDP per capita	10.548	8.120	0.72	72.671	267,368
Trade over GDP	0.091	0.041	0.019	0.175	267,121
Log operating revenue	10.239	2.26	0	21.003	198,231
Log number of employees	4.742	2.089	0	13.785	137,996
Year	2012.882	1.66	2010	2015	267,789

[15] Although we downloaded data from Somalia, it drops out of the regressions, as there is no data on operating revenue.

Table A.2: Economic Conditions and Conflict Controls

	(1)	(2)	(3)	(4)	(5)
New political leader	0.628***	0.620***	0.617***	0.616***	0.613***
	(0.028)	(0.027)	(0.027)	(0.026)	(0.026)
Broad money over GDP	-0.005*				
	(0.003)				
Government consumption		-0.006			
expenditure over GDP		(0.012)			
Military expenditure over			0.005		
GDP			(0.024)		
Log number of peacekeepers				-2.414***	
				(0.879)	
Log number of internally					-0.085***
displaced persons					(0.004)
Polity	-0.071**	-0.061**	-0.061**	-0.065**	-0.326***
	(0.029)	(0.029)	(0.029)	(0.029)	(0.044)
ICRG quality of governance	4.916***	5.244***	5.484***	5.256***	1.432***
	(0.711)	(0.485)	(0.516)	(0.484)	(0.529)
Log GDP	-0.306	-1.269***	-1.141***	-1.348***	-0.686*
	(0.500)	(0.404)	(0.410)	(0.397)	(0.409)
Change in log GDP	-2.150***	-1.129**	-1.168**	-1.103**	-3.492***
	(0.626)	(0.487)	(0.513)	(0.487)	(0.509)
GDP per capita	-0.041	0.014	-0.005	0.020	0.081***
	(0.037)	(0.029)	(0.033)	(0.028)	(0.028)
Trade over GDP	-5.342	-10.789***	-10.093***	-10.695***	-4.385*
	(3.383)	(2.374)	(2.361)	(2.320)	(2.326)
Log operating revenue	-0.003	-0.007	-0.008	-0.007	-0.006
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Log number of employees	-0.029***	-0.036***	-0.037***	-0.036***	-0.036***
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Constant	4.728	26.686***	23.572**	28.447***	16.615*
	(11.436)	(9.247)	(9.426)	(9.136)	(9.363)
Observations	99,545	134,929	134,474	134,929	134,929
Countries	53	56	56	56	56
Year Fixed Effects	yes	yes	yes	yes	yes
Country Fixed Effects	yes	yes	yes	yes	yes
Industry Fixed Effects	yes	yes	yes	yes	yes

Logit models with robust standard errors in parentheses; clustered by firm. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table A.3: Asset Mobility (country-specific) and Changes to Controlling Ownership

	(1)	(2)	(3)	(4)	(5)
New political leader	0.310***	0.384***	0.293***	0.488***	0.526***
	(0.034)	(0.034)	(0.035)	(0.041)	(0.047)
× Fixed assets share	0.175**	0.107	0.159**	0.441***	0.336***
(country-specific)	(0.081)	(0.082)	(0.079)	(0.101)	(0.107)
Fixed assets share, country-specific	-0.085*	-0.002	0.062	-0.699***	-0.082
	(0.045)	(0.043)	(0.046)	(0.078)	(0.085)
ICRG quality of governance		-2.990***	4.191***		6.293***
		(0.116)	(0.409)		(0.576)
Polity		-0.008***	-0.053***		-0.019
		(0.002)	(0.006)		(0.034)
Log GDP		0.006	-0.835***		-1.013**
		(0.008)	(0.290)		(0.482)
Change in log GDP		1.911***	0.482		-2.014***
		(0.274)	(0.389)		(0.581)
GDP per capita		0.030***	-0.048**		-0.049
		(0.002)	(0.022)		(0.041)
Trade over GDP		-2.033***	-9.376***		-11.466***
		(0.282)	(1.893)		(2.772)
Log operating revenue				0.058***	-0.017**
				(0.008)	(0.008)
Log number of employees				-0.016*	-0.039***
				(0.008)	(0.008)
Constant	-2.321***	-1.132***	15.892**	-2.917***	20.126*
	(0.028)	(0.253)	(6.718)	(0.106)	(11.118)
Observations	191,991	191,824	191,824	107,631	107,573
Year fixed effects	yes	yes	yes	yes	yes
Country fixed effects	no	no	yes	no	yes
Industry fixed effects	no	no	no	yes	yes

Logit models with robust standard errors in parentheses; clustered by firm. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

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Managing Editor: Luca Messerschmidt

Contact: Technicial University of Munich, Arcisstraße 21, 80333 München
mppe@gov.tum.de, mppe@wi.tum.de
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