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AUGUST 2019

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ABSTRACT

Gains from Early Support of a New Political Party*

We study the potential benefits and mechanisms of firms' political connections by analyzing the Italian experience, where, in the early nineties, Silvio Berlusconi, a rich TV tycoon, became the leader of the conservative political coalition. Using firm-level data, we find that the 101 companies supporting Berlusconi's successful bid to become prime minister did better than controls in terms of sales and employment but not of productivity. The results are confirmed when we instrument the decision to support Berlusconi with electoral outcomes in the 1921 elections. We also find suggestive evidence that the supporters' superior performance is stronger in sectors with high external financial dependence and high advertising intensity.

JEL Classification: G32, G38, D72

Keywords: political connections, productivity, policy regulation

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1 Introduction

The liaisons between firms and political parties are key to understand the interaction between market-based and political institutions. However, studying the relationship between well-established political parties and privately owned firms is challenging because of an identification issue: the decision to support a party rather than another is likely to be determined by the party's historical performance and past interactions with the firm itself, so that it might be endogenous to firm performance (Fisman 2001). To tackle this problem, the literature has mainly focused on developing countries, using the East Asian crisis as an exogenous shock to growth prospects and considering firm performance in accordance to political connections, where affiliations were either predetermined by family ties or had existed for a long time.¹ Alternatively, scholars have used specific historical episodes, such as the connection of big businesses when the Nazi party was created (Ferguson and Voth 2008).

We analyze the role of political connections for firm performance by studying the effects of firms' early support of a new political party, *Forza Italia (Let's Go Italy)*, which was created by Silvio Berlusconi (henceforth SB) in Italy at the beginning of the 1990s. The case of Italy offers a very interesting experiment: the founding of a new party during a turbulent phase of the political life of a democratic industrialized country. This makes it different from the cases of Indonesia, Malaysia and Nazi Germany and can offer new insights on recent political phenomena based on a victory of either an entrepreneur or an innovative political movement, such as in the US, where another tycoon, Donald J. Trump, decided to enter in the electoral arena and became president; the recent success in France of Emmanuel Macron's brand new party *La République En Marche!* (The Republic on the Move!); Italy again, where the party *Movimento Cinque Stelle* (Five Stars Movement) founded by a comedian won the elections in 2018; Ukraine, where Volodymyr Zelensky, a successful TV producer and comedian, won presidency by landslide in 2019, heading a party named after his TV show *Sluha Narodu* (Servant of the people).

As we describe in details in Section 2, SB was a rich tycoon that won the general elections in 1994 and became the precursor of several political innovations.² He exploited his vast network in the

¹For example, Fisman (2001) studies the case of Suharto in Indonesia and Johnson and Mitton (2003) of Mahathir and Anwar in Malaysia.

²The Italian general elections in 1994 ended with the victory of the conservative blocks *Il Polo delle Libertà (The Pole of Freedoms)*. SB's political party was the most voted party with 21%, followed by the left-wing movement *Partito Democratico della Sinistra (Democratic Party of the Left)* with 20%, and SB's ally *Alleanza Nazionale* (National Alliance) with 13%.

business community to build support of his new party in a very short time span –the decision to run was announced shortly before the elections and the political party was set up in just three months– and entrepreneurs had very little time to decide to support him or not. At the time, supporting SB was considered a very risky bet, given what seemed at the outset the low chances of success. In fact, differently from the US, in Italy supporting more than one party in a political competition is uncommon, so that entrepreneurs could not hedge against the risk of the attempt turning out unsuccessful. This unique trait of the Italian elections of 1994 makes it a good natural experiment to look at firms’ gains from supporting a political party.

We identify the 101 firms which supported SB in 1994 gathering information from public records and from private conversations with the *Forza Italia* former leaders. We then apply a matching procedure to select the control group of firms and run a difference-in-difference estimator where the treatment is the early decision to support SB in 1994. Our identification assumption is that the treatment is orthogonal to the outcome of interest, i.e. treated firms’ performance relative to controls after 1994. In the course of the paper we give evidence on the validity of this assumption based on the absence of different pre-trends in performance between treated and control firms before 1994. A superior performance before 1994 would indicate that SB’s supporters were already better entrepreneurs and simply identified in him (against the odds, as we mentioned above) a good profit opportunity. Instead, we argue that the decision to support SB is consistent with two possible explanations: either the supporters were part of SB’s business network and were sympathetic to his political adventure for “personal” reasons, or they had a right-wing political orientation and were naturally prone to support anybody who would run on that side of the political spectrum.

Even in the absence of pre-existing differences in trends, one might still argue that selection into the treatment is not exogenous to firm performance. For example, people with personal connections to SB might have been chosen by him based on their business skills. To address concerns about potential endogenous selection, we consider an instrumental variable strategy in order to deal with possible unobservable firms’ characteristics (including managerial ability) affecting the decision to support SB. We rely on the long-run persistence of ideological traits in Italy and instrument the decision to support SB with the percentage of votes obtained by the *Blocchi Nazionali* (National Blocks) in the 1921 political elections, the last free and democratic vote before the start of the fascist dictatorship in Italy. The *Blocchi Nazionali* was a political cartel formed by the Italian liberals and

fascists. The choice of this variable is not only supported by general findings in political science (e.g., Beck and Jennings (1991) and Jennings et al. (1997)), which document the long-run intergenerational transmission of political partisan values in the family environment, but it is also motivated by striking similarities between the elections of 1921 and 1994, which we do not find in any other elections in the 20th century in Italy. In particular, we are going to show that both elections were characterized by a coalition of a liberal and an extreme right-wing party in competition not only with a left-wing coalition but also with a Catholic electoral block.

We find that SB's supporters in 1994 did better than matched controls in terms of value added and employment in the following years. The evidence is mixed and weaker in terms of productivity. In addition, we find no significant differences between periods in which SB was in office (1994-1996, 2001-2006, 2008-2011) or in opposition. This does not come as unexpected, as firm performance adjusts gradually, and, even if not in power, SB remained the unchallenged head of the opposition and natural prospective candidate in the next elections. Moreover, even when not running the national government, *Forza Italia* was in power in many local administrations, which are in charge of many policies relevant for firms performance. The results indicate that, in the years between 1995 and 2011, employment, value added and sales are on average between 30% and 50% higher in firms that supported SB in 1994 than in control firms. The IV results confirm the OLS ones, with larger effects.

Finally, we inspect the potential mechanisms which may have determined the abnormal growth of SB's supporters. Firms endorsing SB may have recorded higher sales because they received favors in terms of lower prices for publicity from SB's TV and advertisement companies (Della Vigna et al. 2016). Supporters may have obtained better access to finance (Khwaja and Mian 2005) or enjoyed favors directly in terms of public procurement (Coviello and Gagliarducci 2017) or regulation. We test these hypotheses using the methodology first introduced by Rajan and Zingales (1998). For each mechanism, we construct an index that captures the importance of the mechanism for each sector, such as the share of advertising expenditures over sales for advertising, and similarly for the others. We then test if the advantage of being a supporter of SB is larger the stronger the importance of the mechanism for a sector. We find some evidence that the effect is stronger in sectors with high external financial dependence and with a high advertising intensity, while no support emerges for the public procurement and the regulation channels.

Our results are related to many studies which highlight the importance of political connections

and in particular to those that look at specific historical episodes. For example, Ferguson and Voth (2008) study firms that either financed Hitler's German National Socialist Worker's Party or advised Hitler on economic issues. They find that these firms' stock prices significantly outperformed similar competitors: the mere announcement of the new political connection results in a significant increase in the firm's value in 1933. We find a similar pattern in terms of firm performance indicators (different from the stock value) applied to a recent case of founding of a new political party in the very different situation of a democratic country. Another recent literature –mostly focused on the US– has analyzed contributions to parties and political campaigns, arguing that they are similar to investment opportunities for firms. Scholars have documented that politicians in positions that grant power over firms, such as committee chairs in Congress that deal with regulation or firm aid, receive greater contributions (Ansolabehere and Snyder 2000, Grier and Munger 1991). Also, the contributions of political action committees run by firms and industry associations are tied to the likelihood of a politician succeeding in the bid for office, while individual contributions are not (Ansolabehere and Snyder 2000). This paper is one of the few that looks at firm support (unfortunately we do not have contributions) for a political party and the performance of those firms in a European country. Politically connected firms typically derive gains from their connections through different mechanisms: for example, Cull and Xu (2005), Johnson and Mitton (2003), and Khwaja and Mian (2005) find evidence of preferential access to credit; Backman (1999) and Dinc (2005) of preferential treatment by government owned banks; Agrawal and Knoeber (2001) of preferential treatment in the award of government contracts and Faccio et al. (2006) in bailouts. In this paper we look at several mechanisms that can explain the better performance of early supporters of SB.³

The remainder of the paper is organized as follows. Section 2 provides background information on the evolution of Italy's political system before and after 1994 and on SB's electoral victory. Section 3 describes the data used in the empirical analysis. Section 4 discusses the identification strategy. Section 5 presents both the OLS and IV results. Section 6 analyzes the potential channels and Section 7 concludes.

³Other papers look at illicit connections between firms and political parties: see Cull and Xu (2005), and Hellman et al. (2003) for a discussion of bribes, and Bertrand et al. (2005) for vote-buying behavior; Bertrand et al. (2005) discuss the employment consequences of connections and their impact on voting for politicians. Another literature looks at direct involvement of firms' managers in politics: for Italy, Cingano and Pinotti (2013) and Faccio et al. (2006) study the role of political connections defined in terms of a direct political appointment in the local government by a firm's employee, showing that they improve firm performance in terms of sales and employment but not of productivity.

2 Italy in 1994 and SB's Entry into Politics

The party *Democrazia Cristiana* (*Christian Democracy*) uninterruptedly governed Italy from 1948 to SB's victory in 1994, sometimes in coalition with the Socialist Party (*Partito Socialista Italiano*). The coalition governed with the intent of excluding from power the largest communist party of western Europe (*Partito Comunista Italiano*). SB started his entrepreneurial career in the construction business but became famous as the owner of the three most important private national TV channels (the other three being public) since the 1980s.⁴ He entertained strong ties with the leader of the socialist party Bettino Craxi. Indeed, Craxi was among the first ones to recognize the potential impact of commercial TV and played a crucial role in ensuring the survival and further consolidation of SB's media empire, issuing in 1984 a decree that overruled the courts decision to block commercial broadcasting. Due to his TV business, SB had the opportunity of introducing himself directly in the political world. Concurrently he run an advertising company –*Publitalia*– and had majority shares in a newspaper –*Il Giornale*– and the most important Italian publishing company –*Mondadori*. His business interests have always been vast and as of 1994, around 2000 firms were on the list of clients of *Publitalia* in terms of TV and newspapers advertisement. The TV system in particular was a duopoly with two players, SB's Mediaset and the public television RAI.⁵

The Italian political landscape came to an abrupt turning point in the early nineties. Following the fall of the Berlin wall, the former communist party became the Democratic Party of the Left, embracing the values of Western democracies and adopting a social-democratic political platform. These international and national changes, deeply intertwined, implied the end of the de-facto exclusion of the Democratic Party from the Government. As a consequence, the judiciaries were for the first time able to investigate corruption of the governing coalition and this led to the outbreak of a series of corruption scandals (known as *Tangentopoli*, Italian for “Bribeville”) for which, between 1992 and 1993, the entire leadership of *Democrazia Cristiana* and *Partito Socialista Italiano* was put on trial. The governing parties paid a heavy toll to the scandals and virtually disappeared from the political scene while the *Partito Democratico della Sinistra*, the heir of the communist party, was left virtually unscathed. When early elections were set to be held in March 1994, all the polls were predicting the

⁴See Barone et al. (2015) for the influence of television on voting behavior in Italy.

⁵Della Vigna et al. (2016) study the allocation of advertising expenditure between the two over the years in which SB was in power rather than in opposition, finding that on average firms increased their advertising expenditures on SB's TV channels after his successful entry into politics.

victory of the only large party left on the political scene: the party of the left.

According to several of his long-time associates, and to his own account (he denied any interest in entering politics until the very last day), SB had no intention to get personally involved in politics until three months before the elections. The reasons for his candidacy were double faced: on one side he believed that there was a political vacuum on the center right; on the other side many commentators insist that his firms, in particular the television business, were having very difficult times: the group faced serious financial difficulties, had lost its political sponsors, and feared the electoral success of the *Partito Democratico della Sinistra* - the heir of Italy's Communist Party - which had pledged to restrict the influence of private television and advocated a general reform of the media industry. Eventually, he decided to enter politics only in December of 1993, three months before the elections, and he announced the creation of a new political party, *Forza Italia*, in a famous speech on one of his TV channels.

Due to the very short time before the elections, the search for support for the new party started among the lists of SB's business friends. The party coordinators and many of the top candidates were selected from the ranks of his media and advertising companies, *Mediaset* and *Publitalia*; the selection and training of candidates was entirely entrusted to *Publitalia* (Hopkin and Paolucci 1999). More relevant for this paper, the initial support and financing was explicitly sought among the clients of *Publitalia* in a series of events in early 1994. Newspaper accounts exist of entrepreneurs who were in favor of SB's political venture and of those who were against.

The attempt was successful and in March 1994 *Forza Italia* became Italy's most voted party with 21% of the votes and the center-right coalition gained a solid majority in both branches of Parliament. On May 10th 1994 SB became prime minister, however his first government lasted only until January 1995 when the *Lega Nord* (*Northern League*) withdrew its parliamentary support. SB remains until today the leader of his party and prevailed by a large margin in general elections in 1994, 2001, and 2008, and lost by a very small margin in 1996, 2006, and 2013. According to many commentators, SB's control of commercial TV has been decisive both for his early electoral success and for his extraordinary political longevity (Durante et al. 2019). Equally important is the network of supporters in the business community.

3 Data

We aim to estimate the long-term impact of the early support of the newly founded party in 1994. To do so, we need information on which firms were the initial supporters of SB and a suitable control group.

We use three sources of information to identify firms which gave early support to SB's new party Forza Italia. We start from a list of firms which supported SB in 1994 that appeared on the web in 1994/1995 (the web was in its infancy at the time but the names of the firms in the list also appeared in newspaper articles). The list was produced by a group of activists who gathered around the name "*Boicotta il Biscione*" (i.e. *boycott the big Snake*, still today the Snake is the symbol of SB's TV empire) and created several groups around Italy with the purpose of boycotting firms that supported SB. These groups diffused very rapidly around Italy and counted several thousands of affiliates in 1994. Since the list of firms was compiled by detractors of SB, we verified the identity of the supporters of SB with the founders of the party and –to err on the side of caution– we include in the treatment group only those firms whose support is uncontroversial. We do not know whether the firms contributed with money or how much they contributed. We know that the firms' representatives (in the person of the CEO or the owner) expressed public appreciation for SB's entry into politics.

The second source is the list of official contributors at the Senate (there is no equivalent for the Chamber of Deputies because at those times the internal rules imposed a public registry of contributions only in the Senate) in the 1994 elections: this list is small and overlaps mostly with elected Senators. The third list is of 61 elected officials in SB's party in Parliament, Regional or local councils who were also (immediately before the election) president or CEO of firms. In fact, as a result of SB's initiative, many entrepreneurs entered into politics for the first time (Coviello and Gagliarducci 2017). We include their firms in the list of treated firms on the reasonable assumption that the firms supported SB attempt. At the end of this process, we select a treatment group of 101 firms which supported SB in 1994.

Data on firms performance are obtained from the Company Accounts Data Service (*Centrale dei Bilanci*), which provides detailed information on a large number of balance-sheet items since the early 1980s, together with a full description of firm characteristics (such as location, age, sector, ownership structure), plus other variables of economic interest usually not included in balance sheets, such as

employment and flow of funds. Company accounts are collected for more than 30,000 firms per year by the Service, which was established jointly by the Bank of Italy, the Italian Banking Association and a pool of leading banks to gather and share information on borrowers. Since banks rely heavily on these data when granting and pricing loans, they are subject to extensive quality controls by a pool of professionals.

Table 1 displays the basic descriptive statistics of the main variables we consider for our empirical analysis. The table reports the values of the firms supporting *Forza Italia* besides the values of the entire sample for the period 1984-2011. Clearly, supporters are larger and older than the average firm in the population. As we describe in details below, we will apply a matching technique to select an appropriate sample of controls.

Table 1: Descriptive Statistics

	<i>Entire Sample</i>		<i>SB's supporters</i>	
	<i>Mean</i>	<i>Std. Dev.</i>	<i>Mean</i>	<i>Std. Dev.</i>
<i>Sales</i>	18,644	162,635	527,223	1,792,472
<i>Employees</i>	78	906	1,437	6,914
<i>Value Added</i>	4,212	77,420	85,384	297,928
<i>Firm age in 1993</i>	17.62	14.03	28.26	24.60
<i>Total Assets</i>	19,580	444,751	371,598	1,256,973
<i>Physical Capital</i>	5,711	271,166	67,692	286,671
<i>Labour Costs</i>	2,535	34,997	53,265	220,585
<i>Leverage</i>	37.53	1,152.98	24.63	19.72
<i>North</i>	0.67	0.47	0.71	0.45
<i>Center</i>	0.19	0.39	0.19	0.40
<i>South</i>	0.08	0.28	0.08	0.27
<i>Islands</i>	0.05	0.22	0.01	0.11
<i>Agriculture</i>	0.01	0.09	0.00	0.00
<i>Mining (energy)</i>	0.00	0.02	0.00	0.00
<i>Mining (non-energy)</i>	0.01	0.08	0.00	0.00
<i>Construction</i>	0.08	0.28	0.01	0.10
<i>Utilities</i>	0.00	0.06	0.00	0.00
<i>Manufacturing</i>	0.51	0.50	0.76	0.43
<i>Business Services</i>	0.21	0.41	0.08	0.27
<i>Other services</i>	0.18	0.38	0.15	0.36
N. of firms	62,848		101	
N. of observations	1,001,250		2,229	

Notes: Descriptive statistics computed from the *Centrale dei Bilanci* Dataset. Sales, value added, total assets, physical capital and labor costs are expressed in nominal euros.

4 Estimating framework and identification

In this section we illustrate the estimating framework and discuss identification.

4.1 Estimating framework

Our estimates are based on a difference-in-difference framework. We first consider the following equation

$$\ln y_{it} = \alpha_0 + \alpha_1 D_t \times SB_i + T_t + F_i + \epsilon_{it} \quad (1)$$

where, for firm i and year t , y is an indicator of firm performance, SB_i is a dummy that takes the value of 1 if the firm i was an early supporter of SB and 0 otherwise, $D_t = 1$ if $year > 1994$, T_t are year fixed effects, F_i are firm fixed effects (hence SB_i direct effect is absorbed) and ϵ is the error term. The coefficient α_1 quantifies the average effect of supporting SB during the period 1995-2011. We also estimate an extended difference-in-difference equation including the interaction of the variable SB with the different year dummies T_t :

$$\ln y_{it} = \alpha_0 + \sum_{\tau=1984}^{\tau=1993} \alpha_{\tau}^{PRE} T_{\tau} \times SB_i + \sum_{\tau=1995}^{\tau=2011} \alpha_{\tau}^{POST} T_{\tau} \times SB_i + F_i + \epsilon_{it} \quad (2)$$

In this way, the significance of the estimates of the coefficients α^{PRE} will show whether there are any anticipatory effects, while the estimates of α^{POST} will provide the temporal dynamics of having supported SB in 1994.

4.2 Matching

The key challenge for our exercise is to identify a suitable control group, that is, a set of firms whose performance is on average similar to that of the supporters, apart from the effect of the political connection itself. To do so, we do not compare the 101 supporters of SB to all the firms – more than 60,000 – present in the database, which, as seen in Table 1, are on average very different. Instead, we limit the analysis to firms which are most comparable to supporters in terms of their observable characteristics. More specifically, we use nearest neighbor matching to select those firms in the control group whose characteristics are closest to those of the 101 firms that actually supported SB. We use the

propensity score method running a probit estimation of the probability of supporting SB in 1994 on “pre-treatment” characteristics. The propensity score is the probability of treatment (i.e., supporting SB) conditional on pre-treatment characteristics: The idea is to match treated and controls whose ex ante probability of receiving treatment as predicted by their pre-treatment *observable* characteristics is identical. By pre-treatment we intend characteristics observed over the period 1990-1993 (for balance sheet variables we take the average).

The use of the matching procedure has the advantage that, being control and treated firms similar, the efficiency of the estimates increases with respect to the standard difference-in-difference (Abadie and Imbens 2006). Table A1 in the Appendix displays the results of our probit estimates. Figure A1 in the Appendix shows the comparison between the distribution of the estimated propensity scores of the treated and the control firms showing an overlap of the distributions.

Table 2: Matched Sample of Treated and Controls

	<i>Matched SB's supporters</i>		<i>Matched Controls</i>	
	<i>Mean</i>	<i>Std. Dev.</i>	<i>Mean</i>	<i>Std. Dev.</i>
<i>Sales</i>	507,538	1,803,854	476,848	1,502,103
<i>Employees</i>	1,380	6,963	917	1,996
<i>Value Added</i>	79,189	296,272	90,946	283,663
<i>Firm age in 1993</i>	28.58	24.73	31.51	26.45
<i>Total Assets</i>	359,802	1,264,205	502,734	1,670,375
<i>Physical capital</i>	65,534	288,453	170,734	902,012
<i>Labour Costs</i>	50,902	221,877	39,116	85,696
<i>Leverage</i>	24.80	19.83	27.33	36.96
<i>North</i>	0.72	0.45	0.77	0.42
<i>Center</i>	0.19	0.39	0.15	0.36
<i>South</i>	0.08	0.27	0.07	0.25
<i>Islands</i>	0.01	0.11	0.01	0.11
<i>Manufacturing</i>	0.76	0.43	0.70	0.46
<i>Construction</i>	0.01	0.10	0.01	0.08
<i>Business Services</i>	0.08	0.28	0.17	0.38
<i>Other Services</i>	0.14	0.35	0.12	0.33
N. of firms		99		99
N. of observations		2,186		1,886

Notes: Descriptive statistics computed from the *Centrale dei Bilanci* Dataset. Sales, value added, total assets, physical capital and labor costs are expressed in euros.

We choose the explanatory variables of the probit based on geographical location and different accounting variables shown in Table 1: age, total assets and physical capital. We obtain estimated

propensity scores for all 101 supporters and for about 50,000 controls. On the basis of the estimated propensity score, for each treated firm we search for the control whose propensity score is closest to that of the treated firm (nearest neighbor matching). The final matched sample is constituted by 99 treated and 99 control firms and all control firms that do not qualify as a nearest neighbor are discarded from the further analysis.⁶

Matching gives us a better control group and reduces the bias to the extent that it manages to largely remove the pre-treatment differences between the treatment and control group. Table A2 reports the values of the T-test of year-by-year difference of the three main outcome variables (employment, sales and value added) between the treatment and the control group in the pre-treatment period. The F-test reported at the end of the table shows that we cannot reject the test of equality of the variables in treated and control firms over the years 1984-1993. Overall, the table shows that there are no significant differences pre-treatment. The absence of pre-trends is an identifying assumption of our strategy and confirms that firms that decided to support SB in 1994 were not already on a different trend before 1994 relative to controls.

5 Results

5.1 OLS estimates

Table 3 reports the results for the OLS estimates of equation (1). The estimates indicate a positive and significant effect of supporting SB for (the log of) labor, sales and value added. Early supporters of SB in 1994 have on average a between 35% and 54% better performance than the control group of firms in terms of employment, value added and sales. The OLS results are positively significant also for sales per worker but this result is confirmed only in the period 2001-2005 (see Table 4 below) and it is not confirmed by the IV estimates (see Table 5 below). Moreover, the effect is zero for the other measure of productivity i.e. value added per worker. We therefore conclude that supporting SB had a positive effect on firms' employment growth, value added and sales, while evidence is mixed for the effect on productivity.

⁶Based on the estimated propensity score, we use nearest-neighbor matching (without replacement) to combine treated and control observations. We impose a caliper (i.e., radius) of 0.05, i.e., treated firms that have no comparison unit and whose estimated propensity score is within 0.05 of their own estimated propensity score are dropped to avoid bad matches: for this reason we lose 2 of the 101 treated firms.

Table 3: Effect on Firms' Performance: OLS Regressions (First Part)

Dependent variable:	$\text{Log}(\text{empl.})$	$\text{Log}(\text{sales})$	$\text{Log}(\text{value added})$	$\text{Log}\left(\frac{\text{sales}}{\text{labor}}\right)$	$\text{Log}\left(\frac{\text{value added}}{\text{labor}}\right)$
$D_t \times SB$	0.42***	0.54***	0.35***	0.12**	-0.03
	(0.05)	(0.07)	(0.05)	(0.05)	(0.04)
Adjusted R^2	0.85	0.76	0.83	0.61	0.47
N. of observations	4,072	4,072	3,985	4,072	3,985

Firm and year fixed effects included in all regressions. Robust standard errors. Significance at the 90%, 95%, and 99% confidence levels are indicated by *, **, and ***, respectively.

Over the time span covered by our data, SB had spells in office as prime minister and others as leader of the opposition. Specifically, SB was prime minister in the periods 1995-1995, 2001-2005, 2008-2012 and leader of the opposition in 1996-2000 and 2006-2007. An interesting question is to what extent the effect of being a supporter changes between periods in which SB was prime minister and those in which he was not. Table 4 estimates the model separating between the different phases of SB political leadership. We find no effect in the first year in which SB was in power. For the other periods, we always find a significant effect on employment, sales and value added, and similar across periods in which SB was in power and at the opposition. Both the lack of effects in the first year and the fact that they are not different in periods in which SB was in office or not could be due to a variety of reasons. First, differently from the forward-looking, stock market-based performance measures used for example by Ferguson and Voth (2008), political connections take time to show up in our accounting-based measures of performance. Second, even when not in office, SB was still the head of the opposition and natural prospective candidate in the next elections (which he always won after a period in opposition). Finally, even when not in power as prime minister, his party was still in power in many local administrations. For example, Forza Italia governed continuously from 1995 the important region of Lombardy, that accounts for 22% of national GDP. This results indicate that, at least in a system like Italy, where politicians have long political careers and are in and out of office recurrently, being connected to a powerful politician can be beneficial even when she is not directly in office.

Figure 1 reports the estimated coefficients and the 5% confidence intervals of the treatment indicator in Equation 2, that is, separately for each year. This allows to assess the time evolution of the treatment effect. It shows that the difference between treated and control firms grows after 1994 and

Table 4: Effect on Firms' Performance: Electoral Cycles. OLS Regressions.

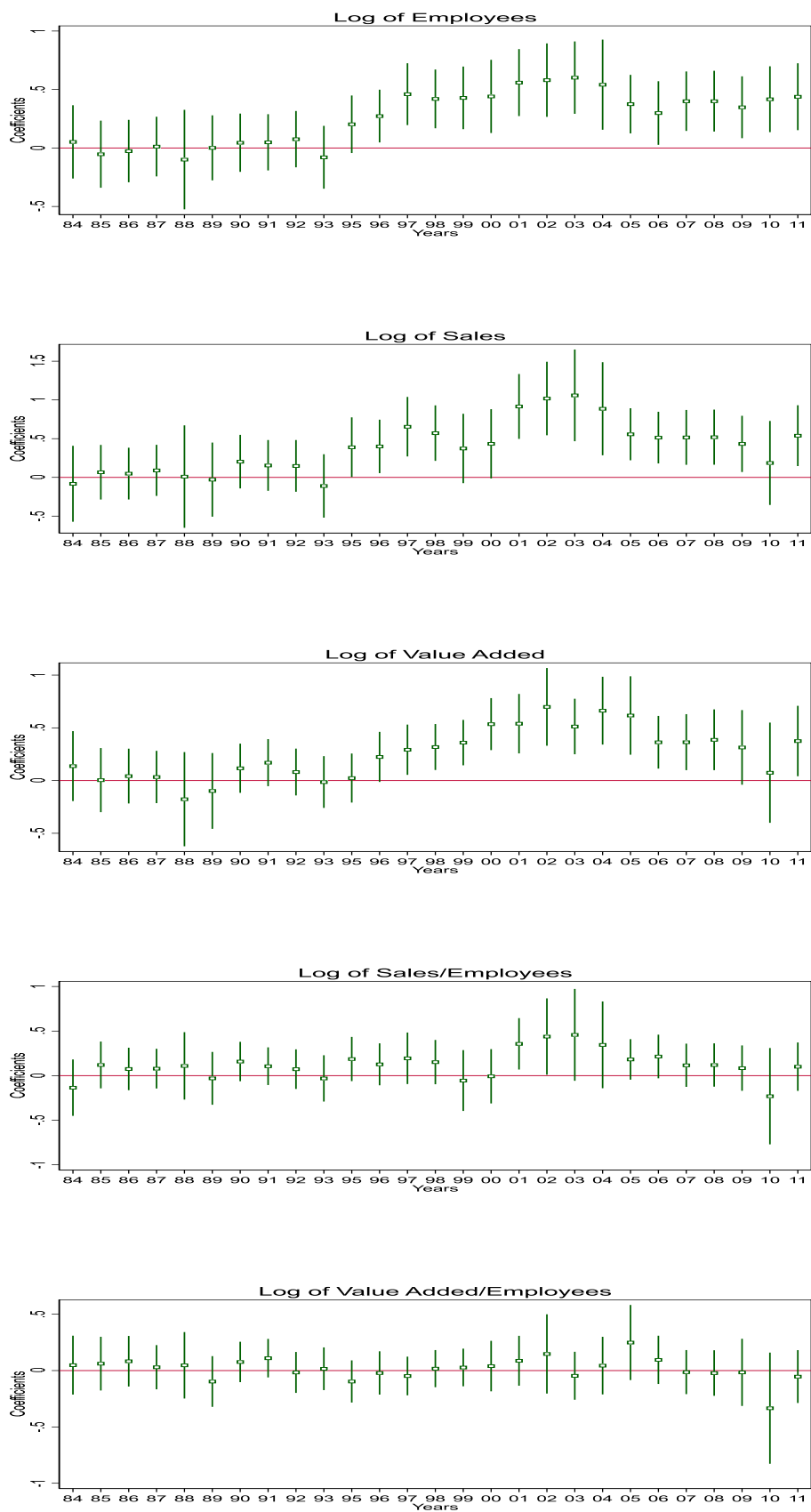
Dependent variable:	$\text{Log}(\text{empl.})$	$\text{Log}(\text{sales})$	$\text{Log}(\text{value added})$	$\text{Log}\left(\frac{\text{sales}}{\text{labor}}\right)$	$\text{Log}\left(\frac{\text{value added}}{\text{labor}}\right)$
$I(1994 - 1995) \times SB$	0.07 (0.07)	0.10 (0.11)	-0.04 (0.07)	0.03 (0.07)	-0.07 (0.05)
$I(1996 - 2000) \times SB$	0.40*** (0.06)	0.42*** (0.09)	0.32*** (0.05)	0.02 (0.07)	-0.02 (0.04)
$I(2001 - 2005) \times SB$	0.51*** (0.07)	0.81*** (0.11)	0.55*** (0.08)	0.30*** (0.09)	0.07 (0.07)
$I(2006 - 2007) \times SB$	0.32*** (0.08)	0.43*** (0.09)	0.31*** (0.08)	0.11 (0.07)	0.01 (0.06)
$I(2008 - 2011) \times SB$	0.37*** (0.06)	0.33*** (0.10)	0.23** (0.09)	-0.04 (0.09)	-0.13 (0.08)
Adjusted R^2	0.85	0.77	0.83	0.61	0.47
N. of observations	4,072	4,072	3,985	4,072	3,985

Firm fixed effects included in all regressions. Robust standard errors. $I(\cdot)$ indicates a dummy for the period in parentheses. Significance at the 90%, 95%, and 99% confidence levels are indicated by *, **, and ***, respectively.

stabilizes around 2000 for employment, sales and value added. The growing difference in sales, value added and employment between treatment and control firms proceeds in similar fashion for all three variables, so that the result is a flat profile of productivity measures - only in two years the sales per workers estimates are marginally significant.

In terms of pre-trend, none of the coefficients is significant in the pre-treatment period and no significant trend emerges: treatment and control firms were evolving the same way. The fact that there are no pre-existing trends lends support to our causal interpretation of the effects of supporting SB on firm performance.

Figure 1: Year-by-year coefficients of the treatment indicator with 5% C.I.



5.2 IV estimates

The OLS results are based on the assumption of the conditional orthogonality (conditional on the matching procedure) between the decision to support SB and the error term in Equation 1. Of course, our matching procedure is based on observable firm characteristics and we cannot exclude that some unobservables (to the econometrician) affect both firm performance and the decision to support SB. For example, managerial ability of the firm's boss may be a driver of both the choice to support SB and the firm's success: better entrepreneurs might have a better vision of the evolution of the economic and political landscape, which could have induced them both to become supporters and to make better decisions for firm's growth.

To tackle this issue, we instrument the decision to support SB with political orientations at the local level. We use the percentage of votes obtained by the so-called *Blocchi Nazionali* (National Blocks), an electoral coalition formed by the liberal and the fascist movement during the elections of 1921, the last democratic elections before the fascist period (1923-1943). We obtain data on the results of the 1921 Italian elections by province from Corbetta and Piretti (2009), which report the electoral results of all Italian elections for the 1861-2008 period.⁷

The 1921 elections - *per se*- are relevant for historical reasons. In the early 1920s Italy was going through an extremely turbulent social and political phase, inherited from the World War I. Peace treaties among European countries generated new international tensions and political instability; the Italian government faced an increasing level of poverty, involving especially war veterans and manual workers; the 1917 Russian Revolution spread revolutionary ideas both in Italian cities and in the countryside, especially via the Italian Socialist and Communist party (see, e.g., De Felice (1967) and Dombroski (2006)). Against this background, in 1921 Giovanni Giolitti, Italian Prime Minister and leader of *Partito Liberale Italiano* (Italian Liberal Party), proposed an electoral alliance to Benito Mussolini, the leader of the *Partito Nazionale Fascista* (National Fascist Party). According to one of the most renowned experts of the history of fascism in Italy, the historian Renzo De Felice, despite completely different political views, Giolitti and Mussolini agreed on a *camouflage* operation to share their electorates and defeat with a "*middle-class revolution*" the Bolsheviks of the socialist block.

⁷Note that, differently from Ferguson and Voth (2008), who consider as instrument for support of the Nazi party in 1933 the vote to the Communist party during the elections that paved the way to Hitler's power in that same year, our instrument is the election results several decades earlier (see Section 5.2 for details).

In this operation, the *Blocchi Nazionali* also appealed to the catholics, who had previously voted the *Partito Popolare Italiano* (Italian People’s Party) and who feared the anti-religion agenda of the socialist block (De Felice 1967).

Formally, we instrument the variable SB of equation (1) with BN_p , i.e., the percentage of votes obtained by the *Blocchi Nazionali* in 1921 in province p where firm i is based today:⁸

$$\ln y_{it} = \alpha_0 + \alpha_1 D_t \times SB_i + T_t + F_i + \epsilon_{it} \quad (3)$$

$$SB_i = \beta_0 + \beta_1 D_t \times BN_p + T_t + F_i + \nu_{it} \quad (4)$$

There are several reasons for choosing the 1921 election results instead of more recent ones. First of all, the exclusion restriction is less likely to hold for electoral outcomes after World War II. In fact, local development policies were heavily influenced by the local electoral appeal of the two main parties, i.e., the Christian Democrats and the Italian Communist Party (Galli and Prandi 2014); in addition, the Marshall Plan of the post war years had the explicit goal of reducing the appeal of the Communist Party by fostering local growth, particularly in areas where the communist ideas were more popular: and, as Giorcelli (2019) shows, such programs had a strong impact on firms performance. Second, the 1921 elections are also appealing in terms of the power of the instrument. As shown by sociologists and electoral analysts (Diamanti and Mannheimer 1994), the votes of the Christian Democrats and of the Communist Party pre-1994 do not explain the propensity to vote for *Forza Italia*, indicating that 1994 represented a structural break in the Italian political history.⁹ Instead, there are some striking similarities between the 1921 and 1994 elections. First, SB explicitly stated in his candidacy speech that he would run to “save the country I love from the communists”. Second, some media and the left political block stressed the potential fascist component in SB’s coalition: SB’s ally was Gianfranco Fini of Movimento Sociale, the heir of the Fascist party which came to power with SB for the first time in its history. As matter of example, the Italian news magazine *L’Espresso* pictured SB dressed with a fascist uniform. Moreover, to signal a fresh start after the corruption scandals, the Christian Democrats adopted the name of *Partito Popolare* as an explicit homage to the 1920s catholic party. However, the party leaders were coming from the ranks of the Christian Democrats

⁸In these regressions we use a slightly ismaller sample since the National Block did not participate in 5 provinces in Italy.

⁹Indeed, in the political debate the phase that starts with the 1994 elections is commonly referred to as “*Seconda Repubblica*” (Second Republic).

and their political appeal was low, so that a large part of catholic voters were up for grabs: and, as in 1921, the anti-communist rhetoric of SB was particularly appealing to the more conservative ones.

The use of voting results in elections far in the past as an instrument for today's political preferences is supported by the evidence presented by political scientists (e.g., Beck and Jennings (1991) and Jennings et al. (1997)) who document the long-run intergenerational transmission of political values, especially for right-wing parties.¹⁰ These results have also been confirmed by the recent study of Cantoni et al. (2017), who found that the vote for the German party *Allianz für Deutschland* (Alliance for Germany) today is strongly correlated with the historical support of the Nazi party in the mid-1930s. In fact, the F-test of our first stage regression in Table 5 confirms the high correlation between the firms' decision to support SB and the percentage of votes for the *Blocchi Nazionali* in 1921 in the province where the firm is located.

The validity of the exclusion restriction is based on the fact that the vote at the provincial level in 1921 is unlikely to be correlated with the performance of firms in recent periods. Firm fixed effects control for time-invariant firm characteristics that may influence their performance and year fixed effects control for macroeconomic effects common to all firms. To provide some evidence in favor of our assumption that the instrument is uncorrelated with the error term in equation 1, we regress the percentage of votes for the *Blocco Nazionale* in province p in 1921 on the net firm entry rate in 2009 in the same province: the result is an insignificant -0.03.¹¹

We report the IV estimates in Table 5, where, given the number of years and firms in our dataset, we correct the heteroschedasticity of the standard errors following the procedure introduced by Stock and Watson (2008). The results confirm that supporting SB had a positive effect on employment, value added and sales relative to the control group. The IV estimates are between two and three times higher than the OLS ones. One possible explanation for the increase in the coefficient is measurement error in the supporter dummy. In the process of identifying supporters we were very careful in making sure to avoid false positive, that is, the inclusion among the supporters of firms that in reality were not supporter. As a consequence, we cannot exclude that some control firms were actually supporters, that is, we cannot fully rule out some false negative. A more structural interpretation is that, if

¹⁰These assumptions are also related to the work of Giuliano and Nunn (2017) in which cultural traits and behaviors have long-run roots and resurface in specific circumstances.

¹¹The data on entrepreneurial activity at province level is taken from the website of the Italian Chamber of Commerce Association, <https://www.infocamere.it/en/movimprese>.

anything, unobserved heterogeneity determining the decision to support SB is negatively correlated with the firm’s growth prospects. This could be due to the fact that, among supporters, some had grim prospects and took the risky bet of supporting SB to “gamble for resurrection”. As before, the evidence on productivity is mixed: while the effect is not statistically significant for sales per worker, it is significant (at 5%) for value added per worker.

Table 5: Effect on Firms’ Performance: IV Regressions

Dependent variable:	$\text{Log}(\text{empl.})$	$\text{Log}(\text{sales})$	$\text{Log}(\text{value added})$	$\text{Log}\left(\frac{\text{sales}}{\text{empl.}}\right)$	$\text{Log}\left(\frac{\text{value added}}{\text{empl.}}\right)$
$D_t \times SB$	0.57*	1.12*	1.43***	0.55	0.87**
	(0.31)	(0.65)	(0.42)	(0.54)	(0.37)
$F - test$			64.91		
N. of observations	3,627	3,627	3,561	3,627	3,561

Firm and year fixed effects included in all regressions. Heteroschedasticity-robust standard errors following Stock and Watson (2008). Significance at the 90%, 95%, and 99% confidence levels are indicated by *, **, and ***, respectively.

The effects estimated separately year-by-year (see appendix Table A3) confirm that the difference between the treatment and the control group is significant only after 1994 (with two exceptions for employment, where we get significant effect at 10% in 1988 and 1991). The estimates are almost never significant for the productivity measures. All in all, the IV estimates confirm and reinforce the OLS ones.

6 Mechanisms

Having established the results, we try to shed light on the possible mechanisms that drive them. We test multiple mechanisms with a common empirical strategy: we interact the indicator of the decision to support SB with an industry-level index that measures the importance of the mechanism for each sector. An example will clarify the approach. Suppose that the mechanism operates through public procurement, that is, supporters are more likely to win public contracts. If this is the case, then we should find that the difference between treated and control firms is higher in sectors in which public procurement is an important component of sectoral demand, while it is small or zero in sectors with little or no public procurement.

Formally, we estimate the following equation:

$$\ln y_{it} = \alpha_0 + \alpha_1 D_t \times SB_i + \alpha_3 D_t \times M_j + \alpha_4 D_t \times M_j \times SB_i + T_t + F_i + \epsilon_{it} \quad (5)$$

where j is the sector to which firm i belongs and M_j measures the relevance of the particular mechanism for sector j . The coefficient of interest is α_4 : if it is positive, it implies that supporters of SB did better compared to the control group, the more relevant the specific mechanism for firm performance. In fact, $\partial y_{it} / \partial SB_i = \alpha_1 D_t + \alpha_4 D_t \times M_j$.

The first potential mechanism is the link to the Public Administration. Politically connected firms may be favored by a distorted use of public procurement (see David et al. (2012) on the most striking case in the US: Dick Cheney and Halliburton in Iraq). The link can be legitimate (e.g., knowledge about how to navigate government bureaucracies) or not; in the literature the references are to *greasing the wheel* vs. *grabbing hands*. We construct a measure of sectoral dependence from the demand from the public administration following Cingano and Pinotti (2013). We take the Input-Output table from Italy in 1992 and we build a sectoral index based on the following ratio: $\frac{\text{Sales to public sector}}{\text{Total sales}}$.

A second potential mechanism is the favorable regulation enjoyed in consequence of lobbying activity in some sectors (lobbies and congressmen feathering their own nest, Stigler (1971)). A government may implement some specific regulations that favor some firms over others. This is more likely to occur the more important regulation is for the sector, for example in telecommunications, transportation and utilities. We measure the role played by regulation borrowing the so-called Italian Government Index from Pellegrino and Zingales (2017). This index is constructed as the percentage of news articles on regulation policy and government aid and contracts of the total news articles regarding each sector in Italy published by the *Dow Jones*, the *Financial Times*, *Reuters*, and the *Wall Street Journal* during the time interval 1984-2017.¹²

Next, we construct two indexes of the importance of external financial needs and advertisement expenditures at the sectoral level using the information on American listed companies from the *Compustat Annual Updates* in 1993. As argued by Rajan and Zingales (1998), it is in fact important that the measure of dependence is exogenous with respect to country characteristics. The identifying assumption is that financial dependence and the incidence of advertising expenditure in US sectors

¹²More formally, the authors checked whether the articles have either “Government Contracts” or “Regulation, Government Policy” as topic.

is a good proxy for those in the same sectors of the Italian economy. The sectoral index of financial dependence is again due to Rajan and Zingales (1998): we rank all sectors according to the median value of the exposure calculated across all firms in that sector.¹³ Similarly, the index for advertising expense at the sectoral level is the median value of the ratio between advertising expense (Xad) and value added.

The results are reported in Table 6. We find some evidence for the access to credit channel. In fact, supporters in sectors with higher financial dependence record a higher growth of employment, but not of sales or valued added. Interestingly, these firms underperformed the control ones in terms of productivity growth, suggesting that capital was not allocated efficiently. To further corroborate these result we have also looked at the effect on the main financial variables at the firm level (results unreported for brevity): financial debt and leverage, bank debt and leverage and the ratio between interest payments and bank debt (a measure of abnormally low interest payments). We find that treated firms tend to have higher financial debt.

There is also some supporting evidence for the advertising channel, for which the effect shows up mostly in terms of sales. This is not surprising, as this is indeed the most direct effect of advertising. Differently from the financial channel, we find no negative effects on productivity. Instead, we find no significant effect of public procurement and regulation.

7 Conclusions

The fall of the Berlin wall started an unexpected, peaceful revolution in Italian politics, with the traditional parties that had been in power since the end of the second world war swept away by corruption scandals and the former communist party having for the first time the possibility of winning the elections. Against this scenario, SB founded a new political party just three months before the elections and won them. The peculiarities of the foundation of the new party (the haste of the moment, the initial request for money and support based on the network of SB's clients, the organization of the new party structure and the selection of local candidates directed to his pre-existing business network) make it a unique case to study the relationship between early support of a (successful) political party

¹³More precisely, following Philippon and Gutierrez (2017), we construct this index as capital expenditure minus cash flow from operations divided by capital expenditures: $\frac{capx - (fopt + recch + invch + apalch)}{capx}$ if the cash flow statement are in form 1, 2 or 3, and $\frac{capx - (ibc + dpc + txdc + esubc + sppiv + fopo)}{capx}$ if the cash flow statement is 7.

Table 6: Effect on Firms' Performance: Channels

Dependent variable:	$\text{Log}(\text{empl.})$	$\text{Log}(\text{sales})$	$\text{Log}(\text{value added})$	$\text{Log}\left(\frac{\text{sales}}{\text{empl.}}\right)$	$\text{Log}\left(\frac{\text{value added}}{\text{empl.}}\right)$
<i>Credit Channel</i>					
$D_t \times SB$	0.95*** (0.15)	0.65*** (0.24)	0.39** (0.19)	-0.30 (0.20)	-0.49*** (0.17)
$D_t \times RZ$	0.02 (0.14)	-0.13 (0.19)	0.15 (0.13)	-0.15 (0.16)	0.16 (0.12)
$D_t \times RZ \times SB$	0.71*** (0.20)	0.15 (0.31)	0.03 (0.25)	-0.56** (0.26)	-0.65*** (0.21)
Adjusted R^2	0.85	0.76	0.83	0.60	0.46
N. of obs	3,996	3,996	3,909	3,996	3,909
<i>Advertising Channel</i>					
$D_t \times SB$	0.23 (0.16)	-0.24 (0.32)	0.45*** (0.16)	-0.47* (0.25)	0.14 (0.14)
$D_t \times ADS$	-0.01 (0.19)	-0.81* (0.44)	0.27* (0.16)	-0.80** (0.35)	0.09 (0.18)
$D_t \times ADS \times SB$	0.20 (0.21)	1.17** (0.47)	-0.18 (0.23)	0.97*** (0.37)	-0.17 (0.21)
Adjusted R^2	0.84	0.75	0.82	0.60	0.44
N. of observations	3,384	3,384	3,303	3,384	3,303
<i>Public Procurement</i>					
$D_t \times SB$	0.44*** (0.07)	0.59*** (0.10)	0.38*** (0.08)	0.15* (0.08)	-0.08 (0.07)
$D_t \times Procurement$	-0.01 (0.08)	0.03 (0.12)	0.16** (0.07)	0.03 (0.09)	0.09 (0.06)
$D_t \times Procurement \times SB$	-0.08 (0.10)	-0.16 (0.15)	-0.07 (0.11)	-0.08 (0.11)	0.10 (0.09)
Adjusted R^2	0.85	0.77	0.83	0.62	0.46
N. of observations	3,874	3,874	3,789	3,874	3,789
<i>Regulation</i>					
$D_t \times SB$	0.40*** (0.06)	0.44*** (0.09)	0.31*** (0.07)	0.04 (0.07)	-0.08 (0.05)
$D_t \times Regulation$	-0.09 (0.09)	-0.04 (0.14)	0.12 (0.08)	0.05 (0.09)	0.14** (0.06)
$D_t \times Regulation \times SB$	0.04 (0.11)	0.20 (0.17)	0.02 (0.12)	0.16 (0.12)	0.08 (0.09)
Adjusted R^2	0.85	0.77	0.83	0.62	0.46
N. of observations	3,874	3,874	3,789	3,874	3,789

Firm and year fixed effects included in all regressions. Robust standard errors. Significance at the 90%, 95%, and 99% confidence levels are indicated by *, **, and ***, respectively.

and the firm subsequent performance.

Early support to SB was very valuable in the aftermath of the victory of 1994: supporting firms gained in terms of sales and value added with respect to the control group and also grew larger in the number of employees (by a factor of 50% over the years between 1994 and 2011), but not of productivity. In terms of the mechanisms, we find some support of a financial and an advertising channel, but the results are not as clear cut.

All in all, the Italian “experiment” teaches an important lesson in the current political landscape,

where more and more political leaders share important features with SB's political experience: supporting a new political party can be very beneficial for firms. This, in turns, implies that new, charismatic political leaders can obtain financial support from firms, making their quest for political power more likely to succeed. While decreasing the entry cost in the political arena in itself can be beneficial to society, when this happens through an implicit exchange between firms and politicians it might distort the market mechanisms and, in the long run, decrease the efficiency of the allocation of resources.

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Appendix: Additional tables and figures

Table A1: First stage, Propensity Score Estimation

Probit of supporting SB	
<i>Firm age in 1993</i>	-0.002 (0.002)
<i>Log total assets</i>	0.725** (0.254)
<i>Log total assets²</i>	-0.014 (0.011)
<i>Log physical capital</i>	0.101*** (0.038)
<i>Log labour cost</i>	0.204*** (0.060)
<i>Leverage</i>	-0.009*** (0.003)
Observations	49,623
Pseudo- R^2	0.40

Notes: Region and sector fixed effects included. Robust standard errors. Significance at the 90%, 95%, and 99% confidence levels are indicated by *, **, and ***, respectively.

Table A2: Test of Differences in Means before 1994 between Treated and Controls

Dependent variable:	$Log(empl.)$	$Log(sales)$	$Log(value\ added)$
<i>TreatedX1984</i>	0.18 (0.29)	0.08 (0.32)	0.40 (0.30)
<i>TreatedX1985</i>	-0.01 (0.27)	0.07 (0.28)	0.13 (0.30)
<i>TreatedX1986</i>	0.03 (0.27)	0.11 (0.28)	0.16 (0.27)
<i>TreatedX1987</i>	0.08 (0.26)	0.16 (0.28)	0.20 (0.27)
<i>TreatedX1988</i>	-0.10 (0.30)	-0.00 (0.40)	-0.08 (0.33)
<i>TreatedX1989</i>	0.01 (0.26)	-0.03 (0.31)	-0.04 (0.29)
<i>TreatedX1990</i>	0.11 (0.23)	0.41 (0.26)	0.26 (0.23)
<i>TreatedX1991</i>	0.13 (0.24)	0.30 (0.26)	0.29 (0.25)
<i>TreatedX1992</i>	0.11 (0.22)	0.28 (0.25)	0.27 (0.23)
<i>TreatedX1993</i>	-0.01 (0.23)	0.15 (0.24)	0.13 (0.25)
<i>R – squared</i>	0.93	0.98	0.97
Observations	1453	1453	1440
<i>F – Test</i> [<i>Treated</i> * <i>I</i> (1984 – 1993) = 0]	0.14	0.62	0.72
<i>p – value</i> (<i>F</i>)	0.999	0.797	0.706

Notes: Robust standard errors. I(.) indicates a dummy for the period in parentheses. Significance at the 90%, 95%, and 99% confidence levels are indicated by *, **, and ***, respectively.

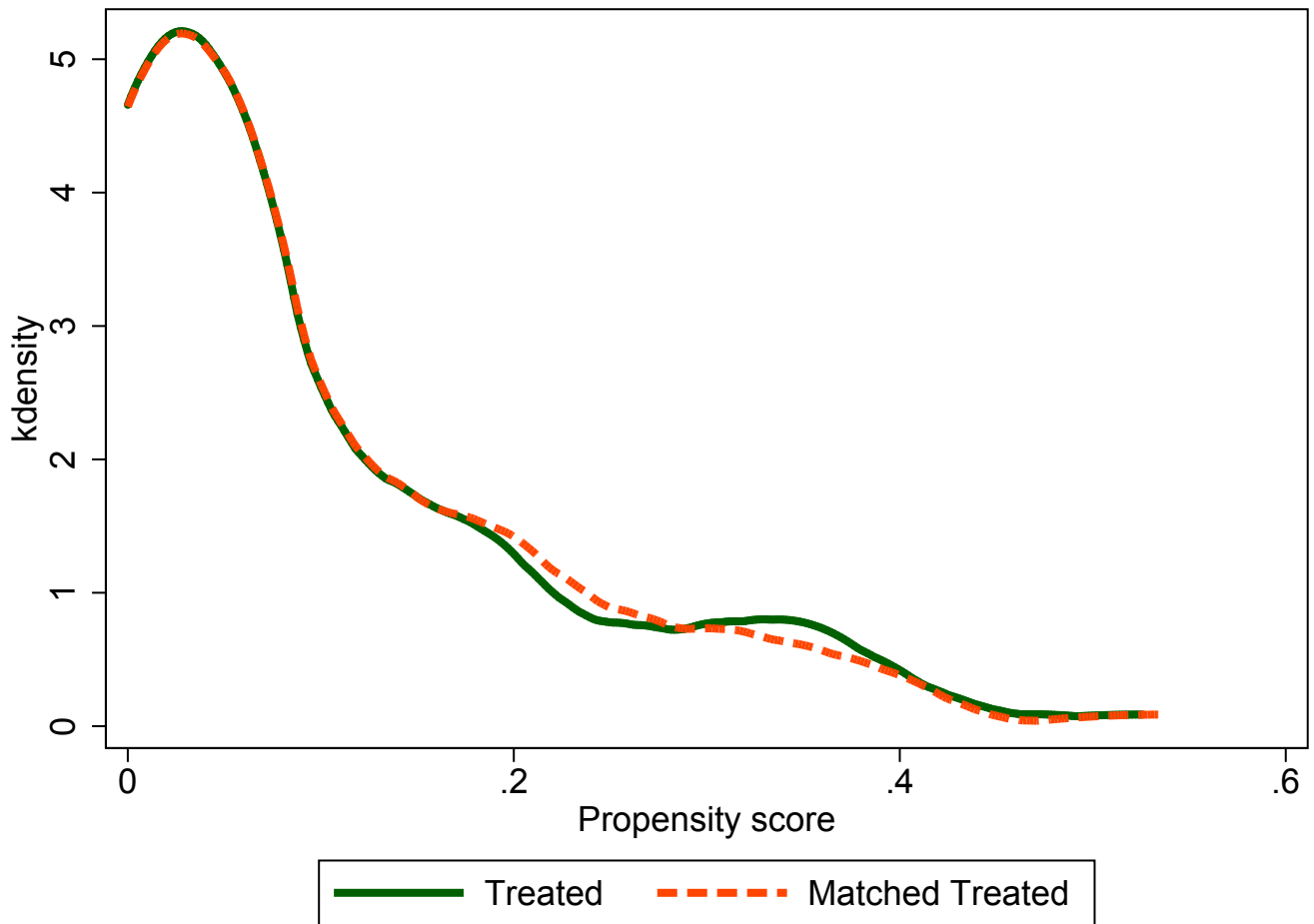
Table A3: Effect on Firms' Performance: IV Regressions (Second Part)

Dependent variable:	$\text{Log}(\text{empl.})$	$\text{Log}(\text{sales})$	$\text{Log}(\text{value added})$	$\text{Log}\left(\frac{\text{sales}}{\text{empl.}}\right)$	$\text{Log}\left(\frac{\text{value added}}{\text{empl.}}\right)$
<i>Year</i> = 1984	1.20 (1.32)	-0.20 (2.23)	0.74 (0.95)	-1.40 (1.87)	0.73 (0.76)
<i>Year</i> = 1985	1.58 (1.24)	1.03 (2.09)	0.56 (0.92)	-0.55 (1.76)	0.54 (0.71)
<i>Year</i> = 1986	1.28 (1.38)	0.53 (2.33)	0.04 (1.03)	-0.74 (1.96)	0.29 (0.89)
<i>Year</i> = 1987	1.59 (1.33)	0.68 (2.24)	0.49 (0.91)	-0.92 (1.88)	0.47 (0.74)
<i>Year</i> = 1988	2.64* (1.36)	1.23 (2.30)	-0.10 (1.26)	-1.41 (1.93)	-0.46 (1.30)
<i>Year</i> = 1989	1.20 (1.35)	-0.32 (2.28)	-0.22 (1.15)	-1.52 (1.91)	0.03 (0.85)
<i>Year</i> = 1990	2.10 (2.03)	1.78 (3.43)	0.09 (1.09)	-0.32 (2.88)	0.36 (0.87)
<i>Year</i> = 1991	3.01* (1.73)	2.84 (2.92)	0.51 (1.01)	-0.17 (2.46)	-0.17 (1.15)
<i>Year</i> = 1992	1.95 (1.54)	1.18 (2.60)	0.80 (0.88)	-0.77 (2.18)	0.65 (0.73)
<i>Year</i> = 1993	1.25 (1.55)	1.88 (2.61)	-0.08 (1.44)	0.63 (2.20)	0.41 (1.04)
<i>Year</i> = 1995	0.36 (1.58)	-1.93 (2.66)	0.30 (0.94)	-2.29 (2.24)	0.19 (0.78)
<i>Year</i> = 1996	2.31* (1.39)	1.07 (2.35)	1.19 (1.07)	-1.24 (1.98)	0.12 (0.83)
<i>Year</i> = 1997	2.79** (1.35)	1.29 (2.28)	1.67* (0.98)	-1.50 (1.92)	0.74 (0.65)
<i>Year</i> = 1998	3.03** (1.42)	1.56 (2.40)	1.83* (0.99)	-1.47 (2.02)	0.75 (0.69)
<i>Year</i> = 1999	3.05** (1.48)	1.55 (2.50)	2.30* (1.19)	-1.50 (2.10)	1.33* (0.79)
<i>Year</i> = 2000	1.79 (1.50)	1.33 (2.54)	2.16* (1.11)	-0.46 (2.13)	1.44 (0.90)
<i>Year</i> = 2001	2.88* (1.56)	3.30 (2.63)	2.06* (1.23)	0.42 (2.21)	1.35 (0.98)
<i>Year</i> = 2002	1.84 (1.45)	4.15* (2.46)	3.85* (2.30)	2.31 (2.07)	3.46 (2.27)
<i>Year</i> = 2003	2.40* (1.28)	5.47** (2.16)	2.34** (1.15)	3.08* (1.81)	1.72* (0.98)
<i>Year</i> = 2004	1.95 (1.30)	4.57** (2.19)	2.42* (1.24)	2.63 (1.84)	2.05* (1.14)
<i>Year</i> = 2005	1.92 (1.52)	2.49 (2.57)	3.93* (2.37)	0.57 (2.16)	3.63 (2.41)
<i>Year</i> = 2006	1.86 (1.75)	2.17 (2.96)	1.88* (1.13)	0.31 (2.49)	1.56 (1.10)
<i>Year</i> = 2007	1.74 (1.61)	2.07 (2.72)	1.49 (1.07)	0.33 (2.29)	1.30 (0.96)
<i>Year</i> = 2008	1.50 (1.57)	1.73 (2.65)	1.36 (1.18)	0.24 (2.23)	1.23 (1.01)
<i>Year</i> = 2009	0.96 (1.61)	2.02 (2.73)	1.42 (1.40)	1.07 (2.29)	2.04 (1.60)
<i>Year</i> = 2010	1.07 (1.71)	-4.57 (2.89)	-6.22 (9.54)	-5.63** (2.43)	-5.79 (8.94)
<i>Year</i> = 2011	1.22 (1.66)	2.66 (2.81)	1.51 (1.32)	1.43 (2.36)	1.86 (1.30)
N. of observations	3,627	3,627	3,561	3,627	3,561

Notes: Firm fixed effects included in all regressions. Year 1994 is omitted. Heteroschedasticity-robust standard errors following Stock and Watson (2008).

Significance at the 90%, 95%, and 99% confidence levels are indicated by *, **, and ***, respectively. Coefficients indicate the interaction for the treatment effect with each year.

Figure A1: Density of the propensity score of treated and control



Notes: Propensity scores of the treatment and control group estimated on the basis of the results reported in Table A1.