

Who Gets a Lifeline?

A Political Economy of Corporate Bailouts

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Why do some firms get bailed out, and others don't?

- Great Recession: auto bailouts in US, CA, DE; not SW or SK
- 9/11 – SARS: airlines in NZ, JP, BE, US, UK; not AU or FR

Possible Explanation I: Systemic Risk

- Exists when failure has substantial impact on broader economy
- Transmission mechanisms from micro to macro: contagion
- Contagion risk higher for larger firms in leveraged industries

Possible Explanation II: Special Interest Influence

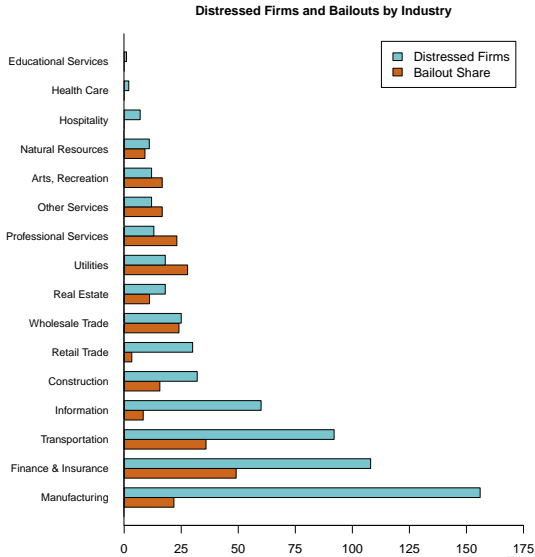
- Bailouts are a transfer to a special interest
- Political characteristics limit special interest influence:
 - Democratic Institutions (Rosas 2006, 2009; Keefer, 2002, 2007)
 - Veto Players (Keefer, 2002, 2007)
 - Impending Elections (Brown and Dinç, 2005; Keefer, 2002, 2007)

Possible Explanation III: Partisanship

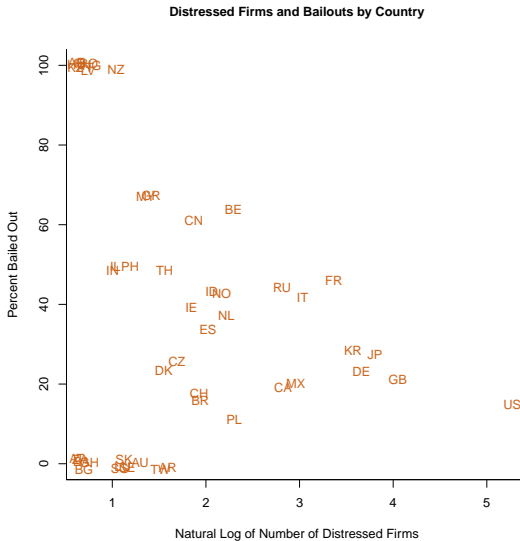
- Left-wing governments more keen on intervention (Garrett and Lange, 1989, 199; Alvarez et al., 1991)
- Support for labor implies support for employee-rich firms (Hibbs, 1977; Cameron, 1984)

- Need a sample of distressed firms, some of which bailed out
- Media keyword search to find them
- Firms matched with *Compustat* and *Orbis*
- Produces 597 firms; 152 bailed out (25%)

Ailing Firms and Bailouts by Industry



Ailing Firms and Bailouts by Country



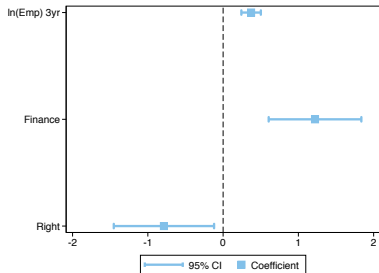
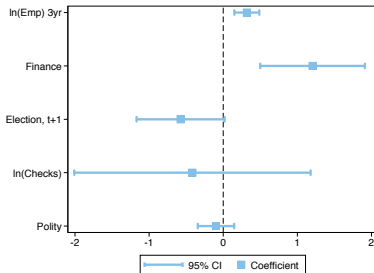
Multivariate Analysis

- Unit of analysis is the firm; DV is bailout dummy
- Collect country and firm-year data
- Logit models with bootstrap clustered standard errors

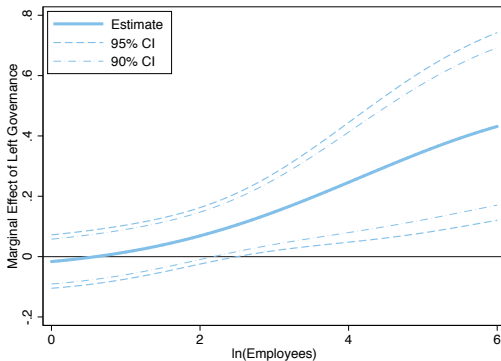
Independent and Control Variables

- Systemic Risk
 - $\ln(\text{Employees})$ and Finance
- Special Interest Influence
 - Election in next year, $\ln(\text{Checks})$, Polity
- Partisanship
 - *Left* and *Right* dummies
 - *Left* interaction with $\ln(\text{Employees})$
- Controls
 - Bankruptcy risk: Z-Score
 - GDP growth
 - International constraints: WTO, Reg 659

Special Interest Model Rejected



Left-Wing Governments Bail Out Employee-Rich Firms



Concluding Remarks

- Presented a novel dataset of bailouts
- Bailouts occur not just in finance
- Rejected special interest influence argument
- Confirmed relevance of systemic risk
- Right-wing governments lower bailout probability by 13%
- Left-wing government bail out employee-rich firms

Concluding Remarks

Thank you for coming!

Extra Slides: Bailout Definition

- Definition: government actions, explicitly or implicitly funded by public resources, that seek to avoid the failure or dissolution of a distressed company or industry.
- Numerous forms: cash grants, loans or loan guarantees, acquisition of trouble assets, equity investment, temporary acquisition or conservatorship, and full nationalization

Extra Slides: Distress Search Terms

“fac* bankruptcy,” “near* bankrupt*,” “avoid* bankrupt*,”
“verge of bankruptcy,” “fac* insolvency,” “near* insolven*,”
“avoid* insolvency,” “verge of insolvency,” “go bankrupt,”
“going bankrupt,” “brink of insolvency,” or “financial*
distress*”

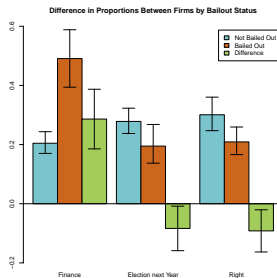
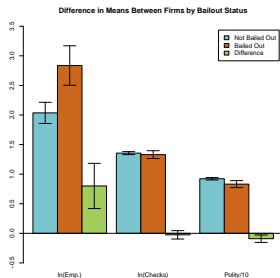
Extra Slides: Bailout Search Terms

- **firm name** and "bail out," "bailout," "bail-out," "bailed out," "rescue package," "rescue plan," and "rescue aid"

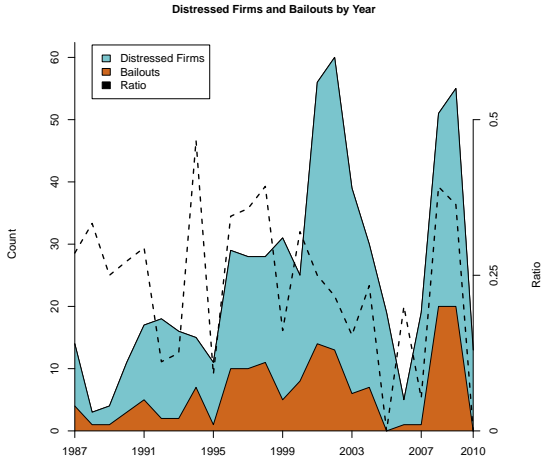
Extra Slides: Z-Score Construction

- Z-Score: $Z_i = 1.2X_{1i} + 1.4X_{2i} + 3.3X_{3i} + 0.6X_{4i} + 1.0X_{5i}$
where X_{1i} is the firm's working capital over total assets, X_{2i} is retained earnings over total assets, X_{3i} is earnings before interests and taxes over total assets, X_{4i} is market value of equity over book value of total liabilities, and X_{5i} is sales over total assets.

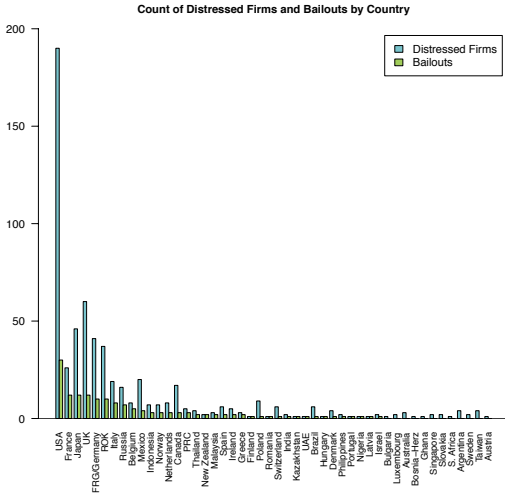
Extra Slides: Differences in Means and Proportions



Extra Slides: Ailing Firms and Bailouts by Year



Extra Slides: Count of Ailing Firms and Bailouts by Country



Extra Slides: Random Intercept Models

