Picking Winners by Saving Losers

Partisanship and the Sectoral Allocation of Corporate Bailouts

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Why some sectors and not other?

- Banks, car makers, and airlines bailed out
- But bankruptcies elsewhere

Overview

- Explanations: partisanship, globalization, social protection
- New dataset of bailout counts across the EEA, 1999-2011
- Left-wing governments bail out firms in employee-rich sectors

What is a bailout? Who do they benefit?

- Publicly funded government actions to avoid bankruptcy
- Distinct from a subsidy: narrow target, single aim
- Benefits losers from bankruptcy; hurts taxpayers

Partisanship

- Partisan electoral constituencies: left labor; right capital
- Left governments favor employee-rich sectors
- Right governments favor capital-rich sectors

Globalization

- Capital flows cause crises and necessitate bailouts
- Trade increases demand for protection, including bailouts
- Foreign acquisition (FDI) can substitute for bankruptcy

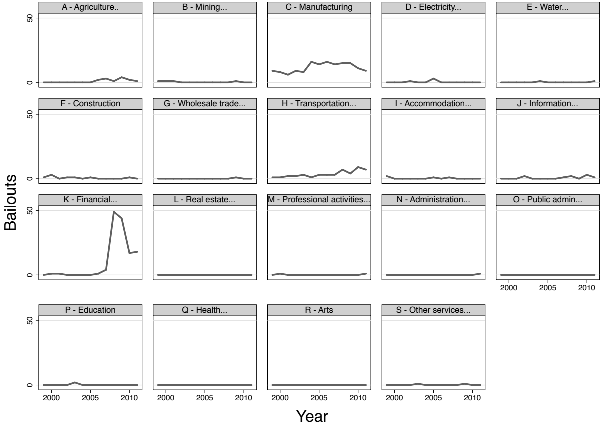
Alternative Forms of Protection

- Unemployment protection might reduce demand for bailouts
- Industrial subsidies might prevent firms from ever needed help
- The causes of subsidies and bailouts are similar though

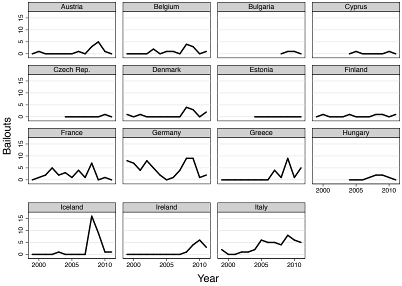
Data

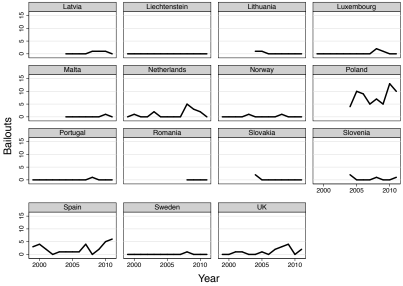
- EEA members must get distribution of state aid approved
- Rescue, restructuring, and serious disturbance aid counted
- Aggregate 383 cases to country-sector-year counts

Bailouts by Sector and Year

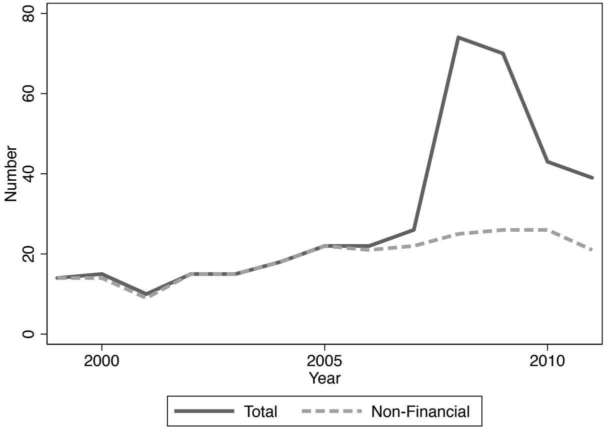


Bailouts by Country and Year





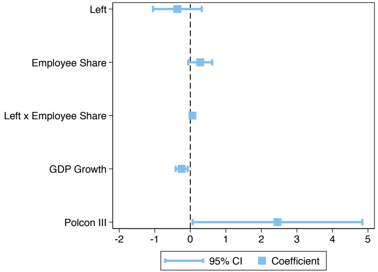
Bailouts by Year

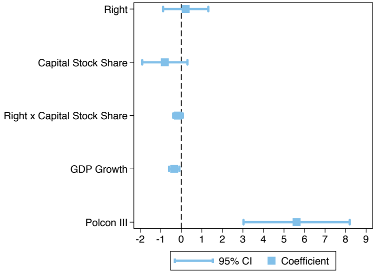


Multivariate Analyses

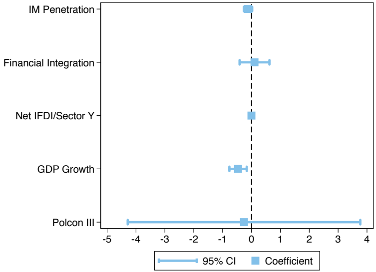
- DV is bailouts by country-sector-year
- Estimate unconditional negative binomial fixed effects models
- Control for political constraints and GDP growth

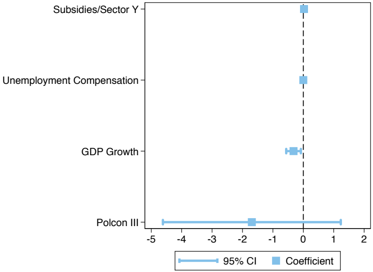
Partisanship Findings



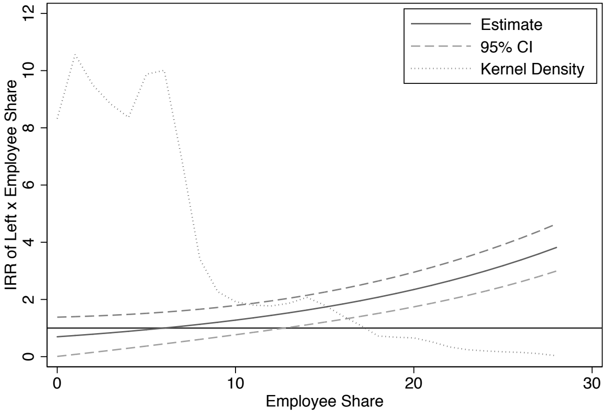


Globalization and Social Protection Non-Findings





Left-Wing Governments Bail Out Employee-Rich Sectors



Note: values above or below 1 (horizontal bar) indicate a significant effect.

Concluding Remarks

- Outlined three explanations for variance in bailouts by sector
- Presented a new dataset of bailout counts
- Left-wing governments bail out firms in employee-rich sectors

Extra Slides: Variables

- Unconditional fixed effects negative binomial models
- Independent Variables:

  Left x Employee Share and Right x Capital Stock Share
  Import Penetration, Financial Integration, Net IFDI
  Unemployment Compensation, Subsidies
- Controls:

  Polcon III, GDP Growth

Extra Slides: Which Sectors Are These?

- Manufacturing: 150 bailouts, 39% of sample
- Wholesale and Retail Trade: 1 bailouts