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

- A - Agriculture
- B - Mining
- C - Manufacturing
- D - Electricity
- E - Water
- F - Construction
- G - Wholesale trade
- H - Transportation
- I - Accommodation
- J - Information
- K - Financial
- L - Real estate
- M - Professional activities
- N - Administration
- O - Public admin
- P - Education
- Q - Health
- R - Arts
- S - Other services

Bailouts by Year

- 2000
- 2005
- 2010

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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

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Globalization and Social Protection Non-Findings

IM Penetration
Financial Integration
Net IFDI/Sector Y
GDP Growth
Polcon III

95% CI
Coefficient

Subsidies/Sector Y
Unemployment Compensation
GDP Growth
Polcon III

95% CI
Coefficient

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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
Unconditional fixed effects negative binomial models

Independent Variables:
- Left $\times$ Employee Share and Right $\times$ Capital Stock Share
- Import Penetration, Financial Integration, Net IFDI
- Unemployment Compensation, Subsidies

Controls:
- Polcon III, GDP Growth
• Manufacturing: 150 bailouts, 39% of sample
• Wholesale and Retail Trade: 1 bailouts