Gains from early support of a new political party[☆]

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ABSTRACT

We study the benefits of political connections on firm performance by analyzing the effects of the early support to Silvio Berlusconi, a TV tycoon who in three months in 1993 founded a party, won the elections and became Italy's Prime Minister. We find that the 101 companies who supported Berlusconi from the start did better than controls in terms of sales and employment, while the effects on productivity are less clear-cut. Results are confirmed when we instrument the decision to support Berlusconi with electoral outcomes in the 1921 Italian elections, which had similarities both in terms of electoral voting and ideological competition. We also find suggestive evidence that the supporters' superior performance is stronger in sectors with high advertising intensity.

1. Introduction

Studying the relationship between well-established political parties and privately-owned firms is difficult because the decision to support one 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 the firm's performance (Fisman, 2001). To tackle this problem, the literature has mainly focused on either financial crises affecting developing countries as an exogenous shock[1] or on specific historical episodes.[2]

[1] See, among others, the case studies exploiting the East Asian crisis as a shock on firm performance in accordance with political connections. Fisman (2001) analyzes the case of Suharto in Indonesia and Johnson and Mitton (2003) analyze Mahathir and Anwar in Malaysia. In these cases, the affiliations were either predetermined by family ties or had existed for a long time.

[2] 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: in 1933, the mere announcement of the new political connection results in a significant increase in the firm's value.

In this paper, we analyze the role of political connections for firm performance by studying the effects of the firms' early support of a new political party—*Forza Italia* (Let's Go Italy)—which was created by Silvio Berlusconi in Italy at the beginning of the 1990s. The case of Italy offers a very interesting experiment: the founding of a new party (i.e., with no predetermined links to firms or to other political associations) during a turbulent political phase in a democratic industrialized country at the hands of a business tycoon with a dominant position in the TV and advertising industry. The fact that Italy is a democracy and that Berlusconi is a businessman in the media industry makes it different from the cases previously considered in the literature, 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—became president in 2017; in France, with the success of Emmanuel Macron's brand new party *La République En Marche!* (The Republic on the Move!) in 2017; Italy again, where the party *Movimento Cinque Stelle* (Five Stars Movement) founded by a comedian won the elections in 2018; in Poland, where the party created in the 2000s *Prawo i Sprawiedliwość* (Law and Justice) won the election in 2005 and 2015, in Ukraine, where Volodymyr Zelensky, a successful TV producer and comedian, was elected president by landslide in 2019, heading a party named after his TV show *Sluha Narodu* (Servant of the People).[3]

In this paper, we first describe how Berlusconi won the general elections in 1994 and became the precursor of several political innovations.[4] Berlusconi exploited his vast network of clients in the business community (mainly clients of his media empire) to build support for 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 whether or not to support him. At the time, supporting Berlusconi was considered to be a very risky bet, given what seemed at the outset his low chances of success. In contrast to the United States, in Italy supporting more than one party in a political competition is uncommon and therefore entrepreneurs could not hedge against the risk of the attempt turning out unsuccessful.

We identify the 101 firms that supported Berlusconi in 1994 by gathering information from public records and from private conversations with the former leaders of *Forza Italia*. We then apply matching procedures to select the control group of firms and run a difference-in-difference estimator where the treatment is the early decision to support Berlusconi in 1994. We show that our results are consistent when applying three different matching techniques. Our identification assumption is that, conditional on our procedure, the treatment is orthogonal to unobserved determinants of firms' performance. We supply evidence of 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 Berlusconi's supporters were already better entrepreneurs and simply identified in him (against the odds) a good profit opportunity. Instead, we argue that the decision to support Berlusconi is consistent with two possible explanations: either the supporters were part of Berlusconi'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 Berlusconi might have been chosen by him based on their business skills. Therefore, to address concerns about potential endogenous selection, we consider an instrumental variable strategy to deal with possible unobservable firms' characteristics (including managerial ability) that may have affected the decision to support Berlusconi. We rely on the long-run persistence of ideological traits in Italy and instrument the decision to support Berlusconi with the percentage of votes obtained by the electoral alliance of the *Blocchi Nazionali* (National Blocks) in the 1921 political elections, which were the last free and democratic vote before the start of the fascist dictatorship. The *Blocchi Nazionali* was a political cartel formed by the Italian liberals (led by Giovanni Giolitti, Prime Minister at those days) and Benito Mussolini's fascists, which entered in competition with *Partito Socialista* (Socialist Party) and the Catholic movement of *Partito Popolare* (Popular Party). The choice of this instrumental variable is not only supported by general findings in political science, which document the long-run intergenerational transmission of political partisan values in the family environment (Beck and Jennings, 1991; Jennings et al., 1997), 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 twentieth century in Italy. In particular, we will show that both elections were characterized by a coalition of a liberal and an extreme right-wing party in competition with a left-wing coalition and a Catholic electoral block.

We find that Berlusconi'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 Berlusconi was in office (1994–1996, 2001–2006, and 2008–2011) or in opposition. This does not come as unexpected because firm performance adjusts gradually and, even if not in power, Berlusconi remained the unchallenged head of the opposition and was the natural prospective candidate in the next elections in 2011. Moreover, even when not running the national government, *Forza Italia* was in power in many local administrations, who are in charge

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[3] Looking at parties at the opposition, in the last 15 years several new movements successfully entered in the national and European Parliament, such as the *UK Independence Party* in the UK, *Alternative für Deutschland* (Alternative for Germany) in Germany, *Vox* (Voice) in Spain, and the *Partij voor de Vrijheid* (Freedom Party) in the Netherlands.

[4] The Italian general elections in 1994 ended with the victory of the conservative blocks *Il Polo delle Libertà* (*The Pole of Freedoms*). Berlusconi'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 Berlusconi's ally *Alleanza Nazionale* (National Alliance) with 13%.

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 Berlusconi in 1994 than in the control firms. The IV results confirm the OLS ones, with larger effects.

Next, we inspect the potential mechanisms that may have determined the abnormal growth of Berlusconi's supporters. The first intuitive reason why firms endorsing Berlusconi may have recorded higher sales is because they received preferential access to advertising from Berlusconi's media companies. We find that early supporters of Berlusconi operating in sectors with high advertising intensity, measured by advertising expenditures over value added, do particularly well.[5] We also investigate other potential mechanisms explored in the literature on politically connected firms. Among different contributions, Johnson and Mitton (2003), Cull and Xu (2005), 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) and Coviello and Gagliarducci (2017) of preferential treatment in the award of government contracts; Faccio (2006) in bailouts and Pellegrino and Zingales (2017) in sectors where government regulation is more pervasive.[6]

We find no support for any of these channels.

This paper is one of the few that looks at the firms' support for a political party and the performance of these firms in the context of a European country.

Other papers—mostly focused on the United States—have analyzed contributions to parties and political campaigns, arguing that they are similar to investments for firms: politicians in positions that grant power over firms, such as committee chairs in Congress, receive greater contributions, and (in particular) the contributions that they receive from political action committees that are run by firms and industry associations are correlated with the likelihood of a politician succeeding in the bid for office (Grier and Munger, 1991; Ansolabehere and Snyder, 2000). We do not have data on contributions but we have information on firms' support for a political party and we can measure with accounting data the plausible effects of that support on various measures of performance: we uncover the reason why firms support politicians. We also shed new light on the relationship between political parties and media: while Szeidl and Szucs (2020, forthcoming) study the recent influence of the Hungarian government on mass media through large advertising investments by state-owned firms, in our case advertisement is instead a mechanism that explains the benefit of political connections: firms support politicians who in turn favor them with the access to the media.

The rest of this paper is organized as follows. Section 2 provides background information on the evolution of Italy's political system before and after 1994, and on Berlusconi'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 and analyzes the potential channels. Section 6 concludes.

2. Italy in 1994 and Berlusconi's entry into politics

The *Democrazia Cristiana* (Christian Democracy) party governed Italy without interruption from 1948 to Berlusconi's victory in 1994, although sometimes it was forced to rule in coalition with the Socialist Party (*Partito Socialista Italiano*). This coalition governed with the intent of excluding the largest communist party in Western Europe (*Partito Comunista Italiano*) from power. Berlusconi 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.[7] He entertained strong ties with the leader of the Socialist Party Bettino Craxi. Indeed, Craxi was among the first to recognize the potential impact of commercial TV, and he played a crucial role in ensuring the survival and further consolidation of Berlusconi's media empire. In 1984, Craxi, then Prime Minister, issued a decree that overruled the courts decision to block commercial broadcasting. Due to his TV business, Berlusconi 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—*Arnoldo Mondadori Editore*. 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: Berlusconi's *Mediaset* and the public television RAI.[8]

The Italian political landscape came to an abrupt turning point in the early-1990s. Following the fall of the Berlin wall, the former communist party became the Democratic Party of the Left, embraced the values of Western democracies and

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[5] This is consistent with Della Vigna et al. (2016), who find that firms' advertising expenditures follow the party in power and Berlusconi's TV companies attract a larger share of the adverting expenses when he is in power.

[6] While we focus on the advantage of being an early (and open) supporter, other papers have focussed on the illicit connections between firms and political parties (see Hellman et al., 2003; Cull and Xu, 2005 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 the direct involvement of firms' managers in politics: Faccio (2006) and Cingano and Pinotti (2013) define a political connection as a direct political appointment in the local government by a firm's employee, and show that they improve firm performance in terms of sales and employment but not of productivity. We only have a few cases of entrepreneurs and CEOs who were directly elected in Berlusconi's party, therefore we cannot do that exercise. Faccio (2006) and Goldman et al. (2009) consider the case of the prime minister nominating relatives into listed firms' boardrooms. This is different from our approach and we do not include Berlusconi's *Mediaset* (where Berlusconi's children have a directive role) or others firms owned by the family in the treatment group of supporting firms because we are interested in the advantage that other firms may have obtained through their early support of a winning party.

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

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

adopted 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 government. Consequently, 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 for the scandals and they virtually disappeared from the political scene. Meanwhile, 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 of the polls were predicting the 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), Berlusconi 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 hand, he believed that there was a political vacuum on the center right; on the other hand, 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* which had pledged to restrict the influence of private television and advocated a general reform of the media industry. Eventually, Berlusconi only decided to enter politics 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 Berlusconi's business clients (Poli, 2001). The party's 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 Berlusconi's political venture and of those who were against it.

Berlusconi's 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 Berlusconi became prime minister. However, his first government lasted only until January 1995 when the *Lega Nord* (Northern League) withdrew its parliamentary support. Berlusconi remains until today the leader of his party and he 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, Berlusconi'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 his 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 Berlusconi and we also need a suitable control group.

We use two sources of information to construct a single list of firms which gave early support to Berlusconi's new party *Forza Italia*. We start from a series of firms who supported Berlusconi in 1994, which appeared on the web in 1994–1995 (the web was in its infancy at the time but the names of these firms 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 Large Grass Snake, the symbol of Berlusconi's TV empire) and created several groups around Italy with the purpose of boycotting firms that supported Berlusconi. These groups diffused very rapidly around Italy and counted several thousands of affiliates in 1994. Because the list of firms was compiled by detractors of Berlusconi, we verified the identity of the supporters of Berlusconi with the founders of the party and—to err on the side of caution—we only include those firms whose support is uncontroversial in the treatment group. Although we do not know whether the firms contributed with money or how much they contributed, we do know that the firms' representatives (in the person of the CEO or the owner) expressed public appreciation for Berlusconi's entry into politics. In our sample none of the treated firm are affected by bankruptcy so we do not have to deal with selection bias due to exit.

The second source of information is the names of contributors at the Senate who were either presidents or CEOs of firms (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 short and mostly overlaps with the 41 elected politicians in Berlusconi's party in Parliament (presumably, following an Italian tacit rule, they contributed immediately before being elected). In fact, as a result of Berlusconi's initiative, many entrepreneurs entered into politics for the first time (Coviello and Gagliarducci, 2017). Therefore, we include their firms in the list of treated firms on the reasonable assumption that the firms supported Berlusconi attempt. At the end of this process, joining the two sources, we select a treatment group of 101 firms who supported Berlusconi in 1994.

Data on the 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 the firms' characteristics (such as location, age, sector), 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

Table 1
Descriptive statistics.

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

banks to gather and share information on borrowers. Because 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 that we consider for our empirical analysis. The table reports the values of all the firms supporting *Forza Italia* and also 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 detail later on, we will apply a matching technique to select an appropriate sample of controls.

4. Estimating framework and identification

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

4.1. Estimating framework

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

$$\ln y_{it} = \alpha_0 + \alpha_1 D_t \times Berlusconi_i + T_t + F_i + \epsilon_{it} \tag{1}$$

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

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

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 Berlusconi 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 Berlusconi 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 who are most comparable to supporters in terms of their

Table 2
Matched sample of treated and controls.

	Matched Berlusconi's supporters		Matched controls		
	Mean	Std. Dev.	Mean	Std. Dev.	|t|
Sales	108,653.20	145,932.90	97,085.48	130,940.00	0.96
Employees	385.70	471.37	501.14	659.64	0.35
Value Added	26,274.69	37,633.10	27,690.81	36,559.10	0.30
Firm age in 1993	24.42	18.65	24.52	18.74	0.36
Total Assets	78,782.89	103,994.90	118,227.40	188,232.80	0.59
Physical capital	14,554.77	24,894.94	25,527.24	46,816.78	0.30
Labour Costs	15,473.11	22,581.05	16,988.64	21,373.28	0.31
Leverage	28.21	19.02	34.06	17.80	1.50
North	0.79	0.41	0.77	0.43	0.24
Center	0.15	0.36	0.17	0.38	0.28
South	0.06	0.25	0.06	0.25	0.00
Manufacturing	0.72	0.45	0.74	0.44	0.23
Business	0.21	0.41	0.21	0.41	0.00
Other	0.06	0.25	0.04	0.20	0.46
N. of firms	48		48		
N. of observations	1,012		935		

Notes: Descriptive statistics computed from the *Centrale dei Bilanci* Dataset. Sales, value added, total assets, physical capital and labor costs are expressed in euros. $|t|$ is the absolute value of mean-comparison tests.

observable characteristics (Abadie and Imbens, 2006). More specifically, we rely on a matching strategy to select those firms in the control group whose characteristics are closest to those of the firms that actually supported Berlusconi.

There are three main matching methods in the literature, i.e., the Propensity Score Matching (PSM, Rosenbaum and Rubin, 1983), the Mahalanobis Distance Matching (MDM, Rubin, 1976) and the Coarsened Exact Matching (CEM, Iacus et al., 2012). The three techniques differ in the trade-off between maximizing the sample size (obtained with PSM, which keeps all the treated units) and ensuring a good match (with the MDP being the more restrictive, i.e., conservatively keeping only units for which a good match can be found).

In the main text of this paper, we consider a CEM, which strikes a balance between sample size and matching precision by dividing the data into different strata for the matching based on cutoffs for each covariate that coarsen the covariate space and prunes any stratum with no treated or no controls. Still, CEM is fairly conservative in the selection of observations for which the controls are sufficiently similar. In fact, in our case, the implementation of this technique reduces the number of treated firms used in our regression from 101 to 48. To ensure that our results are robust with respect to the choice of the matching technique, in Appendix A we report the main OLS and IV estimates when using PSM and MDM, showing that we obtain similar results.

Our CEM relies on the following variables: total assets, physical capital and labor cost (all expressed in natural logarithm); furthermore, we include as additional variables the age of the firm in 1993, leverage, and the geographical areas.[9] In Table 2 the CEM matching shows how the bias between treated and control is reduced to the extent that it manages to remove the pre-treatment differences between the treatment and control group: we find no significant differences in the means of all the considered variables. Furthermore, Table A.3 in the Appendix A 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. Overall, the table shows that there are no significant differences in the pre-treatment. The absence of pre-trends is an identifying assumption of our strategy and confirms that firms who decided to support Berlusconi 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 Eq. (1). The estimates indicate a positive and significant effect of supporting Berlusconi for (the natural logarithm of) labour, sales and value added. Early supporters of Berlusconi in 1994 have, on average, a between 20 and 88% better performance than the control group of firms in terms of employment, value added and sales. Value added and, more markedly, sales, increase by more than employment. As a result, we find that our two productivity indicators–sales per worker and value added per worker–display a superior performance. The effect is marginally significant for value added per worker.

Over the time span covered by our data, Berlusconi had some spells in office as prime minister and others as leader of the opposition. Specifically, Berlusconi was prime minister in the periods 1994–1995, 2001–2005, and 2008–2012 and

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[9] More precisely, for the geographical classification we consider North, including the Italian regions of Aosta Valley, Emilia-Romagna, Friuli-Venezia Giulia, Liguria, Lombardy, Piedmont, Trentino-Alto Adige, and Veneto; Center, with Lazio, Marche, Tuscany and Umbria; and South, with all the other regions.

Table 3
Effect on firms' performance: OLS regressions .

Dependent variable:	ln (labor)	ln (sales)	ln (va)	ln $\left(\frac{sales}{labor}\right)$	ln $\left(\frac{va}{labor}\right)$
$D_t \times Berlusconi$	0.44**	0.88***	0.52***	0.44**	0.20*
	(0.18)	(0.33)	(0.16)	(0.22)	(0.11)
Adjusted R^2	0.82	0.66	0.82	0.53	0.45
N. of observations	1,948	1,948	1,884	1,948	1,884

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

Table 4
Effect on firms' performance: electoral cycles. OLS regressions.

Dependent variable:	ln (labor)	ln (sales)	ln (va)	ln $\left(\frac{sales}{labor}\right)$	ln $\left(\frac{va}{labor}\right)$
$I(1994 - 1995) \times Berlusconi$	−0.02	−0.03	−0.16	−0.01	−0.06
	(0.14)	(0.18)	(0.12)	(0.13)	(0.10)
$I(1996 - 2000) \times Berlusconi$	0.38**	0.86**	0.47***	0.49*	0.22**
	(0.17)	(0.38)	(0.15)	(0.25)	(0.10)
$I(2001 - 2005) \times Berlusconi$	0.56**	1.23***	0.62***	0.67**	0.22
	(0.24)	(0.42)	(0.20)	(0.28)	(0.15)
$I(2006 - 2007) \times Berlusconi$	0.42*	0.99***	0.59***	0.58*	0.27*
	(0.21)	(0.36)	(0.21)	(0.30)	(0.16)
$I(2008 - 2011) \times Berlusconi$	0.50*	0.63**	0.52**	0.14	0.11
	(0.25)	(0.28)	(0.25)	(0.20)	(0.15)
Adjusted R^2	0.82	0.67	0.82	0.53	0.45
N. of observations	1,948	1,948	1,884	1,948	1,884

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

was 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 Berlusconi was prime minister and those in which he was not. Table 4 estimates the model separating between the different phases of Berlusconi political leadership. We find no effect in the first year in which Berlusconi 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 Berlusconi 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 Berlusconi was in office or not could be due to a variety of reasons. First, in contrast to 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, Berlusconi was still the head of the opposition and was a natural prospective candidate in the next elections (which he always won after a period in opposition). Finally, even when he was 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. These 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 he or she is not directly in office. Yet another possibility is that part of the gain comes from access to Berlusconi's advertising network, which is independent from being in office. We come back to this possibility later.

Fig. 1 reports the estimated coefficients and the 5% confidence intervals of the treatment indicator in Eq. (2), that is, separately for each year. This allows us to assess the time evolution of the treatment effect. It shows that the difference between treated and control firms grows after 1994 and stabilizes around 2000 for employment, sales and value added. Consistently with the results of Table 3, in the post period there is evidence of an increase in productivity measures, but the estimates are marginally significant only in two years for sales per worker, while for value added per worker they are never 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 Berlusconi on firm performance.

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 Berlusconi and the error term in Eq. (1). Our matching procedure is based on observable firm characteristics and therefore we cannot exclude that some unobservables (to the econometrician) affect both firm performance and the decision to support Berlusconi. For example, the managerial ability of the firm's director may be a driver of both the choice to support Berlusconi 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
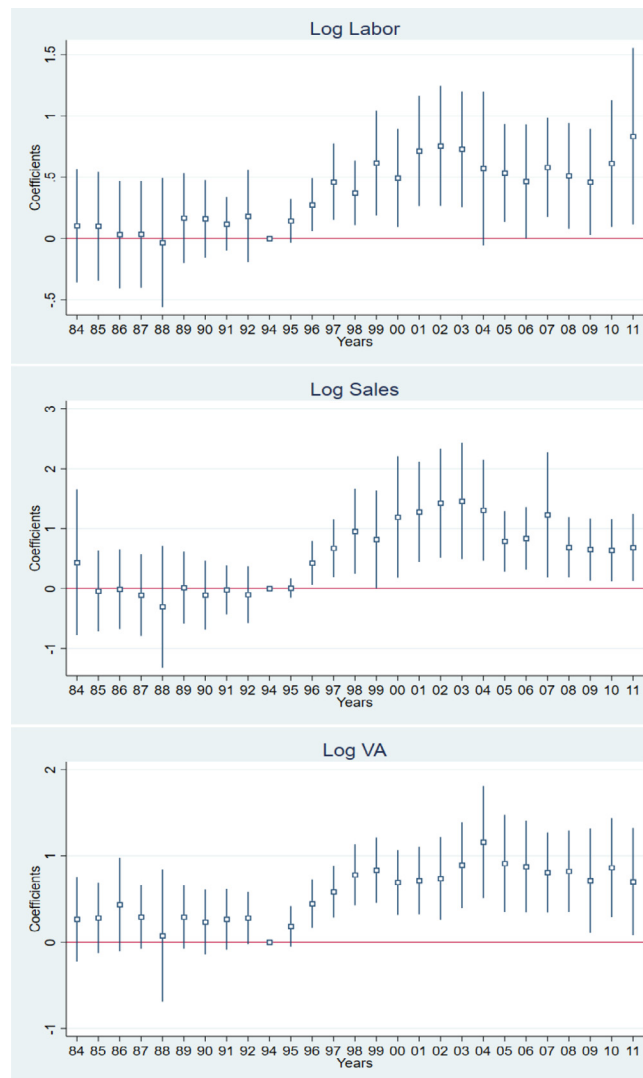
Fig. 1. Year-by-year coefficients of the treatment indicator with 5% confidence interval. First part.
Year-by-year coefficients of the treatment indicator with 5% confidence interval. Second part.

better decisions for their firm's growth. The absence of differences in pre-trends speaks against this hypothesis, but cannot completely rule it out.

To tackle this issue, we instrument the decision to support Berlusconi with political orientations at the local level. We use the percentage of votes obtained by the so-called *Blocchi Nazionali* (National Blocks), which was 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.[10]

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, which it inherited from World War I. Peace treaties among European countries generated new international tensions and political instability. In particular, the Italian government faced an increasing level of poverty, especially among war veterans and manual workers. Meanwhile, the 1917 Russian Revolution spread revolutionary ideas in Italian cities and in the countryside, especially via the Italian Socialist and Communist party (see, e.g., De Felice, 1967; 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 renown experts of the history of fascism in Italy, the histo-

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[10] Note that, in contrast to Ferguson and Voth (2008), who consider the vote for the Communist party as instrument for support of the Nazi party in 1933 during the elections that paved the way to Hitler's power, our instrument is the election results several decades earlier.
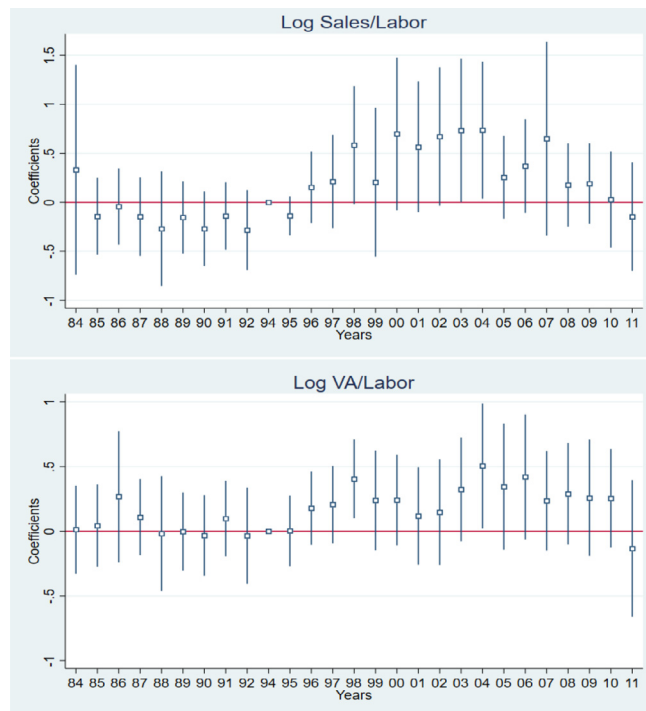
Fig. 1. Continued

rian Renzo De Felice, despite completely different political views, Giolitti and Mussolini agreed on a *camouflage* operation to share their electorates and defeat the Bolsheviks of the socialist block with a "*middle-class revolution*." 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 *Berlusconi* of Eq. (1) with BN_p, that is, the percentage of votes obtained by the *Blocchi Nazionali* in 1921 in province p where firm i is based today:[11] $\ln y_{it} = \alpha_0 + \alpha_1 \widehat{SB_{it}} + T_t + F_i + \epsilon_{it}$

$$SB_{it} = D_t \times Berlusconi_i = \beta_0 + \beta_1 D_t \times BN_p + T_t + F_i + \nu_{it} \qquad (3)$$

There are several reasons for choosing the 1921 election results instead of more recent results. First, the exclusion restriction is less likely to hold for electoral outcomes after World War II. In fact, local development policies where heavily influenced by the local electoral appeal of the two main parties, that is, 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. Furthermore, as Giorcelli (2019) shows, these 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*, which indicates that 1994 represented a structural break in Italian political history.[12] Instead, there are some striking similarities between the 1921 and 1994 elections. First, Berlusconi explicitly stated in his candidacy speech that he would run to "save the country I love from the communists". Second, as for the *Blocchi Nazionali*, who had a liberal and fascist component, Berlusconi's coalition too rested on two parties: Berlusconi' *Forza Italia*, who appealed to the moderate voters, and Gianfranco Fini's *Movimento Sociale*, the heir of the Fascist party. 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's leaders came from the ranks of the Christian Democrats and their political appeal was low, so that a large part of Catholic voters were up for grabs. In addition, as in 1921, the anti-communist rhetoric of Berlusconi 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 evidence presented by political scientists (e.g. Beck and Jennings, 1991; Jennings et al., 1997), who document the long-run

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[11] In these regressions we use a slightly smaller sample since the National Block did not participate in 5 provinces in Italy.

[12] Indeed, in the political debate, the phase that starts with the 1994 elections is commonly referred to as "*Seconda Repubblica*" (Second Republic).

Table 5
Effect on firms' performance: IV regressions .

Dependent variable:	ln (*labor*)	ln (*sales*)	ln (*va*)	ln $\left(\frac{sales}{labor}\right)$	ln $\left(\frac{va}{labor}\right)$
$D_t \times Berlusconi$	0.95**	2.16***	1.95***	1.21**	0.98**
	(0.43)	(0.72)	(0.63)	(0.53)	(0.46)
F-test	27.87	27.87	25.99	27.87	25.99
N. of observations	1,716	1,716	1,656	1,716	1,656

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.

intergenerational transmission of political values, especially for right-wing parties.[13] 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 Berlusconi 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 Eq. (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.[14]

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).[15] In Table B1 in Appendix B we rerun the regressions considering a different correction of the standard errors, i.e., clustering by firms. Since our instrument is based on a province level, we cluster the standard errors by region interacted by year,[16] such that the level of aggregation the cluster is larger than the level of our treatment interacted with the instrument. The results confirm that supporting Berlusconi had a positive effect on employment, value added and sales relative to the control group.

The results reported in Tables 3 and 5 show that the coefficients of the OLS regressions are smaller (even one third) than the ones obtained by the IV estimations. 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. Consequently, 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 anything, unobserved heterogeneity determining the decision to support Berlusconi is negatively correlated with the firm's growth prospects. This could be due to the fact that some supporters had grim prospects and took the risky bet of supporting Berlusconi to "gamble for resurrection". We rule out the hypothesis of any other measurement errors since we do not have any explanatory variables besides firm and year fixed effects. In addition, the analysis on the propensity score reported in Appendix C provides evidence against the self-selection of firms in supporting Berlusconi. This leads us to consider that a persistent component of unobserved variations not controlled in our estimation contributes in the lower OLS coefficients.

5.3. Robustness with respect to the matching techniques

Appendix A perform robustness checks with respect to the matching technique, repeating the OLS and IV estimates using PSM and MDM. This is an important check, as our results crucially depend on the selection of the treatment and control sample. These two techniques modify the CEM in opposite directions: to ensure good matches, the MDM is more restrictive–in our application it reduces the sample size to 36 treated firms (from 48 for CEM)–, while the PSM maximises the sample size, keeping in practice all the treated observations and selecting the nearest control. Finding that our results are confirmed in both cases would be therefore reassuring with respect to the specific matching technique chosen.

Appendix Tables A.2 and A.3 show a comparison between the matched sample of treated and controls and the test of differences in means before 1994, respectively. For both matching techniques, we find that the difference in mean for all the considered variables are never statistically different from zero. Table A.4 displays both OLS and IV estimates when using PSM and MDM. All the key results are confirmed: the treatment significantly increases labor, sales and value added in the post period and the effects are larger for the IV estimates than for the OLS estimates. The magnitudes are also comparable,

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[13] These 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.

[14] The 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.

[15] The first stage regression of the IV, based on a probit, provides a coefficient for the *Blocchi Nazionali* equal to 0.02 with a standard error equal to 0.00.

[16] In Italy there are about 100 provinces, which have the geographical size of an American county, and 20 regions.

the main difference being that for these two matching techniques the differences between labor on one side and sales and value added on the other are smaller. As a consequence, the productivity measures are not statistically significant (the only exception being value added per worker in the IV estimates when using PSM).

All in all, we conclude that being an early supporter of Berlusconi had a significant impact on firm performance when measured by labor, sales and value added, while the evidence is less clear cut in terms of productivity.

5.4. Mechanisms

Having established the results, we will now try to shed light on the possible mechanisms that drive them. We test multiple mechanisms with a common empirical strategy. Our empirical estimation is inspired by Rajan and Zingales (1998) and allows to disentangle the effects of the mechanism using a diff-in-diff estimation. More precisely, we interact the indicator of the decision to support Berlusconi with an industry-level index that measures the importance of the mechanism for each sector.

Suppose that the mechanism operates through the advertising industry, that is, supporters are more likely to get a better price for or a better access to advertisement on Berlusconi's newspapers and TVs (the key advertising channels at those times). If this is the case, then we should find that the difference between treated and control firms is higher in sectors in which advertisement is on average a larger share of firms budget. Our estimates exploit variation in the importance of advertising expenses across different sectors using the possibility to calculate the incidence of advertising from firm-level data from a different country, so that the æintrinsicg importance of advertising at the industry level is measured exogenously.

Formally, we estimate the following equation:

$$\ln y_{it} = \alpha_0 + \alpha_1 D_t \times Berlusconi_i + \alpha_3 D_t \times M_j + \alpha_4 D_t \times M_j \times Berlusconi_i + T_t + F_i + \epsilon_{it} \qquad (4)$$

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, then it implies that supporters of Berlusconi did better compared to the control group, the more relevant the specific mechanism for firm performance. In fact, $\partial y_{it}/\partial Berlusconi_i = \alpha_1 D_t + \alpha_4 D_t \times M_j$.

We construct an index of the incidence of advertisement expenditure at the sectoral level using the information on American listed companies from the *Compustat Annual Updates* in 1993. M_j is the median value of the ratio between advertising expenses (*Xad*) and value added at the sectoral level (we use two digit sectors). We use US data because, as argued by Rajan and Zingales (1998) (in their case for dependence from external finance), it is important that the measure of incidence of advertising expenses captures some intrinsic sectoral aspect and is exogenous with respect to the country characteristics. In particular, a measure of advertising intensity based on Italian firms expenses would depend from the connections to Berlusconi themselves, making it endogenous. The identifying assumption is that the incidence of advertising expenditure in US sectors is a good proxy for that in the same sectors of the Italian economy.[17]

The results are reported in the first panel of Table 6. Supporters of Berlusconi in sectors where advertising is a large share of total value added did better than control firms in terms of our performance variables except value added per worker. This is a plausible result given that Berlusconi in the hurry of the building of the new party in 1994 looked for the first supporters among the clients of his advertising company *Publitalia*. Actually many of the candidates of *Forza Italia* in 1994 came from the *Publitalia* and certainly party organizers used the *Publitalia* network to advertise the new party in the whole country (Poli, 2001).[18] Furthermore, Della Vigna et al. (2016) showed that large sums of money of firms' advertising budgets move from the public television network to Berlusconi's TV network when *Forza Italia* is in government. The absence of pre-trend rules out the fact that this mechanism was used by Berlusconi for favoring these firms before the creation of *Forza Italia*. It is plausible that in this situation, firms who had a better access to advertising opportunities in the Berlusconi network also had better sales results.

The other panels in Table 6 show the results of other potential mechanisms. The second mechanism at the sectoral level that may explain the better performance of Berlusconi supporters is if they got better access to credit. The sectoral index of financial dependence is 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 using *Compustat Annual Updates* in 1993.[19] We find no evidence for the access to credit channel.

Another potential mechanism is the link to the Public Administration. Politically connected firms may be favoured by a distorted use of public procurement (see David et al., 2012 for a description of Dick Cheney and Halliburton in Iraq, which is one of the most striking cases in the United States). 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*. Public procurement is an important component of demand in some sectors, while it is small or zero in others. We construct

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[17] The sociological study of Arvidsson (2003) show the American influence on products and advertisement after World War II in Italy.

[18] If we restrict the sample of the treated to the list of supporters/politicians, we obtain a very similar results for the triple interaction of the mechanism, suggesting an effective role of advertisement.

[19] More 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:	$\ln(labor)$	$\ln(sales)$	$\ln(va)$	$\ln\left(\frac{sales}{labor}\right)$	$\ln\left(\frac{va}{labor}\right)$
Panel A: Advertising Channel					
$D_t \times Berlusconi$	0.95***	0.65***	0.39**	−0.30	−0.49***
	(0.15)	(0.24)	(0.19)	(0.20)	(0.17)
	(0.26)	(0.36)	(0.29)	(0.30)	(0.26)
$D_t \times ADS$	−1.59***	−2.30***	−0.94***	−0.71***	0.48***
	(0.08)	(0.13)	(0.08)	(0.08)	(0.05)
$D_t \times ADS \times Berlusconi$	1.99***	2.65***	0.92***	0.66*	−0.86***
	(0.24)	(0.34)	(0.27)	(0.36)	(0.31)
Adjusted R^2	0.84	0.71	0.83	0.51	0.41
N. of observation	1,652	1,652	1,602	1,652	1,602
Panel B: Credit Channel					
$D_t \times Berlusconi$	0.39*	0.82**	0.42*	0.43*	0.15
	(0.23)	(0.41)	(0.21)	(0.26)	(0.13)
$D_t \times RZ$	0.06	0.53	0.12	0.47	0.17
	(0.42)	(0.62)	(0.40)	(0.28)	(0.14)
$D_t \times ADS \times Berlusconi$	0.00	−0.28	−0.00	−0.28	−0.06
	(0.45)	(0.65)	(0.44)	(0.33)	(0.22)
Adjusted R^2	0.82	0.66	0.82	0.54	0.46
N. of observation	1852	1852	1789	1852	1789
Panel C: Public Procurement Channel					
$D_t \times Berlusconi$	0.71***	1.39**	0.71***	0.68*	0.24*
	(0.27)	(0.57)	(0.22)	(0.37)	(0.13)
$D_t \times Procurement$	0.54	0.85	0.29	0.31	−0.02
	(0.33)	(0.60)	(0.28)	(0.36)	(0.14)
$D_t \times Procurement \times Berlusconi$	−0.65*	−1.10*	−0.48	−0.46	−0.10
	(0.37)	(0.63)	(0.33)	(0.40)	(0.22)
Adjusted R^2	0.83	0.67	0.82	0.54	0.46
N. of observations	1852	1852	1789	1852	1789
Panel D: Regulation Channel					
$D_t \times Berlusconi$	0.39*	0.82**	0.42*	0.43*	0.15
	(0.23)	(0.41)	(0.21)	(0.26)	(0.13)
$D_t \times Regulation$	0.06	0.53	0.12	0.47	0.17
	(0.42)	(0.62)	(0.40)	(0.28)	(0.14)
$D_t \times Regulation \times Berlusconi$	0.00	−0.28	−0.00	−0.28	−0.06
	(0.45)	(0.65)	(0.44)	(0.33)	(0.22)
Adjusted R^2	0.82	0.66	0.82	0.54	0.46
N. of observations	1,852	1,852	1,789	1,852	1,789

Firm and year fixed effects included in all regressions. Standard errors clustered by year interacted by two-digit sectors. Significance at the 90%, 95%, and 99% confidence levels are indicated by *, **, and ***, respectively.

a measure of sectoral dependence 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: $\frac{Sales\ to\ public\ sector}{Total\ sales}$. The results in Panel C of Table 6 supply no support for the public procurement channel.

Finally another 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 when the regulation is more important for the sector, such as 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.[20] Panel D of Table 6 show no significant results for regulation.

6. 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 World War II swept away by corruption scandals and the former communist party having for the first time the possibility of winning an election. Against this scenario, Berlusconi founded a new political party just three months before the elections, and then went on to win 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 Berlusconi's clients, the organization of the new party structure and the selection of local candidates directed to his pre-existing business network) make

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[20] More formally, the authors checked whether the articles have either "Government Contracts" or "Regulation, Government Policy" as topics.

this a unique case to study the relationship between early support of a (successful) political party and a firm's subsequent performance.

Early support to Berlusconi 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 they also grew larger in terms of the number of employees (by a factor of 50% over the years between 1994 and 2011), while the evidence on productivity is mixed. In terms of the mechanisms, we find some support for an advertising channel.

The Italian "experiment" teaches us an important lesson in the current political landscape, where political leaders increasingly share important features with Berlusconi's political experience: supporting a new political party can be very beneficial for firms. This implies that new, charismatic political leaders can obtain financial support from firms, making their quest for political power more likely to succeed. Although 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.

Supplementary material

Supplementary material associated with this article can be found, in the online version, at doi:10.1016/j.jebo.2021.08.004

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