Gains from Early Support of a New Political Party. The Italian Case of Silvio Berlusconi.

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Abstract
We examine the issue of the value of political connections in the context of Italy where, over the last two decades, Silvio Berlusconi, a tycoon of a vast business group, has been the leader of the conservative political coalition. This paper investigates whether firms which supported from the very start Silvio Berlusconi in his bid to become prime minister in 1994 did better than the competitors in terms of value added and employment but did not do significantly better in terms of productivity.


Main question: Do political connections improve business success?

Previous contributions suggest a relationship between political interactions and firms' economic performances:
• Fisman (2001) on Suharto; Johnson and Mitten (2003) on Mahathir or Anwar.
• Faccio (2006): political connections increase the value of the firms.
• Fergusson and Voth (2008): historical links between German firms and Nazis.

In this paper we consider the case study based on Silvio Berlusconi's Italian political situation, which constitutes several peculiarities:
• Exogenous crisis: Italy is a democratic and developed country suffering unexpected political weaknesses in 1990s.
• Natural experiment: first case of newly-founded party (Forza Italia) from the scratch.
• High uncertain bet for the businessmen: Support and finance based on Berlusconi himself and his own networks of clients.
• Berlusconi wins the election in March 1994 with a right-wing coalition and becomes prime minister: after 3 months of the foundation of the party, the victory of 1994 came as a surprise to most who never believed that an outsider.

Table 1. Datasets Used.

<table>
<thead>
<tr>
<th>Datasets</th>
<th>Sources</th>
<th>Characteristics</th>
<th>N. of observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Berlusconi's supporters</td>
<td>Dataset created by the authors</td>
<td>Information collected from political documents</td>
<td>100</td>
</tr>
<tr>
<td>Firms' characteristics</td>
<td>Company Accounts Service (CASVIS)</td>
<td>Dataset with complete accounting information</td>
<td>Over 30,000 per year</td>
</tr>
</tbody>
</table>

Econometric Analysis and Results

We consider the following econometric estimation (diff-in-diff):
\[ \ln(y_{it}) = \alpha + \beta X_{it} + \delta_{1}BERLUSCONI_{i} + \delta_{2}BERLUSCONI_{i} \times AFTER_{it} + \epsilon_{it} \]
where \( y \) is a variable of the firm's performance, BERLUSCONI is a dummy for the supporters, AFTER is the period after 1994, and \( X \) are control variables.

• The sample covers the years 1984-2010
• The firms of the control group are chosen following a propensity score method
• Pre treatment statistics shows a consistent matching between treated and control.

Differences-in-difference estimations suggest that an endorsement has a positive and significant effect on sales, value added, and employment. There is no significant effect on other variables, such as debt indicators and measures of productivities.

In addition, we study the following potential mechanisms of transmission:
1. Link to the public administration
2. Favorable regulation
3. Financial help through banks
4. Direct political connections
5. Network Effects
6. Local political connections
7. Any other effects?

We find that local political connections are relevant. The results in terms of value added and employment are "correlated" with center-right government at the regional level. This implies that valuable political connections are local rather than national or are mediated at the local level.

Conclusions

Early support to Berlusconi was apparently very valuable in the aftermath of the victory of 1994: supporting firms gained sales and value added with respect to competitors and also grew larger. The evolution of relative performance of supporters does not seem to follow the political cycle which saw Berlusconi losing in 1996 but winning again in 2001.

References

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