Discussion of “The Value of Political Geography”
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Introduction

- What is the value of remaining the constituent of a particular politician?

- Authors use the staggered announcements of redistricting maps in 2010 to study what happens when political boundaries are redrawn around firms.

Main findings:

1. Large changes of political boundaries negatively impact firm value ($\approx 1.5\%$ of firm value)
2. Firms that are shifted to more competitive districts suffer more
3. Political activity (e.g., campaign contributions) do not seem to offset these effects
Overview of Discussion

- Redistricting is an important topic and research on its economic consequences is limited (although not non-existent)

Discussion will highlight

1. Questions about the economic mechanism
2. Three directions that the authors might consider for the paper
The politician or the process?

- Authors do not find effects when firms are reassigned to a district that will be safe for the new politician. Is it possible that the identity of the politician does not matter?
  - Can you focus your analysis more directly on changes in competitiveness and changes in representation? Does moving from a safe district to a competitive district (or vice versa) matter?
    - Ultimately whichever politician is elected is supposed to represent the firm.
    - Is it possible that the effect is coming from firms not having a stable representative for the next decade? (or changing stability status) That is to say, perhaps the identity of the politician matters much less than whether or not there will be continuity/eventual seniority of the politician

- Both possibilities are interesting. If the identity of the politician were less important than stability of representation could explain why there is no difference for firms that are highly politically active and those that are not.

- The authors are going in this direction, but current tests are do not quite capture these effects.
Main Results use “diagonals” as the reference group

- Unpacking how firms transition pre/post redistricting to more/less competitive districts seems important
- Exploring the role of remaining/not remaining with the same politician is missing from this type of analysis
Reading the table it seems that more seats became more Democratic (66.4% → 67.6% safe/lean Democrat after redistricting)

- Completely counter to the typical narrative about the effect of 2010 redistricting

How does this look for states that have more partisan incentives?
States that have impediments to pure partisan redistricting

Akey, Dobridge, Heimer, and Lewellen (2019) find that redistricting negatively effects consumer credit access only in states with partisan incentives.

Are effects different given partisan intent?
Questions I had about where the effects come from

- Does this vary by political party that had control of the process?
  - When Republicans re-engineer maps do firms with connections to Democrats suffer more?

- Do these returns subsequently predict either politician retirements or electoral defeats? More generally, politicians choose where to run for re-election, how do you think about this choice impacting the coefficients that you observe?
  - The politician’s decision is likely to be an important component to a “competitive district” explanation

- Does politician seniority matter? What about the length of time that they have represented the firm?
  - Test less clean, since senior politicians may be less likely to be shifted to highly competitive districts, but variation might still clarify the set of potential mechanisms

- Testing for politician characteristics also important if the paper wants to show that district competitiveness dominates politician identity
Different measurements of political connections


**General takeaway** of this literature is that political connections are a (large) source of value for firms
Relationship to the literature

How do geographical ties interact with other types of political connections? Are these complements or substitutes for other types of political connections? (possibly those that are more deliberate firm choices)

- Potentially different types of firms (e.g., large/small) rely on different types of political connections

Given the relative maturity of the literature, it is not surprising that introducing frictions into the relationship between firm and politician destroys value for firms.

- Geographical jurisdiction is a “forced” type of political connection

However, many questions still remain open about why variously defined shocks to political capital affect firm value
Suggestions going forward

Three potential paths:

1. Explore a channel at the firm level to understand where this decline is coming from
   - What source of value does this type of friction impede?

2. Can the authors say something about how peer firms are impacted?
   - Recent work has studied the IO of political activity (e.g., Neretina (2019)).
   - This could possibly be a good setting to explore these questions further

3. Can we learn something about the politician side of the relationship?
   - Does politician behavior change when they have new firms in their districts?
Denes et al (2019)

- Denes, Fisman, Schulz and Vig (2019) similarly document that firms that “lose” their politician to redistricting lose value.
  - Studying redistricting events from 1970 – 2010:
    
    "Using a window of [-10; +1] and [-5; +1], our point estimate of the effect of being redistricted is about -1.29 percent, economically large and statistically significant at the 1%-percent level."
  
- Authors propose an increase in firm-level uncertainty as the most likely mechanism behind these findings.
  - Implied volatility rises
  - Firms investment and cash policies are affected
  - Firms are more likely to re-locate their headquarters

- Documenting a distinct firm-level mechanism to explain the decline in value may be less fruitful
Is there an effect on peer firms?

- Maps are released on different days for different states — potentially a good laboratory to see how rivalrous political engagement is
  1. A bad outcome for my peer would be good if government resources (the size of the pie) is fixed
  2. A bad outcome for my peer may be *bad* if the politician is now less incentivized to advocate for our industry (the size of the pie is a function of how strongly politicians advocate)

- Markets might not be sufficiently efficient for effects to show up in event day returns, but that is an empirical question

- Are there effects on access to resources (e.g., government contracts) for firms or peers?
What about the politician side?

- How might politicians view retaining or losing firms in their district?

- CEOs may impact the political donations of their employees (Babenko, Fedaseyeu and Zhang (2019, *RFS*))
  
  - To the extent that politicians benefit from this type of support losing large firms might represent a loss of “reelection capital”
  
  - However, politicians may need to change their behavior in order to access this “capital”

- Is the likelihood of changing committees different when politicians represent different firms?
  
  - Changing committees is costly for politicians — they lose any accrued seniority that they had on the old committee after switching
  
  - Partialing out what is better for the constituents of the new district may be difficult, but perhaps you could examine cases when *most* of the district did not change, but firm representation did
Local Support

- Do firms change their employment to build connections with the new politician? Do they reallocate labor across districts?
  - To really answer this question well, you need Census data...from personal experience I know they would not approve this project
  - But as a second-best you could consider using National Establishment Time Series data (NETS)

- NETS data has parent/subsidiary structure of establishments as well as geocodes. Includes data on employment, perhaps you can use this

- To the extent that firms might be changing economic activity, this might help shed light on the question of whether or not the specific identity of the politician matters
Conclusion

- Authors show that political boundaries are important for firm value.
- When firms are in more competitive districts their value declines.
  - Magnitude of the effect is largely in line with other studies of political connections in the U.S.
- Important topic that needs more research.
- Given existing research on the value of political connections, marginal impact might be higher by focusing on how politicians or peers react to redistricting.
Compustat location data is backfilled — this data can be obtained from SEC header filings (see Smith (2016, *JFE*)

Will probably have the effect of making your results stronger