



# 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 competitors over the following years. Using balance sheet data for the period 1985 -2010, we find that the **100 firms** which supported the foundation of his party in 1994 did *better* than the competitors in terms of **value added** and **employment** but did not do significantly better in terms of **productivity**.

## Introduction: Business & Politics. The case of Forza Italia.

### 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 Mitton (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*.
- **Acemoglu et al (2016)**: contacts with *Tim Geithner* mattered during the crisis.

**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.
- **Political elections** occur in Italy in 1994, 1996, 2001, 2006, and 2008.
- **Berlusconi is prime minister** during the following years: 1994-1995, 2001-2006, 2008-2011.

Scenes from an Election: January-March 1994.



Figure 1. Autumn 1993. Berlusconi creates a new political party.



Figure 2. March 1994. Candidates faces off in television.



Figure 3. Forza Italia wins the election.

Table 1. Datasets Used.

Datasets	Sources	Characteristics	N. of observations
Berlusconi's supporters	Dataset created by the authors	Information collected from political documents and media	100
Firms' characteristics Item	Company Accounts Data Service (CERVED)	Dataset with complete accounting information	Over 30,000 per year

## Econometric Analysis and Results

We consider the following **econometric estimation (diff-in-diff)**:

$$\ln(y_{it}) = \alpha + \beta' X_{it} + \delta_1 BERLUSCONI_i + \delta_2 BERLUSCONI_i * AFTER_{it} + \delta_3 AFTER_{it} + \varepsilon_{it}$$

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.

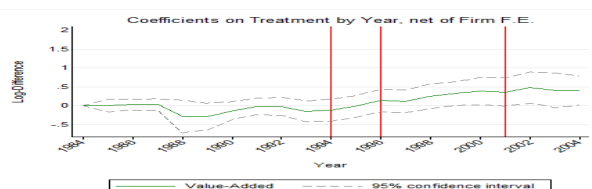
- Sample covers the years 1984-2010
- The firms of the control group are chosen following a propensity score method
- Pre treatment statistics shows a consistent matching between treated and control.

	loglabor	logsales	logva	logsales <sub>i</sub>	logva <sub>i</sub>	tfp
treat*after	0.4488*** (0.122)	0.5406** (0.218)	0.2699** (0.109)	0.0918 (0.153)	-0.0822 (0.069)	-0.0572 (0.076)
Constant	5.6283*** (0.067)	11.1910*** (0.124)	9.7343*** (0.057)	5.5627*** (0.086)	4.0578*** (0.042)	0.6920*** (0.056)
Observations	3,132	3,132	3,051	3,132	3,051	3,031
R <sup>2</sup>	0.883	0.720	0.870	0.599	0.537	0.659

Note: all regressions include firm and year fixed effects.

Standard errors are clustered at the firm level.

Differences-in-difference estimations suggest that an endorsement has a **positive and significant effect** on **sales**, **value added**, and **employment**. There is no significant effects 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.

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