Multinational Corporations and their Influence Through Lobbying on Foreign Policy

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Politics, Princeton

Brookings Hutchins Center
Multinational Corporations in a Changing Global Economy

December 19, 2019
A theoretical framework to explain MNCs’ selection into lobbying

1. Economic dominance of MNCs; reduces the relative cost of political activities;
   - MNCs’ large-scale transnational activities;
   - Increase the marginal benefits of influencing policy-making individually.

2. Heterogeneous preferences: foreign investment, immigration, global production, & exchange rates; political cleavages within industry

Empirical analysis of MNCs’ lobbying activities

- Parse 1,111,859 lobbying reports
- Linked to firm-level identifiers and measuring MNC activities
- Difference-in-Differences identification strategy

We find that MNCs spend more on lobbying across more issues than domestic firms

Kim (MIT) and Milner (Princeton)

MNCs’ Influence on Foreign Policy

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Analysis of All Public Firms in the US

Measurement of MNC: \( \frac{\text{Pretax foreign income}}{\text{Total income}} \)

- We compute the quantity for all public firms and then determine the cutoff value (0.02139) to have a binary measure of MNC

Figure: Overlaps in the Distribution of Sales and Productivity
Parsing > 1.1 mil Lobbying Reports
Client: Apple Inc.

Amount: $410,000

Issue code: CPT


Gov. Entities: House of Representatives, Senate, U.S. Trade Representative (USTR), Commerce, Dept of (DOC), Patent & Trademark Office (PTO) […]

Lobbyist: Joseph Fortson

MNCs Spend More on Lobbying Across More Issues

<table>
<thead>
<tr>
<th></th>
<th>Number of Issues</th>
<th>Lobbied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multinational</td>
<td>1.239</td>
<td>∗∗∗</td>
</tr>
<tr>
<td>Capital</td>
<td>3.035</td>
<td>∗∗∗</td>
</tr>
<tr>
<td>In-house</td>
<td>0.0002</td>
<td>∗∗∗</td>
</tr>
<tr>
<td>Constant</td>
<td>12.316</td>
<td>∗∗∗</td>
</tr>
</tbody>
</table>

Note: ∗p < 0.1; ∗∗p < 0.05; ∗∗∗p < 0.01

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MNCs’ Influence on Foreign Policy

Brookings, Dec 19, 2019
### MNCs Spend More on Lobbying Across More Issues

<table>
<thead>
<tr>
<th></th>
<th>Lobbying Expenditure</th>
<th>Number of Issues Lobbied</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
</tr>
<tr>
<td>Multinational</td>
<td>1.239***</td>
<td>1.203***</td>
</tr>
<tr>
<td></td>
<td>(0.074)</td>
<td>(0.074)</td>
</tr>
<tr>
<td>Capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In-house</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>12.316***</td>
<td>12.151***</td>
</tr>
<tr>
<td></td>
<td>(0.557)</td>
<td>(0.563)</td>
</tr>
<tr>
<td>NAICS3 FE</td>
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<td>✓</td>
</tr>
<tr>
<td>Year FE</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Observations</td>
<td>9,385</td>
<td>9,385</td>
</tr>
<tr>
<td>R²</td>
<td>0.107</td>
<td>0.110</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.100</td>
<td>0.101</td>
</tr>
</tbody>
</table>

**Note:** *p<0.1; **p<0.05; ***p<0.01
### Table 1: MNCs’ Influence on Foreign Policy

<table>
<thead>
<tr>
<th></th>
<th>Column (1)</th>
<th>Column (2)</th>
<th>Column (3)</th>
<th>Column (4)</th>
<th>Column (5)</th>
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<td><strong>Lobbying Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multinational</td>
<td>1.239***</td>
<td>1.203***</td>
<td>0.461***</td>
<td>2.198***</td>
<td>2.182***</td>
<td>0.858***</td>
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<td></td>
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<td>(0.074)</td>
<td>(0.067)</td>
<td>(0.094)</td>
<td>(0.095)</td>
<td>(0.077)</td>
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<tr>
<td>Capital</td>
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<td>3.035***</td>
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<td>4.141***</td>
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<tr>
<td></td>
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<td></td>
<td></td>
<td>(0.063)</td>
<td></td>
<td>(0.072)</td>
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<tr>
<td>In-house</td>
<td>0.0002***</td>
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<td></td>
<td>0.001***</td>
<td></td>
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<tr>
<td></td>
<td>(0.00002)</td>
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<td></td>
<td></td>
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<td></td>
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<tr>
<td>Constant</td>
<td>12.316***</td>
<td>12.151***</td>
<td>11.128***</td>
<td>4.432***</td>
<td>4.401***</td>
<td>2.838***</td>
</tr>
<tr>
<td></td>
<td>(0.557)</td>
<td>(0.563)</td>
<td>(0.487)</td>
<td>(0.710)</td>
<td>(0.719)</td>
<td>(0.559)</td>
</tr>
<tr>
<td><strong>NAICS3 FE</strong></td>
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<td><strong>Observations</strong></td>
<td>9,385</td>
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<td>9,327</td>
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</tr>
<tr>
<td><strong>R²</strong></td>
<td>0.107</td>
<td>0.110</td>
<td>0.319</td>
<td>0.188</td>
<td>0.189</td>
<td>0.498</td>
</tr>
<tr>
<td><strong>Adjusted R²</strong></td>
<td>0.100</td>
<td>0.101</td>
<td>0.313</td>
<td>0.181</td>
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<td>0.494</td>
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Difference-in-Differences

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3. Compute the diff-in-diff

\[ \hat{\beta} = \frac{1}{N} \sum_{i=1}^{N} \left( Y_{i,t} + F - Y_{i,t-1} \right) - \frac{1}{|M_{it}|} \sum_{i' \in M_{it}} \left( Y_{i',t} + F - Y_{i',t-1} \right) \]
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1 Identify firm $i$ that became MNC at year $t$

2 Identify all firms $i' \in \mathcal{M}_{it}$ that are similar to $i$ in their pre-treatment covariates: sale, productivity, employment, in-house lobbying department (Mahalanobis distance matching)

3 Compute the diff-in-diff

\[
\hat{\beta} = \frac{1}{N} \sum_{i=1}^{N} \left\{ (Y_{i,t+F} - Y_{i,t-1}) - \frac{1}{|\mathcal{M}_{it}|} \sum_{i' \in \mathcal{M}_{it}} (Y_{i',t+F} - Y_{i',t-1}) \right\}
\]
Empirical Finding

Figure: Effects of Multinationality on Lobbying Expenditure

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Empirical Finding

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MNCs are economic and political actors
Conclusion

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- Various channels through which MNCs can affect policy-making
  - campaign donations
  - charity giving
  - threats of exit or promises of new employment
  - ...

Lobbying Data available at www.LobbyView.org
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- Lobbying Data available at www.LobbyView.org
  - In-depth analysis of the contents of lobbying
If you have any questions:

insong@mit.edu
hmilner@princeton.edu

More information about this and other research:

http://web.mit.edu/insong/www
https://scholar.princeton.edu/hvmilner/home
MNCs’ Lobbying on Tariff vs. Taxation

Figure: Effects of Multinationality on the Likelihood to Lobby on Tariff and Taxation Related Issues