

## Political Connections and Corporate Bailouts

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First published: 11 January 2007

<https://doi.org/10.1111/j.1540-6261.2006.01000.x>

Faccio and Masulis are from Vanderbilt University. McConnell is from Purdue University. We thank Cliff Ball, Philip Bond, Art Durnev, Amar Gande, E. Han Kim, Rodolfo Martell, Raghu Rau, Paola Sapienza, Antoinette Schoar, Rob Stambaugh (the editor), Christine Windbichler, an anonymous referee, seminar participants at the 9<sup>th</sup> Mitsui Life Symposium at the University of Michigan and at the 5<sup>th</sup> Annual Law and Business Conference at the Vanderbilt Law School, and workshop participants at the University of North Carolina, Vanderbilt University, Wharton, and the World Bank for comments. We also thank David Offenber, Marouan Selmi, Miroslava Straska, Maferima Toure, Brian Ward, and Li Zhang for research assistance.



### ABSTRACT

We analyze the likelihood of government bailouts of 450 politically connected firms from 35 countries during 1997–2002. Politically connected firms are significantly more likely to be bailed out than similar nonconnected firms. Additionally, politically connected firms are disproportionately more likely to be bailed out when the International Monetary Fund or the World Bank provides financial assistance to the firm's home government. Further, among bailed-out firms, those that are politically connected exhibit significantly worse financial performance than their nonconnected peers at the time of and following the bailout. This evidence suggests that, at least in some countries, political connections influence the allocation of capital through the mechanism of financial assistance when connected companies confront economic distress.

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