Abstract
We quantify the private returns and social costs of political connections exploiting a unique longitudinal dataset that combines matched employer-employee data for a representative sample of Italian firms with administrative archives on the universe of individuals appointed in local governments over the period 1985-97. According to our results, the revenue premium granted by political connections amounts to 5.7% on average, it is obtained through changes in domestic sales but not in exports, and it is not related to improvements in firm productivity. The connection premium is positive for upstream producers for the public administration only, and larger (up to 22%) in areas characterized by high public expenditure and high levels of corruption. These findings suggest that the gains in market power derive from public demand shifts towards politically connected firms. We estimate such shifts reduce the provision of public goods by approximately 20% (JEL: D21, D73, H72, J31)