

Politics at Work

Based on BFI Working Paper 2022-86, “Politics at Work,” by Emanuele Colonnelli, Chicago Booth; Valdemar Pinho Neto, FGV EPGE, Brazilian School of Economics and Finance; and Edoardo Teso, Northwestern Kellogg

Evidence from two decades in Brazil shows that individual political views spill over from political to apolitical domains and have real economic consequences, including on firm hiring and management practices.

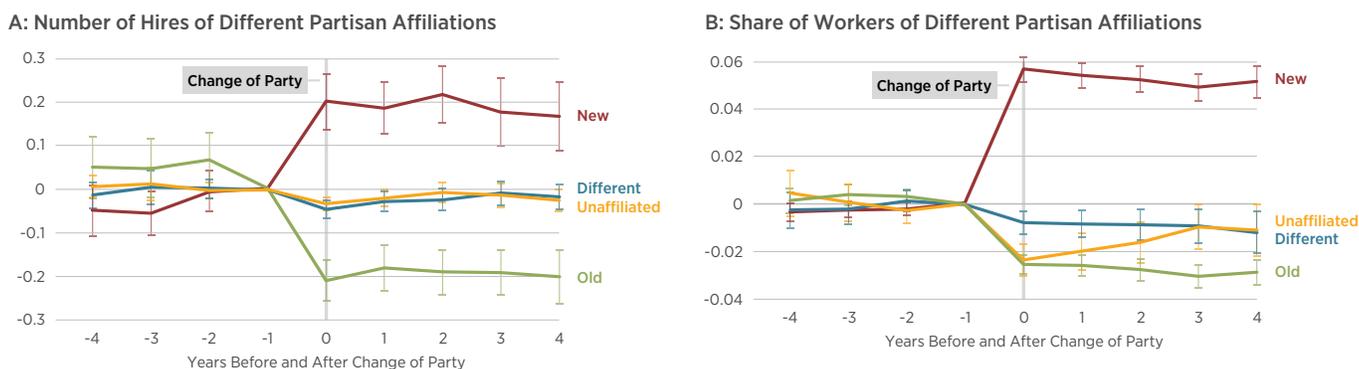
While it is uncontroversial that partisanship drives personal policy preferences, relatively little is known about partisanship’s impact on market decisions. This paper examines whether partisanship influences the labor market. The authors leverage new administrative data on the political affiliation of business owners and private-sector workers in Brazil, a field experiment, and an original large-scale survey sampling both workers and owners within the administrative data to both quantify partisanship as a determinant in worker-firm sorting and within-firm careers, as well as to isolate the role of political discrimination in hiring.

In particular, the authors study the complete Brazilian formal labor market from 2002 to 2019, which allowed them to build a novel dataset including the identities

of business owners and the political affiliation of nearly 12 million owners and workers (11.4% and 7.8% of all private-sector owners and workers in the sample, respectively). This dataset allows the authors to observe partisan affiliation for the entire formal economy over a long period, to control for a wide set of observable characteristics (such as workers’ and owners’ demographics, location, industry, and occupation), and to precisely benchmark their estimates of the role of politics.

Overall, the authors’ key finding reveals that individual political views have real implications for hiring and management practices of private-sector firms, and the magnitude of these effects is large: shared partisan affiliation is a stronger driver of assortative matching between firms and workers than shared gender or race.

Figure 1 • Effects on Employment Outcomes When Business Owners Change Political Affiliation



Notes: This figure shows the treatment effects on several employment outcomes. Panel A shows, at the time in which an owner changes party, there is a sizable (about 0.2 standard deviation) and sharp increase in the number of hires from the owner’s new party, relative to firms in the control group. This increase goes hand in hand with a drop in the number of hires from the owner’s old party and, to a lesser extent, in the number of hires who are affiliated with other parties or unaffiliated. Panel B shows a sharp and persistent change in the partisan composition of the workforce in firms where the owner changes party: the share of workers affiliated with the new party of the owner increases by about five percentage points. In sum, in line with a mechanism of political discrimination, the event study results are consistent with a change in political preferences driving a change in hiring patterns.

The authors further isolate the role of political discrimination in hiring to find the following:

- Assortative matching is higher the higher the on-the-job personal interactions.
- There is a sharp change in the political composition of the workforce when an owner switches parties: In line with an owner's change in political preferences, there is a sharp increase in hiring probability for workers of the owner's new party and a sharp decrease for workers of the old party.
- The authors also conduct a field experiment in which owners evaluate synthetic resumes containing political signals to reveal that owners prefer co-partisan workers over workers from a different party—all else equal.
- The authors survey both sides of the labor market to find a consensus among business owners and workers that political discrimination does play a role in firms' choices.
- Finally, the authors also show that political discrimination not only affects the sorting of workers and firms, but it also has additional real economic consequences: co-partisan workers are paid more and are promoted faster within the firm, despite being less qualified; firms displaying stronger degrees of political assortative matching grow less than comparable firms.

This work reveals trends in political polarization that may reshape how we think about organizational structures and firm behavior. On the other hand, the substantial degree of segregation along political lines in the labor market might have important implications for political polarization itself. Also, this work suggests that workplaces may contribute to the emergence of political echo chambers.

The authors stress that while their findings raise the possibility that business owners might be willing to trade-off firm growth to have a workforce of individuals with similar political views, their evidence remains suggestive. Also, while a key objective of the paper is to isolate the importance of political discrimination, the authors acknowledge that other mechanisms, such as overlapping political and nonpolitical networks, likely contribute to the magnitudes that they establish about the relevance of partisanship in driving the sorting of workers across firms.

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