

# Multinational Corporations and their Influence Through Lobbying on Foreign Policy\*

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## Abstract

Multinational corporations (MNCs) play significant roles in shaping the global economy. Despite the prevalence of the economic activities of MNCs across the globe, few studies exist that examine their *political* influence on foreign policy-making. This chapter develops a theoretical framework for understanding how MNCs' unique positions in the market affect their political activities. Specifically, we argue that MNCs' economic dominance reduces the relative cost of engaging in political activities, while their large-scale transnational activities increase the marginal benefits of influencing policy-making individually. To examine this empirically, we first introduce a novel dataset of lobbying in the US encompassing lobbying activities of all public firms from 1999 to 2019. We then employ a difference-in-differences identification strategy to estimate the effect of MNC status on lobbying. We find strong evidence for an increase in lobbying expenditures when firms become multinational. Furthermore, we find that MNCs tend to lobby on a more diverse set of foreign policy issues. Our findings suggest that MNCs are important political actors whose distinct interests and influence should be incorporated into our understanding of foreign policy-making.

**Key words:** multinational corporations (MNCs), firms, foreign policy, lobbying

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# 1 Introduction

Multinational corporations (MNCs) play significant roles in shaping the global economy. For example, MNCs in the U.S., which has the world’s largest economy, make disproportionate contributions to the national economy: They represent a very small number of total American firms (less than 1%), but a large fraction of GDP, exports, imports, research and development, and private-sector employee compensation; Specifically, U.S. MNC parent companies in 2016 constituted more than 24% of private sector GDP (value-added) and 26% of private-sector employee compensation (Bureau of Economic Analysis 2018a); U.S. MNCs are engaged in more than half of all U.S. exports and more than 40% of U.S. imports (Bureau of Economic Analysis 2018b). Likewise, MNCs throughout the world dominate the global economy as well as their national economies. The OECD (2018) estimates that MNCs account for half of global exports, nearly a third of world GDP (28%), and about a fourth of global employment. These firms all generate a significant share of their revenue from abroad as well.<sup>1</sup> Importantly, their transnational activities have transformed the nature of international trade, investments, and technology transfers in the era of globalization. The extensive global value chains (GVCs) prevalent in today’s world economy have been driven by how MNCs structure their global operations through outsourcing and offshoring activities. In fact, their decisions have enormous implications for a wide range of policy issues—such as taxation, investment protection, immigration—across many countries with different political and economic institutions. MNCs also may have strong political influence domestically. Indeed, their global economic dominance may go hand-in-hand with their powerful domestic political position.

Recent political developments bring multinational lobbying efforts into stark relief. Multinational firms have vocally opposed the Trump Administration’s escalation of trade tensions, tightening of immigration restrictions, and disruption of global value chains. Intensive lobbying, however, does not always equate with political power. While the Trump Administration has largely rebuffed MNC’s efforts to preserve existing trade agreements, individual firms have lobbied successfully to win tariff exemptions. Pierce and Schott (2020, p. 51) also suggest the importance of MNCs in foreign policy-making: they discuss how multinational firms doing business in China, such as General Motors, Boeing, and Caterpillar, consistently expressed their concerns about the uncertainty surrounding the annual renewal of China’s most-favored-nation status until Congress passed a bill granting permanent normal trade relations (PNTR) status to China in 2000. In other policy domains such corporate taxation and the proposed Destination-Based Cash Flow Tax, multinationals have lobbied on both sides of the issue. Evidence exists, however, that large American and Japanese

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<sup>1</sup>Manyika et al. (2018) calculated that the top 1% of firms with annual revenue greater than \$1 billion dollars source more than 42% of total sales from outside their home country.

multinational firms have been able to affect policy within the World Bank, successfully garnering projects for themselves (Malik and Stone 2018). Broz and Hawes (2006) show that multinational banks also exert powerful influence over US policy toward the IMF. Large, international banks also have used campaign contributions to influence US Congressional voting on foreign loan bailouts (Broz 2005). Jacobs and Page (2005) provide evidence that the most important domestic influences on US foreign policy are large, international firms. Despite the prevalence of the economic activities of MNCs across the globe, few studies besides these exist that examine their political influence on foreign policy-making.

In this regard, the main contribution of this chapter is to investigate MNCs' distinct roles as political actors. We focus mostly on the US and on one form of political activity, lobbying. We try to address several general questions however. First, are MNCs different from other firms in their political activities? In particular, do the global connections of these firms lead them to have distinct policy preferences from domestic firms? Second, do the political activities of MNCs differ even from those of big domestic firms? Past research notes that big firms are different; they have more political activity generally and usually do so more alone. Are MNCs just global versions of these big firms? Third, do MNCs care about the same set of issues that all firms, or all big firms, concentrate on? We address these questions by reviewing much past research and then providing new empirical analyses.

We begin by pointing out MNCs' unique economic characteristics compared to other firms that compete primarily in domestic markets. In doing so, we relate our discussion to the theoretical framework of heterogeneous firms in international economics to describe MNCs' unique positions in the global economy. Specifically, we discuss how MNCs' engagement in international trade and foreign investment affects their policy preferences. We show that MNCs' policy preferences are likely to differ greatly from those of purely domestic firms on issues related to foreign economic policy. This implies that these firms will differ from domestic firms, even big ones, in the issues they care about most. And it means their positions on many issues will diverge from those of the much more numerous domestic firms, who will be less likely to organize collectively for political action. In addition, because of their size, global reach, and leading role in the national economy, they will have more means to affect politics and more reasons to do so.

The second contribution of this chapter is to empirically examine MNCs' political activities in the US. We introduce a new database of lobbying—*LobbyView*—to study MNCs' engagement in lobbying (Kim 2018). This database, based on the lobbying reports filed under the Lobbying Disclosure Act of 1995, provides highly granular data on lobbying that scholars and practitioners can use to evaluate special interest group politics. We merge this data with a firm-level finance

database to investigate whether MNCs exhibit different political activities compared to purely domestic firms. To estimate the independent effect of the change in a firm’s status from domestic to multinational, we employ a difference-in-differences identification strategy. Specifically, we compare the difference in lobbying expenditure of firms that became multinational against those of domestic firms that are similar in their size and previous lobbying activities. We find strong evidence for an increase in lobbying expenditures when firms become multinational. Furthermore, we find that MNCs tend to lobby on a more diverse set of foreign policy issues. To be sure, our study in this chapter is limited to the US, recent years, and individual firm lobbying activity. However, our findings lay an empirical foundation for future research of MNCs’ political activities across various countries, in different periods, and their connections to lobbying through larger industry associations.

In sum, MNCs are politically distinct as well as economically. They act politically in ways that differ from domestic firms, and even from large domestic ones. Our findings suggest that MNCs are important political actors whose distinct interests should be incorporated into our understanding of foreign policy-making. While we cannot fully assess their political influence, we do note that many of the policy positions they alone have championed have become US policy in recent decades and indeed have helped create the globalized world economy that we live in today.

## 2 The Political Influence of Multinational Corporations

This section considers the roles that MNCs play in both economic and political marketplaces. To begin, we discuss their unique economic characteristics compared to other firms that primarily serve domestic markets and how these differences will affect MNCs’ policy preferences. We then discuss MNCs’ political activities in affecting foreign policy-making that have been documented by many social scientists.

### 2.1 Firm-level Heterogeneity and the Policy Preferences of MNCs

A first step in understanding the political influence of multinational corporations is to differentiate them from other firms.<sup>2</sup> In fact, there exists ample empirical evidence that MNCs differ in a number of important ways from purely domestic firms: they tend to be large and highly productive (e.g., Bernard, Jensen, and Schott 2009). They also tend to be the largest exporters, the most integrated into GVCs, employers of the most high skilled workers, and the largest spenders on R&D (Autor et al. 2017). This gives them a valuable position in any economy.

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<sup>2</sup>We define a MNC as a corporation that owns or controls production of goods or services in at least two countries. Our definition stems from data availability using COMPUSTAT databases (see Section 3.1); other scholars use different definitions, often ones that focus on the percentage of ownership for subsidiaries abroad which they obtain from the U.S. Bureau of Economic Analysis (BEA)’s confidential databases.

The uniqueness of MNCs has a close theoretical connection to the studies that examine firm-level heterogeneity in their engagement in international trade. In earlier work, Bernard, Jensen, and Lawrence (1995) show that exporters in manufacturing are very different than purely domestic firms.<sup>3</sup> While exports from the US only account for about 12.2% of GDP, exporting firms overall play a large role in the US economy. Exporting firms are larger, more productive, more capital intensive, and they pay higher wages and employ many workers, especially the most productive ones.<sup>4</sup> Bernard et al. (2007) point out that this evidence about exporting firms supports the new, new trade theory and its focus on productivity differences among firms. As heterogeneous firm models predict, these firms benefit from trade and its liberalization; they tend to grow bigger and more productive while less productive firms exit the market. That is, a very small number of firms within an economy dominate export markets and tend to export many different goods to many other markets. Moreover, roughly half of the firms that export also import and thus are probably part of global value chains.

While not all importers or exporters are multinational firms, almost all MNCs export and/or import (Yeaple 2009), accounting for over 80 percent of US trade (Bernard, Jensen, and Schott 2009). These MNCs sit atop the productivity ladder of all firms, being the largest, most capital and skill intensive, and the most innovative (Tomiura 2007; Bernard, Jensen, and Schott 2009; Doms and Jensen 1998; Slaughter 2004). Among MNCs, as theory implies, there exists variation in where they invest and how much. A “pecking order” arises where only the most productive firms invest in all types of foreign locations while the least productive firms invest in only the most productive locations (Yeaple 2009). Although their numbers are small, they have a large presence within any economy. And because of these characteristics, they have been viewed as powerful actors within any country where they operate, whether their host or home one (Prakash and Potoski 2007; Luo 2001; Jensen et al. 2012).

A second important step is to identify the preferences of MNCs in terms of foreign policy overall, and especially economic policies such as trade, foreign investment, immigration, and exchange rates. To understand if firms have political influence, researchers have studied what they want (especially *ex ante*) and whether it differs from what other groups want. In International Relations, for example, a long-standing question has been whether business favored war or peace. Indeed, the so called security preferences of business have been an important issue from Karl Marx’s time onward, and many scholars saw business or capitalism itself as a driver of war and conflict, especially colonialism (Cohen 1973; Staley 1935). The claims about the “military-industrial complex” and

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<sup>3</sup>Almost all MNCs export but not all exporters are MNCs.

<sup>4</sup>Note that entry into and exit from exporting is frequent. That is, exporting today is no guarantee of success for the firm in the future.

its benefits from war are part of this tradition. On the other hand, more recent research has cast mostly doubt on this claim. In particular, Brooks (2005) argues that business firms in the modern period are strong proponents of peace, not war. Building upon this, a literature now exists on the capitalist peace, arguing the capitalism and its agents are central to peace among countries (Gartzke 2007; Kirschner 2007; McDonald 2009).

Others have studied firm-level preferences regarding foreign economic policies, such as trade, foreign investment, and immigration. In the trade area, it has long been recognized that firms will have different preferences depending on their ties to the international economy. Domestic firms that face import competition will opt for protectionism, while big exporters and multinationals will want freer trade (Milner 1988; Gilligan 1997; Kim and Osgood 2019). The preferences for freer trade at home and abroad are reinforced for multinationals if they are part of global value chains. In more recent work, Jensen, Quinn, and Weymouth (2015) argue that MNCs in GVCs should not use trade remedies like antidumping as much as domestic firms and that trade disputes in their sectors should be less. In terms of foreign investment and financial markets, many of the same divides are expected. Small domestic banks and firms should care most about protecting the domestic market and keeping large foreign firms and banks out. Big banks and multinationals, on the other hand, should press for open capital markets, protection for foreign investments, and greater capital mobility (Frieden 1991). Recent work also links firms' preferences to immigration. Peters (2017) argues that firms will press for open migration policies especially if they face strong international competition and are limited to operating in their home country; once firms can move production anywhere in the world, their concerns about immigration end and they no longer press for open immigration policies.

Finally, MNCs are also the main proponents of preferential trade agreements and bilateral investment treaties, according to numerous studies (Manger 2009; Kim 2015). And MNCs have been the main advocates of the inclusion of provisions protecting investment and intellectual property rights and liberalizing services in preferential trade agreements, as means to gain an edge over MNCs from other countries, which are excluded from the trade agreements (Baccini 2019; Dür, Baccini, and Elsig 2014; Rodrik 2018). Baccini, Pinto, and Weymouth (2017) argue that intra-industry political divisions over preferential trade agreements exist and they show that large and productive firms engaged in offshore production are the biggest beneficiaries and the most ardent supporters. Some research also suggests that MNCs increasingly prefer to have decisions made at the supranational level — that is, in international institutions like the WTO and IMF or at international tribunals like International Centre for Settlement of Investment Disputes — where they may have even greater influence than domestically (Prakash and Hart 1999; Levy and

Prakash 2003). Other studies show that they are the most likely to lobby for national compliance in WTO Dispute Settlement rulings (Kim and Spilker 2019; Yildirim 2018). Generally, much of the recent literature sees a large divide between domestic firms and large, global ones in terms of their foreign economic policy preferences. Firms may also have significant preferences about more domestic policies, especially tax, regulatory, and labor ones. Whether preferences regarding these break down along domestic vs international lines seems less clear. The next question, however, is whether all firms pursue political influence to secure their preferences and then how the battle among firms and with other groups plays out in the political arena.

## 2.2 Political Influence of MNCs

**Channels of Political Influence.** The means of political influence that MNCs employ may differ from issue to issue and country to country. In this regard, scholars, as exemplified by Nye (1974), have identified three main channels through which firms may exert their influence over foreign policy-making: direct influence through lobbying, indirect influence as an instrument of the state, and unintentional influence via their agenda-setting power. First, firms may directly engage in political activities such as lobbying and campaign contributions to affect policy making or to press political leaders to address their demands. In doing so, they can also work with industry associations and political action committees to advance their interests. MNCs can leverage their bargaining power by offering both “inducements” or promises of new investment and “deprivations” or threats of withdrawal of investment (Nye 1974). Grossman and Helpman (1994) in their famous “Protection for Sale” model show how lobbying activities of interest groups may change trade policy. In addition to direct lobbying, firms can leverage informal ties to political leaders that enable them to provide information and persuasion (Bauer, Pool, and Dexter 1972; Denzau and Munger 1986). While this is inside pressure (Culpepper 2011), these influence attempts can also involve the public. Outside lobbying includes the use of public communication channels rather than exchanges with political elites, and involves tactics such as contacting journalists, issuing press releases, establishing public campaigns, and organizing protest demonstrations (Kollman 1998; De Bruycker and Beyers 2018).

Second, other scholars have argued that MNCs hold an unintended role in foreign policy as instruments of the state (Gilpin 1975). In this view, governments have used MNCs to further the national interest by strengthening the effects of sanctions through MNC production networks, facilitating capital transfers through firms to strengthen monetary policy, or enabling MNC’s foreign affiliates to assist in intelligence gathering (Nye 1974, p. 157). Finally, firms can hold considerable agenda-setting power from their mere presence abroad. Firms’ “privileged position” in the view of governments (Lindblom 1977) assists political leaders’ in defining problems, devising policies,



and prioritizing objectives. As Ray (1972, 82) long ago noted, “[t]he influence of corporations on American foreign relations stems primarily from their ability to shape the external environment from which problems, conflicts, and crises grow, and their ability to define the axiomatic.” While indirect and incidental lobbying are important avenues of influence, our empirical analyses below focus on the first type of political influence, firms’ lobbying activities.

The literature on firms’ political influence points out that the most consistently interesting explanatory factors of political activity in home countries have been firm size, degree of government regulation, and the amount of firm or industry sales to the government (Mitchell, Hansen, and Jepsen 1997; Drope and Hansen 2006). Countering the pressures of other groups that oppose their interests (so called counter-mobilization) has also been an important reason for influence attempts by firms (Austen-Smith and Wright 1994). The larger the firms, the more they try to exercise political influence (Ansolabehere, de Figueiredo, and Snyder 2003; Hansen, Mitchell, and Drope 2004; Drope and Hansen 2006; Bombardini and Trebbi 2012; Naoi and Krauss 2009). The more firms interact with the government and its regulations, the more political action they seem to take. These large firms also tend to act on their own and not in coalitions or industry associations (de Figueiredo and Richter 2014).

The literature at least for the US shows that business lobbying entails far more funds than do campaign contributions. Milyo, Primo, and Groseclose (2000) demonstrate that lobbying expenditures at the US federal level are five times those of campaign contributions to political action committees. Firms of all sizes may suffer from collective action problems that deter political action which is costly; however, large firms and hence MNCs may be less affected by this problem (Alt et al. 1996). Firms’ political activities may lead to actual policy changes.<sup>5</sup> Gordon and Hafer (2005) and Blonigen and Figlio (1998) demonstrate that lobbying by firms can affect national policies and influence on individual legislators. Fisman (2001) and Faccio (2006) also find that politically connected firms benefit economically from these ties, and that larger firms, which are more likely to be MNCs, are more likely to have such connections. Furthermore, there is additionally some evidence that firms which lobby become bigger as a result, thus underscoring their successful influence (Huneus and Kim 2018; Akcigit, Baslandze, and Lotti 2018).

**Scale Effect.** A key finding of the research on business political activity is that large firms lobby the most. Numerous studies demonstrate that large firms spend the most on direct lobbying (Boies 1989; Grier, Munger, and Roberts 1994; Ansolabehere, de Figueiredo, and Snyder 2003; Hansen and Mitchell 2000; Hansen, Mitchell, and Drope 2004; Drope and Hansen 2006; Bombardini and Trebbi 2012; Naoi and Krauss 2009). This arises for several reason. First, these firms have the

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<sup>5</sup>See Baumgartner et al. (2009) for a debate on this issue.



most resources. The size of the firm reduces the “two primary costs of lobbying”: the initial costs to establish a lobbying presence and the actual amount spent to influence policy (Kerr, Lincoln, and Mishra 2014; Hafner-Burton, Kousser, and Victor 2015, p. 10). Bigger firms have a greater capacity to pay the upfront costs of establishing a lobbying presence (Bertrand, Bombardini, and Trebbi 2014; Kerr, Lincoln, and Mishra 2014; Kerr et al. 2017). Therefore, large firms “select into” lobbying whereas smaller firms cannot (Alt et al. 1996; Aisbett and McAusland 2013; Blanga-Gubbay, Conconi, and Parenti 2020).

Moreover, larger firms utilize their resources to actually spend more (Kim 2017; Dellis and Sondermann 2017; Igan, Mishra, and Tressel 2012) and forge closer ties with politicians (Fisman 2001; Faccio 2006). Because bigger firms have more expendable resources to influence politicians whereas policymakers are resource-poor (Drope and Hansen 2006), these firms hold an advantage. The biggest firms are also able to leverage considerable informational advantages (e.g., expert and technical information) which help to reduce uncertainty for policymakers (Helleiner 2011; Lall 2012; Young 2012).

By shouldering the initial upfront costs and engaging in lobbying, firm lobbying usually begets more lobbying. Kerr, Lincoln, and Mishra (2014, p. 166) “report a 92% probability that a firm will lobby in a given year conditional on lobbying in the prior year” (de Figueiredo and Richter 2014). Bigger firms may also hold a first-mover advantage where regulators become more amicable to protecting the firm to preserve the reputations of the firm and the bureaucrats. This leads to “protection without capture” or consistently favorable treatment by regulators (Carpenter 2004). That is, there exist scale effects in which large firms see an increase in the marginal benefit of political engagement as they expand both domestically and internationally.

**Regulatory Granularity.** A second reason for larger firms to be more politically active is because policies are becoming increasingly granular (e.g., product-specific trade policy), and therefore lobbying becomes a cost-benefit analysis of *individual* firms. In fact, scholars have consistently found that large firms and MNCs often choose to lobby alone and lobbying is becoming increasingly “particularistic” (Mizruchi 2013). Gilligan (1997, p. 455) argued that since firms involved in “intra-industry trade are monopolists, lobbying essentially becomes a private good” and thus they are willing to lobby alone and bear the costs. Further, as Johns, Pelc, and Wellhausen (2019, p. 732) demonstrate, growing globalization has led to not “only an overall increase of lobbying but more lobbying by individual firms rather than through industry associations, thus contributing to what Drutman (2015) has described as ‘growing particularism’ in corporate lobbying.”

To be sure, lobbying through industry associations still serves as an important channel through which firms exert their political powers. However, there are other reasons why firms might choose

to lobby alone. Large firms are more likely to have in-house lobbying offices which reduces the importance of trade associations (Vogel (1996) as cited in Walker and Rea (2014, p. 11)). Finally, lobbying alone can be more effective than a coalition of strange bedfellows with a cacophony of voices, diluting the overall message (Nelson and Yackee 2012) or a large coalition when the salience of the issue among policymakers is low (Junk 2019). Following these findings about the importance of lobbying by firms themselves, our research focuses on this particular aspect of political activity.

MNCs may have distinct preferences from domestic firms as they face diverse regulatory regimes from foreign activities. To be sure, many studies show that large global firms are significantly more likely to support trade liberalization and to lobby for it in a variety of countries, including the US, Japan, and Costa Rica (Plouffe 2017; Osgood et al. 2017).<sup>6</sup> Osgood (2018) points out that the gains from trade are highly concentrated in a few firms in the US and that these firms have GVCs that are specific to certain countries or regions. These facts mean that MNCs in the US lobby extensively in a pro-trade direction and strongly support trade agreements with the specific set of countries they deal with. These MNCs outweigh and out-lobby domestic firms that oppose trade and they overcome collective action issues because each firm gains greatly from trade and lobbies on different agreements according to their GVC partners. Further, Kim (2017) shows that international firms lobby individually to reduce trade barriers on highly specific products, again because they anticipate large gains from such liberalization on their products.

However, other research also shows that MNCs have particular preferences over policies that go beyond market access. Kim et al. (2019) demonstrate that for many types of firms, the standard trade policy measures of the past (tariffs and subsidies) are no longer their most important concerns; instead, the nature of firms' involvement in global value chains shapes their preferences so that other policy issues, such as the protection of foreign investments, are most important for multinational corporations these days. These distinctive preferences and outsized resources mean that MNCs, even more than big domestic firms, may prefer to be very active and to operate alone in the political arena.

**Influence over Host Countries and International Institutions.** MNCs may play significant roles in shaping domestic policies of host countries. Lee (2018) studies foreign multinational corporations in the US and shows that MNCs use their subsidiaries in the US as local political agents who can influence the US government. Using PAC contribution data, she finds that US subsidiaries of foreign firms have a greater likelihood to sponsor a PAC compared to similarly-sized

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<sup>6</sup>Moreover, the labor force involved in firms may follow the preferences and political actions of their firms, rather than their industry or union. The heterogeneous impact of globalization on firms in an industry produces heterogeneous effects on workers such that those employed in larger and more globally competitive firms will be likely to support trade and those in small, uncompetitive firms will be more likely to oppose trade (Dancygier and Walter 2015). However, offshoring may complicate this: workers doing offshorable tasks may be especially opposed to trade if they work at large, globally engaged firms (Rommel and Walter 2018).

American firms, and to also give much greater amounts of campaign contributions. While this research is more focused on the US, it is very likely that MNCs play similar roles in other countries and perhaps exert even more influence there because of their even greater presence in smaller economies.

There has been a long literature on MNC influence in developing countries which are hosting their investments. The dependency literature, as its name suggests, focused attention on how MNCs could realize their preferences and obtain better deals with these host countries because of their bargaining advantages (Biersteker 1978; Moran 1973, 1978; Evans 1979). Other early research indicated that foreign investors could be at a disadvantage over time and that they faced an obsolescing bargain where the host country could expropriate them once they had invested (Vernon 1971, 1980). Much evidence now suggests that the obsolescing bargain is not very evident and that firms have developed lots of strategies to prevent this from occurring (Hillman, Zardkoohi, and Bierman 1999; Eden, Lenway, and Schuler 2005; Henisz and Zelner 2005). The stress more recently has been on how MNCs protect their investments in host countries and what characteristics of host countries are most propitious for safeguarding them. The business literature notes how foreign firms can use alliances with domestic partners and host governments to mitigate risk (Malesky 2008; Eden and Molot 2002; Stopford and Strange 1991; Pinto 2013; Pinto and Pinto 2008). They can also integrate into global supply chains (Johns and Wellhausen 2016), build political ties with host-state policy makers (Henisz and Zelner 2005), ally with politically powerful multilateral institutions (Nose 2014), and threaten and pursue investor-state arbitration using the global network of bilateral investment treaties (Salacuse 2010; Allee and Peinhardt 2011; Simmons 2014; Johns and Wellhausen 2016).

Another branch of the literature focuses on choices of MNCs about which host country to invest in. This range of choice is often seen as giving MNCs great leeway to negotiate better deals with host countries and to influence their politics. In particular, the number of veto players in the government, the degree of private property protection, and the extent of democracy all may affect whether MNCs can protect their investments and hence whether they invest in the first place (Jensen 2003; Li and Resnick 2003; Henisz and Williamson 1999; Henisz 2000). First, more veto players, on the one hand, makes it harder for governments to change policies and thus reduce any ex post attempts to change the bargain with MNCs. However, more veto players may also mean more access points for MNCs and make it easier for them, especially in combination with other foreign and domestic firms, to influence policy (Ehrlich 2007, 2008; Pyle 2006; Gillespie 2006). Second, more democracy and better private property protection, on the one hand, enable MNCs to be more likely to find allies in the host country that will help them. On the other, more political

competition and more space for different interest groups in vigorous democracies seem to weaken MNCs and lessen their influence (Jensen et al. 2012). Finally, MNCs can call on their home country government for assistance (Krasner 1978; Lipson 1985; Fisman 2001; Wellhausen 2014; Truex 2014; Lee 2019; Gertz 2018). When political leaders desire foreign investment, this ability to choose locations enables MNCs to exercise important influence over the host country and its politics. The conditions that maximize MNC political influence are still much debated, however.

In particular, a large number of studies have pointed out how MNCs have shaped the economic reform process in many developing host countries. They show that MNCs can affect local policy decisions in host countries by providing information and policy expertise about regulations in other countries, by lobbying officials, especially in alliance with local actors, by promising benefits such as more employment and access to new technology, by threatening to cut employment or withdraw, and by helping leaders to overcome entrenched local interests by offering more revenue or employment (Li and Reuveny 2003; Rudra 2005; Mosley and Uno 2007; Malesky 2009; Jensen et al. 2012). Many of these influence techniques for host countries are the same as noted for home countries.

It is also important to note that MNCs may influence international institutions as well as domestic governments; Hanegraaff et al. (2015) point out that the most organized domestic interest groups such as MNCs are also the most potent actors in many international organizations like the WTO. In a series of papers, Broz (2005); Broz and Hawes (2006); Broz, Frieden, and Weymouth (2008) show that large, international financial firms can influence US foreign policy as well as the IMF and World Bank. Indeed some studies claim that MNCs are now more powerful than ever in their influence due to globalization and the capital mobility it creates (Vernon and Spar 1989; Strange 1996; Levy and Prakash 2003). These studies suggest that MNCs have a plethora of means to exert powerful influences over the countries they choose to operate in. These issues and forms of influence are very important to keep in mind when assessing the power of MNCs. But here our attention is on their political activity in the US. In some ways, this is a hard case for finding MNC influence, since the US political system is highly institutionalized and filled with checks and balances.

The past research surveyed above leads us to focus on at least three key issues. First, are there differences in the type or level of political activities of MNCs and domestic firms? Second, are any differences we see in political activity among firms due just to differences in their size or are they due to their extent of global ties? Third, do MNCs focus on different issues than domestic firms in their political activity? These questions have been less systematically addressed in previous work.

### 3 Data

Despite the significance of MNCs in foreign policy making, quantitative studies of their political activities have been limited by the absence of direct measures of their economic and political activities. In this section, we describe two key firm-level variables that we develop for our empirical analysis in Section 4: 1) multinationality and 2) lobbying activities.

#### 3.1 Measuring Multinationality

We begin by measuring a firm’s status as a multinational. This is key for our empirical analysis as our goal is to examine whether firms’ lobbying activities *change* after they become multinational. We define an MNC as a corporation that owns or controls production of goods or services in at least one country other than its home country. We develop a binary measure of firms’ multinationality based on the financial statements of all public firms available through COMPUSTAT database. Following Dyreng et al. (2017), we begin by computing the ratio of a firm’s pretax foreign income to its total pretax income in a given year. In fact, the use of this measure is justified by the section §210.4-08(h)(1), *Income Tax Expense*, of the U.S. Securities and Exchange Commission (SEC) rules, which mandates the disclosure of the components of income as either domestic or foreign.<sup>7</sup> Note that this is still a noisy measure of firms’ multinationality as some foreign income might be generated by other activities that are not directly related to the production of goods or services such as tax avoidance.<sup>8</sup>

Thus, we further improve the measure by identifying a cutoff in the pretax foreign income to total income ratio such that the resulting binary measure of multinationality approximates the distribution of some known statistics of multinational firms in the BEA data. Specifically, we compare the distribution of MNCs’ sales against the corresponding numbers reported in Faulkender and Smith (2016), which is one of very few studies that directly measures multinationality based on the BEA data *and* calculates the aggregated characteristics of the MNCs using COMPUSTAT dataset. This allows us to directly merge the economic data with the lobbying dataset. We utilize the numbers that appear in Table 1 of their paper, where the authors report logged sales data separately for all COMPUSTAT firms, MNCs from the BEA data, and COMPUSTAT firms that aren’t in the BEA data (i.e., domestic firms).<sup>9</sup> This provides a valuable opportunity for us to match the

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<sup>7</sup>The U.S. Securities and Exchange Commission (SEC) defines foreign income as the income generated from operations outside of the U.S. that is over 5% of the total income.

<sup>8</sup>Dyreng et al. (2017) proposes six alternative measures of multinationality.

<sup>9</sup>We note two issues. First, the authors claim to report “the natural logarithm of sales” yet they report numbers of 5000 and more. We suspect these numbers are not logged. Second, they report a total of 39,894 COMPUSTAT observations from 1995 to 2011. The COMPUSTAT data over that period, however, includes 172,425 observations. The authors report using only those observations for which “relevant variables are non-missing.” Thus, we try to replicate their strategy by eliminating observations that have missing data for shareholders’ equity (`teq`) and long-term debt (`dltt`), arriving at the comparable number of 41,265 observations.

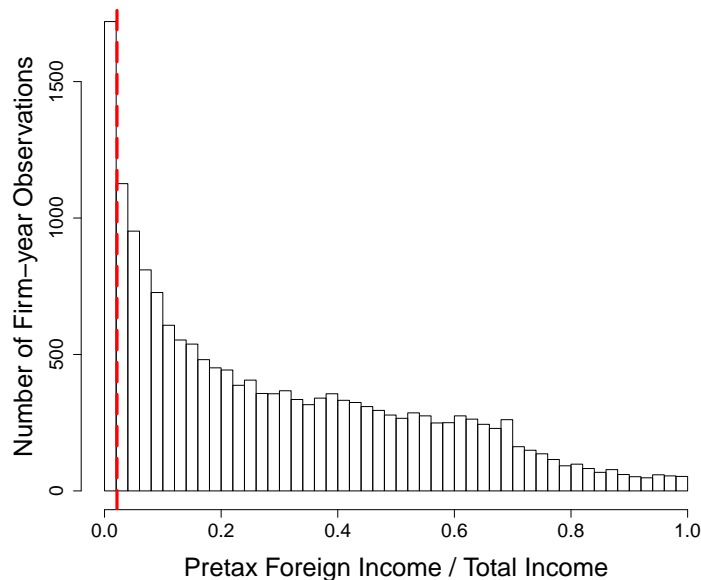


Figure 1: **Histogram of Continuous Multinationality Measure:** This figure shows the distribution of the ratio of firms' pretax foreign income to its total pretax income. The vertical red dotted line corresponds to the cutoff ( $= 0.02139$ ) that we used to match the mean logged sales of MNCs reported based on the BEA data in Faulkender and Smith (2016). We code the firm-year as `multinational` if the ratio is above the cutoff and `domestic` otherwise.

sales distribution of MNCs in our data that approximates that of the BEA data. We took the mean sales (logged) among COMPUSTAT firms, and then identify a cutoff in the continuous measure such that the mean sales of the firms above the cutoff matches exactly the number reported in the paper based on the direct measure of multinationality. Figure 1 shows the cutoff that we identified in the distribution of pretax foreign income to total income ratio, i.e., 0.02139. Using this cutoff, we define firm  $i$  as `multinational` at year  $t$  if its pretax foreign income to total income ratio is above the cutoff and `domestic` otherwise.

We then carefully check the validity of our measure both quantitatively and qualitatively. First, we compare the employment size of multinationals that are published by the BEA employment numbers<sup>10</sup> against the number computed by our own measure of multinationality. According to the BEA, MNCs employed 28,022,900 workers in the U.S. in 2016. Using the binary measure of multinationality that we developed, we find that MNCs employed 27,352,666 people, which matches remarkably well with the ground truth number based on the BEA data. Note that one cannot directly compare the numbers as the BEA data include both private and public companies, whereas the COMPUSTAT data only include public entities.

Second, we perform another validity check by looking at the number of MNCs as reported in Barefoot and Mataloni Jr (2011), who use the BEA data from 2009 to present some stylized facts

<sup>10</sup>See <https://apps.bea.gov/scb/2018/09-september/0918-multinational-enterprises.htm#mnes>

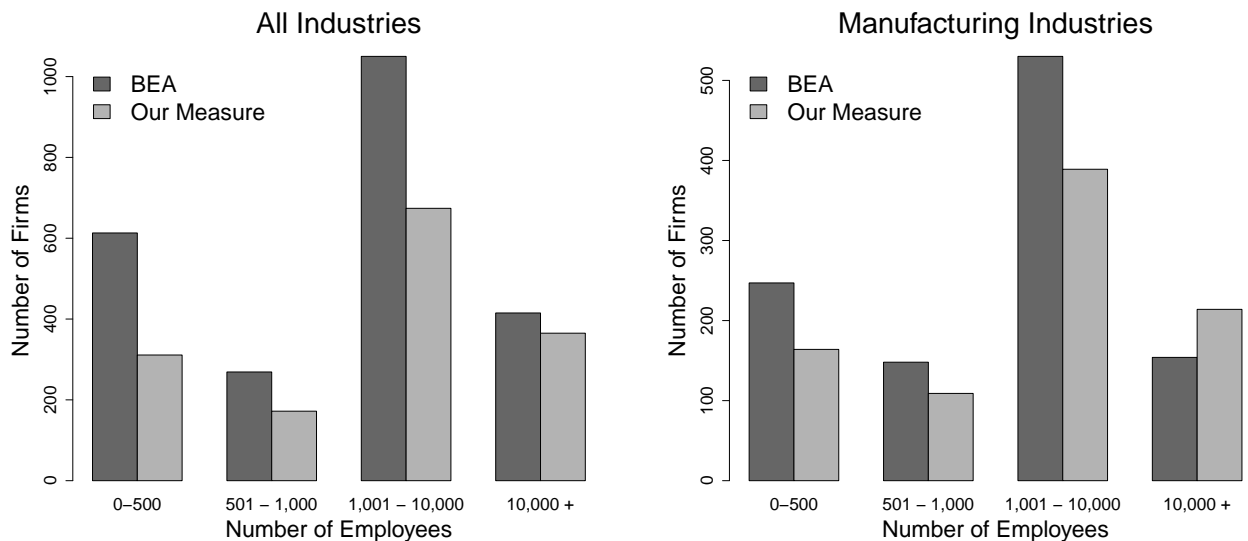


Figure 2: **Comparison of Number of Employees:** This figure compares the distribution of MNCs based on four different size categories in terms of the number of employees. The left and right panel shows the distribution across all industries and manufacturing industries, respectively. Dark gray bar represents the numbers reported in Barefoot and Mataloni Jr (2011) who used the BEA data. The light gray bar on the right represents the number of MNCs in each category computed based on our measure of multinationality. It shows that we reasonably approximate the true distribution. Note that the BEA data includes both public and private firms while we only consider public firms using COMPUSTAT database.

about U.S. MNCs. In particular, in their Table 6 they report the number of MNCs by employment size. Note again that as they use all of the BEA data, their numbers include both private and public firms, and thus there will be more firms in the BEA data. Figure 2 compares the numbers reported in Barefoot and Mataloni Jr (2011) with the proposed measure. As expected, we find that there are more multinational firms in the BEA data. However, we find that the overall distribution across different employment sizes based on our measure resembles that of the BEA data.

Finally, we validate the accuracy of our measure manually. Specifically, we took a random sample of companies in the COMPUSTAT data for 2014 and checked whether we accurately code their multinationality status. Table 1 displays the list of firm names that we randomly sampled. To ensure the validity of our measure across firms with different sizes, we sampled firms based on their sales. We checked each firm online and verified that our measure indeed captures multinationality. For example, the Federal National Mortgage Association, also known as Fannie Mae, is a U.S. government sponsored enterprise that provides mortgage-backed securities, and we accurately code it as *domestic*. On the other hand, Primerica is a marketing company with a 2017 net income of \$300 million, operating mostly in the U.S. and Canada.

Figure 3 shows the distribution of MNCs across various manufacturing industries.<sup>11</sup> On average,

<sup>11</sup>In terms of total sales of all public firms, manufacturing industry accounts for about 37% of total sales (about \$10 trillion) in the U.S. economy as of 2018. Out of this, about half of the sales is from MNCs.



Domestic	Multinational
<b>Big companies</b>	
Federal National Mortgage Association	Primerica Inc
Cracker Barrel Old Country Store Inc	Grainger (W.W.) Inc
Saia Inc	Outerwall Inc
Heartland Payment Systems Inc	II VI Inc
Denbury Resources Inc.	Tiffany & Co.
Time Warner Cable Inc	Cabot Corp
Neiman Marcus Inc	PTC Inc
Voya Retirement Insurance and Annuity Co	Total System Services Inc.
Steel Dynamics Inc	Invacare Corp
MSC Industrial Direct Co Inc.	Verizon Communications Inc
<b>Medium companies</b>	
Griffin Industrial Realty Inc	CUI Global Inc
Capitol Federal Financial Inc	Royal Gold Inc
Entercom Communications Corp.	Powell Industries Inc
Canterbury Park Holding Corp	Zynga Inc
Palmetto Bancshares Inc	RealNetworks Inc
Martha Stewart Living Omnimedia Inc.	FalconStor Software Inc
Empire Resorts Inc	RealD Inc
Flagstar Bancorp Inc.	Daegis Inc
AtriCure Inc	PFSweb Inc
Sequenom Inc	Delta Apparel Inc
<b>Small companies</b>	
Cellular Biomedicine Group Inc	Success Holding Group International Inc
International Barrier Technology Inc	BeyondSpring Inc
Notis Global Inc	Histogenics Corp
Alpha Network Alliance Ventures Inc	EPIRUS Biopharmaceuticals Inc
Ecosphere Technologies Inc	Uranium Energy Corp
Viaspace Inc	Alimera Sciences Inc
Anterios Inc	Brainstorm Cell Therapeutics
Matinas BioPharma Holdings Inc	SurePure Inc
XZERES Corp	Generex Biotechnology Corp
Infinite Group Inc	Midway Gold Corp

Table 1: Sample of Companies examined.

we find that 46% of COMPUSTAT firms are multinationals. This number is comparable to the one reported in Dyreng et al. (2017), who find that about 40% of the same firms in their analysis are multinationals.<sup>12</sup> Having defined and identified public firms in the US that are multinational and differentiating them from domestic firms, we can now compare the lobbying activities between MNCs and domestic firms within each industry in Section 4.

### 3.2 Measuring Lobbying Activities

The Lobbying Disclosure Act of 1995 (amended by the Honest Leadership and Open Government Act of 2007) requires lobbyists (e.g., K-street lobbying firm) to file quarterly reports on behalf of their clients (e.g., MNC) describing lobbying activities. In doing so, they should report lobbying expenses (or their income), lobbied issues (e.g., international trade), and lobbied congressional bills, among others.

We use LobbyView database that parses through the universe of 1,111,859 lobbying reports

<sup>12</sup>They find that the number increases up to 70% in 2012.

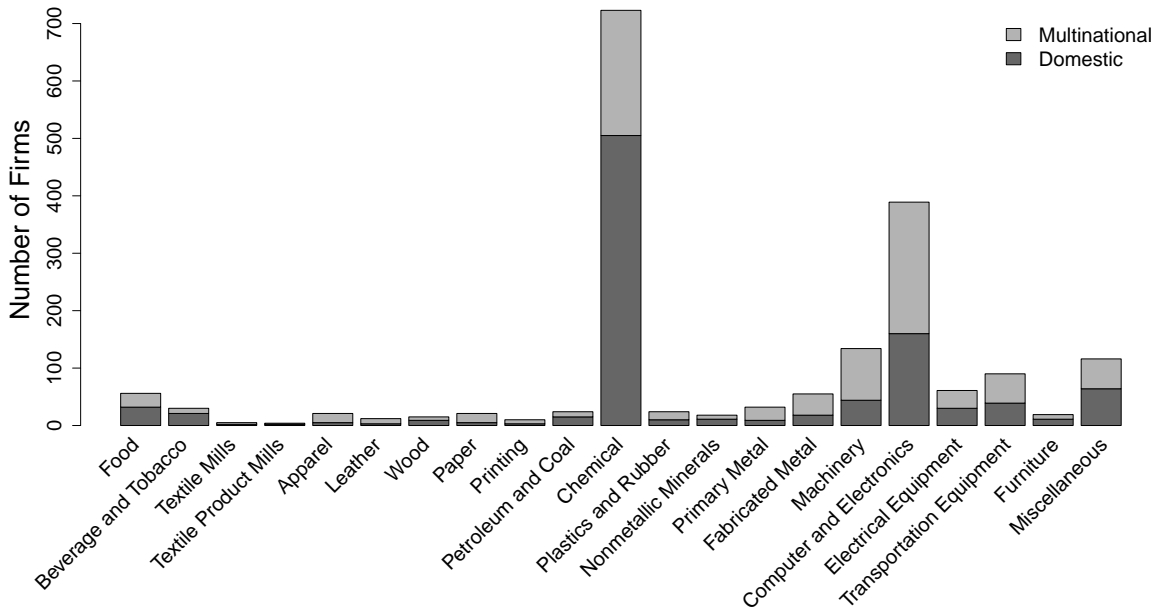


Figure 3: **Distribution of MNCs across Manufacturing Industries:** This figure displays the distribution of MNCs across three digits NAICS industries in 2017. On average, 46 percent of COMPUSTAT firms are multinationals. Note that Chemical industry has the largest number of firms while it accounts for about 17% of the total sales in manufacturing industry.

filed from 1999 to 2019 (Kim 2018). The primary benefit of using LobbyView is that it provides unique firm-level IDs linked to the COMPUSTAT data. Using the identifier, we are able to merge the lobbying data with COMPUSTAT so that we can use the multinationality measure that we developed in the previous section to examine political activities of MNCs across time. The lobbying reports also contain detailed information about firms’ political activities. There exists a list of 79 issue categories specified in the Lobbying Disclosure Act of 1995 such as international trade (TRD), defense (DEF), and immigration (IMM).<sup>13</sup> For each issue category, lobbying firms are required to describe lobbying activities on behalf of their clients. For example, Figure 4 shows that PANASONIC CORPORATION OF NORTH AMERICA actively engages in lobbying activities affecting various trade policies such as the Rules of Origin (RoO) in NAFTA.<sup>14</sup>

<sup>13</sup>The complete list of Lobbying Issues is available from <https://lda.congress.gov/LD/help/default.htm?turl=Documents%2FAppCodes.htm>

<sup>14</sup>The original report is available from <https://soprweb.senate.gov/index.cfm?event=getFilingDetails&filingID=234D3211-32EA-4C8E-B4EC-01540AEE2036&filingTypeID=51> Note that Panasonic Corporation of North America does not enter in our empirical analysis below as we focus on public firms in the U.S.

Border Adjustment Tax (BAT) - Tax on imports with exemption on exports - Explain negative impact of BAT on company sales and U.S. employment Office of the United States Trade Representative Docket USTR-2017-0006 - Request for Comments on Negotiating Objectives Regarding Modernization of the North American Free Trade Agreement With Canada and Mexico - Rules of Origin for products manufactured in Canada and Mexico S. 2098, H.R. 4311 - Foreign Investment Risk Review Modernization Act of 2017 - National Security reviews of foreign investment or technology transfers H.R. 4170 - FARA (Foreign Agents Registration Act) Reform - Disclosing foreign influence requirements.
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Figure 4: First Quarter Report by PANASONIC CORPORATION OF NORTH AMERICA in 2018

## 4 Empirical Results

In this section, we investigate whether firms tend to increase their lobbying expenses *after* they become multinational. We first compare the differences between MNCs and domestic firms in their economic and political activities at a given time. We find that MNCs are (1) larger and more productive, (2) spend more on lobbying, and (3) lobby on a more diverse set of issues than domestic firms. To account for various confounding factors and selection bias in our analysis, we employ a difference-in-differences (DiD) identification strategy. We find that a firm tends to spend more on lobbying when it becomes multinational than it only serves the home market.

### 4.1 Differences between MNCs and Domestic Firms

Many researchers find that MNCs differ from domestic firms in terms of their economic activities (Tomiura 2007; Bernard, Jensen, and Schott 2009; Doms and Jensen 1998; Slaughter 2004). Among others, MNCs are found to be larger, more productive, and more capital intensive than domestic firms. We begin our analysis by checking the differences between MNCs and domestic firms based on the measure that we developed in Section 3.1.

Figure 5 shows that MNCs are indeed larger and more productive than domestic firms, consistent with the literature. The figure also sheds an important light on our empirical analyses: there exist sufficient overlaps in the size and productivity distributions between MNCs and domestic firms. This allows us to investigate the independent effect of multinationality on firms' political activities, while holding other factors that potentially drive firms' preferences towards foreign policy constant. Indeed, the new, new trade theory predicts that more productive firms are more likely to engage in exporting and benefit from trade liberalization. Figure 5 shows that there exist highly productive domestic firms that are not multinational. To the extent that they do engage in international trade (i.e., not all exporters are MNCs), therefore, we can compare the differences in political activities between MNCs and domestic firms due to their differences in multinationality, while accounting for the fact that they both engage in international trade and are similar in size.

Next, we examine MNCs' lobbying activities. We construct two outcome variables. First, we compute the total lobbying expenditure by aggregating all the lobbying expenses across lobbying

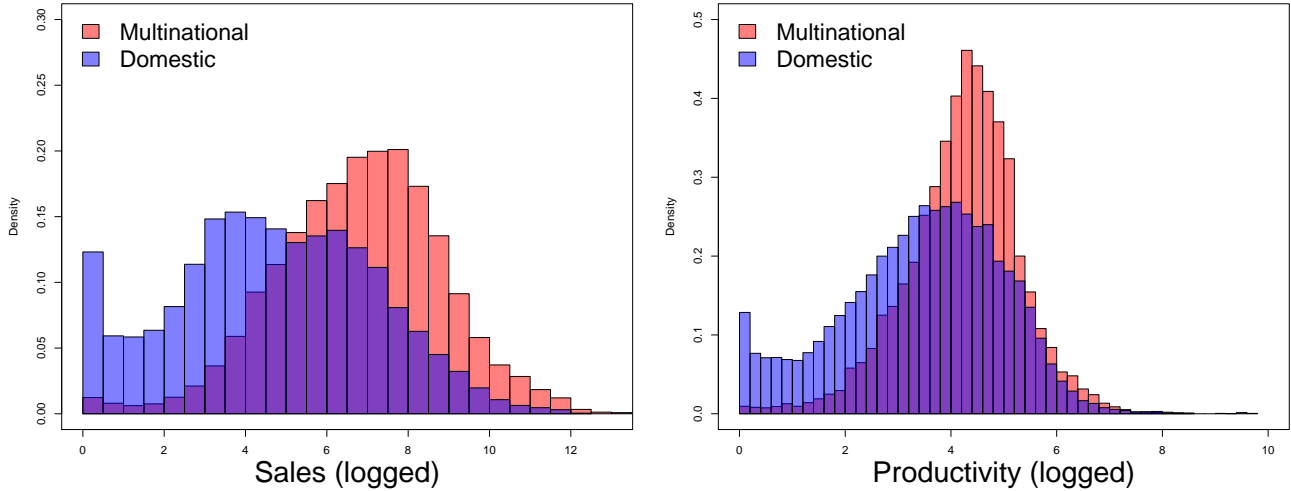


Figure 5: **Overlaps in the Distribution of Sales and Productivity:** This figure compares the distribution of firm size and productivity (measured as value-added per labor) between domestic and multinational firms. It confirms that multinational firms tend to be bigger and more productive, consistent with the findings in the literature. It also shows that there exist sufficient overlaps in the two distributions. In our later analysis, we will match on these firm-level characteristics in order to account for the possibility that these variables confound the relationship between multinationality and lobbying activities.

reports filed on behalf of each firm. Note that there are multiple reports filed in a given year because each lobbying firms (either in-house lobbying department or K-street lobbying firms) must file quarterly reports. Second, we identify the set of issues, out of the 79 categories, that are reported to have been lobbied at least once in each report. This allows us to identify the differences in lobbying activities between MNCs and domestic firms.

Table 2 summarizes our analysis based on the OLS regression. In this analysis, we consider all publicly traded firms that have lobbied at least once between 2007 and 2017. Models (1)–(4) use lobbying expenditure, while models (5)–(8) consider the number of lobbied issues as the outcome variable. We find that MNCs tend to spend more on lobbying and that they lobby on more issues. To examine the differences between MNCs and domestic firms *within* industries (see Figure 3 for example), we include the North American Industry Classification System (NAICS) 3-digit industry-level fixed effects. Our finding suggests that firms differ in their political activities even when they are in the same industry. This is in contrast to the existing studies of trade politics that tend to focus primarily on inter-industry differences (e.g., Hiscox 2002). We also control for year fixed effects to account for the heterogeneity across time. Finally, we include capital size and the existence of an in-house lobbying department as firm-level controls.<sup>15</sup> In sum, MNCs are

<sup>15</sup>We include the existence of in-house lobbying department as a control because organization expenses using LDA expense reporting method differs from lobbying firm income. See [https://lobbyingdisclosure.house.gov/amended\\_lda\\_guide.html](https://lobbyingdisclosure.house.gov/amended_lda_guide.html) for details.

	Lobbying Expenditure				Number of Issues Lobbied			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Multinational	0.899*** (0.061)	1.239*** (0.074)	1.203*** (0.074)	0.461*** (0.067)	1.649*** (0.072)	2.198*** (0.094)	2.182*** (0.095)	0.858*** (0.077)
Capital				3.035*** (0.063)				4.141*** (0.072)
In-house				0.0002*** (0.00002)				0.001*** (0.00002)
Constant	11.535*** (0.035)	12.316*** (0.557)	12.151*** (0.563)	11.128*** (0.487)	3.783*** (0.041)	4.432*** (0.710)	4.401*** (0.719)	2.838*** (0.559)
NAICS3 FE		✓	✓	✓		✓	✓	✓
Year FE			✓	✓			✓	✓
Observations	14,732	9,385	9,385	9,327	14,732	9,385	9,385	9,327
R <sup>2</sup>	0.014	0.107	0.110	0.319	0.034	0.188	0.189	0.498
Adjusted R <sup>2</sup>	0.014	0.100	0.101	0.313	0.034	0.181	0.181	0.494

Note:

\*p<0.1; \*\*p<0.05; \*\*\*p<0.01

Table 2: **Lobbying Expenditure and Number of Issues Lobbied by MNCs:** This table displays estimated effects of MNCs on lobbying expenditures and the number of lobbied issues by firms in all industries. We find that MNCs tend to (1) spend more on lobbying and (2) lobby on more issues than domestic firms, on average.

clearly different in their political activity from domestic firms; holding size and industry constant, they lobby more and do so on more issues.

## 4.2 Matching Analysis

Although the analysis in the previous section shows that MNCs exhibit different lobbying activities compared to domestic firms, there are many potential endogeneity problems that prevent researchers from drawing causal inferences in observational studies, especially when firms are highly heterogeneous. For example, our focus on the firms that lobbied at least once (i.e., intensive margin) may introduce a bias if firms have distinct organizational structures that determine the propensity of their lobbying activities (i.e., extensive margin). Others may have distinct trends in their growth which might be correlated with their economic and political activities (see Meyer 1995, for an overview).

In this section, we apply a difference-in-differences (DiD) estimator to investigate the causal effect of multinationality on lobbying behavior. We proceed in three steps. First, we identify a total of 210 companies whose multinationality status changed between 2007 and 2017. To ensure that they indeed turned from domestic to multinational, we then carefully investigate each one of them relying on public information available from the media and online resources. We find that we correctly capture the treatment status as well as its timing for most of them using our measurement strategy described in Section 3.1. For example, we find that ABM INDUSTRIES became an MNC in 2014. In fact, the firm made a number of acquisitions around that period, including that of GBM Support Services Group Limited, a U.K. company. We also find that METLIFE is measured as an MNC since 2010. This firm purchased American Life Insurance Company (ALICO), with

operations in Japan and a number of European countries. Similarly, we are able to find that AUTOZONE became an MNC when the company opened its first store in Brazil. Note that a subsidiary, Autozone de Mexico, opened in 2003.<sup>16</sup> Note that a majority of these companies became MNCs through purchases and mergers with multinational or foreign companies.<sup>17</sup>

Second, for each “treated” firm  $i$  that became an MNC at year  $t$  (i.e.,  $X_{it} = 1$ ), we find the set of all domestic firms that have an identical treatment history only up to year  $t - 1$ , i.e., firms that remain to be domestic at  $t$ . Formally,

$$\mathcal{M}_{it} = \{i' : i' \neq i, X_{i't} = 0, X_{i't'} = X_{it'} \text{ for all } t' = t - 1, \dots, t - L\} \quad (1)$$

where  $X_{it}$  denotes the MNC status for firm  $i$  at year  $t$ . Out of these domestic firms, we find the set of five closest “matched control” firms in the set  $\mathcal{M}_{it}$  that are similar in terms of their pre-treatment observable characteristics including sales, productivity, employment size, presence of in-house lobbying department, and number of issues lobbied in years  $t - 3$  to  $t - 1$ .<sup>18</sup> We compute the average Mahalanobis distance measure between the treated observation and each control observation over time.<sup>19</sup> Simply put, we find domestic firms that are comparable to the firm that turned into a MNC in terms of their economic and political characteristics.

Finally, using these matched control firms, we compute the DiD estimate. Specifically, we compare the difference in lobbying expenses of the treated multinational firm  $i$  between year  $t$  and year  $t + F$  against the mean difference in lobbying expenses during the same period among the matched control domestic firms. Under the parallel trends assumption, this gives an estimate of the effect of the firm’s turning into an MNC on its lobbying expenditure. We then take the average of this estimate across all treated firms to gain our average treatment effect estimate. Formally, our quantity of interest is given by:

$$\hat{\beta} = \frac{1}{N} \sum_{i=1}^N \left\{ (Y_{i,t+F} - Y_{i,t-1}) - \frac{1}{|\mathcal{M}_{it}|} \sum_{i' \in \mathcal{M}_{it}} (Y_{i',t+F} - Y_{i',t-1}) \right\} \quad (2)$$

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<sup>16</sup>Other examples include: ONEMAIN HOLDINGS, formerly known as Springleaf Holdings, acquired OneMain Financial from Citi; DANAHER CORP merged with Beckman Coulter, an American company that also entertains operations in Japan. In 2012, it also acquires the British company Naveman Wireless; JEFFERIES FINANCIAL GROUP (then named Leucadia) merged with Jefferies Group, an American multinational investment bank with operations in Europe and Asia. In 2015, the company made an investment in FXCM, a British firm; DELCATH SYSTEMS obtained authorization to market and sell one of their products in Europe; MANNKIND CORP is a pharmaceutical company that has products in clinical trials in the US and Europe; BOULDERS BRANDS purchased Davies Bakery, a British company; INFUSYSTEM HOLDINGS is a medical devices company that currently sells its products and services in the US and Canada.

<sup>17</sup>Based on our measurement strategy, we do not find any firms reverting back to purely domestic.

<sup>18</sup>We adjust for past outcomes, as we are concerned that past outcomes may affect both the treatment and the current outcome.

<sup>19</sup>Formally,  $\frac{1}{3} \sum_{\ell=1}^3 \sqrt{(\mathbf{V}_{i,t-\ell} - \mathbf{V}_{i',t-\ell})^\top \boldsymbol{\Sigma}_{i,t-\ell}^{-1} (\mathbf{V}_{i,t-\ell} - \mathbf{V}_{i',t-\ell})}$  where  $\mathbf{V}_{i't'}$  is the pre-treatment observable covariates that we match (such as sales and productivity) and  $\boldsymbol{\Sigma}_{i't'}$  is the sample covariance matrix of  $\mathbf{V}_{i't'}$ .

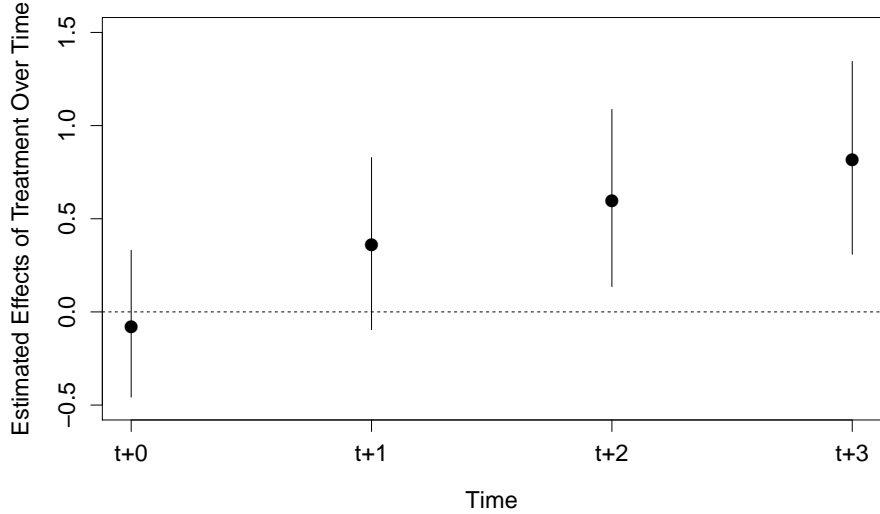


Figure 6: **Effects of Multinationality on Lobbying Expenditure:** This figure displays the estimated treatment effects of firm’s turning to multinational corporation at time  $t$  on its lobbying expenditure from time  $t$  to  $t+3$ . We find an increase in lobbying expenditure over time. We match firms based on their size, productivity, employment, number of lobbied issues, and the existence of in-house lobbying department.

We use the bootstrap standard errors developed by Imai, Kim, and Wang (2018) for statistical inference.

In Figure 6, we present our main finding based on the DiD estimator in equation (2). We find that firms increase their lobbying expenditure after they become a MNC. The estimated effects are positive and become statistically different from zero (the horizontal dashed line) two years after the treatment status change (see  $t+2$  and  $t+3$ ). The effect size is substantively significant as well: we find that firms increase their expenditure about 50% ( $\approx \exp(0.4) - 1$ ) two years after becoming a multinational.

Furthermore, we investigate the differences in lobbying activities for a few firms. We find that AAR CORP (a firm in the aviation and defense industry) lobbied mostly on DoD appropriations before it became an MNC, but started lobbying also on State Department appropriations in 2016 after becoming an MNC in 2014. DANAHER lobbied on Title 1 of Senate bill S.2091 (112th Congress), which deals with tax exemptions for foreign dividends and income in 2012, one year after becoming an MNC. SYSCO CORP (a company producing food products) reports that it lobbied on 2013 Farm Bill, H.R. 2393 (114th Congress) two years after it became a MNC which would repeal the requirement for meat products to be labeled with their country of origin. Similarly, BERKELEY W.R. CORP (an insurance company) started lobbying the year it became an MNC in 2011 on “legislation related to tax treatment of underwriting and investment profits of foreign-owned insurance companies.” Finally, PANDORA MEDIA (a music streaming firm) increased its lobbying expenditure after



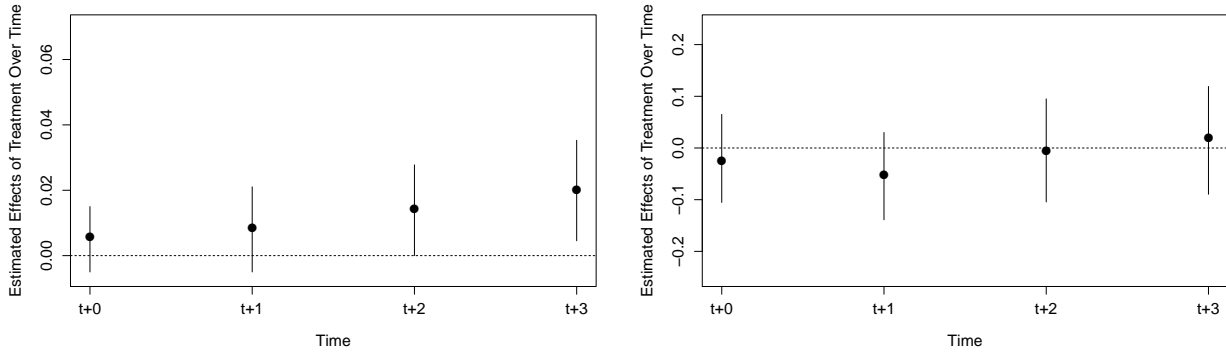


Figure 7: **Effects of Multinationality on the Likelihood to Lobby on Tariff and Taxation Related Issues:** This figure displays the estimated treatment effects of firm’s turning to multinational corporation at time  $t$  on the likelihood of lobbying regarding **Tariff** (left panel) and **Taxation** (right panel) policies. We find that multinational firms are more likely to lobby on tariff policies. However, we find limited evidence for an increase in lobbying activities related to taxation.

becoming an MNC in 2012. In addition to music licensing, it also began to lobby issues regarding intellectual property, including online infringement, copyright, and patent litigation. Our findings provide strong evidence that multinationals play important roles in foreign policy-making.

We conclude this section by investigating whether certain issues are more likely to be lobbied when firms become MNCs. We first shed light on the above finding that MNCs tend to lobby on more issues (see Table 2). Specifically, for each firm that changed the status from domestic to multinational, we check the set of *new* issues that are lobbied after firms became multinational. We find that Energy/Nuclear (ENG), Budget/Appropriations (BUD), Defense (Defense), Health Issues (HCR), Banking (BAN), and Foreign Relations (FOR) are the top lobbied issues. This is expected as the policy issues are related to firms’ foreign operations.

To be sure, these issues may be as important for domestic firms as for multinationals. Furthermore, there might exist various reasons why certain issues become more/less salient for both domestic and multinational firms in certain industries across time. Thus, we again rely on the difference-in-differences identification strategy to compare the changes in MNCs’ lobbying behavior against the changes of lobbying activities by similar domestic firms in terms of their size, productivity, and lobbying expenses. To minimize the difficulty in distinguishing foreign vs. domestic policy, we focus on two specific policy domains that are comparable with each other with differences in their international and domestic focus: (1) tariffs and (2) taxation. Figure 7 displays the estimated effects. We find little evidence for any change in lobbying activities regarding taxation policies. However, we find that firms tend to lobby more on tariff policies once they became multinational compared to domestic firms that are similar to them. In fact, [Kim \(2017\)](#) shows

that large and productive firms tend to lobby more on trade-related issues; in addition, he finds that the differentiated products that they produce tend to have lower tariff rates on average. Our findings suggest that more attention should be paid to MNCs' political activities and their direct effects on foreign policy-making.

## 5 Conclusion

MNCs are economically different than other firms, as many economists have now shown. But do they differ politically? The past research on this topic has been limited for various reasons, one being lack of systematic data on political activity. Past research points out that MNCs are likely to have distinct preferences on foreign economic policy. As international actors who benefit from access to a global market, they are likely to be more favorable to policies that foster an open world economy. Furthermore, they may be more attuned to trying to harmonize regulations across borders. Reducing all costs for global activities is key for them. Moreover, being larger and more productive than most domestic firms, they have more means to try to influence politics. Studies of particular countries, firms, sectors, and issues often reveal the strong influence of MNCs (Vernon 1971; Strange 1991; Sampson 1973; Gereffi 1983; Manger 2012; Osgood 2017; Kim 2017). But systematic evidence across firms, sectors, and issues has been harder to bring to bear.

Our study here tries to do this using new data. We first devise a method of identifying firms as multinational versus domestic. After validating this measure, we use it to show that indeed those we identify as MNCs have the particular characteristics that economists have noted that MNCs should possess: they are larger, more productive, and more export-oriented. Then we show that MNCs spend more on lobbying and lobby across a more diverse set of issues than do domestic firms. To more closely causally identify this, we also show that when a firm turns multinational its political activity changes: it becomes more active, lobbying more and over more issues, as compared to other firms. Past research has shown that big firms are different politically, but we show that MNCs are even distinct from big domestic firms. MNCs are politically different, as well as economically.

There are several important limitations to our study. First, we focus on one form of political activity only: lobbying. As our review of past research shows, firms have many means of exercising influence. We have touched on but one of many. Informal lobbying and connections, illegal bribery, threats of exit or promises of new employment, campaign contributions and PACs are all unexplored here. We assume that all these influence strategies are complements. But if they are substitutes, then our findings may not approximate the overall activity of MNCs. Second, we focus on individual firm activity and not trade associations. Past research suggests that this individual activity is most

common among MNCs and thus more salient for our research. But more research about MNCs use of industry-wide collective action would be useful. Finally, we focus on the US alone. But we think that many of our findings are likely to carry over to other countries. As we claimed above, the US case for MNC influence may be a hard one to make given the country's well-institutionalized and very divided government. Other smaller and poorer countries faced with the resources and capabilities of these large, global firms may be even more vulnerable to their pressures and hence more likely to generate MNC political activity.

Do MNCs have outsized influence over politics? And relative to whom? Domestic firms, the public and the median voter, or other interest groups? Our data cannot directly answer this critical question. We can say that they have greater means and seem to use them to exert more influence than other firms, even big domestic ones. But are they more able to convert these means into success politically? Again our data cannot give a direct answer. But the direction of US foreign economic policy in the past decades suggests they have been very powerful. The lowering of trade barriers via the GATT/WTO and various preferential trade agreements, the opening of capital markets and signing of bilateral investment treaties and economic agreements with investment protections, and the harmonization of regulations in many areas in preferential trade agreements are all policies that the US government has pursued actively and ones that MNCs have championed. MNC preferences, versus those of purely domestic firms, seem to be very congruent with much of recent American foreign economic policy. [Rodrik \(2018\)](#) claims, for example, that preferential trade agreements are tools for MNCs: "Trade agreements are shaped largely by rent-seeking, self-interested behavior on the export side. Rather than rein in protectionists, they empower another set of special interests and politically well-connected firms, such as international banks, pharmaceutical companies, and multinational corporations" (as cited in [Blanga-Gubbay, Conconi, and Parenti 2020](#), p. 4). Indeed, some have claimed that MNCs are ruling the world, as many nations have adopted similar policies fostering globalization. Also notable is how the Trump administration's policies that have rolled back America's support for globalization have been met with great concern by many MNCs. Our research may then reveal one of the mechanisms for the powerful political influence of these global firms over the years.

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