

Growing Up Under Mao and Deng: On the Ideological Determinants of Corporate Policies

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Abstract

Historically, economic activities have been organized around certain ideologies. We investigate the impact of politicians' ideology on corporate policies by exploring a unique setting of ideological change—China from Mao to Deng around the 1978 economic reform—in a regression discontinuity framework. We find that the age discontinuity of politicians around 18 years old in 1978, who had already joined the Chinese Communist Party (CCP) or joined soon thereafter and later became municipal paramount leaders, has had a lasting effect on contemporary firm- and city-level policies. In particular, firms in cities with mayors that joined the CCP under the ideological regime of Mao have made more social contributions, lowered within-firm pay inequality, and engaged in less internationalization than those under Deng's regime. These effects are stronger in firms with political connections, in non-state-owned enterprises, and in regions that are more market-oriented and not “revolutionary bases.” We find further evidence that ideology-induced corporate policy biases have *some* impact on firm performance and valuation.

Keywords: Political ideology, political connection, corporate policy, China

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1. Introduction

Throughout history, economic activities have been fundamentally shaped by ideology (Piketty, 2020). Benabou (2008) considers ideologies as collectively sustained distortions regarding the proper scope of governments vs. markets. In this context, corporations as the nexus of governments and markets are also organized around certain ideologies. Studying the role of ideologies in corporate decisions is important in understanding how resources are allocated across projects and social groups. For example, typical U.S. Republican politicians would lower taxes and expand firms, while Democrats advocate firms to engage in socially beneficial projects. More generally, scholars have found that different ideologies (left, center, or right) around the world profoundly shape economic policies (Kalt and Zupan, 1984; Potrafke, 2018), corporate investment (Gupta, Briscoe, Hambrick, 2017), and individual risk-taking behavior (Laudenbach, Malmendier, Niessen-Ruenzi, 2018).

In this paper, we study the systematic impact of political ideology on corporate policies. The key insight we put forth is that ideologies are behavioral biases that affect agent decision-making. The impact of ideologies on economic activities is distinct from that of rational economic and political incentives. Once a certain ideology is formed, individuals collectively make decisions consistent with such beliefs regardless of external incentives. Politicians under the same political incentives can adopt strikingly different economic policies derived from their exposure to different ideologies. Corporations affiliated with a certain political ideology may voluntarily design corporate policies to adhere to the doctrine even without economic incentives through such actions as ownership, for example.

However, studying the impact of political ideologies can be empirically challenging. First, it is notoriously challenging to measure ideology, which typically transcends traditional boundaries between the political right and left (Cramer and Walsh, 2012;

Jacoby, 2014) and falls within a political spectrum. Such ambiguity makes it challenging to measure ideology *ex ante* using observable characteristics of politicians and CEOs. Second, ideology and economic activities are likely to be endogenously formed and can be jointly driven by unobservable factors such as culture and education (Cantoni, Chen, Yang, Yuchtman, Zhang, 2017). Third, it is difficult to disentangle the effect of ideology from that of other political and economic incentives, such as those stemming from government ownership or political connections. Current studies mostly use *ex-post* actions (such as political donations – e.g., Chin, Hambrick and Trevino (2013); Di Giuli and Kostovetsky (2014); Gupta, Briscoe and Hambrick (2017); Patil (2018)) as proxies for ideology. Therefore, it is difficult to establish the causality between political ideologies and economic activities.

We overcome these three issues by exploring a unique setting in China. First, it has been commonly recognized that a clear and sharp change in political ideology occurred before and after 1978 in China. Communist ideology during the Mao Zedong era (1949–1978) comprised the traditional “Marxist-Leninist doctrine” and completely rejected capitalism. Following the death of Mao, however, the communist government of China dramatically changed course with the “Reform and Opening-Up” policy, inaugurating a period beginning in 1978. In that year, China began to establish a market economy by legitimating profit seeking, entrepreneurship, and inbound and outbound foreign direct investment. Thus the subsequent communications and behaviors of the Chinese Communist Party (CCP), which currently embrace markets and increasingly encourage internationalization, pose a sharp contrast to the rhetoric and propaganda during Mao’s rule.

Second, we use a regression discontinuity design (RDD) approach in the spirit of Marquis and Qiao (2018) to address the issue of endogenous matching between ideology and corporate policies. The basic tenet of RDD is that an exogenously determined discontinuity in some explanatory variables helps researchers identify a (local) causal effect. In this setting, the age of politicians is an exogenous and predetermined qualification—i.e., from the inception of the CCP until 1978, individuals younger than 18 were not allowed to join the Party (with very few

exceptions). Namely, politicians who did not join the CCP before 1978 because of the age qualification (e.g., the 17-year-old cohort), but then subsequently became members compose the control group, while those who were already approximately 18 years old (18–19) in 1978 and joined the CCP compose the treatment group. Marquis and Qiao (2018) consider the intensive training a person receives upon and after joining the CCP and show that this imprinting process has a lasting effect on an individual's ideology. In this restricted sample of politicians within a small age range, it is reasonable to assume that they share similar personal characteristics (which is indeed the case in our empirical setting, as a whole battery of observables between the two groups do not differ significantly) with the exception of ideology, while the “age discontinuity” (i.e., whether someone was 18 years old) around 1978 captures the impact of CCP imprinting. Therefore in this quasi-natural experiment design, age discontinuity helps distinguish the impact of ideology from other individuals' dispositional interest.

Third, to disentangle the effect of ideology from that of other political and economic incentives and social norms, we include a full battery of control variables and fixed effects in the OLS analysis. We also partition our RDD sample based on CEOs' political connections, government ownership in the firm, as well as the degree of market-orientation and the prevalence of pre-existing CCP ideology of the local economy. These tests help us to further pin down the ideological influence.

The political economy literature has generally classified the difference between Mao and Deng in terms of their economic policies into three pillars (e.g., Naughton, 1993; Lotta, 1994; Chang, 1996; Naughton, 1996): (1) the tradeoff between social and economic benefits, (2) the gap between rich and poor, and (3) the choice between self-sustaining and leveraging on foreign capitalism. Therefore, we examine three aspects of corporate outcomes that are closely related to these pillars. Specifically, we find that the age discontinuity of politicians around 18 years old in 1978 that had already joined the CCP or joined soon thereafter and later became municipal paramount leaders, has had a lasting effect on contemporary city- and firm-level policies. Firms in cities with mayors joining the CCP under Mao's ideological regime have more social

contributions (e.g., tax contribution, employee payments, and donations), lower within-firm pay inequality (e.g., the ratio of average top-three executives to average employees' salary), and less internationalization (e.g., the proportion of foreign assets and foreign sales) than those under Deng's regime. We also find that the above-documented effects are stronger in firms with political connections, in non-state-owned enterprises, and in regions that are more market-oriented and not "revolutionary bases."

An important contribution we aim to make to the literature, especially to the political economy of finance and firms, is disentangling the political ideology effect from the effects of political connection, government ownership, and other political determinants of corporate behavior as previously documented (Faccio, 2006; Megginson, Nash, and Randenborgh, 1994; Shleifer, 1998; Megginson and Netter, 2001; Boubakri, Ghoul, Guedhami, and Megginson, 2017; Bortolotti, Fotak, and Megginson, 2015; Roe, 2003; Pagano and Volpin, 2005). We argue that certain political ideologies can be imprinted on politicians' and corporate executives' decision-making process, leading to differences in firm- and economy-level policies and distorting resource allocations. Our study therefore joins the emerging literature on ideology as another important yet largely unexplored political determinant that can fundamentally influence individual and corporate behavior over the long run (e.g., Laudenbach, Malmendier, and Niessen-Ruenzi, 2018; and Marquis and Qiao, 2018).

Our findings also shed light on the growing literature of non-standard corporate behavior, especially how it is shaped by parties other than managers and investors. Malmendier (2018) suggests that although the perspective of "biased third parties" (such as financial intermediaries, rating agencies, regulators, law makers, or central bankers) is relatively underrepresented, it is the most cited compared to "biased investors" or "biased managers." By focusing on how local politicians, acting as a third party, can profoundly influence firm-level policies and values with their ideology, our study contributes to this growing stream of the literature. Our work also contributes to the literature on the objective of the firm by revealing an important yet largely unexplored source of corporate tradeoff between shareholder value and

stakeholder welfare (such as those of employees and community). This unexplored issue echoes recent studies, primarily in the field of management literature, on the effect of CEO and employee ideology (Marquis and Qiao, 2018; Patil, 2018; Chin, Hambrick and Trevino, 2013; Gupta, Briscoe and Hambrick, 2017; Carnahan and Greenwood, 2018).

Finally, our paper adds to the growing literature on how ideology shapes economic activities by providing both systematic firm- and city-level evidence. This granularity also allows us to investigate ideological influence in a more nuanced way across a wide range of fundamental economic activities such as economic and social tradeoffs, inequality, and globalization. Such a specific focus not only deepens our understanding of *how* ideology works, but also contributes to an understanding of the fundamental driving forces of economic development, including that of China (Xu, 2011; Song, Storesletten and Zilibotti, 2011).

2. Literature Review

The *literature on ideology* considers ideology as a certain set of ethical ideas, principles, or doctrines of a social movement, institution, or class that considers a specific form of government (e.g., democracy or autocracy) and economic system to be superior (e.g., capitalism or socialism). The word “ideology” itself is referred as “subjective mental constructs” that generate social cognitions resting on distorted perceptions of reality and are persistent over time (North, 1990; Benabou, 2008). Ideology operates through language and discourse with the aim of producing specific effects (Larrain, 1979; Thompson, 1984); it is about “who is saying what to whom for what purpose” (Eagleton, 1991, p. 9). As a social belief, ideology can be shared within a group.

Ideologies play major roles in shaping the development of human society and history, largely affecting the allocation of power and therefore resources and the ends to which they should be used. Therefore, studying the role of political ideologies in economic activities is important in understanding how resources are allocated across projects and social groups. For example, in U.S. politics, ideology generally falls along the conventional liberal-to-conservative continuum (George, 1998). Traditional

definitions of liberal vs. conservative suggest that liberals (Democrats) are in favor of more government and conservatives (Republicans) are in favor of corporations (Howard and Nixon, 2002). Congressional records from politicians of both parties and voter surveys are generally consistent with this definition. Some studies have also found that in tax cases, conservative judges are more likely to rule in favor of corporations than for the government or the public compared to liberal judges (Howard and Nixon, 2002; Staudt, Epstein and Wiedenbeck, 2006; Epstein, Landes and Posner, 2013). Choi and Pritchard (2012) and Huang, Hui and Li (2019) argue and find evidence that shareholders react to such judicial ideological biases by filing securities class action lawsuits against companies in district and circuit courts where liberal ideology is associated with less corporate friendly outcomes.

Other studies have documented the long-term impact of ideologies on macroeconomic policies (Kalt and Zupan, 1984; Potrafke, 2018), local law enforcement (Patil, 2018), corporate investment (Gupta, Briscoe, Hambrick, 2017), within-firm gender inequality (Carnatan and Greenwood, 2018), and individual risk-taking behavior (Laudenbach, Malmendier, Niessen-Ruenzi, 2018). Yet, empirical evidence is limited on how ideologies as collective beliefs concerning the scope of government vs. markets (as defined by Benabou (2008)) can *systematically* influence corporate policies, which lie at the center of economic activities.

In addition, a large *literature on the political economy of firms* has suggested that corporate behaviors and policies are strongly shaped by political forces. Earlier work has focused on the role of government as owners of corporations in driving non-value-maximizing firm behaviors (Megginson, Nash, and Randenborgh, 1994; Shleifer, 1998; Dewenter and Malatesta, 2001). This line of research has generally considered managers of state-owned enterprises (SOEs) to have low-powered incentives, and such enterprises are poorly monitored by boards packed with politicians (Shleifer and Vishny, 1998; La Porta and Lopez-de-Silanes, 1999). Rent-seeking by politicians running SOEs to advance their personal agendas can lead to corruption, poor resource allocation, reduced innovation, and skewed wealth distribution (Shleifer, 1998). As a result, state ownership is usually associated with weak corporate governance and

poor financial performance (e.g., Megginson, Nash, and van Randenborgh, 1994; Dewenter and Malatesta, 2001; Megginson and Netter, 2001; Bortolotti and Faccio, 2009). Recent studies have documented that state-owned publicly listed companies could achieve good financial performance (e.g., Inoue, Lazzarini, and Musacchio, 2013; Cuervo-Cazurra et al., 2014; Musacchio, Lazzarini, and Aguilera, 2015). In a recent investigation on publicly listed corporations in East Asia, Boubakri, Ghoul, Guedhami, and Megginson (2017) provided evidence that although government-owned firms exhibit higher market valuations than non-government-owned firms, the relation is non-linear. Karolyi and Liao (2017) document a significant and growing amount of cross-border acquisition activities by SOEs, particularly those from emerging markets. Others have found that a large part of sovereign wealth fund investments also come from emerging markets (Dewenter, Han, and Malatesta, 2010; Kotter and Lel, 2011; Bortolotti, Fotak, and Megginson, 2015; also see Megginson (2017) for an overview of the literature).

Another prominent aspect of political influence is the connection between firms and politicians. Shleifer and Vishny (1994) emphasized that politicians will extract at least some of the rents generated by connections, and that corporate value will be enhanced only when the marginal benefits of the connections outweigh their marginal costs. Faccio (2006) was among the first to show the prevalence of controlling shareholders and corporate executives who are connected with national parliaments or governments around the world, particularly in countries with higher levels of corruption and barriers to foreign investment. With regard to the source of political connections, the literature has shown that sharing previous working experience, coming from the same hometown, and attending the same schools build strong connections between CEOs and politicians (Bai and Jia, 2016; Cantoni et al., 2017), as well as among politicians of different ranks (Fisman, Shi, Wang, Wu, 2019). Connected CEOs are likely to share the same ideologies with politicians who were former colleagues, from the same hometowns, or school peers.

Some studies have tried to explore the historical and institutional origins of such political effects on corporations. For example, Pagano and Volpin (2001) observe that

regulations and enforcement that shape the design and operations of corporations and financial markets differ vastly across countries. They apply a political economy framework that models regulation and its enforcement as the result of the power balance between social and economic constituencies. They apply such framework to the field of corporate finance, which was further extended by Perotti (2014).

More recent studies have investigated the value and welfare implications of such political influence on firms and markets. For example, government spending can have a crowding-out effect on private-sector economic activity (Cohen, Coval, Malloy (2011)). Political uncertainties (e.g., around U.S. presidential elections) can drive corporate investment cycles (Julio and Yook, 2012; Hassan, Hollander, van Lent, Tahoun, 2019). Zingales (2017) argues that as firms secure more market power, the more they have both the ability and the need to gain political power, which he terms as a “Medici vicious circle” – i.e., money is used to obtain political power and political power is used to make money. Along this line and using novel data of firm government relations’ staffs as a proxy for corporate political activism, Ferracuti, Michaely, Wellman (2019) show that American companies grow and protect their market power through political activism.

Third, the *literature on behavioral corporate finance and the objectives of firm* suggest that a firm’s non-standard behavior (i.e., one that does not maximize shareholder value), and the market’s response to it helps explain many puzzles in corporate finance (Malmendier and Tate, 2005; Malmendier, 2018). Scholars have long recognized the existence of significant biases of key decision-makers—corporate managers and regulators who set the rules—that have far-reaching consequences. For example, acquisitions, hiring, downsizing, or investment programs affect the wealth of shareholders, the lives of employees, and the welfare of various stakeholders (Malmendier, 2018). As pointed out by Malmendier (2018), a promising and relatively underrepresented area of behavioral corporate finance takes the perspective of “biased third parties” such as financial intermediaries, rating agencies, regulators, lawmakers, or central bankers. For example, Malmendier, Nagel, and Yan (2017) find that central bankers’ expectations of inflation are affected by their personal lifetime

experiences of inflation, with immediate implications for funding of firms (via the Fed's funds rate). Dinc and Erel (2013) find a strong effect of economic nationalism on M&A activities, namely that left-leaning nationalist interventions block foreign acquirers and help create domestic companies that are too big to be acquired by foreigners.

A related and emerging stream of the literature is the objective of the firm (Tirole, 2001; Kitzmueller and Shimshack, 2012). This literature focuses on whether a firm's objective is to maximize the welfare of shareholders or stakeholders and posits that a tradeoff often exists between shareholder value and the welfare of other stakeholders (Magill, Quinzii, Rochet, 2015). The latter include, for example, the provision of employee welfare and contribution to community and society (in the form of tax payments and donations). Recent studies have investigated how such shareholder-stakeholder is linked to left-right political ideology (e.g., Di Giuli and Kostovetsky, 2014; Ou, Li, Jiang, Deng, 2017; Gupta, Briscoe and Hambrick, 2017; Gupta, Nadkarni, Mariam, 2018). Extending this line of research, traditional left-leaning socialism and right-leaning capitalism are two ideological doctrines emphasizing different value systems. The focus is more on stakeholder and societal welfare for the former and a return to capital (i.e., shareholders) for the latter.

3. Institutional Background and Hypotheses Development

To understand the impact of political ideology on corporate policies in our setting, one needs to understand the fundamental differences in ideology between Mao and Deng, as well as their institutional roots during China's economic and social transitions. In this section, we review the institutional background of China's ideological transition and these ideological differences.

3.1. Institutional transition and the economic thoughts of Mao vs. Deng

On October 1, 1949, Mao Zedong, having led the Communists to victory against the Nationalists (who later retreated to the island of Taiwan where they set up a government) after more than 20 years of civil war, proclaimed the founding of the

People's Republic of China. In 1958, Mao launched the "Great Leap Forward," a five-year economic plan. Farming was collectivized and the labor-intensive industry was introduced. During this period, millions of people died by starvation following poor harvests and misguided policies in distribution and production (Dikötter and Bauckham, 2012; Meng, Qian, Yared, 2015). The drive resulted in an economic breakdown and was abandoned after two years. From 1966 to 1976, the Cultural Revolution, Mao's 10-year political and ideological campaign aimed at reviving the revolutionary spirit, spread across China and produced massive social, economic, and political upheaval. Mao died in 1976. The "Gang of Four," including Mao's widow, then jockeyed for power but were arrested and convicted of crimes against the state. From 1977 to 1978, Deng Xiaoping emerged as the dominant figure among pragmatists in the leadership. Since 1978, China has undertaken far-reaching economic reforms.

Institutional transition in China was accompanied by ideological transition. Maoism prevailed in China between the 1950s and the late 1970s. Maoism is considered to be orthodox socialism that stresses class struggle, central planning, and public ownership. Following the death of Mao, however, a major ideological shift occurred as Deng took power. The communist government of China dramatically changed course with the "Reform and Opening-Up" policy, inaugurating a period beginning in 1978 when China began establishing a market economy and gradually opened to the outside world. As a result, the CCP's subsequent communications and behaviors, which embraced markets and increasingly encourage internationalization, posed a sharp contrast to the rhetoric and propaganda during Mao's rule: that is, from production relations to productive forces, from central planning to socialist market economy, and from state ownership to mixed ownership.

Of course, this ideological transition was subtle, despite its sharp contrast in content. When Deng introduced a market economy into China, the government carefully communicated this reform in a way that was ideologically congruent with communism. The government carefully chose words to deliver the idea of reform and the "socialist market economy," avoiding "capitalism" and related words.

The fundamental difference between the ideologies of Mao and Deng regarding economic development is about the role of capital. Mao downplayed the role of capital and particularly against foreign capitalism in developing the economy. He believed that the collective willpower of the masses could transform China's economy of poverty into an advanced industrial economy. Therefore, Mao emphasized eliminating class struggle, unifying communities, and being economically self-sufficient (i.e., not reliant on foreign capital). In contrast, in 1978, Deng shifted the focus of the Communist Party and identified economic development as the historic mission of the Chinese communist revolution. He advocated a more capitalist economic ideology and adopted policies that focused on economic efficiency. In addition, Deng's attitudes reflected the need for rapid growth and real incentives, the delegation of authority in order to motivate individual effort, and the openness to foreign capital and international markets.² Since then, China has established a market economy by legitimating entrepreneurship and gradually opening itself to the outside world.

Generally, scholars have characterized the ideologies of Mao and Deng in terms of their economic policy with three broad categories (Naughton, 1993; Lotta, 1994; Chang, 1996; Naughton, 1996): (1) the pursuit of social and economic coordination; (2) the perception of the gap between rich and poor; and (3) the attitude toward foreign capitalists. Motivated by these discussions, we further develop testable hypotheses on the ideological impact on corporate policies based on these three key areas of differences between Mao and Deng.

First, compared to Deng, Mao greatly emphasized the importance of social development and social contributions relative to economic efficiency and development. Contrary to the Leninist vanguard model employed by the Bolsheviks, Mao firmly believed that that the Communist Party must not be separate from the popular masses. A successful revolution crucially depends on satisfying the needs and demands of the masses, and this should be clearly communicated to the Party. For Mao, the proletariat were the millions of peasants (*the popular masses*) who

² More details about Deng's economic policies can be found at Naughton (1993, 1996).

fundamentally drove the demand for communism. Mao based his revolution upon the peasants because they were poor and a political blank slate. Such beliefs led to the Cultural Revolution. Central to the Cultural Revolution was the belief that the proletarian revolution and the dictatorship of the proletariat did not wipe out bourgeois ideology; instead, the class struggle continues and even intensifies during socialism, therefore a constant struggle against these ideologies and their social roots must be undertaken.

Second, Mao and Deng also differed dramatically on their views on inequality. Equity is a fundamental characteristic of socialism, which is rooted in Marxist doctrine – i.e., the relationship of economic exploitation determines the class structure of every social order. The notion of inequality is intrinsic to that of hierarchical order (Lee, 1979). Accordingly, when economic exploitation ends, classes and class struggle should naturally disappear in the society. Mao's ideology unequivocally referred to the idea of equality and service to the people (Sen, 2013) and moved beyond the orthodox Marxism and Leninism by recognizing class, status, and power as equally distinctive aspects of the reality of social inequality (Young, 1973). Mao envisioned a "classless" society (a society without class stratification), and believed that the opportunities for the masses to participate in decision-making is the social basis of the CCP (Lee, 1979).

Mao's concern with status inequality was reflected in his general social policies that set the goals for mass action. He made deliberate efforts to eliminate inequality and the traditional status gap between physical and mental labor, which suggest his clear recognition of status groups as a separate dimension of social stratification. Therefore, Mao was determined to wipe out the status distinction between mental work and manual labor—a prominent feature of social inequality inherited from the older society and justified by Confucian ideology. This gave rise to the movement of millions of intellectuals and white-collar workers sent to the countryside to learn the art of self-reliance through the use of their own physical power during the Cultural Revolution. Mao also encouraged workers and peasants to attack the elites – political leaders, intellectuals, professionals and well-educated people from formerly wealthy families.

Even though Deng never abandoned the idea of equity, he believed that in general incentives are important to motivate people to work harder and better. According to Chang (1996), the three pillars central to Deng's ideology on distributional equity included material incentives, the promotion of achievement, and "let some get rich." Deng believed that human beings would work harder and better if they benefitted directly from their labor. He was convinced that egalitarianism would not work and that it was "only fair that people who work hard should prosper."³ He proposed to reward individuals who were talented and higher achievers with promotions and pay raises. In 1992, Deng proclaimed the necessity to "let some people get rich first," which effectively sidelined distributional considerations in exchange for greater economic and income growth.⁴ According to Piketty, Yang, Zucman (2019), income inequality in China has increased substantially since 1978: China had been as equal as the most egalitarian Nordic countries, while it is now approaching U.S. inequality levels.

Third, Mao and Deng had sharp differences in their attitudes toward foreign capital and capitalists. A central tenet of Maoism was the dichotomization of the world into "capitalist" and "communist/socialist" camps, leading to an antagonistic attitude regarding the outside world (e.g., Di, 1994; Raynard, Lounsbury, and Greenwood, 2013; Marquis and Qiao, 2018). Mao continuously emphasized self-reliance and downplayed international cooperation in almost any form (except for foreign aid to other countries), which essentially shut China off from the rest of the world. Such anti-foreign sentiment not only applied to Western capitalist countries, but also to other countries with connections to the Western capitalist camp. Chinese who joined the CCP in that period were indoctrinated with a negative perception of most foreign countries, and "foreign capitalists" were described during their years of indoctrination as exploitative, mercenary, greedy, and ruthless.

³ Deng, X. 1994. In the First Decade, Prepare for the Second. In *Selected Works of Deng Xiaoping*, Vol. 3, 1982-1992. (p.27). Beijing: Foreign Languages Press.

⁴ To avoid permanent "polarization," Deng imagined that when the time was "right," the government would use taxation to enforce a redistribution of wealth from the rich to the poor and from the prosperous coastal to the economically backward inland regions. However, Deng was rather vague as to when that time would occur.

In contrast, Deng instituted the “Reform and Opening-Up” policy in 1978 that initiated the gradual marketization of the economy. In addition to the introduction of market mechanisms, Deng also advocated the opening of China to trade, investment, and other contacts with the outside world. This was in marked contrast to Mao’s autarkic policies (Chang, 1996). Deng believed that if China were to develop, it “must persist in opening to the outside world” because “for a country to isolate itself is only to its own disadvantage.” There must not be “blind opposition” to anything that is foreign. Deng argued that China would ultimately benefit from its open policy as long as Chinese national interests were served. Under Deng’s plan, China would trade with other countries and import their capital and technology. Special economic zones and open cities were established, and he was willing to give generous and apparently heartfelt praise to advanced foreign experience. Much of this appears to be related to his respect for science and technology (Naughton, 1993).

It is important to note that throughout the introduction of a market economy into China, the government carefully communicated the reform in a way that was ideologically congruent with communism and thus effectively decoupled entrepreneurship and capitalism (Marquis & Qiao, 2018). Starting in 1978, the government cautiously chose words to deliver the idea of reform and the “socialist market economy,” avoiding “capitalism” and related words.⁵ The government also connected entrepreneurship to traditional Chinese culture and traditions, emphasizing the role of Confucian entrepreneurs (Marquis, Li, and Qiao, 2017) as wealthy but also trustworthy individuals. Essentially, the CCP redefined communism and encouraged an entrepreneurial spirit as part of a new system of “socialism with Chinese characteristics,” which became the official ideology of the CCP in the early 1990s.

3.2. The indoctrination process on CCP members

⁵ As Deng said in 1992, “the market economy does not equal capitalism, and it can exist in socialism/communism.”

Generally, the experiences people have in late adolescence and early adulthood exert persistent and significant influence on personal characteristics later in life and/or in their careers (Roberts et al., 2003; Caspi et al., 2005). In China, most people join the CCP after they turned 18 (Li et al., 2008), a sensitive period when individuals form their worldviews and political beliefs (e.g., Bianchi, 2014). In China, almost all municipal paramount leaders, especially city mayors, must be members of the CCP. They are typically “activists” and join the CCP at an early age (earliest is 18 years old), which is usually disclosed in their CV. Students are usually told in school that being a CCP member signifies being an elite or someone good. However, after joining the CCP, members are required to go through a rigorous indoctrination process over an extended period of time (called a “probation period”). This process includes attending classes that promote communist beliefs, writing reports expressing their strong and firm belief in communism and opinions on the CCP, attending socialization events with CCP leaders who extol communist principles, and watching documentaries advocating communism (Bian, Shu, and Logan, 2001). After the candidates demonstrate loyalty to the CCP through these activities and oral interviews, they take an oath to devote their lives to the communist cause. After selection as a CCP member, an individual still must undergo observation for a probationary period before being granted full membership. Such a selection process has mostly remained stable over the last few decades (Li and Walder, 2001; Shambaugh, 2008).

Through this indoctrination process, the ideologies of CCP were imprinted in members who subsequently became municipal paramount leaders. However, there is a sharp contrast in the ideological imprints of those indoctrinated before and after 1978. Prior to 1978, the ideological indoctrination comprised the traditional “Marxist-Leninist doctrine advocating the overthrow of the capitalist system” (Wang, 1999: 206), prioritizing social contributions and equality and against foreign capitalists. After 1978, the ideological indoctrination mostly comprised the importance of economic efficiency, incentives, and opening-up to the world. Figure 1 visualizes the shift in ideology around 1978 by plotting the frequency of a set of ideological keywords

(calculated as the length of keywords⁶ × total count of keywords/total count of all characters) *in each year* in *People's Daily*, the official newspaper of the Central Committee of CCP and the key source of education materials during the indoctrination process. It shows that the mentioning of keywords representing Mao's ideology dramatically declined after 1978 (Figure 1a) whereas the frequency of keywords representing Deng's ideology surged (Figure 1b). In Section 5.1 we more formally test the change of exposure to these keywords by city mayors who joined the CCP around 1978. As we subsequently argue, these ideological imprints in local politicians can be reflected in the policies of corporations under their reigns.

It is important to note that while the main mechanism we previously argued is ideological indoctrination after one joins the CCP, we also acknowledge the possibility of a selection mechanism. That is, politicians are selected to join the CCP based on their ideology, and those who chose to join the CCP after 1978 might possess certain ideologies distinct from those who did not join. As our focus is on the how politicians' ideology affects corporate policies, such ideology can stem from both indoctrination and intrinsic beliefs, *as long as their selection into the CCP is not driven by other characteristics than their ideology* for our empirical identification. Nevertheless, it is worth noting that the CCP selection process has mostly remained consistent during the time period of our study.

3.3. Impact on corporate policies

As we have discussed, local politicians were indoctrinated with different political ideologies. As such, we pose the question: How do local politicians' ideological imprints transmit to firms? There are several potential channels through which municipal paramount leaders' political ideology can affect corporate policies. First, city mayors usually control important resources and can wield their enormous political power and administrative capacity to provide "special deals" for favored private firms. Bai, Hsieh and Song (2019) argue that local political leaders do so

⁶ The length of the keyword is measured as the total number of Chinese characters in the keywords. For example, for the keywords "solidarity" (团结), which contains two Chinese characters, the length is 2.

because they derive personal benefits, either political or monetary, from providing special deals. Competition between local governments limits the predatory effects of special deals. Many Chinese firms, especially private ones, succeed in part by obtaining a special deal from local political leaders that enables them to either break the formal rules or obtain favorable access to resources. Such special deals may come in the form of more access to preferential government procurement contracts and other public benefits, such as soft budget constraints or cheaper credits, which can carry an implicit debt guarantee reducing the chance of default found (Borisova, Fotak, Holland and Megginson, 2015) to be carried by publicly traded firms that are government-owned. As a result, such a special deal is associated with a substantially lower cost of financing. The above mechanism is essentially a channel through which firm managers rationally explore politicians' behavioral biases by catering to city mayors' ideologies. Second, ideology-biased local politicians may make distorted policies and regulations that influence firm behaviors in their cities by forcing them to make non-standard, often non-value-maximizing investments (Cohen, Coval, Malloy, 2011; Jia, 2017; Kalt and Zupan, 1984; Potrafke, 2018). Third, local politicians may directly influence firm decision-making and behaviors through private and personal connections with corporate executives – perhaps the most subtle but efficient channel to influence corporate policies.

How are the differences in ideologies between Mao and Deng mapped to firm-level policies? Among the most direct connections are the distinct views between Mao and Deng on the relative importance between social responsibility and economic efficiency of individuals and organizations. This issue leads to different beliefs about how businesses and entrepreneurs are rooted in the popular masses and thus how much should one contribute back to the society. In terms of corporate policies, this can translate into the amount a company's revenue contributes to social causes such as tax contributions, employee welfare, and community donations through local politicians' implicit and explicit influences.

Relatedly, such differences in ideology with regard to social and economic coordination may also be reflected in within-firm pay inequality (Mueller, Ouimet and Simintzi,

2017). Firms influenced by Mao's ideology would put greater emphasis on equality and thus a smaller difference in pay would exist between the top earners (e.g., CEOs) and the average employee. In contrast, firms influenced by Deng's ideology would have a greater focus on real incentives in terms of compensation, and thus may have a much larger difference in pay between the top earners and the average employee.

Moreover, the sharp difference in attitudes toward foreign capitalists have left different imprints on firms' internationalization, which involves both the inward process of bringing in foreign capital and management (mostly from richer countries that fall into the capitalist camp) and the outward process emphasizing global expansion.⁷ Firms influenced by Mao's ideology—i.e., with an antagonistic attitude toward foreign capitalist and a strong focus on self-reliance—would be less open to foreign direct investment (FDI). This belief would be in sharp contrast with firms governed by politicians under Deng's ideological influence, which focuses on international cooperation and a greater degree of internationalization.

Therefore, based on our abovementioned arguments, we form three hypotheses that we formally test in the next section.

H1: Firms in cities with mayors under Mao's ideological influence make more social contributions than those under Deng's.

H2: Firms in cities with mayors under Mao's ideological influence have a lower within-firm wage inequality than those under Deng's.

H3: Firms in cities with mayors under Mao's ideological influence are less internationalized than those under Deng's.

4 Data and Methodology

In this section, we first describe how we compile the data and introduce the key variables of interest, control variables, and the sample. We then provide details on our

⁷ Foreign capital entering China starting in the late 1970s was primarily from the U.S., Canada, and Western Europe, and the major overseas markets for Chinese firms were developed countries such as the U.S., Australia, and Canada (Marquis and Qiao, 2018).

settings using OLS and RDD regressions. Finally, we present some summary statistics for both the OLS sample and the RDD sample.

4.1 Data

The primary data source for our study is the China Stock Market & Accounting Research (CSMAR) Database, one of the most comprehensive databases for Chinese business research, which covers data on the Chinese stock market, financial statements, and corporate governance of Chinese-listed firms. It also provides information about city politicians' characteristics, firm characteristics, and city-level macroeconomic indicators. We supplement the data on firm characteristics by using Datastream and WIND, and collect additional city-level data from the National Bureau of Statistics of China website. Our sample period spans 2007–2017, as data for our key dependent variables such as social contributions (from CSMAR) start from 2007.

Our main dependent variables are three sets of firm-level policies that map the three fundamental differences in economic thought between Mao and Deng and our three hypotheses: firm social contributions, wage inequality, and the degree of internationalization. A firm's social contribution is defined as the ratio of the sum of total tax contribution, employee payment, interest expense, and donations over its total book value of equity. Tax contribution, employee payment, interest expense and donations capture different dimensions of a firm's contribution to stakeholders and the society at large. In the spirit of Mueller, Ouimet and Simintzi (2017), wage inequality is defined as the ratio of the average top three executive incomes to average employee incomes to proxy income inequality. A higher ratio implies a larger within-firm pay inequality. We construct two measures on a firm's internationalization—foreign assets ratio and foreign sales ratio. Foreign assets ratio is defined as the total assets of the overseas subsidiaries to total assets, and foreign sales ratio is defined as the total international sales to total revenue.⁸

⁸ Available data on foreign assets in CSMAR start from 2013. We obtain data on foreign sales from Datastream for better coverage.

Our main explanatory variable is a city mayor's ideology. We measure a city mayor's ideology according to whether s/he joined the CCP before or after 1978 for two reasons. First, there is a sharp change in ideology from class struggle (Mao's) to economic development (Deng's) since 1978, which offers a clear measure for Chinese politicians' ideologies (Marquis and Qiao (2018)). To show the change in ideology in China around 1978, we conduct a textual analysis by searching ideology-related keywords in *People's Daily*, the official newspaper of the the CCP Central Committee and the key source of materials during the indoctrination process. The keywords related to Mao's ideology include, "Chairman Mao (*Mao Zhu Xi*)," "Class (*Jie Ji*)," "Imperialism (*Di Guo Zhu Yi*)," "Solidarity (*Tuan Jie*)," "Revolution (*Ge Ming*)". The key words related to Deng's ideology include "Reform (*Gai Ge*)," "Efficiency (*Xiao Lv*)," "Market (*Shi Chang*)," "Foreign Capital (*Wai Zi*)," "Economy (*Jing Ji*)". For every year during the 1969–2002 period, we calculate the frequency of a specific word appeared in *People's Daily* as follows:

$$frequency_{it} = \frac{nr.of\ appearance_{it} \times length_i \times 10000}{total\ nr.of\ words\ on\ People's\ Daily_t'}$$

where *nr. of appearance_{it}* is the total number of times a keyword *i* appears in *People's Daily* in a given year *t*; *length_i* is the total length in words of the keyword *i*; and *total nr. of words on People's Daily_t* is the total number of Chinese characters in *People's Daily* in that year. We express this measure as a basis point by multiplying 10,000 for readability. This *frequency* measure can be considered as an index. Figure 1 presents the time series trend on the frequency of these ideology-related words. Results show that all keywords related to Mao's ideology experience a significant drop in frequency around 1978, while keywords related to Deng's ideology experience a significant increase in frequency around 1978. These results show a significant shift in ideological language around 1978.

Second, as argued by Marquis and Qiao (2018), the intensive training that a person receives when joining the CCP has a lasting effect on his/her ideology. Therefore,

⁹ "Chairman Mao" ("*Mao Zhu Xi*", or 毛主席) is a general term referring to Mao Zedong when he was still in power and also after he passed away in 1976. It was used to show loyalty and respect to Mao.

given the sharp change in ideology in China around 1978, it is reasonable to expect the training content upon joining the CCP to be fundamentally different before and after 1978. In particular, people who joined the CCP before 1978 were indoctrinated mostly with Mao's ideology, whereas people who joined the CCP after 1978 have been indoctrinated mostly with Deng's ideology. Thus, we expect that city mayors have different ideologies depending on whether they joined the CCP before or after 1978. We present empirical evidence in Section 5.2.

Our empirical proxy for ideology has several advantages compared to many existing measures in the literature. Current studies on ideologies often cannot distinguish the impact of ideology from that of politicians and firm managers' political and economic incentives. For example, recent U.S.-based studies have shown how political ideologies affect corporate decisions to donate to left- or right-wing campaigns in order to measure executives' ideology spectrum (Chin, Hambrick, and Trevino, 2013; Gupta, Briscoe, and Hambrick, 2017; Carnahan and Greenwood, 2018). However, such measures might not only reflect executives' ideologies, but also their aims to use donations to gain political connections and realize subsequent economic gains. Outside the U.S. context, the impact of ideologies on corporate decisions has been mainly studied through firms' ownership structure – e.g., state capitalism vs. private enterprise (Chen, Jiang, Ljungqvist, Lu, Zhou, 2017) – that cannot differentiate between ideologies and state ownership. In our setting, however, we are able to separately control for political connection and state ownership, as well as for the difference in ideological indoctrination based on the mandated eligible age of joining the CCP in China. Moreover, even though different Chinese politicians may have their own ideologies, they are under the same political incentives designed by the Central Committee once they join the CCP. Therefore, our measure better captures the difference in ideology instead of political or economic incentives.

We also construct a number of variables related to firm and city mayor characteristics and city macro-economic variables that can potentially affect firm policies. Specifically, firm characteristics include firm size (total assets), ROA, leverage, Tobin's Q, and revenue growth; city mayor characteristics include gender, race, education level,

working experience in state/private-owned enterprises while city macro-economic variables include city GDP per capita, number of individual employees, and total wages for employees.

<Insert Table 1>

Table 1 reports the summary statistics of the main variables. Our final sample includes about 26,000 firm-year observations consisting of more than 3,500 firms during the period of 2007–2017. About 14% of firm-year observations are in cities where their mayors joined the CCP before 1978. The mean (median) value of social contribution to equity ratio is 0.21 (0.17). The average value of the wage inequality is 7.40, which suggests that the salary of the top three executives on average is about 6 times higher than that of an average employee. Interestingly, the minimum of wage inequality takes a value of 0.49. For our sample, less than 50% of firm-year observations have positive foreign sales or foreign assets.

Our sample consists of 1,005 unique city mayors, of which about 12% joined the CCP before 1978, 6% are females, 11% are non-Han Chinese, and 29% have worked at SOEs. The average age of politicians is about 51. At the city level, the mean and media GDP are about 211 billion Chinese *yuan* (CNY; approx. 30 billion USD) and 121 billion CNY (approx. 17.3 billion USD). The average city population is about 4.6 million. The distribution of the amount of annual foreign investment in a city is quite skewed with a mean of 5.9 billion USD and a median of 1.7 billion USD.

4.2 Empirical Methodology

To test the impact of ideology on various firm policies, we adopt two empirical methods. First, we use an ordinary least squares (OLS) regression on a panel data set to investigate the general association between ideology and various firm policies. Our empirical model is as follows:

$$\begin{aligned}
 Y_{i,t} = & a_0 + a_1 Pre1978Mayor_{j,t} + a_2 X_i + a_3 M_j + a_4 C_t + Firm\ FE + Year\ FE \\
 & + CityPartySectary\ FE + IndustryYear\ FE + CityRankYear\ FE \\
 & + \varepsilon_{i,j,t} . \quad (1)
 \end{aligned}$$

The dependent variable $Y_{i,j,t}$ captures different firm policies: social contribution, wage inequality, and international trade. The key independent variable is *Pre1978mayor*, which takes the value of 1 if the mayor in city j joined the CCP before 1978 and 0 otherwise. The subscript “ $i/j/t$ ” indexes a firm/city/year. X_i contains firm characteristics such as size, ROA, leverage, Tobin’s Q, and revenue growth. M_j contains mayor characteristics such as gender, race, education, major, and work experience in SOEs or private enterprises. C_t contains macro-economic factors at the city level such as city GDP per capita, size of employed population, and city total employee wages. In addition, we also control for firm fixed effects, year fixed effects, city CCP secretary fixed effects,¹⁰ industry-year pair fixed effects, and city rank-year pair fixed effects¹¹ to capture time-invariant firm characteristics and time-varying industry and city characteristics. All standard errors are clustered at the city mayor level.

One potential concern with using the variable *Pre1978mayor* is its high correlation with the age of city mayor. In addition, other unobservable factors not captured by our control variables and various fixed effects may drive both the year of joining the CCP and firm policies. If so, it is hard to detangle the ideology effect from the age effect and other unobservable factors in the OLS regressions. To address the potential endogeneity issue and establish causality, we use a regression discontinuity design (RDD) approach in the spirit of Marquis and Qiao (2018). The basic tenet of RDD is that an exogenously determined discontinuity in some explanatory variables helps researchers identify a (local) causal effect. In our setting, an exogenous and predetermined qualification is the age of politicians. At its outset, the CCP established an age limit of over 18 to join (with very few exceptions); as such, there could be a

¹⁰In China, the CCP secretary and the mayor are the two most important leaders of a city. A city’s CCP secretary is mainly responsible for party-related affairs (such as personnel organization and propaganda) and strengthening the Communist Party’s leadership in the city, while the city mayor is mainly responsible for the city’s economic policies and development. Therefore, we focus on the ideology of city mayors in the current paper. By controlling for the city party secretary fixed effects, we hold constant the effects of a city’s CCP secretaries on firm policies.

¹¹In our sample, cities have three types of administrative ranks: sub-provincial city, prefecture level city, and municipality. Cities with different administrative ranks have different relationships with the central government; normally, municipalities have the largest size (do you mean are the largest sized cities?) and prefecture-level cities are smallest.

discontinuity of beliefs when an individual does join at age 18. Therefore, politicians who became CCP members shortly after 1978 because of the age limit are the control group, while those who were already 18 years old (or a few years older) by 1978 and had joined the CCP are the treatment group. In this restricted sample of politicians within a small age difference,¹² it is reasonable to assume they have similar personal characteristics except for ideology. Thus, the year the politicians joined the CCP (i.e., pre- or post-1978) captures the impact of the indoctrination process on their ideology. Therefore, in this quasi-natural experiment design, the discontinuity in joining the CCP helps distinguish the impact of ideology from other individuals' dispositional characteristics.

It is worth noting that as previously mentioned in Section 3.1, the Chinese government carefully communicated the reforms in a way that was ideologically congruent with communism (Marquis & Qiao (2018)). This could suggest that the selection mechanism (in terms of who, whether, and when to join the CCP) due to one's exposure to ideological influence outside the indoctrination process may not be that strong. Even if one is concerned that the CCP may select certain candidates to join the Party after 1978 because they possess different ideologies from those who joined before 1978, the potential change in selection process does not necessarily invalidate our RDD setting as long as the selection process leads to only the ideology difference, but not to a difference in other characteristics.

<Insert Table 2>

In Table 2, we report the summary statistics on two subsamples partitioned by whether city mayors joined the CCP before or after 1978 respectively. Panel A reports the results on the full sample. Unsurprisingly, there are more observations in the subsample of city mayors that joined the CCP after 1978. This is because people who joined the CCP before 1978 are older and more likely to have already retired during

¹² The most ideal control group would be politicians who were 17 years old in 1978 and joined the CCP in 1979, and the treatment group should be politicians who were 18 years old in 1978 and already joined the CCP. However, this would result in too few observations in the RDD sample. To increase the number of observations, in some analyses, the control group includes the 14–17-year-old cohort and the treatment group includes the cohort who were 18–21-year-old in 1978.

our 2007–2017 sample period. There are other significant differences between the two subsamples. City mayors who joined the CCP before 1978 are older and likely to be male. They are also likely to have work experience in non-state owned enterprises, majored in science and technology disciplines, and have earned a master’s degree. Firms in cities with mayors who joined the CCP before 1978 are significantly smaller. Such firms have lower returns on assets and lower revenue growth, but higher leverage than those firms in cities with mayors joining the CCP after 1978. In addition, cities whose mayors joined the CCP before 1978 have significantly lower total city GDP, but higher city GDP per capita. However, Panel B shows that the differences in the firm-level, city-level and mayor-level characteristics between the two subsamples become statistically insignificant for our RDD sample. The only exception is the Age variable, in which city mayors who joined the CCP before 1978 are on average 1.5 years older than city mayors who joined the CCP after 1978. The difference in age between two subsamples is expected and consistent with how we construct our RDD sample. It is important to note that the absence of significant differences in city, firm, and politician characteristics between two RDD subsamples is crucial to the validity of our RDD setting, as it alleviates the concern regarding the endogenous matching between firms and cities, and between mayors and cities.

5 Results

In this section, we first present the empirical results of testing the impact of political ideology on various corporate policies as well as the evidence from the textual analysis. After exploring the potential channels through which a city mayor’s ideology affect firms, we examine the implications of such ideology-induced corporate policy distortion on firm performance. Last, we present robustness tests to rule out potential alternative explanations for our results.

5.1 *The impact of ideology on firm policies*

Table 3 presents the results of the impact of ideology on a firm’s social contribution. Column (1) of Table 3 presents the OLS regression results of Model (1). As predicted, the coefficient on the *Pre1978mayor* variable is significantly positive at the 1% level.

The economic magnitude of the coefficient implies that firms governed by city mayors who joined the CCP before 1978 on average make 1.6 percentage points more social contributions than those firms governed by city mayors who joined the CCP after 1978. Given that the average social contribution to equity ratio is 0.21, 1.6 percentage points represents about a 7.6% ($=0.016/0.21$) increase in social contributions to equity ratio. This result is consistent with our first hypothesis.

Next, we use the RDD approach as discussed in the previous section to test the impact of ideology on social contribution. In our setting, an exogenous and predetermined qualification is the age of politicians. Figure 2 shows the distribution of city mayors' ages in 1978. McCrary's density test fails to find a discontinuation of the distribution at age 18, which suggests no manipulation of the running variable, and thus validates our RDD setting. Columns (2) and (3) of Table 3 present the RDD results with a bandwidth of 3 or 4, respectively. That is, our control group includes politicians who were ages 15–17 or 14–17 in 1978 and joined the CCP soon after 1978, and our treatment group includes those who were ages 18–20 or 18–21 and CCP members in 1978. Given the covariate balance in Panel B of Table 2, the RDD approach provides a cleaner setting to test the impact of ideology by controlling for politicians' other characteristics. The results are consistent with our prediction and stronger than that of Column (1) in terms of statistical significance and economic significance. This is expected as the RDD estimate captures the local average treatment effect. Overall, our results in Table 3 are consistent with the fact that firms influenced more by Mao's ideology make a larger social contribution.

<Insert Table 3>

Next, we study the impact of ideology on wage inequality. Our second prediction suggests that firms influenced more by Mao's ideology have a lower level of within-firm wage inequality than those influenced more by Deng's. We measure wage inequality by computing the average top three executives' income over the average of employee income. A higher ratio means a higher level of inequality. Table 4 presents the results. Column (1) reports the OLS regression results and Columns (2) and (3)

report the RDD results. In all three columns, the coefficient on *Pre1978mayor* is significantly negative, which is consistent with our prediction. Economically, given that the average wage inequality ratio is 7.4, the coefficient in Column (1) represents a 4.1% ($=0.3/7.4$) reduction in wage inequality.

<Insert Table 4>

Table 5 presents the results on testing our third hypothesis: firms that are more influenced by Mao's ideology have a lower degree of internationalization. We capture a firm's degree of internationalization by using two different measures. The first (second) measure is a firm's foreign asset (sales) ratio, which is defined as the total assets (sales) of overseas subsidiaries to total assets (sales) of the listed firms. The total assets (sales) of overseas subsidiaries are weighted by the percentage of ownership. Columns (1) and (4) report the results of the OLS regressions. In Column (1), the coefficient on *Pre1978mayor* is significantly negative, which implies that firms located in a city whose mayors are more influenced by Mao's ideology have a lower level of foreign asset ratio. However, the coefficients on *Pre1978mayor* are not significant in Column (4). The impact of the ideology of Mao vs. Deng on a firm's internationalization is much stronger when using the RDD approach. Results are reported in Columns (2)–(3) for the foreign assets ratio and (5)–(6) for the foreign sales ratio. As previously done, we report the results of using a bandwidth of 3 and 4, respectively. With the exception of the result in Column (3), the coefficients on *Pre1978mayor* are all significantly negative, which supports the third hypothesis that firms are more internationalized when city mayors are more influenced by Deng's ideology.

<Insert Table 5>

Figure 3 plots the previously reported RDD results with a bandwidth 4 so that we can visually see the change in firm policies around the cutoff. Panels A–D show that firms influenced by politicians in the treatment group have a higher social contribution, a lower wage inequality, and a lower level of internationalization. In sum, all results in this section support our hypotheses.

5.2 Evidence from the Textual Analysis

Marquis and Qiao (2018) argued the intensive training a person receives when joining the CCP has a lasting effect on her/his ideology. The training process of joining the CCP varies over time and closely reflects the contemporaneous ideology and policies of the Party. Therefore, we can potentially measure a person's ideology by examining the training process s/he experienced. However, it is infeasible for us to obtain historical training materials used during indoctrination around 1978 in a systematic way. Nevertheless, one major source of indoctrination is *People's Daily*, the official newspaper and the main source of CCP propaganda, which members and candidates need to read and discuss during the socialization process. The content of ideological imprints are also required to be highly consistent with that promulgated by *People's Daily*. Therefore, it is reasonable to assume that the ideology reflected in *People's Daily* closely resembles the ideology in the training materials during the indoctrination process.

Based on the abovementioned argument, we develop a text-based ideology measure for each mayor according to the degree a mayor is exposed to a certain type of ideology during the indoctrination process. More specifically, we search for the ideology-related words in *People's Daily* and use the frequency of those words¹³ to measure the contemporaneous ideology for each year over our sample period. The frequency of an ideology-related word (typically consisting of two or three Chinese characters) in *People's Daily* in the year when s/he joins the CCP is a proxy for a mayor's exposure to certain type of ideology. As in Figure 1, we focus on ten keywords: "Chairman Mao (*Mao Zhu Xi*)," "Class (*Jie Ji*)," "Imperialism (*Di Guo Zhu Yi*)," "Solidarity (*Tuan Jie*)," and "Revolution (*Ge Ming*)," are related to Mao's ideology and "Reform (*Gai Ge*)," "Efficiency (*Xiao Lv*)," "Market (*Shi Chang*)," "Foreign Capital (*Wai Zi*)," and "Economy (*Jing Ji*)," are related to Deng's ideology.

We first confirm that mayors who joined the CCP before 1978 were more exposed to Mao's ideology whereas mayors who joined the CCP after 1978 were more exposed to

¹³ The detailed definition of the frequency of words can be found in Section 4.1.

Deng's ideology during the indoctrination process. This analysis is conducted at the mayor-level. Across all mayors, we calculate their exposure to Mao's/Deng's ideology (i.e., the frequency of the ideology-related words in *People's Daily*) during the year they joined the CCP and then regress this exposure measure to the dummy variable, *Pre1978Mayor*. Table 6 presents the results are presented. Panel A of Table 6 presents the results on exposure to Mao's ideology, which show that the coefficients on *Pre1978mayor* are all significantly positive. Panel B of Table 6 presents the results of the exposure to Deng's ideology, and all coefficients on *Pre1978Mayor* are significantly negative. These results suggest that mayors who joined the CCP before 1978 had more exposure to Mao's ideology whereas mayors who joined the CCP after 1978 had more exposure to Deng's ideology. Therefore, our main ideology measure *Pre1978Mayor* indeed captures the difference in ideology across mayors.

<Insert Table 6>

We next use the text-based ideology measures to test our hypotheses. That is, we use mayors' exposure to different types of ideology (based on keywords from *People's Daily*) in the year joining the CCP instead of the dummy variable *Pre1978mayor*, and repeat the OLS regressions in Tables 3–5. Note that since we have 10 ideology-related words, we generate 10 text-based ideology measures for each mayor. Although all 10 words are related to either Mao's or Deng's ideology, some keywords such as "Chairman Mao (*Mao Zhu Xi*)" is a general term about a specific type of ideology while other keywords such as "Foreign Capital (*Wai Zi*)" only refer to a specific dimension of an ideology. Therefore, different keywords have different degrees of relevance to each of our hypotheses, and we try to match the most relevant keywords to the specific outcome variables (e.g., "Imperialism" and "Foreign Capital" are matched with internationalization as both are about attitudes toward foreign countries).

Table 7 reports results from the textual analysis. Panel A reports results on corporate social contributions, showing that mayors' exposure to Mao's ideology-related keywords (i.e., "Chairman Mao (*Mao Zhu Xi*)", "Class (*Jie Ji*)", "Revolution (*Ge Ming*)") are significantly and positively correlated with firms' social contribution whereas

mayors' exposure to Deng's ideology-related keywords (i.e., "Market (*Shi Chang*)", "Economy (*Jing Ji*)", "Efficiency (*Xiao Lv*)") have a significantly negative loading on firms' social contribution. Panel B of Table 7 reports the results on wage inequality. We find that the wage inequality of a firm decreases with mayors' exposure to the keyword "Class (*Jie Ji*)" and increases with mayors' exposure to the keyword "Efficiency (*Xiao Lv*)."¹ These results are consistent with our intuition: class struggle is a main theme during Mao's period and focused on removing the difference across social classes, and such ideology would imply a lower level of wage inequality within a firm. On the other hand, Deng's ideology puts more emphasis on economic efficiency, which is consistent with providing incentives to employees and enlarging the income gap. Panel C reports the results on the internationalization. "Imperialism (*Di Guo Zhu Yi*)" is a hostile word to capitalists, and thus mayors who have greater exposure to it should be more reluctant to internationalize. "Foreign Capital (*Wai Zi*)" is a term that is consonant with the "Opening-Up" policy and is usually used along with describing the helping hands of foreign investment in the Chinese economy since 1978. Therefore, mayors who have larger exposure to it are expected to be more willing to internationalize. The results are consistent with our conjecture. In sum, results in Table 7 further support our hypotheses and are consistent with the previous results based on the dummy variable indicating a city mayor's age and party membership in 1978.

<Insert Table 7>

5.3 Channels

The baseline results in 5.1 and 5.2 suggest that political ideology has an impact on various corporate policies. More specifically, we find that firms located in cities whose mayors are more influenced by Mao's ideology have a higher level of social contribution, a smaller wage inequality, and a lower level of internationalization compared to those under Deng's ideological influence. In this section, we explore the potential channels through which a city mayor's ideology affects a firm's policies.

First, we study how connections between firms' CEOs and city mayors impact the effect of ideology on corporate policies. Typically, people are connected by various ways such as attending the same school, being in the same workplace, sharing the same birthplace, and so forth. Existing studies find that connected people are more likely to influence each other's economic behavior. For example, Cohen et al. (2008) find that mutual fund managers place larger bets on firms when they are connected to board members of the firms. Cohen et al. (2010) document that analysts with school ties to senior corporate officers have comparative information advantages and produce superior research reports. Fan, Wang and Zhang (2007) find that CEOs who are former or current government bureaucrats tend to appoint other bureaucrats as board directors. In addition, political connections provide preferential government treatment in terms of resources, financing, taxation, competition for government contracts, and relaxed regulatory oversight (Faccio, 2006; Bortolotti and Faccio, 2009). Similarly, if a firm's CEO were connected to the mayor in the city where the firm is located, the city mayor would have a stronger influence on the CEO. Therefore, we expect that a city mayor's ideology to have a stronger impact on a firm's policies when the CEO is politically connected.

To test this prediction, we define a CEO to be politically connected if the CEO has worked in any government organizations (data comes from CSMAR) or if the CEO has shared past educational institutions, birthplaces, and or working places. CSMAR directly reports both CEOs' and politicians' birthplaces and past educational institutions, and whether a CEO ever worked in any government organization. Data on past working experiences of CEOs and politicians are manually collected from their CVs reported in CSMAR.

We then classify our sample firms into two groups based on whether a CEO is politically connected and run our baseline tests on these two subsamples separately. Results are reported in Table 8,¹⁴ and two important observations emerge. First, almost all coefficients on the *Pre1978mayor* variable are significant with the expected

¹⁴ For brevity, we only report results using the RDD approach with a bandwidth of 4. RDD results with other bandwidths are qualitatively similar and available upon request.

signs across subsamples. These results suggest that ideology has an impact on a firm's social contribution, wage inequality, and internationalization regardless of whether a firm's CEO is politically connected. The impact of ideology on a firm's policies that we documented is not driven purely by political connections. Second, we find that the impact of a city mayor's ideology on our policy variables is economically larger in firms with politically connected CEOs. For example, the coefficient on *Pre1978mayor* is -35.88 in Column (3), compared with -6.17 in Column (4). These results are largely consistent with our conjecture that political connections are the channel through which ideology affects corporate policies.

<Insert Table 8>

Second, we compare the effects of mayors' ideology on state-owned enterprises (SOEs) with that of non-state owned enterprises (non-SOEs). SOEs are those firms in which the government is the controlling shareholder. The government usually appoints the management team of an SOE to guarantee they act in the best interest of the government. In contrast, the government has much less control over non-SOEs in terms of directly intervening in the operations of those firms. An alternative way for the government to influence the policy and behavior of non-SOEs is through an "invisible hand" that is more subtle such as ideological influence. Therefore, we expect that a mayor's ideology would have a larger impact on non-SOEs than SOEs. Results are reported in Table 9, which are mostly consistent with our conjecture. Two observations from this table can be highlighted. First, almost all coefficients on the *Pre1978mayor* variable are significant, and the sign of the coefficients is consistent with previous results across all subsamples. These results suggest that ideology has an impact on a firm's social contribution, wage inequality, and internationalization regardless of whether the firm is an SOE or a non-SOE. Second, except for the results on social contribution, the magnitude of coefficients on the *Pre1978mayor* variable is significantly larger in the subsample of non-SOEs than in the SOEs. For example, the coefficient on *Pre1978mayor* is -23.809 in Column (4), compared with -15.157 in Column (3). The fact that SOEs under Mao's ideological influence made more social contributions than non-SOEs may be a result of SOEs providing better employee

welfare. These results are consistent with our conjecture that a city mayor's ideological influence is more important in non-SOEs where direct intervention in decision-making is likely feasible.

<Insert Table 9>

Third, we investigate how the development of market intermediaries and the legal environment affect the impact of ideology on corporate policies. With a well-developed market and legal system, the government is less likely to interfere directly in a firm's operation, as various parties can easily resort to contracts that are honored and enforced. Instead, the government influence is more likely to take place through a more subtle and invisible ideological channel. In contrast, when the development of a market intermediary and legal environment is poor, the government is more likely to adopt an administrative model by directly intervening in firm operations. Therefore, we expect that a city mayor's ideology has a stronger impact on corporate policies in regions that are more market-oriented – i.e., the development of market intermediary and legal environment is greater. We use the National Economic Research Institute (NERI) Index of Marketization for Chinese provinces created by Fan et al. (2011) that is updated annually to measure the development of a market intermediary and the legal environment. The index describes the degree of market perfection by (1) the proportion of lawyers to the local population, and (2) the proportion of certified public accountants (CAPs) to the local population. We sort firms into two groups based on whether the marketization index score for the focal province is above or below the sample median in each year. Most specifically, if a firm is in a province with an above-median index score, we consider the region as having a better developed market intermediary and legal environment and classify it into the High group. Otherwise, the firm belongs to the Low group.

<Insert Table 10>

Table 10 reports the results, and they are mostly consistent with our conjecture. First, coefficients on the *Pre1978mayor* variable are significant and the sign of the coefficients is consistent with previous results in six out of eight specifications. These results

suggest that ideology has an impact on a firm's social contribution, wage inequality, and internationalization regardless of whether the firm is in a more market-oriented region. In addition, a mayor's ideology has a significantly larger correlation with policies of firms in the High group than those in the Low group. However, we fail to find a significant difference regarding the effect of mayors' ideology on the foreign sales ratio between High and Low group.

Finally, the ideological influence on corporate policies is weaker in regions where communist ideology has taken strong root. Therefore, we investigate how the effect of city mayors' ideology on firms differs between regions with and without locally ingrained CCP ideology.¹⁵ The proxy for ideology-ingrained region is whether it was a revolutionary base of the CCP during the Japanese invasion and the Civil War. Revolutionary base areas such as Yan'an are areas where the CCP established its initial power and have a long tradition of collaboration between the CCP and civilians to fight against Japanese intruders and the Nationalist Party. The development of revolutionary base areas was crucial to the CCP's eventual reign in China, and Mao's ideology is more strongly rooted in these areas. Even today, many memorial halls have been established in such places, which serve to educate people about the history related to the development of CCP. In general, people who grow up in the revolutionary base areas tend to have stronger beliefs in Mao's ideology and are less likely to be influenced by other ideologies. Therefore, we expect that if a city mayor grows up in a revolutionary base area, the year of joining the CCP will have a smaller impact on her ideology as she is already imprinted with communist ideology. Similarly, if a firm is located in a revolutionary base area, it will be less influenced by its city mayor's own ideology.¹⁶ To test this prediction, we sort firms into two groups. The revolutionary base (RB) group includes firms located in revolutionary base areas or cities whose mayors grow up in revolutionary base areas and the nonRB group, which includes the rest of firms. Results are reported in Table 9, and they are largely

¹⁵ The complete list of the CCP revolutionary base areas is available upon request.

¹⁶ It is also possible that when cities have a strong prior ideology, only people who share a similar ideology are selected as mayors. This endogenous matching between city and mayors does not change our prediction.

consistent with our prediction. We find that the coefficients on *Pre1978Mayor* have a larger magnitude for the nonRB subsample than those in the RB sample in all regressions.

<Insert Table 11>

5.4 Ideology and firm performance

So far, our empirical results suggest that a city mayor's ideology has an impact on a firm's social contribution, wage inequality, and degree of internationalization. A natural question is whether such ideology-induced differences in corporate policies have a persistent impact on a firm's performance, such as growth and market value. The answer to this question might not be straightforward. Neither firms nor politicians with a consistently poor economic performance are likely to "survive" over time because of market competition and political tournament in China. Politicians with a particular type of ideology that is related to poor economic outcomes may be replaced over time, and firms might also adjust their policies or develop alternative mechanisms to offset (or catch up with) the negative (or positive) ideological effects. This is consistent with Malmendier's (2018) argument on rational investors and managers catering to the behavioral biases of third parties. Therefore, in equilibrium, it is unclear whether one should expect to observe significant differences in terms of profitability and valuation unless there are structural and institutional impediments that may enable ideology-induced value destruction to persist even after they are recognized as inefficient.

To empirically test this implication on firm performance, we adopt two empirical approaches. We first use a two-stage regression approach. In the first stage, we regress a firm's policy on *Pre1978Mayor*, and get the "fitted" value of firm policy from the regression. In the second stage, we regress several measures of firm performance (including asset growth, revenue growth, return on equity, and Tobin's Q) on these "fitted" value of firm policy (i.e., the variable *predicted* from the first stage). The two-stage approach enables us to see how ideology affects firm value through its impact on firm policies, and the two-stage models are estimated as shown:

First stage: $policy_{ft} = \alpha + \beta \times Pre1978mayor_{ft} + \gamma'x_{ft} + \epsilon_{ft}$

Second stage: $performance_{ft} = \alpha + \beta \times \widehat{policy}_{ft} + \gamma'x_{ft} + \epsilon_{ft}$.

Alternatively, we also estimate a reduced-form regression in which firm performance variables are regressed directly on *Pre1978Mayor*. Regression results from reduced-form regressions are easier to interpret and capture the overall impact of ideology on firm performance. Under this approach, we estimate the following model as

$$performance_{ft} = \alpha + \beta \times pre1978mayor_{ft} + \gamma'x_{ft} + \epsilon_{ft}.$$

Results are reported in Table 12. We keep the same set of control variables and fixed effects as in the previous OLS regressions. Each of the four panels in Table 12 reports regression results on one measure of firm performance: asset growth, revenue growth, return on equity, and Tobin's Q. The first four columns in each panel report the second-stage regression results of using the two-stage approach (the first-stage results are already shown before), and the last column reports the results of the reduced form approach. Panels A and B report results on asset growth and revenue growth. In both panels, we find that a higher level of social contribution is associated with lower asset growth and total revenue growth, while wage inequality and foreign asset ratio are positively related with two growth measures. The negative correlation between social contribution and asset/revenue growth is consistent with the fact that social contribution is economically costly, which can lower a firm's investment and slow firm growth. The positive correlation between wage inequality and asset/revenue growth is consistent with the notion that providing higher-powered incentives help to grow the business. The reduced-form regression demonstrates that firms located in the cities whose mayors are influenced more by Mao's ideology on average have a lower growth, possibly as a result of their higher social contribution, lower wage inequality and foreign asset ratio.

High growth of a firm's assets or sales does not necessarily translate into higher profits or valuation, which depend on investment efficiency. In Panels C and D of Table 12 we investigate whether the ideology-induced difference in corporate policies affect a firm's ROE and Tobin's Q. Results are mainly insignificant, with the exception of social contribution and *Pre1978Mayor*, which are significantly positively related to

Tobin's Q. The positive correlation with Tobin's Q is consistent with the recent literature on stakeholder value maximization (e.g. Deng, Kang, Low, 2013; Servaes and Tamayo, 2013; Flammer, 2015; Ferrell, Liang, Renneboog, 2016) that can be reflected in our social contribution measure. In other words, treating stakeholders (such as employees and community members) contributes to total firm value. Overall, we do find that an ideology-induced bias in corporate policies has *some* impact on firm profitability and valuation, but such an effect is not very strong.

<Insert Table 12>

5.5 City-level results

All results presented so far are at the firm level. Intuitively, city mayors' ideology should have a more direct impact on city-level policies. Unfortunately, due to data limitation, it is infeasible to find the exact city-level equivalents to firm-level social contribution, wage inequality, and foreign assets/sales ratio, or to simply aggregate these policies to the city level (as the majority of the firms in China are not publicly listed). Nevertheless, we are able to collect city-level data on social spending¹⁷ and urban-rural income gap from the website of National Bureau of Statistics of China,¹⁸ and the amount of foreign investment from CSMAR. We believe these are the best city-level equivalencies to the three types of firm-level policies with the available data. Analogous to the hypotheses on firm-level policies, we expect that cities whose mayors joined the CCP before 1978 have higher social spending, lower urban-rural income gap, and lower amount of foreign investments. Empirical results are consistent with our expectations. Table 13 reports regression results by using the RDD approach, and the coefficients on *Pre1978mayor* are positive in the first two columns while negative in the last four columns. Even though the number of observations in this table is much smaller than those in previous tables, five out of six coefficients on *Pre1978mayor* are statistically significant. These results suggest that city mayors that

¹⁷ City-level social spending mainly includes the following items: the social insurance fund subsidy, retirement expenses of administrative institutions, the employment subsidy, minimum living allowance for urban and rural residents, and living support expenditures for natural disaster.

¹⁸ See: <http://www.stats.gov.cn/>

are influenced by Mao's ideology are more likely to increase social spending, decrease the urban-rural income gap, and lower the amount of foreign investment, consistent with our firm-level analysis.

<Insert Table 13>

5.6 Additional robustness tests

We conduct a battery of robustness tests to further rule out alternative explanations by partitioning the RDD sample based on different city and firm characteristics. First, one may be concerned that city mayors with a certain ideology (either that of Mao or Deng) are more (or less) likely to be assigned to more politically important cities that receive closer scrutiny from the central government. This concern is partially addressed by including city administrative rank- and year-pair-fixed effects in the OLS results. The city administrative rank measures the political distance between a city and the central government. Our results still hold in the OLS tests after controlling for these fixed effects. We further address this concern by repeating our analysis in Section 5.3 on two subsamples based on the population size of the city where a firm is located. More populous cities (such as Beijing, Shanghai, Guangzhou, Shenzhen, Chongqing, and Tianjin) typically have higher administrative ranks and are also viewed as politically and economically important in China. If a firm is located in a city whose population is above (or below) the sample average city population, it belongs to the populous sample; otherwise, it belongs to the less populous sample. Results are reported in Panel A of Table 14. In general, the coefficients are significant and comparable between both sub-samples for different corporate policies, suggesting that our ideological impact measure is independent of a city's political and economic importance.

Another concern may be that our results are mostly reflected by the ideology of corporate CEOs rather than city mayors. Given China's top-down approach in organizing economic and social activities (Huang, 2008; Xu, 2011), we expect that CEOs ideologies are *ex-ante* dominated by those of city politicians. Empirically, we do not directly observe the year in which CEOs joined the CCP and therefore cannot

classify the CEO ideologies into that of Mao or Deng. We instead proxy the CEO ideologies by their ages, and the assumption that older CEOs are more likely to be influenced by Mao's ideology relative to Deng's. We thus separate the RDD sample based on whether a firm's CEO's age above or below the sample average age (Panel B of Table 14). Again, we find that the effect of ideology on corporate policies is independent of a CEO's age, indicating that a CEO's own ideology is less important than that of city mayors.

As a further robustness check, we replace the ideology of city mayor with that of the CCP Secretary of the city ("city secretary"). The way we measure city secretary ideology is also based on the age of the secretary upon joining the CCP. In unreported RDD tests, our results are largely similar to those reported in Tables 3-5, however, the coefficients have become smaller. The shrinkage in coefficients supports the observation that a city's CCP secretary is mainly responsible for party-related affairs (such as personnel organization and propaganda) and strengthening the Communist Party's leadership in the city, while a city mayor is mainly responsible for the city's economic policies and development.

We also conduct other robustness tests. Our results hold after removing from our sample the firms located in Shenzhen, the most important pilot city of Deng's "Reform and Opening-Up" policy. We do not find the statistical significance or the same pattern in our results when we conduct placebo tests on other cutoff years (e.g., 1986, 1987) when no major ideological change occurred. To preserve space, these results are not reported but are available upon request.

6 Discussions and Conclusions

Historically, economic activities have been organized around certain ideologies. In this paper, we investigate the impact of politicians' ideology on corporate policies by exploring a unique setting of ideological change in China from Mao to Deng around economic reform in 1978 in a regression discontinuity framework. We find that the age discontinuity of politicians around 18 years old in 1978 who had already joined the Communist Party of China (CCP) or joined soon thereafter and later became

municipal paramount leaders, has had a lasting effect on contemporary firm- and city-level policies. Specially, firms in cities with mayors joining the CCP under the ideological regime of Mao have more social contributions, as well as lower within-firm pay inequality and less internationalization than those under Deng's regime. These effects are stronger in firms with political connections and those in which the government is not the controlling shareholder, and weaker in regions that are more market-oriented or that already had inveterate Communist ideology (i.e., CCP's revolutionary base in the history). We also find that some ideology-induced biases in corporate policies seem to persist and affect firm valuation in the long run, although not all.

Our findings have significant implications for the distortionary effects of ideologies on resource allocation within and across firms and economies. First, with regard to China, many scholars have specifically investigated the institutional factors underlying China's economic models (e.g., Allen, Qian, Qian, 2005; Song, Storesletten, Zilibotti, 2011; Bai, Hsieh, and Song, 2019). Others have attempted to understand the driving forces of the systematic differences across different regions in cultures and norms (e.g., Talhelm et al., 2014), including political attitudes (e.g., Cantoni, Chen, Yang, Yuchtman, Zhang, 2017). Notably, Huang (2008) compares growth paths of the two types of economies in China: the entrepreneurial rural regions and the state-controlled urban regions and suggests that the development models of these two economies have substantially different welfare implications. Huang (2008) argues that the state-dominated model, which he termed as "capitalism with Chinese characteristics," had long-lasting damage to the economy and society, with a weak financial sector, income disparity, rising illiteracy, productivity slowdowns, and reduced personal income growth. Xu (2011) characterizes China's institution as a regionally decentralized authoritarian system and a central government that controls personnel, whereas local governments and politicians were running the bulk of the economy and initiating, negotiating, implementing, diverting, and resisting reforms, policies and rules. We join these discussions on the dichotomy of political and economic systems in China by attributing such systematic differences partially to the

difference in ideologies that affect local politicians and showing evidence at both the firm and the city levels.

Second, and perhaps more broadly, our study sheds light on how ideologies can shape not only socioeconomic policies and individual behaviors, but also corporate policies. We not only document that ideology matters by causally showing *how* ideologies systematically affect firm-level policies in different ways, but also investigate when and how it matters. As we have shown, ideology as an “invisible hand” serves as a substitutive mechanism to the “visible hand” of government ownership and administrative system. These findings are particularly pertinent to today’s anti-globalization sentiments and ideological conflicts around the world, as well as the impact of these ideological differences on corporate investment. Ideology is a multifaceted and in many ways context-specific characteristic, and only by examining different settings and organizational practices will we develop a full understanding of the role of ideology in shaping corporate policies and economic activities over the long term.

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Appendix A: Variables definition

Dependent variables

Social contribution to equity ratio	Social contribution (summing up total tax contribution, employee payment, interest expense, and donations) divided by book value of equity
Wage inequality	The ratio of average top three executive income to average employee income
Foreign assets ratio	The total assets of the overseas subsidiaries to total domestic assets of the listed firms. The total assets of overseas subsidiaries are weighted by ownership percentage (%)
Foreign sales ratio	The total international sales to total revenue of the listed firms (%)

Other variables

Pre1978mayor	An indicator variable that equals 1 if the mayors in the cities where the listed firms are located joined the Chinese Communist Party before and in 1978, otherwise 0
Gender	An indicator variable that equals 1 if the mayors in the cities where the listed firms are located are female, otherwise 0
Race	An indicator variable that equals 1 if the mayors in the cities where the listed firms are located are non-Han minorities, otherwise 0
SOE Experience	An indicator variable that equals 1 if the mayors in the cities where the listed firms are located have past working experience in state-owned enterprises, otherwise 0
POE Experience	An indicator variable that equals 1 if the mayors in the cities where the listed firms are located have past working experience in non-state-owned enterprises, otherwise 0
Age	The age of city mayors
Education	An indicator variable that equals 1 if the mayors in the cities where the listed firms are located have at least master degree, otherwise 0
Major	An indicator variable that equals 1 if the mayors in the cities where the listed firms are located are majored in science and technology disciplines, otherwise 0 in arts and economics.
Ideological keyword frequency	Frequency indexes for a set of ideological keywords: "Chairman Mao (Mao Zhuxi)", "Class (Jie Ji)", "Imperialism (Di Guo Zhu Yi)", "Solidarity (Tuan Jie)", "Revolution (Ge Ming)", "Reform (Gai Ge)", "Efficiency (Xiao Lv)", "Market (Shi Chang)", "Foreign Capital (Wai Zi)", "Economy (Jing Ji)". We calculate the frequency index using the formula below:

$$frequency_{it} = \frac{nr. of appearance_{it} \times length_i \times 10000}{total\ nr. of\ words\ on\ People's\ Daily_t}$$

where $nr. of appearance_{it}$ is the total number of times a keyword i appears on People's Daily in a given year t ; $length_i$ is the total length in words of the keyword i ; and $total nr. of words on People's Daily_t$ is the total number of words on People's Daily in that year. We express this measure as basis point by multiplying 10,000 for readability.

Political connection	An indicator variable that equals 1 if CEO in a given firm and a given year is politically connected (worked in government organization, shared working place, birth place, school experience with city mayors), otherwise 0
SOE	An indicator variable that equals 1 if a firm's direct controlling shareholder is government in a given year, otherwise 0
Legal environment High	An indicator variable that equals 1 if a firm is located in a province which has above median ratings on market intermediary organization development and legal system environmental rating (市场中介组织的发育和法律制度环境评分), otherwise 0
Size	The natural logarithm of firm total assets
TobinQ	The ratio of the sum of market value of equity and liability to firm total assets
Return on assets	The ratio of net profit to total assets (%)
Return on equity	The ratio of net profit to book value of equity (%)
Total revenue growth	Revenue growth rate (%)
Leverage	The ratio of debt to book equity (%)
Total assets growth	Firm total assets growth rate (%)

City level variables

City administrative level	An indicator variable that equals 1 if the administrative level of a city is ranked as sub-provincial city (副省级市); equals 2 if the administrative level of a city is ranked as prefecture level city (地级市); equals 3 if the administrative level of a city is ranked as municipality (直辖市).
City GDP per capita	Per capita GDP of a given city in a given year
Ln(1+ individual labor)	The natural logarithm of individual labor of a given city in a given year
Ln(1+ total wages)	The natural logarithm of total wages of all employees in a given city in a given year
Ln(1+foreign inv. amt)	The natural logarithm of the foreign investment amount of a given city in a given year
Social spending	The ratio of the social security and employment expenditure to GDP of a given city in a given year
Urban-rural income gap	The difference between CPI adjusted average p.p. urban income and CPI adjusted average p.p. rural income

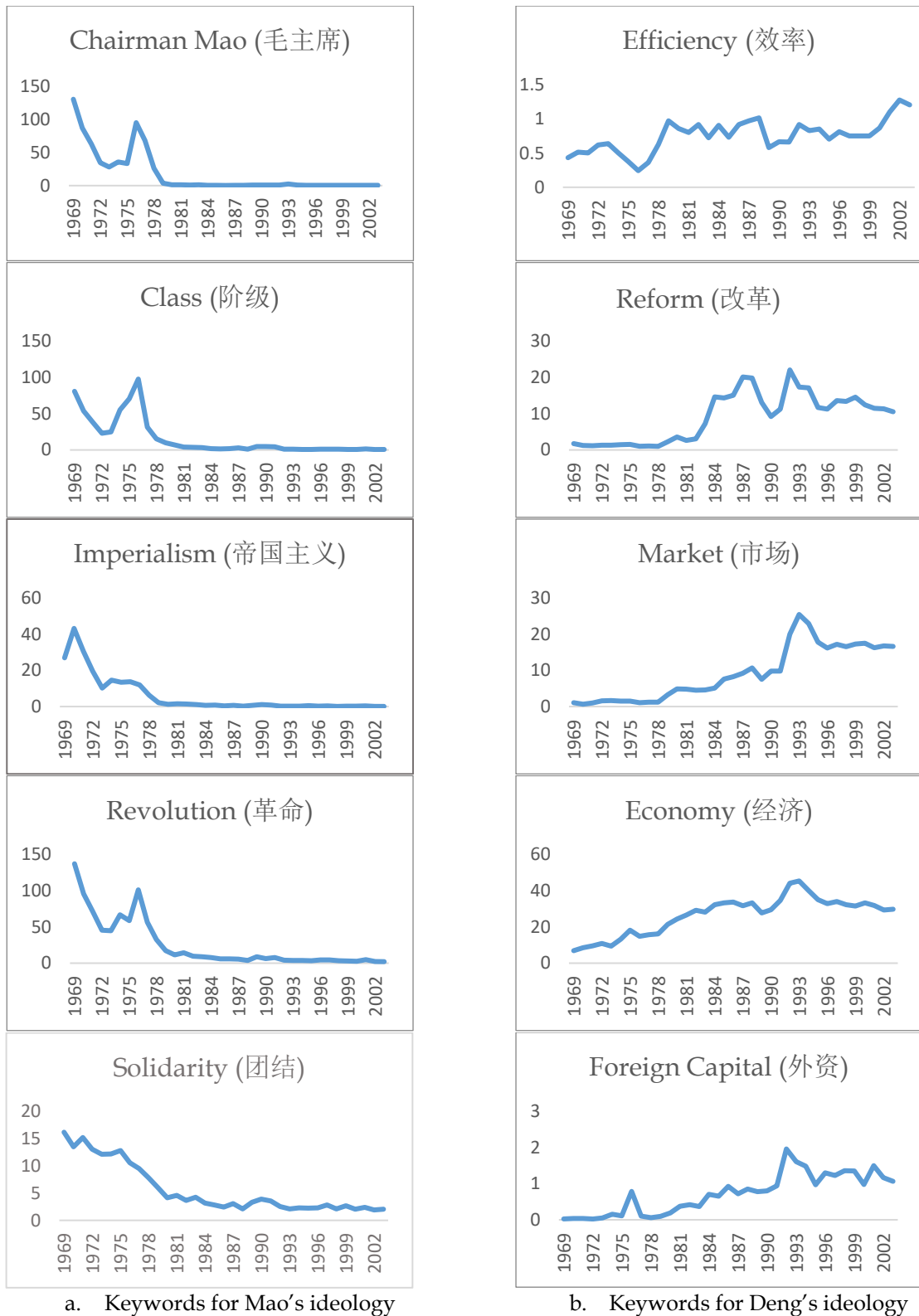


Fig. 1 Time series of ideological keywords frequency on People's Daily
 This figure plots the frequency of ideological keywords on People's Daily between the year 1969 and 2003. The left column reports the frequency time series for Mao related keywords, and the right column reports the frequency time series for Deng related keywords.

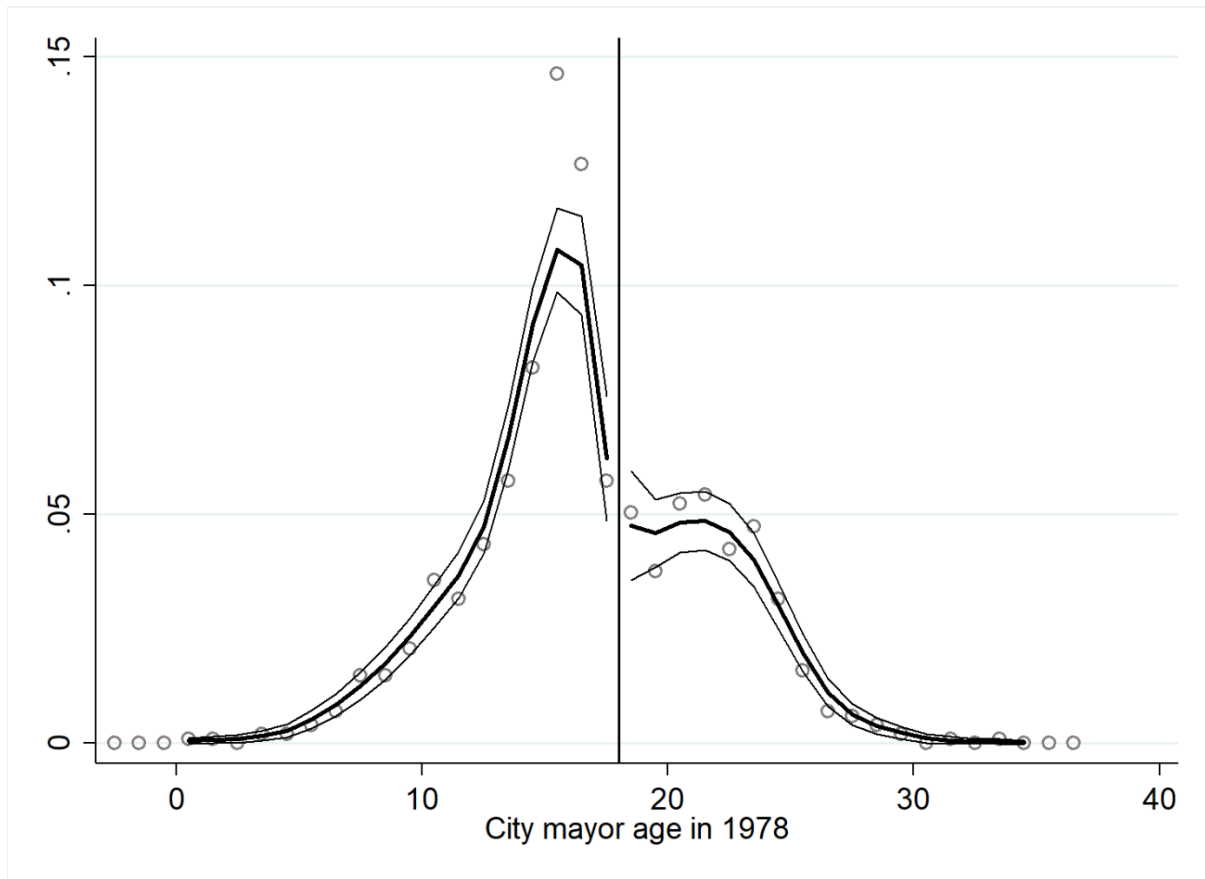
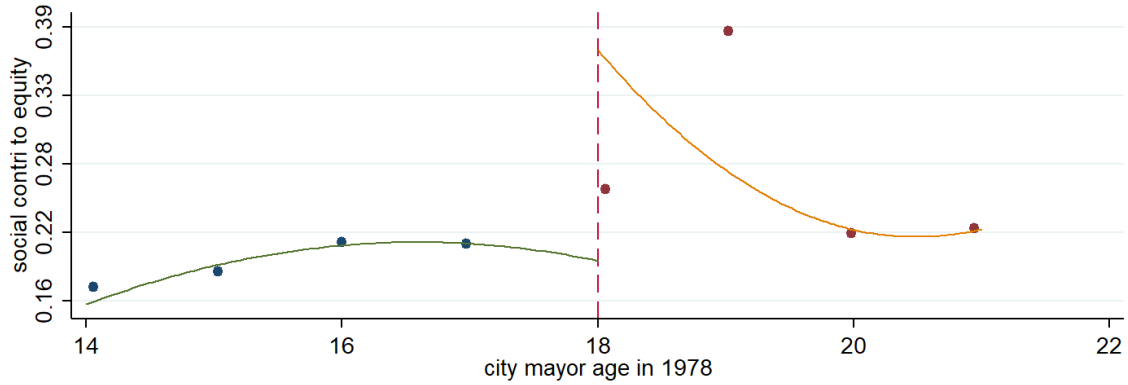


Fig. 2 Sample smoothness at cut-off point

This figure plots the sample density of city mayors around the age discontinuity 18-year-old in 1978. We use McCrary's density test (2008) and show that the sample distribution of city mayors is smooth around the discontinuity.

Panel A: Social contribution around discontinuity



Panel B: Income inequality around discontinuity

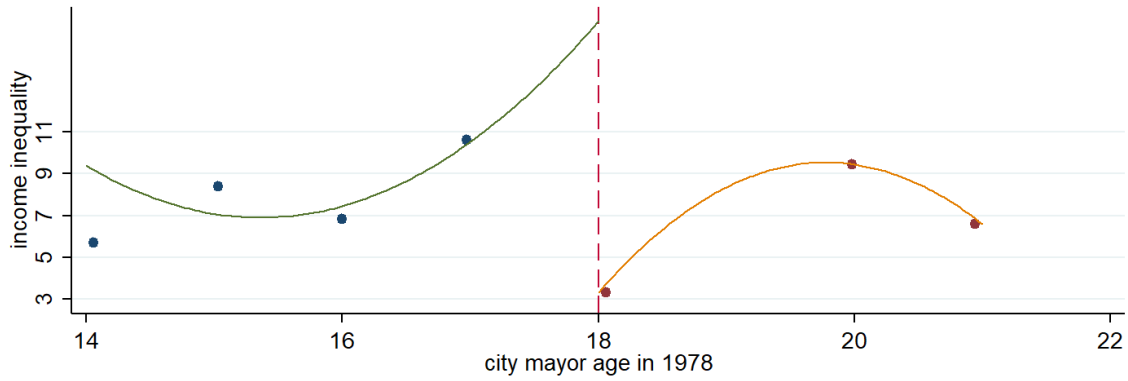
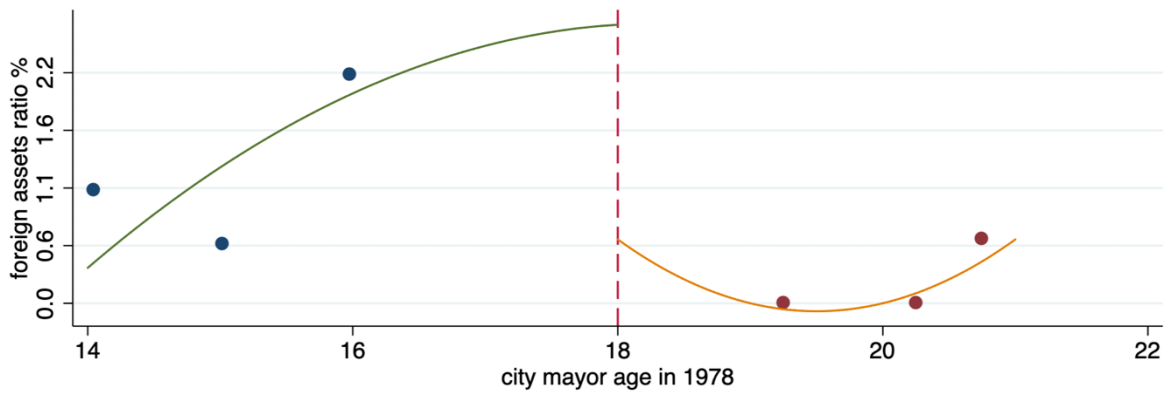


Fig. 3 Graphical illustration of regression discontinuity for city mayor aged at 18 in 1978

This figure plots the effect of age discontinuity for the communist ideological imprint for firm's social contribution to equity ratio (panel A), and income inequality (panel B).

Panel C: Foreign assets ratio around discontinuity



Panel D: Foreign sales ratio around discontinuity

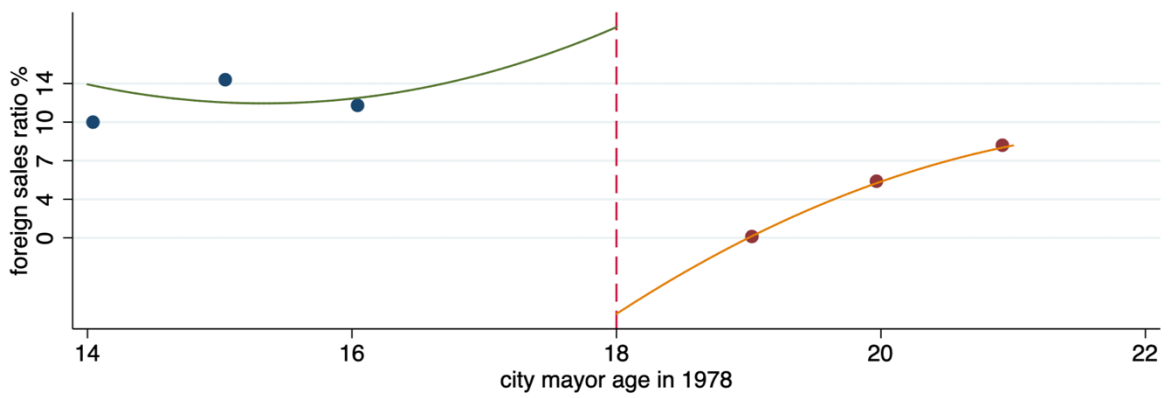


Fig. 3 Graphical illustration of regression discontinuity for city mayor aged at 18 in 1978 - Continued;

This figure plots the effect of age discontinuity for the communist ideological imprint for firm's foreign assets ratio (panel C), and foreign sales ratio (panel D).

Table 1 - Summary statistics

This table provides the summary statistics on firm, city politicians, and macro-economic variables for the whole sample. Our sample period is from 2007 to 2017. Statistics are summarised at firm-year level for firm characteristics, at individual politician level for politician characteristics, and at city-year level for city characteristics. All variable definitions are provided in Appendix.

	N	mean	p50	sd	min	max
<i>Main variables</i>						
Pre1978mayor	26,345	0.14	0.00	0.35	0.00	1.00
Social contribution to equity ratio	25,973	0.21	0.17	0.16	0.03	1.04
Wage inequality	26,243	7.40	5.60	6.32	0.49	39.31
Foreign assets ratio (%)	14,576	1.40	0.00	3.72	0.00	14.71
Foreign sales ratio (%)	20,701	10.95	0.00	20.28	0.00	94.53
<i>Other firm characteristics</i>						
TobinQ	25,033	3.31	2.61	2.13	1.37	14.36
Return on asset (%)	26,342	3.93	3.73	5.98	(22.48)	21.37
Return on equity (%)	26,341	6.82	7.26	13.80	(71.53)	52.32
Revenue growth (%)	24,215	7.00	10.76	34.32	(179.40)	84.43
Leverage (%)	22,750	48.20	26.20	66.54	0.00	401.59
Ln(total assets)	26,345	21.94	21.75	1.42	19.02	26.87
Total assets growth (%)	22,802	11.43	9.37	19.69	(53.00)	80.27
<i>Politician Characteristics</i>						
Gender (1=female)	1,005	0.06	0	0.24	0	1
Race (1=non-Han)	1,004	0.11	0	0.31	0	1
SOE Experience	1,004	0.29	0	0.45	0	1
POE Experience	1,004	0	0	0.05	0	1
Age	1,004	51	51	4	40	63
Pre1978mayor	1,005	0.12	0	0.33	0	1
<i>City-level economic variables</i>						
City GDP (billion CNY)	2,311	211	121	280	7	2,818
City GDP per capita (1 = 1 CNY)	2,311	47,851	32,682	48,075	1,489	506,301
City populations (1 = 1000)	2,313	4,630	3,850	3,280	180	33,920
Individual labor (1 = 1000)	2,267	551	305	771	0	9,517
Total employee wages (billion CNY)	2,303	26	12	57	1	900
Social spending to GDP ratio (%)	2,061	2.09	1.77	1.37	0.39	7.85
Urban-rural income gap	1,745	112.27	107.86	34.81	49.16	212.77
Foreign investment (million USD)	2,224	5,900	1,700	11,000	19.08	70,000

Table 2 – Summary Statistics of Subsamples

The table describes the characteristics of firms, politicians, and city-level macro-economic conditions in our full sample in panel A and our RDD sample in panel B. Specifically, we compare characteristics between the group with city mayors who joined CCP in/before 1978 and being at least 18 year-old in 1978 and the group with city mayors who were at most 17 year-old in 1978 and joined CCP soon after 1978.

Panel A	Full sample					
	Pre1978citymayor = 1		Pre1978citymayor = 0		Difference	T-stat
	N	Mean	N	Mean		
<i>Firm characteristics</i>						
Ln(total assets)	3,777	21.74	22,568	21.97	-0.23***	8.71
Return on asset (%)	3,777	3.75	22,565	3.96	-0.21**	1.96
Leverage (%)	3,481	52.64	19,215	47.40	5.24***	4.28
Revenue growth (%)	3,446	5.28	20,769	7.29	-2.01***	3.18
<i>Politician Characteristics</i>						
Gender (1=female)	121	0.03	884	0.07	-0.04*	1.87
Age	121	54.68	883	51.37	3.31***	9.44
Race (1=non-Han)	121	0.11	883	0.11	-0.00	0.04
SOE experience	121	0.34	883	0.28	0.06	1.40
POE experience	121	0.01	883	0.00	0.01*	1.65
Education	121	0.69	884	0.82	-0.13***	3.37
Major	119	0.81	868	0.60	0.21***	4.42
<i>City-level economic variables</i>						
City GDP (billion CNY)	310	182	2,001	222	-40***	3.77
City GDP per capita (CNY)	310	48,911	2,001	43,924	4987***	2.42
Panel B						
RDD sample						
	Pre1978citymayor = 1		Pre1978citymayor = 0		Difference	T-stat
	N	Mean	N	Mean		
<i>Firm characteristics</i>						
Ln(total assets)	660	21.74	2,439	21.84	-0.11	1.59
Return on asset (%)	660	3.48	2,439	4.47	-0.99	1.02
Leverage (%)	630	54.79	2,152	47.46	7.33	1.58
Revenue growth (%)	590	2.03	2,240	-7.24	9.27	0.40
<i>Politician Characteristics</i>						
Gender (1=female)	34	0.06	51	0.12	-0.06	0.90
Age	34	52.94	51	51.41	1.53***	2.55
Race (1=non-Han)	34	0.15	51	0.12	0.03	0.39
SOE experience	34	0.21	51	0.22	-0.01	0.11
POE experience	34	0.03	51	0	0.03	1.23
Education	34	0.88	51	0.75	0.14	1.55
Major	34	0.71	51	0.55	0.16	1.45
<i>City-level economic</i>						
City GDP (billion CNY)	83	160	136	206	-46	1.62
City GDP per capita (CNY)	83	41827	136	44834	-3,007	0.58

Table 3 - The impact of ideology on social contribution

This table reports the regression results on the impact of ideology on social contribution. The dependent variable is a firm's social contribution to equity ratio. A firm's social contribution is computed by summing up total tax contribution, employee payment, interest expense, and donations. *Pre1978mayor* is a dummy variable which takes a value of 1 if the city mayor joins the Chinese Communist Party in and before 1978 and zero otherwise. Column (1) reports OLS regression results. OLS regressions include controls for firm-level, city politician-level, and city macro-economic variables. Firm-level controls include firm size, ROA, leverage, revenue growth rate and tobinQ. City politician-level controls include city mayor's gender, race, education level, and major, working experience in state-owned enterprises, and privately owned enterprises. City macro-economic variables include city GDP per capita, number of individual labor, and total employee wages. In addition, we also control for firm fixed effects, year fixed effects, industry-year pair fixed effects, and city administrative rank-year pair fixed effects. All standard errors are clustered at city mayor level. Columns (2) and (3) reports RDD results. t-statistics are reported in the brackets. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively. All variable definitions are provided in Appendix.

	OLS	RDD	
	(1)	(2)	(3)
Pre1978mayor	0.016*** (3.365)	0.278* (1.644)	0.293*** (3.281)
Firm Controls	Y	N	N
City Politician Controls	Y	N	N
City Macro Controls	Y	N	N
Firm FE	Y	N	N
Year FE	Y	N	N
Industry *Year FE	Y	N	N
City Admin. Rank * Year FE	Y	N	N
Obs.	17,663		
R2	0.84		
Obs. Left		220	641
Obs. Right		2,376	2,409
Bandwidth		3	4

Table 4 - The impact of ideology on wage inequality

This table reports the regression results on the impact of ideology on wage inequality. The dependent variable is a firm's wage inequality, which is defined as the ratio of the average top3 executive income to average employee income. *Pre1978mayor* is a dummy variable which takes a value of 1 if the city mayor joins the Chinese Communist Party in and before 1978 and zero otherwise. Column (1) reports OLS regression results. OLS regressions include controls for firm-level, city politician-level, and city macro-economic variables. Firm-level controls include firm size, ROA, leverage, revenue growth rate and tobinQ. City politician-level controls include city mayor's gender, race, education level, and major, working experience in state-owned enterprises, and privately owned enterprises. City macro-economic variables include city GDP per capita, number of individual labor, and total employee wages. In addition, we also control for firm fixed effects, year fixed effects, industry-year pair fixed effects, and city administrative rank-year pair fixed effects. All standard errors are clustered at city mayor level. Columns (2) and (3) reports RDD results. t-statistics are reported in the brackets. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively. All variable definitions are provided in Appendix.

	OLS	RDD	
	(1)	(2)	(3)
Pre1978mayor	-0.291* (1.895)	-7.569*** (-3.131)	-12.155*** (-5.063)
Firm Controls	Y	N	N
City Politician Controls	Y	N	N
City Macro Controls	Y	N	N
Firm FE	Y	N	N
Year FE	Y	N	N
Industry * Year FE	Y	N	N
City Admin. Rank * Year FE	Y	N	N
Obs.	17,640		
R2	0.76		
Obs Left		230	656
Obs Right		2,398	2,431
Bandwidth		3	4

Table 5 – The impact of ideology on the internationalization of the firm

This table reports the regression results on the impact of ideology on the internationalization of the firm, measured by a firm's foreign assets ratio (columns (1)-(3)), and foreign sales ratio (columns (4)-(6)). *Pre1978mayor* is a dummy variable which takes a value of 1 if the city mayor joins the Chinese Communist Party in and before 1978 and zero otherwise. Columns (1) and (4) report OLS regression results. OLS regressions include controls for firm-level, city politician-level, and city macro-economic variables. Firm-level controls include firm size, ROA, leverage, revenue growth rate and tobinQ. City politician-level controls include city mayor's gender, race, education level, and major, working experience in state-owned enterprises, and privately owned enterprises. City macro-economic variables include city GDP per capita, number of individual labor, and total employee wages. In addition, we also control for firm fixed effects, year fixed effects, industry-year pair fixed effects, and city administrative rank-year pair fixed effects. All standard errors are clustered at city mayor level. Columns (2)-(3) and (5)-(6) report RDD results with bandwidth at 3 and 4 respectively. T-statistics are reported in the brackets. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively. All variable definitions are provided in Appendix.

	Foreign assets ratio (%)			Foreign sales ratio (%)		
	OLS	RDD		OLS	RDD	
	(1)	(2)	(3)	(4)	(5)	(6)
Pre1978mayor	-0.447** (-2.505)	-2.685*** (-7.059)	-0.048 (-0.061)	-0.005 (-0.009)	-23.082*** (-10.089)	-28.710*** (-5.538)
Firm Controls	Y	N	N	Y	N	N
City Politician Controls	Y	N	N	Y	N	N
City Macro Controls	Y	N	N	Y	N	N
Firm FE	Y	N	N	Y	N	N
Year FE	Y	N	N	Y	N	N
Industry *Year FE	Y	N	N	Y	N	N
City Admin. Rank * Year FE	Y	N	N	Y	N	N
Obs.	8,115			13,317		
R2	0.81			0.87		
Obs Left		7	49		97	376
Obs Right		1,476	1,509		1,968	2,000
Bandwidth		3	4		3	4

Table 6 -The Textual-Based Ideology Measure

This table reports the results by regressing mayors' ideology exposure in the year when s/he joins the CCP to *Pre1978mayor*, a dummy variable which takes a value of 1 if the city mayor joins the Chinese Communist Party in/before 1978 and zero otherwise. For each mayor *j*, we calculate her/his ideology exposure to a specific ideological word *i* according to the following equation:

$$Exposure_j^i = \frac{nr. of appearance_j^i \times length^i \times 10000}{total\ nr. of\ words\ on\ People's\ Daily}$$

Where *nr. of appearanceⁱ* is the total number of times a keyword *i* appears on People's Daily in the year when mayor *j* joins the CCP; *length_i* is the total length in words of the keyword *i*; and *total nr. of words on People's Daily* is the total number of words on People's Daily in that year. The set of ideological key words include "Chairman Mao (Mao Zhuxi)", "Class (Jie Ji)", "Imperialism (Di Guo Zhu Yi)", "Solidarity (Tuan Jie)", "Revolution (Ge Ming)", "Reform (Gai Ge)", "Efficiency (Xiao Lv)", "Market (Shi Chang)", "Foreign Capital (Wai Zi)", "Economy (Jing Ji)". In addition, we include the city politician-level controls such as city mayor's gender, race, education level, and major, working experience in state-owned enterprises, and privately owned enterprises. t-statistics are reported in the brackets. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively. All variable definitions are provided in Appendix.

Panel A. Keywords Representing Mao's Ideology					
	Chairman Mao (毛主席)	Class (阶级)	Imperialism (帝国主义)	Revolution (革命)	Solidarity (团结)
	(1)	(2)	(3)	(4)	(5)
Pre1978mayor	55.115*** (19.564)	60.271*** (21.149)	11.755*** (41.674)	62.285*** (26.428)	7.938*** (49.615)
City Politician Controls	Y	Y	Y	Y	Y
N	950	950	950	950	950
R2	0.74	0.77	0.92	0.83	0.89
Panel B. Keywords Representing Deng's Ideology					
	Efficiency (效率)	Reform (改革)	Market (市场)	Economy (经济)	Foreign Capital (外资)
	(1)	(2)	(3)	(4)	(5)
Pre1978mayor	-0.430*** (29.536)	-12.163*** (55.014)	-7.390*** (37.598)	-17.421*** (59.746)	-0.448*** (13.311)
City Politician Controls	Y	Y	Y	Y	Y
N	950	950	950	950	950
R2	0.59	0.43	0.22	0.67	0.17

Table 7 – OLS Regression Results by Using the Text-Based Ideology Measure

This table reports the OLS regression results by regressing corporate policies on the textual-based ideology measure. The textual-based ideology measure is defined as a mayor’s exposure to a certain ideology-related word in the year when s/he joins the CCP. More specifically, for each mayor j , we calculate her/his ideology exposure to a specific ideological word i according to the following equation:

$$Exposure_j^i = \frac{nr. of appearance_j^i \times length^i \times 10000}{total\ nr. of\ words\ on\ People's\ Daily}$$

Where $nr. of appearance^i$ is the total number of times a keyword i appears on People’s Daily in the year when mayor j joins the CCP; $length^i$ is the total length in words of the keyword i ; and $total nr. of words on People's Daily$ is the total number of words on People’s Daily in that year. The set of ideological key words include “Chairman Mao (Mao Zhu Xi)”, “Class (Jie Ji)”, “Imperialism (Di Guo Zhu Yi)”, “Solidarity (Tuan Jie)”, “Revolution (Ge Ming)”, “Reform (Gai Ge)”, “Efficiency (Xiao Lv)”, “Market (Shi Chang)”, “Foreign Capital (Wai Zi)”, “Economy (Jing Ji)”. Panel A reports results on firm’s social contribution. Panel B reports results on wage inequality, and Panel C reports results on internationalization. We maintain the same set of controls and various fixed effects as in Tables 3-5. For brevity, in panel C, we generate an indicator variable equals 1 if a firm has positive foreign assets ratio or/and positive foreign sales ratio, otherwise 0. T-statistics are reported in the brackets. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively. All variable definitions are provided in Appendix.

Panel A							
	Social contri to equity ratio	firm controls	city politician controls	macroeconomic controls	Firm, year, Industry × year, City rank × year fixed effects	N	R2
Chairman Mao (毛主席)	0.000*** (3.750)	Y	Y	Y	Y	17,429	0.84
Class (阶级)	0.000*** (4.828)	Y	Y	Y	Y	17,429	0.84
Revolution (革命)	0.000*** (4.351)	Y	Y	Y	Y	17,429	0.84
Market (市场)	-0.001*** (4.124)	Y	Y	Y	Y	17,429	0.84
Economy (经济)	-0.001*** (3.364)	Y	Y	Y	Y	17,429	0.84
Efficiency (效率)	-0.032*** (3.820)	Y	Y	Y	Y	17,429	0.84

Panel B							
	Wage Inequality	firm controls	city politician controls	macroeconomic controls	Firm, year, Industry × year, City rank × year fixed effects	N	R2
Class (阶级)	-0.006*** (2.661)	Y	Y	Y	Y	17,407	0.76
Efficiency (效率)	0.693** (2.430)	Y	Y	Y	Y	17,407	0.76
Panel C							
	Foreign Asset/Sales	firm controls	city politician controls	macro econ controls	Firm, year, Industry × year, City rank × year fixed effects	N	R2
Imperialism (帝国主义)	-0.002* (-1.786)	Y	Y	Y	Y	13,304	0.77
Foreign Capital (外资)	0.059*** (2.798)	Y	Y	Y	Y	13,304	0.77

Table 8 - The impact of ideology for politically connected and unconnected firms

This table reports separately the impact of ideology on a firm's social contribution to equity ratio, wage inequality and internationalization on politically connected versus unconnected firms by using RDD method. A firm is defined to be connected to the city mayor if its CEO has worked in the same government organization or other work places, the same birthplace, or same school experience with the city mayor. A firm's social contribution is computed by summing up total tax contribution, employee payment, interest expense, and donations. A firm's wage inequality is defined as the ratio of the average top3 executive income to average employee income. The internationalization of the firm is measured by a firm's foreign assets ratio, and foreign sales ratio. *Pre1978mayor* is a dummy variable which takes a value of 1 if the city mayor joins the Chinese Communist Party in/before 1978 and zero otherwise. t-statistics are reported in the brackets. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively. All variable definitions are provided in Appendix.

	Social Contri. to Equity Ratio		Wage Inequality		Foreign Assets Ratio		Foreign Sales Ratio	
	(1) Connected	(2) Unconnected	(3) Connected	(4) Unconnected	(5) Connected	(6) Unconnected	(7) Connected	(8) Unconnected
Pre1978mayor	1.164*** (9.390)	0.149* (1.754)	-35.875*** (-9.569)	-6.167** (-2.330)	-5.206** (-2.128)	-3.680* (-1.835)	-30.575*** (-4.597)	-26.944*** (-3.225)
Obs Left	295	348	296	360	20	29	168	208
Obs Right	973	1,436	980	1,451	475	1,031	748	1,252
Bandwidth	4	4	4	4	4	4	4	4

Table 9 - The impact of ideology for SOEs vs. Non-SOEs

This table reports separately the impact of ideology on a firm's social contribution to equity ratio, wage inequality and internationalization on SOEs versus non SOEs by using RDD method. SOEs are those firms which controlling shareholder are the government. A firm's social contribution is computed by summing up total tax contribution, employee payment, interest expense, and donations. A firm's wage inequality is defined as the ratio of the average top3 executive income to average employee income. The internationalization of the firm is measured by a firm's foreign assets ratio, and foreign sales ratio. *Pre1978mayor* is a dummy variable which takes a value of 1 if the city mayor joins the Chinese Communist Party in/before 1978 and zero otherwise. t-statistics are reported in the brackets. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively. All variable definitions are provided in Appendix.

	Social Contri. to Equity Ratio		Wage Inequality		Foreign Assets Ratio		Foreign Sales Ratio	
	(1) SOE	(2) Non-SOE	(3) SOE	(4) Non-SOE	(5) SOE	(6) Non-SOE	(7) SOE	(8) Non-SOE
<i>Pre1978mayor</i>	0.353*** (2.587)	0.08 (1.266)	-15.157*** (-4.487)	-23.809*** (-8.511)	-3.520*** (-4.502)	-8.235** (-2.557)	-49.980*** (-5.928)	-56.062*** (-7.075)
Obs Left	262	379	263	393	15	34	159	217
Obs Right	669	1,740	673	1,758	384	1,125	579	1,421
Bandwidth	4	4	4	4	4	4	4	4

Table 10 – The development of financial intermediary and legal environment

This table reports the impact of ideology on a firm’s social contribution to equity ratio, wage inequality and internationalization. We separate firms based on the development of financial intermediary and legal environment in their head quarter cities. *High/Low* indicates firms whose cities have above/below median level of development in financial intermediary and legal environment. A firm’s social contribution is computed by summing up total tax contribution, employee payment, interest expense, and donations. A firm’s wage inequality is defined as the ratio of the average top3 executive income to average employee income. The internationalization of the firm is measured by a firm’s foreign assets ratio, and foreign sales ratio. *Pre1978mayor* is a dummy variable which takes a value of 1 if the city mayor joins the Chinese Communist Party in/before 1978 and zero otherwise. t-statistics are reported in the brackets. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively. All variable definitions are provided in Appendix.

	Social Contri. to Equity Ratio		Wage Inequality		Foreign Assets Ratio		Foreign Sales Ratio	
	(1) High	(2) Low	(3) High	(4) Low	(5) High	(6) Low	(7) High	(8) Low
<i>Pre1978mayor</i>	0.137**	0.307	-23.359***	4.153	-9.940***	-5.410***	-33.022***	-21.527***
	(2.467)	(1.570)	(10.009)	(1.125)	(3.741)	(2.861)	(-5.737)	(-2.896)
Obs Left	540	101	550	106	26	23	304	72
Obs Right	2,141	268	2,155	276	1,401	108	1,799	201
Bandwidth	4	4	4	4	4	4	4	4

Table 11 – The former CCP revolutionary base areas

This table reports the impact of ideology on a firm’s social contribution to equity ratio, wage inequality and internationalization. We separate firms into two groups based on if the firm belongs to or the city mayor come from the former CCP revolutionary base (RB) areas. A firm’s social contribution is computed by summing up total tax contribution, employee payment, interest expense, and donations. A firm’s wage inequality is defined as the ratio of the average top3 executive income to average employee income. The internationalization of the firm is measured by a firm’s foreign assets ratio, and foreign sales ratio. *Pre1978mayor* is a dummy variable which takes a value of 1 if the city mayor joins the Chinese Communist Party in/before 1978 and zero otherwise. t-statistics are reported in the brackets. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively. All variable definitions are provided in Appendix.

	Social Contri. to Equity Ratio		Wage Inequality		Foreign Assets Ratio		Foreign Sales Ratio	
	(1) RB	(2) Non-RB	(3) RB	(4) Non-RB	(5) RB	(6) Non-RB	(7) RB	(8) Non-RB
<i>Pre1978mayor</i>	0.231*** (4.090)	1.358*** (8.464)	-1.277 (-0.493)	-29.325*** (-7.142)	-2.278** (-2.338)	-5.791*** (-3.375)	-1.457 (-0.133)	-42.409*** (-9.065)
Obs Left	249	392	262	394	4	45	145	231
Obs Right	490	1,919	491	1,940	410	1,099	443	1,557
Bandwidth	4	4	4	4	4	4	4	4

Table 12 – Ideology and Firm performance

The table reports results of analysis between firm policies and firm performance. Columns (1)-(4) show the second stage results of a two-stage regression.

$$\text{First stage: } policy_{ft} = \alpha + \beta \times Pre1978mayor_{ft} + \gamma'x_{ft} + \epsilon_{ft}$$

$$\text{Second stage: } performance_{ft} = \alpha + \beta \times \widehat{policy}_{ft} + \gamma'x_{ft} + \epsilon_{ft}$$

In the 1st stage, we regress a firm's social contribution, wage inequality, foreign assets ratio and foreign sales ratio respectively on *Pre1978mayor*, which is a dummy variable that takes a value of 1 if the city mayor joins the Chinese Communist Party in/before 1978 and zero otherwise. In the 2nd stage, we regress firms' asset growth rate (panel A), total revenue growth (panel B), return on equity (panel C), and tobinQ (panel D) on the predicted values of dependent variables obtained from the 1st stage regressions. Column (5) report "reduced form" results when we directly regress performance measures on *Pre1978mayor*.

$$performance_{ft} = \alpha + \beta \times pre1978mayor_{ft} + \gamma'x_{ft} + \epsilon_{ft}$$

All regressions control for firm and city mayor characteristics, city macro variables, firm fixed effects, year fixed effects, industry-year pair fixed effects, and city administrative rank-year pair fixed effects. T-statistics are reported in the brackets. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively. All variable definitions are provided in Appendix.

Panel A. Dependent Variable = Asset Growth (t+1)					
	(1)	(2)	(3)	(4)	(5)
Social Contri. to Equity Ratio	-1.480*** (-2.66)				
Wage Inequality		7.980* (1.66)			
Foreign Assets Ratio			7.619* (1.85)		
Foreign Sales Ratio				4.544 (0.01)	
Pre1978mayor					-2.364*** (-4.221)
Controls and fixed effects	Y	Y	Y	Y	Y
N	17,626	17,603	8,105	13,308	17,668
Panel B. Dependent Variable = Total Revenue Growth (t+1)					
	(1)	(2)	(3)	(4)	(5)
Social Contri. to Equity Ratio	-3.442*** (-2.99)				
Wage Inequality		0.181* (1.87)			
Foreign Assets Ratio			8.926 (1.22)		
Foreign Sales Ratio				-13.897 (-0.01)	
Pre1978mayor					-5.252*** (-4.745)
Controls and fixed effects	Y	Y	Y	Y	Y
N	17,622	17,599	8,280	13,302	17,663

Table 12(Continued) - Ideology and Firm performance**Panel C. Dependent variable = Return on Equity (t+1)**

	(1)	(2)	(3)	(4)	(5)
Social Contri. to Equity Ratio	-0.574 (-1.76)				
Wage Inequality		2.657 (1.20)			
Foreign Assets Ratio			-0.868 (-0.37)		
Foreign Sales Ratio				2.193 (0.01)	
Pre1978mayor					-0.761 (-1.454)
Controls and fixed effects	Y	Y	Y	Y	Y
N	17,626	17,603	8,105	13,308	17,668

Panel D. Dependent variable = TobinQ (t+1)

	(1)	(2)	(3)	(4)	(5)
Social Contri. to Equity Ratio	0.101** (2.33)				
Wage Inequality		-0.451* (-1.65)			
Foreign Assets Ratio			-0.368 (-1.33)		
Foreign Sales Ratio				-2.142 (-0.15)	
Pre1978mayor					0.132*** (-3.326)
Controls and fixed effects	Y	Y	Y	Y	Y
N	17,044	17,020	7,567	12,758	17,085

Table 13 – City-level analysis

The table reports the regression results on impact of ideology on the social security expense, inequality, and internationalization of the city by using RDD approach. The dependent variables are the ratio of social spending to GDP in columns (1)-(2), the urban-rural income gap in columns (3)-(4), and the natural logarithm of total foreign investment amount in columns (5)-(6) at city level. *Pre1978mayor* is a dummy variable which takes a value of 1 if the city mayor joins the Chinese Communist Party in/before 1978 and zero otherwise. T-statistics are reported in the brackets. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively. All variable definitions are provided in Appendix.

	Social Spending to GDP Ratio		Urban-rural income gap		Ln(1+foreign inv. amt)	
	(1)	(2)	(3)	(4)	(5)	(6)
Pre1978mayor	0.654	1.713***	-97.242***	-125.532***	-2.791**	-2.824***
	(1.592)	(2.861)	(-6.235)	(-7.480)	(-2.491)	(-2.769)
Obs Left	33	80	33	81	35	81
Obs Right	112	112	98	98	127	127
Bandwidth	3	4	3	4	3	4

Table 14 – Robustness tests

This table reports the regression results on the impact of ideology on firm policies. In panels A and B, we conduct similar RDD tests in tables 8-11 but we separate firms into two groups based on if the firm is located in a populous city measured by above in-sample average population (panel A) and based on if the firm has a CEO with above in-sample average age (panel B). *Pre1986mayor* is a dummy variable which takes a value of 1 if the city mayor joins the Chinese Communist Party in and before 1986 and zero otherwise. T-statistics are reported in the brackets. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively. All variable definitions are provided in Appendix.

Panel A – The populated cities

	Social Contri. to Equity Ratio		Wage Inequality		Foreign Assets Ratio		Foreign Sales Ratio	
	(1) Populous	(2) Less Populous	(3) Populous	(4) Less Populous	(5) Populous	(6) Less Populous	(7) Populous	(8) Less Populous
Pre1978mayor	1.179*** (7.314)	0.091 (0.685)	-26.728*** (-4.444)	-12.445*** (-4.259)	-3.301* (-1.936)	-3.488*** (-3.574)	-14.225*** (-3.395)	-34.109*** (-4.971)
Obs Left	398	254	398	269	27	25	238	143
Obs Right	1,191	1,416	1,193	1,437	1,070	622	1,225	964
Bandwidth	4	4	4	4	4	4	4	4

Panel B – The CEO's age

	Social Contri. to Equity Ratio		Wage Inequality		Foreign Assets Ratio		Foreign Sales Ratio	
	(1) Older	(2) Younger	(3) Older	(4) Younger	(5) Older	(6) Younger	(7) Older	(8) Younger
Pre1978mayor	0.261** (2.255)	0.295** (2.154)	-9.743*** (-3.380)	-16.987*** (-6.335)	-2.898** (-2.071)	-6.327** (-2.390)	-32.360*** (-5.018)	-20.478*** (-2.958)
Obs Left	412	272	417	278	39	14	224	158
Obs Right	1,669	766	1,688	775	1,115	414	1,410	618
Bandwidth	4	4	4	4	4	4	4	4

Appendix B: Additional tests

Table B.1 – Placebo tests

This table reports the regression results on the impact of ideology on firm policies. In panels A and B, we conduct placebo tests and alternatively specify the year of ideology change in 1986 (panel A) and in 1987 (panel B). To avoid sample overlap with our main test, we keep bandwidth at 3 throughout. *Pre1986mayor* is a dummy variable which takes a value of 1 if the city mayor joins the Chinese Communist Party in and before 1986 and zero otherwise. *Pre1987mayor* is a dummy variable which takes a value of 1 if the city mayor joins the Chinese Communist Party in and before 1987 and zero otherwise. T-statistics are reported in the brackets. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively. All variable definitions are provided in Appendix.

Panel A – Use 1986 as the cutoff year

	Social Contri. to Equity Ratio	Wage Inequality	Foreign Assets Ratio	Foreign Sales Ratio
	(1)	(2)	(3)	(4)
Pre1986mayor	-0.010 (-0.249)	-0.548 (-0.224)	-0.082 (-0.092)	-10.269 (-1.637)
Obs Left	467	467	380	441
Obs Right	235	236	225	230
Bandwidth	3	3	3	3

Panel B – Use 1987 as the cutoff year

	Social Contri.to Equity Ratio	Wage Inequality	Foreign Assets Ratio	Foreign Sales Ratio
	(1)	(2)	(3)	(4)
Pre1987mayor	-0.041 (-1.001)	-1.058 (-0.560)	0.195 (0.086)	-1.32 (-0.181)
Obs Left	113	113	86	104
Obs Right	289	288	277	284
Bandwidth	3	3	3	3