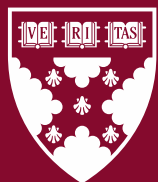


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Political Polarization and Finance

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Abstract

We review an empirical literature that studies how political polarization affects financial decisions. We first discuss the degree of partisan segregation in finance and corporate America, the mechanisms through which partisanship may influence financial decisions, and available data sources to infer individuals' partisan leanings. We then describe and discuss the empirical evidence. Our review suggests an economically large and often growing partisan gap in the financial decisions of households, corporate executives, and financial intermediaries. Partisan alignment between individuals explains team and financial relationship formation, with initial evidence suggesting that high levels of partisan homogeneity may be associated with economic costs. We conclude by proposing several promising directions for future research.

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1 Introduction

Political polarization is one of the most defining sociopolitical issues of the 21st century, with many metrics suggesting polarization has increased in the United States.¹ For example, a rich body of work documents a rise in affective polarization, the notion that partisans dislike and distrust supporters of the other party (e.g., Iyengar, Sood, and Lelkes (2012); Iyengar and Westwood (2015)). Moreover, party affiliation increasingly predicts individuals' decisions in both political and apolitical domains, such as whom to marry (Alford, Hatemi, Hibbing, Martin, and Eaves (2011)), whom to date (Huber and Malhotra (2017)), or where to live (e.g., Brown, Cantoni, Enos, and Pons (2023)). Given these trends, it has become a priority for financial economists to understand how political partisanship and ideology influence financial decisions, corporate policies, asset prices, and the economy more broadly.

The above trends in political polarization, combined with the availability of new data sources, have facilitated a recent surge of empirical research studying partisan and ideological divisions in financial decisions. Because polarization can be studied through several different lenses, no unique definition of polarization has been formulated. The dictionary definition of polarization is the “division into two sharply contrasting groups or sets of opinions or beliefs” (Oxford Univ. Press (2000)). Political polarization can occur both across party lines, and across ideological lines (i.e., policy positions). Researchers in political science often refer to political polarization to describe both a state and a trend (Lelkes (2016)), and this is commonly seen also in studies of political polarization in the context of finance. In this review, we will use the term political polarization to refer to both the partisan differences between individuals and the political uniformity within groups, which contributes to a landscape of politically segregated environments.

This review focuses on research that studies partisan and ideological divisions in the financial decisions of households, firms, and financial intermediaries.² A separate strand of the literature focuses on the influence of partisan conflict among members of Congress on investment decisions (e.g., Azzimonti (2014)). This strand of the literature is beyond the scope of this review because we focus on polarization among non-politicians. The goal of this review is to describe several recent and primarily empirical studies at the frontier of this

¹Abramowitz and Saunders (2008), Fiorina and Abrams (2008), and Gentzkow (2016) review the relevant evidence.

²Other reviews of the literature have focused on the polarization of political parties (Layman, Carsey, and Horowitz (2006)), polarization of the American public (Fiorina and Abrams (2008)), the origins and the consequences of affective polarization (Iyengar, Lelkes, Levendusky, Malhotra, and Westwood (2019)), the effects of polarization on the quality of governance (Lee (2015)), as well as the emergence of partisan media (Prior (2013)).

area of research, and along the way we point out new data sources, empirical challenges, and promising future directions.

The earlier literature on partisan differences in financial decisions has focused on documenting time-invariant differences between Democrats and Republicans in terms of their portfolio selection, investment recommendations, and corporate policies. More recent work has studied changes in partisan differences around salient political events, such as presidential elections, making attributing observed differences in the behavior of partisans to partisanship and partisan beliefs easier. Moreover, recent studies provide some initial insights into the potential economic costs of partisan bias.

We begin the review by providing evidence of partisan segregation in finance and corporate America, which motivates the question of how political polarization affects financial decisions and economic outcomes (section 2). We proceed by summarizing the challenges of identifying polarization in financial decisions, and how the availability of new data and the usage of novel empirical approaches can provide new insights (section 3). Section 4 summarizes and discusses the empirical evidence on individual-level partisan differences. Section 5 discusses the effects of partisan divisions on team- and firm-level outcomes. The consistent theme that emerges across this broad range of studies is that political polarization is evident in the financial decisions of households, firms, and financial intermediaries, with consequences for trading volume, firms' cost of capital, corporate investment, and asset prices. Section 6 concludes and suggests areas for future research.

2 Partisan Segregation in Finance and Corporate America

We begin by reviewing the evidence on the degree of partisan segregation in financial contexts. Data from Fos, Kempf, and Tsoutsoura (2024), who link the top-earning executives in S&P 1500 firms to voter registration records from nine states as well as from L2, Inc., reveal substantial partisan segregation at the highest leadership level of the firm. On average, executive teams are dominated by Republican executives, with approximately two Republican executives for every Democratic one (66% of partisan executives are registered Republicans). As Figure 1a shows, this percentage varies widely across firms headquartered in different states. The share of Republican executives ranges from more than 75% for firms located in Florida and Georgia, to as low as 50% for firms in Massachusetts and New York. In addition to geography, the data also reveals substantial partisan sorting of executives into executive roles (see Figure 1b). The share of Democratic executives ranges from 28% in CFO and COO positions to over 50% for Chief Legal Officers / General

Counsel positions.

Partisan sorting is not unique to executives. Kempf and Tsoutsoura (2021) document partisan segregation by sectors among credit rating analysts, with utilities firms having the highest share of Democratic analysts following and energy firms having the lowest (see Figure 2). Hong and Kostovetsky (2012) provide evidence of partisan sorting into investment mandates in the asset management industry, using manager-level political campaign contributions. Mutual funds managed by Democratic managers are much more likely to be classified as social responsibility funds, as shown in Figure 3. Consistent with this finding, Cassidy and Vorsatz (2024) report that funds with a high Morningstar sustainability rating are also more likely to be managed by Democratic fund managers.

If specific geographies, industries, and investment mandates are dominated by individuals with a particular party affiliation, a natural question that arises is how individuals' partisanship shapes economic thinking and financial decisions, and whether partisan sorting is an efficient outcome. The next section discusses potential economic mechanisms through which the partisan leaning of financial decision makers may matter for outcomes.

3 Theoretical Motivation and Common Empirical Challenges

3.1 Theoretical Motivation

Partisanship or political ideology may influence individual decisions via multiple mechanisms. Partisans may derive utility from interacting with their co-partisans, or from holding certain types of financial securities. We refer to this mechanism as the *partisan utility* channel.

Another possible mechanism is via *partisan beliefs*. Partisans may hold different beliefs regarding the state of the economy, expected risk-adjusted returns in the cross-section of stocks, or the ability of in-group vs. out-group partisans. The notion of a *partisan perceptual screen* was introduced by the seminal work of Campbell, Converse, Miller, and Stokes (1960). Heterogeneity in beliefs could be a result of differences in information environments (e.g., via partisan media), differences in attention, or differences in individuals' models of the world.

Separating between these two broad channels is impossible in many cases, but it is nevertheless useful as an organizing framework. Moreover, as we discuss later in the review, one of the broader contributions of the literature on political polarization and finance is to provide new evidence on the importance of beliefs and disagreement for portfolio allocation,

trading volume, and asset prices.

If partisan utility or partisan beliefs lead to inefficiencies, then competition should drive out highly partisan individuals or firms, similar to the role of competition in mitigating discrimination. However, the extent to which competition can extinguish partisan views depends not only on the degree of the distortions they create but also on the easiness of detecting them. If partisans are biased, for example, in their views of the state of the economy or the profitability of investing using environmental and social criteria, then it may require a long time series to be able to accurately assess whether one's beliefs are systematically too positive or negative. Such partisan disagreement may thus survive for long periods of time.

3.2 Common Empirical Challenges

Substantial empirical challenges exist to establishing a link between party affiliation, or ideology, and financial decisions, in terms of both measurement and identification.

3.2.1 Measurement

One of the central challenges in empirical research on partisanship and polarization is measurement, because observing both the financial decision of interest and the individual's political leaning simultaneously is necessary. However, outside of surveys, such as the University of Michigan Survey of Consumers or the Gallup Daily survey, which assess respondents' self-declared party affiliation, this information about individuals is often not readily observable. Researchers have followed different approaches to overcome this challenge. One approach is to use the dominant partisan leaning of the area in which an individual resides as a proxy for her party affiliation. To obtain partisan leanings by geography, studies have used both vote shares in presidential elections (e.g., Mian, Sufi, and Khoshkhoh (2023)), which are subject to the limitation that the geographic granularity is limited to the county level, and public information on political campaign contributions provided by the Federal Election Commission (FEC), aggregated at the zipcode level (e.g., Meeuwis, Parker, Schoar, and Simester (2022)).

Other studies have linked political ideology and/or party affiliations directly to individual decision makers, allowing researchers to exploit variation in individuals' ideology or partisan affiliations within the same geography. The dominant data source to obtain individual-level measures of political leaning in U.S. settings has been the data on political campaign contributions provided by the FEC (e.g., Hong and Kostovetsky (2012)).³ The

³A great resource for donations data, including for local and state elections not covered by the FEC data, is Stanford's Database on Ideology, Money in Politics, and Elections (DIME), which contains cleaned and

richness of the political contributions data has the advantage of allowing researchers to measure not only an individual’s partisan leaning (Democrat vs. Republican), but also more nuanced measures of political ideology based on the ideology of the candidates that an individual has supported. However, using political contributions to infer ideology or partisan leanings has two limitations. First, only contributions in excess of \$200 over a two-year election cycle are reported, and only a small fraction of U.S. voters make political contributions.⁴ Second, campaign contributions may be made with the intention to exert political influence or in response to social pressure, and thus do not necessarily reflect the individual’s true ideology. There is an open debate among political scientists, to what degree political contributions might be driven by consumption or investment motives. This is especially likely for leaders of an organization, such as corporate executives (e.g., Gordon, Hafer, and Landa (2007)), who might donate in order to derive a consumption benefit or to influence political outcomes.

To overcome the above challenges inherent in the political contributions data, a growing number of recent studies have used voter registration data to measure individuals’ party affiliation. The use of voter registration data is motivated by large-scale survey evidence indicating that party registration is a very good predictor of individuals’ self-reported party identification (e.g., Igielnik, Keeter, Kennedy, and Spahn (2018)). Voter records have allowed researchers to study partisan divisions in a much broader set of individuals that goes beyond the highest-ranking corporate executives and fund managers, including financial analysts (Kempf and Tsoutsoura (2021)), entrepreneurs (Engelberg, Guzman, Lu, and Mullins (2023)), loan officers (Dagostino, Gao, and Ma (2023)), and patenters (Engelberg, Lu, Mullins, and Townsend (2023); Fehder, Teodoridis, Raffiee, and Lu (2024)). Because of the growing use of voter registration data in finance and economics, we briefly describe the different sources of these data.

- **Boards of election.** Because no federal registry of voters exists in the U.S., voter registration records must be requested from the state or, sometimes, the county or city boards of election. Even though the exact information provided varies from location to location, most voter registration files contain identifying information, such as the voter’s name, date of birth, and mailing address. Many, but not all, states also provide the voter’s party affiliation at the time of a given election, as well as an indicator for the election(s) in which an individual has voted. The Internet

standardized information on names, addresses, occupations, and employers, as well as unique identifiers for all individual and institutional donors included in the database, enabling easier tracking of contributions by individuals across election cycles and levels of government. See Bonica (2016b) for a detailed description.

⁴According to a study by Hill and Huber (2017), less than 10% of registered U.S. voters are federal or state donors.

Appendix of Fos, Kempf, and Tsoutsoura (2024) contains a detailed summary of the data contained in each state’s voter registration files, as well as the cost of the data acquisition.

- **Commercial data providers.** As an alternative to the data provided directly by boards of elections, voter data can be purchased from commercial data providers, such as LexisNexis Public Records (e.g., Dagostino, Gao, and Ma (2023)) or L2, Inc. (e.g., Engelberg, Guzman, Lu, and Mullins (2023); Fos, Kempf, and Tsoutsoura (2024)). An important advantage of the data provided by L2, Inc. is that it covers the entire U.S. and provides historical snapshots of voter files going back to 2014, thereby mitigating concerns about potential purging of voter records due to deaths and relocation, which have been raised, for example, in Kim and Fraga (2022). The main disadvantage of using L2 data is that the historical snapshots are unavailable prior to 2014, whereas some boards of elections provide voter histories going back further than 2014.

Outside of the U.S., Colonnelli, Pinho Neto, and Teso (2022) use party registrations data provided by the Tribunal Superior Eleitoral in Brazil and link them to workers and firm owners.

Finally, some recent studies have used textual analysis and natural language processing to detect partisanship in the speech of individuals or organizations (e.g., Engelberg, Henriksson, Manela, and Williams (2023); Cassidy and Kempf (2023); Cookson, Engelberg, and Mullins (2020)). Among the advantages of the natural language processing approach is that it can detect changes in partisan slant at higher frequencies and provides a continuous rather than a binary measure of partisan leaning. Moreover, it can capture partisan disagreement on specific topics and in non-U.S. contexts.

3.2.2 Empirical Designs

The empirical literature on political polarization in finance has applied three broad empirical approaches. One is to document the economic magnitude of partisan differences in financial decisions, such as stock market participation, portfolio allocation, and corporate decisions, while controlling for and benchmarking against a broad range of other observable individual characteristics (see, e.g., Kaustia and Torstila (2011); Hong and Kostovetsky (2012)).

A second approach, which is used primarily by studies examining partisan differences in views of the economy, is to estimate within-partisan group changes in behavior around salient political events, such as political elections (see, e.g. Kempf and Tsoutsoura (2021);

Dagostino, Gao, and Ma (2023); Kempf, Luo, Schäfer, and Tsoutsoura (2023); Engelberg, Lu, Mullins, and Townsend (2023)). Estimating changes in behavior around political events, as opposed to time-invariant differences in behavior, makes it easier to rule out alternative explanations for observed group differences that do not operate via political ideology or partisanship. Moreover, close elections offer researchers the possibility to study close-to-random variation in the political alignment between individuals and elected governments. A related approach that also exploits time-variation in partisan differences is the one used by Gormley, Kaviani, and Maleki (2024), who study how partisan differences vary with the overall level of political polarization in society.

A third approach is to use the staggered expansion of partisan news media, such as the Sinclair Broadcast Group, to identify the impact of exposure to partisan media on individual decisions and corporate policies (see, e.g., Kaviani, Li, and Maleki (2023); Pan, Pikulina, Siegel, and Wang (2024)). The strength of this approach is that the expansion of the Sinclair Group in U.S. regional TV markets offers a quasi-natural experiment, because it appears to be largely idiosyncratic conditional on regional characteristics and was able to significantly shift local partisan leaning. A caveat is that the expansion of the Sinclair Group also led to a shift from less local to more national coverage (see Kaviani, Li, and Maleki (2023)), making it difficult to attribute changes in outcomes solely to shifts in local partisan leaning.

No study to date addresses to what degree the effect of partisanship on financial decisions reflects a causal effect of party affiliation, where supporters of different parties, feel optimism or pessimism because their team won the election (Mason (2015)), akin to sports fans. Alternatively, party affiliation could be capturing ideological differences across individuals beyond other observable characteristics (i.e. gender, age, wealth) and has strong incremental predictive power for their financial decisions. Disentangling these two interpretations is one of the most pressing issues in the partisanship literature in our view.

Akin to the empirical literature on labor market discrimination, studies of political polarization in finance often struggle to separate the role of differences in beliefs from differences in arbitrary preferences. As we will discuss later in this review, recent progress has been made by leveraging surveys (see section 4.1.4) and experiments (e.g., Colonnelli, Pinho Neto, and Teso (2022)).

4 Partisan and Ideological Divisions in Individual-Level Decisions

Partisan and ideological divisions in financial decisions of individual economic agents have been documented along several dimensions. The earliest studies on the topic have focused on documenting partisan heterogeneity in risk taking across partisan lines (e.g., Kaustia and Torstila (2011); Hutton, Jiang, and Kumar (2014); Jiang, Kumar, and Law (2016)). Section 4.1 reviews a more recent and rapidly growing literature studying how partisans' view of the economy changes around political elections and influences investment and asset allocation decisions. Another strand of the literature, summarized in section 4.2, documents partisan differences in views of specific issues, such as corporate social responsibility and climate risk, as well as specific industries. Section 4.3 discusses growing partisan divisions among financial regulators; in particular, SEC commissioners. Finally, section 4.4 explores the role of partisan assortative matching in contexts that are relevant to financial markets.

4.1 Partisan Views of the Economy

A rich literature in economics and political science documents the tendency of voters to view the economy through a “partisan perceptual screen;” that is, their assessment and interpretation of economic conditions and economic policies depend on whether they are politically aligned with the government (e.g., Bartels (2002); Gaines, Kuklinski, Quirk, Peyton, and Verkuilen (2007); Gerber and Huber (2009); Mian, Sufi, and Khoshkhou (2023)). Economic optimism, or sentiment, in turn, can affect a broad range of financial decisions. Recent studies have explored the role of partisanship as a driver of economic optimism and financial decisions in the context of financial intermediaries, corporate executives, entrepreneurs, inventors, and households.

4.1.1 Financial Intermediaries

A number of papers have explored the extent to which partisanship affects the decisions of important financial intermediaries. As we elaborate on later, this can have important implications for firms' cost of capital and their investment decisions. Kempf and Tsoutsoura (2021) were among the first to provide evidence that political alignment with the U.S. president affects the decisions of professionals in the financial sector. The sample consists of corporate credit analysts, working at Fitch, Moody's and Standard and Poor's (S&P), covering approximately 2,000 U.S. firms. To measure analysts' party affiliation, Kempf and Tsoutsoura (2021) use information from voter registration records obtained from Illinois,

New Jersey, and New York City.

A key empirical challenge is to separate partisan beliefs from partisan individuals being directly economically affected by the outcome of the presidential election (e.g., Democratic analysts rate firms that perform well under the policies of Democratic presidents). To address this challenge, Kempf and Tsoutsoura (2021) compare rating actions of analysts who rate the same firm at the same point in time, thus ensuring firm heterogeneity does not drive the effect. They document that analysts who are not affiliated with the president’s party (“misaligned” analysts) downward-adjust ratings more than aligned analysts covering the same firm at the same point in time. The economic magnitude of the effect is sizable, corresponding to 11.4% relative to the average absolute quarterly rating adjustment, and is even larger for politically active analysts.

Kempf and Tsoutsoura (2021) find that the effect of partisan alignment with the president is economically sizable relative to other determinants of credit ratings: it is equivalent to moving from the 50th to the 75th percentile of the analyst fixed-effects distribution and comparable to the effect of other important non-fundamental factors influencing rating agencies’ information production, such as the effect of competition or the home-bias effect.

Similar findings have been reported for other important groups of finance professionals. For example, Dagostino, Gao, and Ma (2023) show that partisan alignment of corporate bankers with the U.S. president influences their pricing decisions in the U.S. syndicated loans market, and Cassidy and Vorsatz (2024) find that partisan alignment of mutual fund managers with the U.S. president influences their capital-allocation decisions. In terms of magnitude, Cassidy and Vorsatz (2024) estimate that Republican mutual fund management teams actively increased their net equity holdings by approximately 2% around the 2016 election. These effects are persistent during Trump’s tenure as a president. Moreover, Republican mutual fund managers increase their exposure to cyclical industries, increasing the amount of risk they take overall.

The above papers focus on partisan disagreement about the U.S. economy. A remaining question is how much this finding reflects a U.S. phenomenon, and whether ideological alignment matters also in international contexts. This question is particularly important because international capital flows have increased substantially in recent decades. Kempf, Luo, Schäfer, and Tsoutsoura (2023) provide evidence from two settings—syndicated corporate loans and equity mutual funds—to show ideological alignment with foreign governments affects the cross-border capital allocation by large, U.S.-based institutional investors. The authors’ main empirical strategy examines changes in the capital allocation by investors with different party affiliations from the same home country investing in the same destination country around the same foreign national election. Ideological distance

to foreign governments is measured using the left-right ideology score from the Manifesto Project Database (Volgens, Lehmann, Matthieß, Merz, Regel, and Weßels (2018)), which measures parties' policy positions in more than 50 countries since 1945 based on their electoral manifestos. The main finding of the paper is that institutional investors increase the amount of capital they allocate to a foreign country if they are more ideologically aligned with that country's government.

A deeper understanding of how much partisanship and political ideology affect financial decisions outside the U.S. is an open area for research. Studying political polarization abroad comes with greater data limitations, because in most developed economies, party registration is uncommon, and in most cases it is not accessible for researchers.

4.1.2 Entrepreneurs, Executives, and Inventors

The above studies show the economic optimism of important financial intermediaries is influenced by the degree of their political alignment with the government. Other studies aim to further extend our understanding of how partisan alignment with the government affects financial outcomes by studying the investment decisions of entrepreneurs, executives, and inventors.

Engelberg, Guzman, Lu, and Mullins (2023) show partisan alignment with the government can affect the decision to start a new business. They first document Republicans on average are 26% more likely to start a business than Democrats, which corresponds to approximately a third of the well-documented and widely-researched gender gap in entrepreneurship (e.g., Guzman and Kacperczyk (2019)). Moreover, the difference between Republicans and Democrats in the propensity to start a business widens when Republicans take control of the presidency and shrinks when Democrats do, a pattern which they attribute to entrepreneurs being more optimistic when their preferred party is in power. They further show it is not only alignment with the president that matters for new business formation, but also alignment with the governor.

Changes in economic optimism are also evident among corporate executives when the party control of the presidency changes. Rice (2023) and Fos, Kempf, and Tsoutsoura (2024) document executives are less likely to sell their own company stock when their preferred party wins a presidential election, compared to executives whose party loses a presidential election. In Fos, Kempf, and Tsoutsoura (2024), this effect holds when comparing executives trading their stock of the same company in the same calendar month, thus alleviating concerns that companies by aligned and misaligned executives may differ on important unobservable dimensions.

Finally, alignment with the president's party also affects corporate innovation and the

productivity of inventors. Engelberg, Lu, Mullins, and Townsend (2023) match data from the United States Patent and Trademark Office (USPTO) on patents and inventors with political affiliation data from L2, Inc., and compare the productivity of individual patenters in the same geographic area or in the same firm around the 2008 and 2016 presidential elections. They find the annual probability of patenting is ca. 2% higher for Democratic patenters relative to Republican patenters after the 2008 election won by Obama, whereas their relative productivity drops by 3.8% in the 2016 election won by Trump. The effects are stronger for politically active patenters. The authors interpret these results as being driven by differences in economic sentiment.

4.1.3 Households

Other studies have documented the importance of partisan alignment with the government on the portfolio allocation and borrowing decisions of households. Ex ante, whether partisan differences in the economic expectations of households translate into partisan differences in financial decisions is not obvious. The existing evidence on the effects of partisan alignment with the government on households' consumption decisions is mixed, and shows, at best, limited effects.⁵

The existing evidence on portfolio-allocation decisions of households reveals modest effects of political alignment with the president. Bonaparte, Kumar, and Page (2017) use a combination of survey and account-level data to show that retail investors become more optimistic when they are aligned with the party of the president, but the effect on the allocation to risky assets is weaker. Meeuwis, Parker, Schoar, and Simester (2022) use granular account-level data from a large U.S. financial institution and document that, following the 2016 election, retail investors in the most Republican zip codes increased their equity share and market beta relative to otherwise similar retail investors in Democratic zip codes. Their detailed account-level data, with information on a rich set of household characteristics, allow them to separate the effect of political beliefs from differential wealth effects or hedging needs around the election. For example, they are able to compare investors who work for the same employer in the same county to address the possibility that Republican and Democratic households may be differently economically affected in their labor income by the outcome of the presidential election.

⁵For example, Gerber and Huber (2009) find counties leaning towards the winning presidential candidate experience a boost in spending, measured using taxable sales, and Gillitzer and Prasad (2018) find changes in sentiment around elections are correlated with vehicle purchases. On the other hand, McGrath (2017) finds no evidence that partisan ideology affects spending, when extending the sample of Gerber and Huber (2009). Mian, Sufi, and Khoshkhoh (2023) re-examine the issue combining data on vehicle purchases and credit card spending with an estimated propensity to vote for the Republican candidate in presidential elections at the county and state level, and do not find a significant relationship.

Meeuwis, Parker, Schoar, and Simester (2022) find that investors in the quintile of most Republican zipcodes increased their equity shares by approximately 0.8% more relative to investors in the quintile of most Democratic zipcodes. These effects are large compared to those of other key life-cycle variables, such as age, wealth, and income. Nevertheless, the magnitude for the average household is much smaller than the reallocation documented by Cassidy and Vorsatz (2024) for professional money managers around the same event. The difference is mostly explained by the frequency of trading, as only one third of the investors in Meeuwis, Parker, Schoar, and Simester (2022) actively re-balance their portfolio in a given year. For the small proportion of retail traders that do actively trade, the magnitude of the effect is more similar to that of professional investors, consistent with the pass-through of beliefs into portfolio composition being affected by the frequency of trading (e.g., Giglio, Maggiori, Stroebel, and Utkus (2021)).

Beyond portfolio allocation, political alignment may also affect households' trust and participation in government lending programs. D'Acunto, Ghosh, and Rossi (2021) provide supporting evidence. They find significantly larger take-up rates of a large-scale Indian loan guarantee program in electoral districts that support the ruling party. The results in D'Acunto, Ghosh, and Rossi (2021) are important because they indicate partisan bias may be relevant also in non-U.S. contexts and can impact the transmission of fiscal policy. In our view, further understanding how partisan bias can influence the transmission of fiscal and monetary policy is a promising direction for future research.

Taken together, the above evidence suggests political alignment with the government is an important driver of economic expectations and shapes the financial decisions of important financial intermediaries, corporate managers, and households. In section 5, we discuss the evidence on firm-level consequences of these partisan divisions in economic optimism.

4.1.4 Mechanism: Belief Disagreement

While the above studies cannot completely rule out arbitrary preferences driving the differences in behavior around political events, our view is that they provide very strong evidence in support of a belief channel, where individuals are more optimistic about the economy when their preferred party is in power. Specifically, Kempf, Luo, Schäfer, and Tsoutsoura (2023) show banks that experience an increase in ideological distance around foreign elections are more likely to revise their one-year ahead GDP growth forecasts downward relative to banks with a decrease in ideological distance. Consistent with this finding, Kempf and Tsoutsoura (2021) report greater economic optimism among Republican credit analysts in a one-time survey they conducted during the Trump presidency. Moreover, by asking the same survey question to elicit economic optimism as in the Gallup Daily survey,

they are able to estimate that the partisan gap in economic optimism among credit rating analysts is equivalent to approximately three quarters of the partisan gap among U.S. households. This finding is remarkable given that credit rating analysts face competition and career concerns that incentivize them to be accurate, and they have a much higher level of economic sophistication than the average U.S. household. The survey results thus point to unconscious partisan bias in economic beliefs as a likely driver behind the observed partisan differences around elections.

4.2 Partisan Views of the Cross-Section of Investments

Beyond the state of the economy, Republicans and Democrats may also differ in their views of the *cross-section* of investments. These differences may take the form of heterogeneous preferences, e.g., Democrats and Republicans may gain different non-pecuniary benefits from holding different types of stocks. Alternatively, they could take the form of a different risk-return model; for example, Democrats may believe that environmentally friendly firms have higher risk-adjusted returns in the long run. Below, we summarize the existing evidence on partisan gaps in individuals' views of the cross-section of investments.

4.2.1 Corporate Social Responsibility

Several papers have studied how partisans differ in terms of their views of firms pursuing non-financial goals. In one of the first studies on the topic, Hong and Kostovetsky (2012) use political donations to identify the political affiliations of U.S. mutual fund managers and show that Democratic managers underweight stocks that are deemed socially irresponsible, relative to non-donors and Republican managers. Despite these differences in portfolio allocation, they find no differences in fund performance, indicating there may be both non-pecuniary and pecuniary considerations in the decision to underweight socially irresponsible stocks. The partisan leaning of the firm's leadership has also been shown to correlate with its corporate social responsibility (CSR) activities. Di Giuli and Kostovetsky (2014) report that companies with Democratic founders, CEOs, and directors are associated with higher CSR scores and spend more company resources on CSR activities, although this does not lead to better firm performance. In the context of institutional investors, Gormley, Jha, and Wang (2024) find that institutional investors' support for socially responsible investing (SRI) shareholder proposals depends on the political affiliation of the governor of the state in which the portfolio firm is located. They interpret this as evidence that institutional investors take into account the state's political landscape when deciding on their support for social and environmental issues.

With regards to retail investors, Baker, Egan, and Sarkar (2022) use a revealed preference approach to estimate investors' willingness to pay for index funds with environmental, social, and governance (ESG) objectives. They estimate that individuals located in a county with a 100% Republican vote share are willing to pay 12 basis points for ESG, whereas investor located in a county with a 100% Democratic vote share are willing to pay 31 basis points. Importantly, however, both sides of the political spectrum appear to value ESG to some degree. Using a combination of survey data and account-level holdings data from Vanguard, Giglio, Maggiori, Stroebel, Tan, Utkus, and Xu (2023) also find a partisan gap both in optimism about ESG returns and in actual participation in ESG investments.

Partisans not only differ in their willingness to invest in companies pursuing non-financial goals, they also differ in their views of how severely companies should be punished for different types of misbehavior. Examining the judiciary, Gormley, Kaviani, and Maleki (2024) show a judge's party affiliation affects the judicial penalties he/she levies against companies. Judges impose higher fines for crimes that are viewed as more negative within their own party. For example, Democratic judges punish environmental crimes more harshly, whereas Republican judges levy higher fines on firms violating immigration law. These partisan biases in judges' rulings are exacerbated around national elections and shape corporate incentives.

4.2.2 Climate and Pandemic Risk

Political ideology can also shape individuals' perceptions of certain risk factors. For example, Americans are very polarized across partisan lines in their views of climate risk, as shown by a 2016 Pew Research survey (Funk and Kennedy (2016)). This may at least partially explain the differential willingness to pay for ESG documented above. Moreover, during the Covid-19 pandemic, supporters of the Democratic and Republican party held different views regarding the severity of the pandemic as well as the effectiveness of implemented public health policies. Several recent papers find these partisan gaps in risk perception go beyond rhetoric and affect important economic decisions.

Bernstein, Billings, Gustafson, and Lewis (2022) examine partisan residential sorting in anticipation of climate change. By comparing properties in similar locations but with different exposures to sea-level-rise (SLR) risk, they find that Republicans are increasingly more likely to own properties exposed to SLR relative to Democrats. Barrios and Hochberg (2021), using data on individuals' search behavior on Google and geospatial mapping data capturing daily travel and visits to non-essential businesses, show that counties with high levels of Trump support initially exhibited a muted reaction to Covid-19 cases and less adherence to local government guidelines on social distancing behavior. Cookson, Engelberg,

and Mullins (2020) report further evidence that Republican and Democrat investors differed in their views of the cross-section of stocks during the Covid-19 pandemic. Identifying Republicans using party-identifying language on the investor social platform StockTwits, they find Republicans became more optimistic about stocks that were most negatively affected by the pandemic, and more pessimistic about Chinese stocks, relative to other users. This partisan disagreement was associated with abnormally high trading volume. Consistent with these findings, Sheng, Sun, and Wang (2023) document differences in stock returns between firms dominated by Democratic investors relative to firms dominated by Republican investors, partially due to polarized beliefs about Covid-19. Overall, the above evidence implies that partisan views on climate and health risks are reflected in substantive decisions, and have the potential to influence trading volume and asset prices.

4.3 Partisan Differences among Financial Regulators

Evidence on the role of political partisanship and ideology in the behavior of regulators is generally scarce. Engelberg, Henriksson, Manela, and Williams (2023) represents a notable exception. They analyze partisan divisions in the speech of SEC Commissioners and Fed Governors, by measuring the degree to which SEC Commissioners and Fed Governors speak like congressional Democrats or Republicans, using the language model by Gentzkow, Shapiro, and Taddy (2019). The data reveal a recent rise in partisanship among SEC Commissioners, reaching an all-time high in the 2010s, whereas Fed Governors remained relatively non-partisan during the entire sample period (1930–2019). The partisanship of SEC Commissioners manifests itself in both the language of new SEC rules and in their voting behavior. The rise in partisanship at the SEC is particularly remarkable given that the government agency is meant to be politically independent.

4.4 Political Assortative Matching

A rich literature in political science has documented increased political homogeneity in social relationships, such as marriages and dating relationships (e.g., Iyengar, Konitzer, and Tedin (2018); Huber and Malhotra (2017)). This phenomenon is often referred to as partisan homophily, a tendency to form relationships with individuals who have the same political affiliation. Partisan homophily can manifest itself via multiple channels (see Mummolo and Nall (2017)). First, partisans may derive utility from interacting with their co-partisans, as in frameworks of taste-based discrimination (Becker (1957); Goldberg (1982)). Second, individuals with limited information might use easily observable signals of productivity or match quality, as in models of statistical discrimination with correct beliefs

(Phelps (1972); Arrow (1973); Aigner and Cain (1977)) or incorrect statistical discrimination (Bohren, Haggag, Imas, and Pope (2023)). A third channel is via shared beliefs or preferences which are correlated with party affiliation. For example, members of the same party may exhibit similar employer choices because they prefer to work for similar types of firms (e.g., environmentally-conscious firms). This channel is particularly relevant given that political affiliation has become a stronger predictor of both individual values (Pew Research Center (2017)) and economic views (see sections 4.1 and 4.2 of this review). Importantly, all three channels can contribute to partisan assortative matching in business contexts.

Given the evidence of partisan assortative matching in social relationships, a natural question is whether such matching is present also in the workplace and in business relationships, and how it has evolved over time. Whether workplace and business relationships should follow the same patterns as other social relationships is a priori not clear. If politically homogeneous teams are not an economically efficient outcome, competitive pressure may limit the degree of polarization in the workplace. In fact, the workplace has historically been more politically diverse and provided more opportunities for cross-party interactions than other contexts, such as the family, the neighborhood, or the voluntary association (e.g., Mutz and Mondak (2006)).

4.4.1 Partisan Assortative Matching in the Workplace

A set of recent papers examine partisan assortative matching in the workplace. Whether being segregated across political lines is economically efficient is ambiguous from a theoretical point of view. On one hand, political segregation can lead to inefficient hiring, firing, and promotion practices, and can undermine effort and group performance. It may also lead to group think by starving teams from a wider range of skills and ideas. On the other hand, political homogeneity in teams could lower communication costs and avoid partisan discrimination (Becker (1957)) or deadlock in decision-making (e.g., Donaldson, Malenko, and Piacentino (2020)). We will discuss evidence on the firm-level and productivity outcomes of partisan assortative matching in section 5.

Fos, Kempf, and Tsoutsoura (2024) study political homogeneity among corporate executives in publicly listed U.S. firms. To identify the political leanings of executives, Fos, Kempf, and Tsoutsoura (2024) combine Execucomp data on the top-earning executives in S&P 1500 firms with voter registration records. They document executives in U.S. firms are predominantly Republican⁶ and, more importantly, they increasingly work with po-

⁶Using data from political contributions, Cohen, Hazan, Tallarita, and Weiss (2019) also find the majority of CEOs in S&P 1500 companies are Republican, and Bonica (2016a) reports similar evidence

litically like-minded individuals. Using dyadic regressions that allow them to control for other shared demographic characteristics, Fos, Kempf, and Tsoutsoura (2024) estimate the likelihood that two executives work in the same firm increases by about 20% when they belong to the same political party. Moreover, the effect of shared party affiliation has increased substantially over time, especially after 2016. They attribute most of the increase to executive turnovers. Further exploring potential drivers of the increased partisan matching of executives, Fos, Kempf, and Tsoutsoura (2024) find it is mainly driven by increased partisan segregation of executives across states. Interestingly, the increase in political matching of executives is about twice as large than if executives had followed the same trends of the local voter population, indicating that executives have assimilated at a faster rate in recent years.

Colonnelli, Pinho Neto, and Teso (2022) examine political homogeneity among a broader set of employees beyond the top leadership. Using data from Brazil, they show political assortative matching occurs between firm owners and the workers they hire. Co-partisans are also treated more favorably in terms of both promotions and compensation. Employing a survey, they find that both owners and workers believe that owners prefer co-partisan workers because of taste-based or belief-based discrimination. A field experiment further supports the existence of political discrimination in the Brazilian workplace. Colonnelli, Pinho Neto, and Teso (2022) ask business owners to rate synthetic resumes of job seekers, while varying the cues that signal the political affiliation of the job seeker. The field experiment reveals that owners rate co-partisan candidates more highly. Consistent with these findings, McConnell, Margalit, Malhotra, and Levendusky (2018) provide experimental evidence that workers demand lower reservation wages from co-partisan employers.

Combined, the evidence examining political matching in the workplace shows it is prevalent across a variety of settings and is increasing in the U.S., at least among the top leadership teams. However, outside of field experiments, it has remained unclear how much of the observed partisan assortative matching is driven by employees preferring to work with like-minded individuals, versus partisans sorting on other characteristics of the firm or the environment. In the U.S., partisan geographical sorting appears to be an important driver of increased partisan matching, at least at the C-Suite level.

4.4.2 Partisan Matching and Financial Relationships

Political alignment has also been shown to be a relevant predictor for financial transactions and the formation of investment relationships. For example, Wintoki and Xi (2020) report that mutual fund managers tend to overweight firms whose corporate leaders share

for executives and board members.

their own party affiliation. McCartney, Orellana-Li, and Zhang (2024) provide evidence of partisan assortative matching as a driver of home sale transactions. Specifically, after new neighbors move in nearby, incumbent residents whose political affiliation does not match that of the new residents are 4% more likely to sell their house in the next two years, relative to incumbents who support the same party. McCartney, Orellana-Li, and Zhang (2024) interpret this as evidence that households prefer to live near co-partisans. Diverging home sale patterns can thus further exacerbate partisan spacial segregation.

An important implication of the above findings on partisan assortative matching in the workplace and in financial relationships is that it reduces the opportunity for cross-party interactions in non-political contexts, thus potentially further contributing to a polarized society.

5 Firm-Level Outcomes

In the previous section, we have focused on partisan and ideological divisions between individuals. These partisan divisions in economic perceptions and decisions can influence team-level productivity and firm-level outcomes. In this section, we discuss the existing evidence on firm-level effects from studies presented earlier in the review as well as some additional studies. Section 5.1 discusses the evidence on firm-level consequences of individuals' partisan views of the economy, and section 5.2 discusses team- and firm-level consequences of political assortative matching. Finally, section 5.3 discusses the evidence on partisan media and partisan corporate communication.

5.1 Firm-level Effects of Partisan Views of the Economy

Studies of partisan perception of the economy have found that the partisan leaning of intermediaries can have sizable effects on firms' cost of capital and investment decisions. Kempf and Tsoutsoura (2021) estimate that a four-year political cycle, a firm loses 0.52% to 0.62% more of its market capitalization (between \$89 million to \$107 million) if it is rated by a misaligned analyst as opposed to an analyst who is politically aligned with the president. A significant increase in bond yields also occurs that corresponds to 5.9 basis points over a four-year period. These results indicate that analysts' partisan bias can have nontrivial effects on firms' cost of capital. Consistent with an increase in the cost of financing, firms rated by analysts who transition from aligned to misaligned with the president also exhibit a significant drop in firm investment around presidential elections. However, the authors caution that the effect on firm-level investment is less well identified, as it could be partially driven by unobserved firm heterogeneity.

Dagostino, Gao, and Ma (2023) offer more direct evidence regarding how intermediaries' political views affects firms' cost of borrowing, by focusing on bankers in the syndicated loan market. They find that bankers who are misaligned with the president charge 7% higher spreads than aligned bankers, which translates to around a 14-basis-point difference. This difference is sizable compared with the 30-basis-point difference in spreads between firms right above and below the investment-grade cutoff.

Managers' political alignment with the U.S. president also correlates with firms' real investment decisions. Rice (2023) shows that firms run by managers who are politically aligned with the president exhibit higher levels of investment and these investments are associated with lower stock returns and operating performance, indicating a potential distortion. Taken together, this evidence indicates that partisan perception can influence firms' cost of capital and investment decisions.

5.2 Firm- and Team-level Effects of Partisan Assortative Matching

In section 4.4, we discussed the evidence of partisan assortative matching in the workplace and in financial transactions. A natural question is whether this assortative matching generates inefficiencies for firms and teams and whether the economic cost of partisan sorting can be quantified. At the firm-level, much of the existing evidence is indirect. Colonnelli, Pinho Neto, and Teso (2022) find that a larger share of copartisan workers in a firm is associated with lower firm growth, consistent with political homogeneity being economically costly for firms. Another important dimension of political alignment within the firm's leadership is the alignment between the CEO and board members, as documented by Lee, Lee, and Nagarajan (2014), who use U.S. data and infer political orientation from the individual's full political donation history. Consistent with the findings by Colonnelli, Pinho Neto, and Teso (2022) for Brazil, Lee, Lee, and Nagarajan (2014) find that greater political alignment between the CEO and independent directors is associated with lower firm performance and higher CEO entrenchment.

A setting that allows for better causal identification of the effects of a team's political homogeneity is the asset management industry. Funds are frequently managed by teams and their performance is relatively straightforward to measure and observable at monthly frequencies. Moreover, individual fund managers can work on different teams, allowing the researcher to observe the same manager working in both homogeneous and heterogeneous teams. Evans, Prado, Rizzo, and Zambrana (2022) exploit these features and measure the political diversity of mutual fund teams using political donations of the fund managers. They estimate that teams composed of money managers with different

political views outperform homogeneous teams by ca. 1.8% annually on a risk-adjusted basis, which corresponds to an incremental economic value added of ca. \$2 million per year. This outperformance of diverse teams disappears in times of increased political polarization, possibly due to heightened within-team conflict. The authors also exploit exogenous changes to team diversity resulting from M&A activity in the asset management industry to strengthen the causal interpretation of the results. Consistent with the finding that excessive partisanship can hurt fund performance, Vorsatz (2022) shows mutual funds dominated by partisan managers had inferior performance to non-partisan teams during the Covid-19 pandemic.

Political alignment may not only influence the formation and performance of teams within the same organization, but it can also influence the formation of relationships and transactions between organizations. Duchin, Farroukh, Harford, and Patel (2021) collect information on the political contributions of corporate employees and show the degree of political alignment between firms predicts a key cross-firm transaction, namely, mergers and acquisitions. They find companies which are less politically compatible are less likely to merge, and this relationship has strengthened over time. In addition, the effect is stronger during times of high affective polarization; i.e., when Democrats and Republicans dislike each other more. Political distance between the acquirer and the target is associated with worse post-merger performance and a lower value of synergies, consistent with political misalignment being an obstacle for post-merger integration. Hence, political misalignment between organizations can impose substantial economic costs. This evidence shows that political homogeneity might be beneficial in some cases, contradicting the previous studies showing that politically diverse teams and firms perform better. Thus, more work is needed to understand the link between political diversity and performance. Beyond the effect on performance, investigating how partisan alignment influences the formation and diversification of corporate networks and firms' resilience to aggregate shocks would be a fruitful direction for further research in our view.

In sum, the majority of the evidence thus far indicates greater political segregation may be associated with negative effects for firm valuation and team performance, although a direct causal relationship has not yet been established at the firm-level. Identification is challenging in these settings, because the empirical design cannot exploit the type of exogenous variation generated by close political elections. It is important to note though that more research is needed to understand the costs and benefits of partisan assortative matching given the mixed findings.

5.3 Partisan Media and Corporate Communication

Finally, a set of studies measure consequences of partisan financial news and partisan slant in the public speech of U.S. corporations.

5.3.1 Partisan News Coverage

Goldman, Gupta, and Israelsen (2024) document polarized reporting of the same corporate financial news by comparing news coverage in the conservative Wall Street Journal and the liberal New York Times. Measuring political alignment using campaign contributions made by firm employees and firm-level Political Action Committees (PACs) to Republican candidates, they show that newspapers use more positive language and are more likely to report good news about politically aligned firms. Polarized news coverage is associated with greater disagreement and trading among investors, as measured by abnormal daily trading volume in the firms with the most political donations. Also consistent with partisan disagreement generating a motive for trading, Cookson, Engelberg, and Mullins (2020) find that greater partisan disagreement on StockTwits during the Covid-19 pandemic was associated with substantially higher abnormal stock turnover. Finally, Luo, Manconi, and Massa (2023) provide evidence that distrust of politically affiliated media leads to a lower responsiveness of stock prices to news reports.

Partisan media can also affect the political leaning of the firm’s workforce and, thus, corporate policies, such as CSR. Kaviani, Li, and Maleki (2023) implement a difference-in-differences design exploiting the staggered expansion of the Sinclair Broadcast Group, the largest conservative network in U.S. local TV markets. The authors document a decrease in locally headquartered firms’ CSR ratings following the expansion. One challenge with the interpretation of those results is that the entry of the Sinclair Group represents not only a shock to partisan media exposure but also a shift from more local to more national news coverage, and it remains an open question how much of the observed changes in CSR ratings are driven by partisan versus national news coverage.

5.3.2 Partisan Speech by Corporations

Another recent study uses advances in natural language processing to detect partisanship in the speech of U.S. corporations on social media. Cassidy and Kempf (2023) collect all tweets sent by S&P 500 companies with verified Twitter accounts between 2011 and 2022, as well as all tweets sent by members of Congress. They identify partisan phrases by estimating the language model by Gentzkow, Shapiro, and Taddy (2019) on tweets by members of Congress and then measure their usage among U.S. firms. Using this measure, Cassidy

and Kempf (2023) document a sizable increase in the amount of partisan corporate speech between 2011 and 2022. In the last few years of their sample period, the increase in partisan speech is disproportionately driven by companies using speech commonly associated with Democratic politicians; in particular, statements related to climate change as well as diversity, equity, and inclusion. Interestingly, the shift towards more Democratic-sounding speech is broad-based and present across all sectors, all geographies, and across firms run by Democratic and Republican CEOs. The authors also explore potential reasons behind the rise in partisan corporate speech.

In sum, the evidence reviewed in this section shows that even financial news coverage is politically polarized and that speech by U.S. corporations has become more partisan. Polarized news coverage generates disagreement among investors as well as larger trading volume, reflecting that partisans tend to “agree to disagree.”

More work is needed to study the benefits and costs of firms taking political stances. Conway and Boxell (2024) show that firms taking social stances on controversial issues on average increase their revenues, but the effect is short-lived. Analyses of stock price changes around political activism of firms and CEOs have yielded mixed results (e.g., Homroy and Gangopadhyay (2023); Bhagwat, Warren, Beck, and Watson (2020)). Wu and Zechner (2024) provide new insights by developing a model of financial market equilibrium where investors have heterogeneous political preferences and derive non-pecuniary payoffs from their alignment with a firm’s political stance. They demonstrate that corporate political stances arise endogenously in a competitive equilibrium with firm-value-maximizing managers, and derive predictions for the relationship between firms’ taking political stances and their expected stock returns. An interesting additional implication discussed by Wu and Zechner (2024) is that the presence of politically active large investors can generate welfare losses for small investors.

6 Political Polarization and Finance: A Research Agenda

On many dimensions, Americans have become more polarized across partisan lines. For financial economists, this phenomenon raises the question of how political partisanship influences financial decisions, corporate policies, asset prices, and the economy more broadly. In this article, we have reviewed a growing literature examining those questions and the overall conclusion is that partisanship is pervasive and affects financial decisions in a variety of settings. Despite the growing evidence, many open questions remain, and we close with some suggestions for future research.

Aggregate and Real Effects

Even though a number of studies have documented the importance of partisanship in shaping the financial decisions of individuals and trading volume, very few studies have explored the aggregate effects of partisan biases on equilibrium asset prices, price efficiency, or the transmission of fiscal and monetary policy. Jha, Koudijs, and Salgado (2024) provide evidence from a historical setting to show political beliefs do not always wash out in aggregate and can indeed influence asset prices even in thick markets. They show that, during the Prussian army’s Siege of Paris (1870–71), the price of the French sovereign bond was different between the Bourse in Paris and elsewhere and the difference was persistent, despite “being one of the most widely held and actively traded financial assets in continental Europe” (Jha, Koudijs, and Salgado (2024)).

Another crucial missing piece is how a growing partisan bias of executives and intermediaries, or a growing political homogeneity of teams, may causally influence firm-level performance and corporate policies, such as decisions related to firm investment, financing, corporate social responsibility, and political giving.

Economic Mechanism

An important area of research is understanding the underlying economic mechanisms behind the above-documented partisan-alignment effects. With regards to political alignment with the government, understanding to what extent the disagreement is driven by heterogeneous beliefs about specific government policies (e.g., the effectiveness of regulation or tax cuts), or by a general economic sentiment effect would be important. Some of the evidence to date points towards a more general economic sentiment explanation. For example, Kempf and Tsoutsoura (2021) find it is alignment with the president that matters for rating decisions, not alignment with Congress. Moreover, evidence in Kempf, Luo, Schäfer, and Tsoutsoura (2023), one of the few studies with an international setting, suggests it is not only alignment on economic policies that matters for cross-border capital allocation by institutional investors, but also alignment on social policies, such as views of the military and traditional morality. However, alignment on social policies may proxy for harder-to-measure differences in economic policies, and thus more work is needed to disentangle the importance of different policies in generating disagreement versus the role of sentiment.

With regards to political alignment between individuals, one of the most pressing issues is to disentangle how much of the observed partisan assortative matching is driven by partisans having a preference for working with like-minded individuals, and how much is driven by in-group partisans sharing a preference for the same types of firms. The answer to this question is relevant both for policy makers and for firms who are interested in attracting talent, as firms’ stances on divisive topics such as ESG, gun control, or reproductive rights,

may play a role in employees' decision to join a firm, thus affecting the allocation of talent (Colonnelli, McQuade, Ramos, Rauter, and Xiong (2023); Cen, Qiu, and Wang (2022)). It is also important to understand when (and in which settings) partisan sorting can lead to inefficient outcomes.

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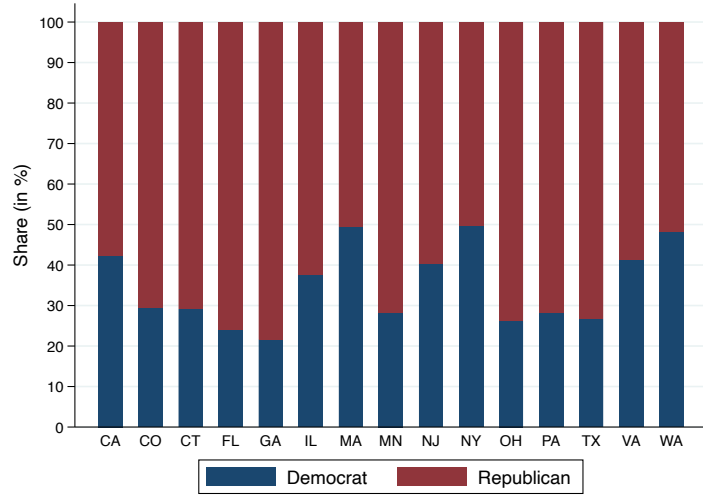
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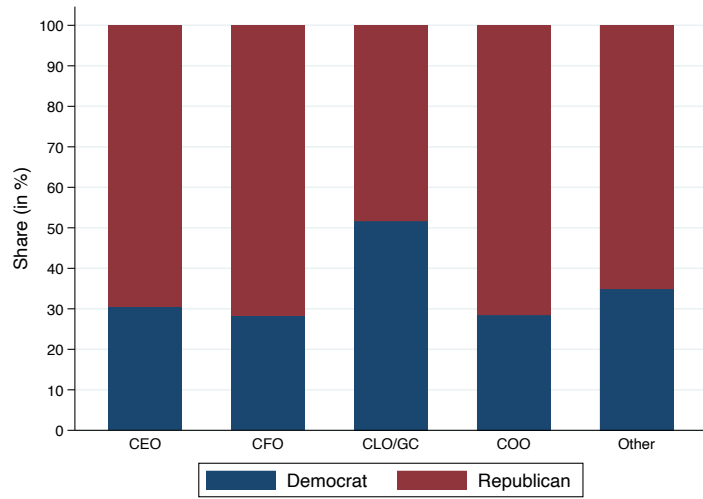
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(a) By State



(b) By Executive Role

Figure 1: Party Affiliations of U.S. Executives

The figure plots the distribution of party affiliations of all U.S. executives between 2008 and 2022 across different subsamples. Panel (a) reports executives' party affiliation by state of the firm's headquarters, after restricting to the 15 states with the largest number of firms. Panel (b) plots the distribution of party affiliations of U.S. executives by executive role. In both panels, we restrict the sample to partisan executives. The data is obtained from Fos, Kempf, and Tsoutsoura (2024), who combine data from Execucomp and voter registration records from L2, Inc.

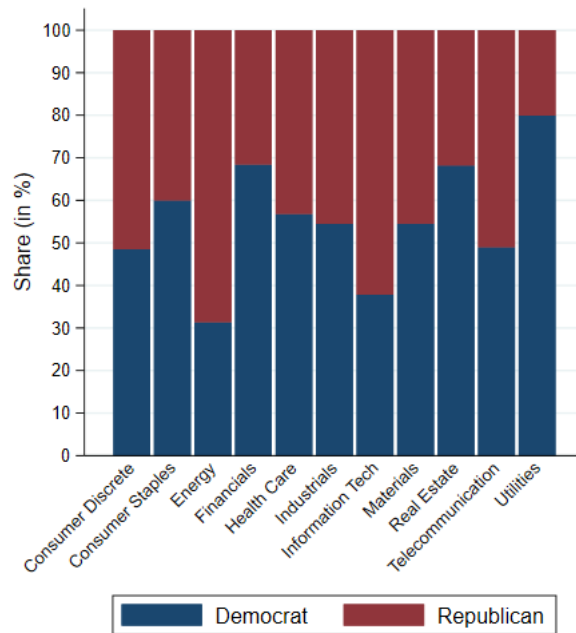


Figure 2: Party Affiliations of Credit Analysts by GICS sector

The figure plots the distribution of party affiliation of credit analysts by industry, based on the Global Industry Classification Standard (GICS). The sample is restricted to partisan credit analysts. The data is obtained from Kempf and Tsoutsoura (2021), who match analysts mentioned in the press releases of rating agencies to voter registration records from Illinois, New Jersey, and New York.

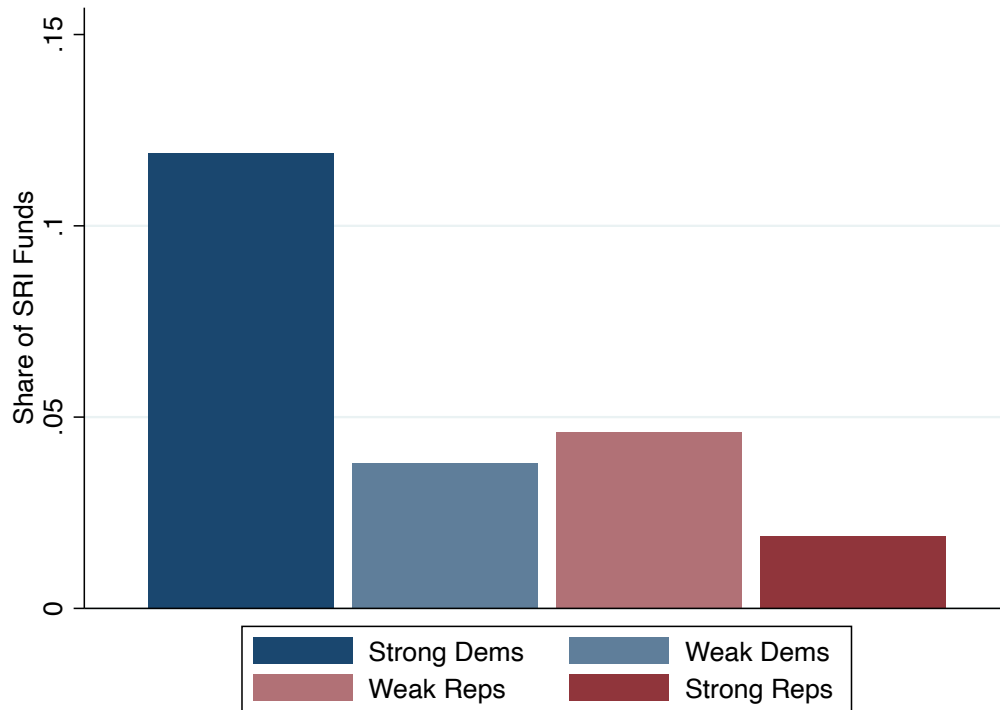


Figure 3: Investment Mandates of U.S. Mutual Fund Managers

The figure plots the share of funds that are classified as a socially responsible fund (*SRI*), by political leaning of the fund manager, as reported in Hong and Kostovetsky (2012). *Strong Dems* are fund managers who contributed more than \$2,000 to Democratic candidates (net of contributions to Republican candidates), whereas *Weak Dems* contributed \$2,000 or less to Democrats (net of contributions to Republican candidates). *Strong Reps* and *Weak Reps* are defined analogously. The data span the years 1992 to 2006.