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## Do Powerful Politicians Cause Corporate Downsizing?

by [Lauren Cohen](#), [Joshua Coval](#) and [Christopher J. Malloy](#)**Abstract**

This paper employs a new empirical approach for identifying the impact of government spending on the private sector. Our key innovation is to use changes in congressional committee chairmanship as a source of exogenous variation in state-level federal expenditures. In doing so, we show that fiscal spending shocks appear to significantly dampen corporate sector investment and employment activity. This retrenchment follows both Senate and House committee chair changes, occurs in large and small firms and within large and small states, and is most pronounced among geographically concentrated firms. The effects are economically meaningful and the mechanism-entirely distinct from the more traditional interest rate and tax channels-suggests new considerations in assessing the impact of government spending on private sector economic activity.

**Keywords:** [Spending](#); [Private Sector](#); [Taxation](#); [Innovation and Invention](#); [Interest Rates](#); [Business and Government Relations](#); [Investment](#); [Employment](#); [Power and Influence](#);

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Cohen, Lauren, Joshua Coval, and Christopher J. Malloy. "[Do Powerful Politicians Cause Corporate Downsizing?](#)" *Journal of Political Economy* 119, no. 6 (December 2011): 1015–1060. (Click [here](#) for a response to Snyder and Welch, click [here](#) for the data, and click [here](#) for the code.)

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