



## Political leanings and social capital<sup>☆</sup>

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### ABSTRACT

The research shows that the political leanings and social capital of the region around firms' headquarters affect corporate and individual decisions. What remains unexplored is whether social capital and political leanings are associated with each other. To fill this gap, we use the ratio of votes cast for Democratic candidates to those cast for Republican candidates in presidential elections to measure the Democratic political leanings in the United States. We find that counties with more social capital lean toward the Democratic Party. A one standard deviation increase in social capital is associated with a 0.30 standard deviation increase in the vote ratio. Additional tests show that this positive association is stronger in counties that have higher incomes and less religiosity.

### 1. Introduction

Political leanings affect corporate and individual decisions. Corporations headquartered in a region where the Democratic Party has greater influence are more socially responsible (Di Giuli and Kostovetsky, 2014), hold more debt, and take more risks (Hutton et al., 2014). Mutual fund managers from these regions show a strong preference for socially responsible firms (Hong and Kostovetsky, 2012). Individuals in Democratic leaning regions are less likely to participate in the stock market (Kaustia and Torstila, 2011).

Social capital also affects corporate and individual decisions. Firms in high social capital regions are more likely to be transparent in reporting their financial situation (Jha, 2017), enjoy greater trust from their auditors (Jha and Chen, 2015), behave more socially responsibly (Jha and Cox, 2015), and hold more debt (Hasan et al., 2017). Individuals from high social capital regions are more likely to invest in stock and hold less cash (Guiso et al., 2004).

The question then is, could social capital affect political leanings? The individuals in a high social capital region are more involved in social networks, are more trustworthy, and are more trusting of others. The participation in dense networks develops a greater propensity to trust others. When combined with a social network, they become a crucial base for values (Baron, 1998; Brenkert, 1998) that then can

affect one's political leaning (Mulligan, 2008; Weisberg, 2005).

The purpose of this study is to examine whether there is an association between social capital and political leanings. Do high social capital regions align more with the Democratic Party? Or, alternatively, do they align more with the Republican Party? We argue for both possibilities.

The effect that social capital can have on a person's political leanings is not obvious. On the one hand, high social capital regions might show a greater inclination for the Democratic Party. The Democratic agenda is in essence a transfer of wealth from those that are relatively well off to those that are relatively poor. The justification for such a transfer is that some people are not doing well financially, not because they have a poor work ethic, but because the society has evolved in ways that do not favor their skills. Put differently, it is based on a more sympathetic attitude towards those less fortunate. The Democratic Party's policy is also more accepting of alternative lifestyles (Van Kenhove et al., 2001). Underlying such acceptance is a greater acceptance of a stranger's actions—the belief that the actions are guided by the best set of options available to them. Participation in a network might expose a person to others that are not well off financially or those live lives quite different from theirs. This exposure over time can lead to values that are more tolerant of alternative lifestyles and more sympathetic to financial misfortune.

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