

Trevor Incerti:

Who benefits from the revolving door? Evidence from Japan

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Overview/why you should read it:

Measures effects of **revolving door** (amakudari) in Japan, finding:

- ↑ gov't loans to private firms
- ↑ stock price of private firm upon announcement of new hire
- ↑ contracts to non-profits

Why you should read the paper:

- Interesting (seemingly novel) data
- Clear, coherent empirical strategies
- Nice consideration of private firms (the usual) and public corporations (new)

Comment #1: Perils of applied effects of causes research

How are effects of causes (EoC) used in applied research?

1. Just measure EoC, forget the why → fine, if unsatisfying
2. Deduce theoretical expectations about EoC, then measure EoC → great!
3. Measure EoC, use measured effects to tell us why → inferential issues, strong tendency toward functionalist explanations.

This paper seems to be in camp #3:

- You care about why: "However, why firms hire these bureaucrats is less understood." (p. 6) → not #1.
- The "why" boils down to "because it is profitable."
 - But why is it not "undertaken by the highest performing or most dynamic firms?"

Comment #2: A (possibly naïve) story

What does the market for **managerial talent** look like in Japan?

- What if high-performing firms can entice successful managers from worse firms, but not vice versa?
- Is revolving door a “plan B” for lower-performing firms?

Effects you find could be consistent with:

- Differential use of revolving door due to broader features of market for managers
- Revolving door employees have a comparative advantage in knowing how government procurement, loans work
- Consistent with measured effects without need to say “they hire ex-bureaucrats because it is profitable.”

Comment #3: Interpreting effects, effect sizes

Loans to private companies (DV 1) → effect sizes:

- ATT: 2 billion yen(!!) vs. 0.07 of std dev of total liabilities among treated firms.
- Effect (on a skewed outcome) doesn't seem that big.

Stock prices (DV2) → what is treatment?

- Compound treatment is: Amakudari hire + publicized in financial newspaper
- Of course we should see an effect of the announcement, but is it about the hire? How often are these firms in news?
- What do CAR look like for *any* mention of firm in financial newspaper?

Comment #3 ctd: Interpreting effects, effect sizes

Contracts to public corporations (DV3) → trends:

- Estimates in pre-periods are indistinguishable from zero.
- But you can't reject the possible of a secular (even linear) increase from $t - 3$ to t .

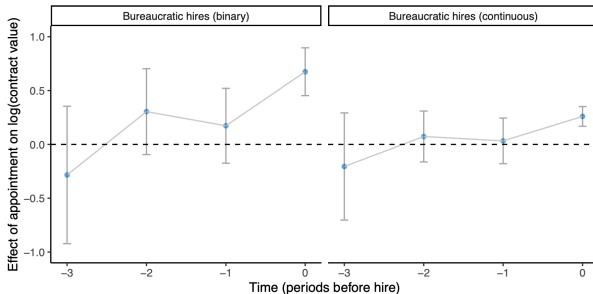


Figure 7: Effect of *amakudari* appointments on NPO negotiated contract value

Comment #4: Implications

Unclear to me **how bad** these outcomes are.

- If prospect of outside job motivates bureaucrats to work harder, could be a net benefit.
- Steer clear of general “revolving door → net negative” statements.

This seems over-the-top (p. 26):

“These results have implications for the general stagnation of the Japanese economy over the past three decades. Political connections appear to offer lifelines to otherwise underperforming firms, perpetuating a system in which economic dynamism and innovation are not necessarily required for firm survival.”

What about the other cases (e.g., the US) that you discuss?