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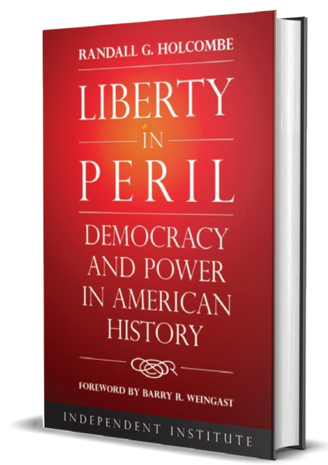

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Government behind the Wheel

More a Matter of Politics Than of Economics

JIM F. COUCH, PHILIP A. BURTON, KEITH D. MALONE, AND DAVID L. BLACK

> Closed [car] dealerships across the country deserve a transparent review of their termination and the right to get back in business if they were terminated on faulty grounds.
>
> —Senator Richard Durbin (D–Ill.) (qtd. in "Congress Plans Remedy" 2009)

> My Administration is committed to creating an unprecedented level of openness in Government. We will work together to ensure the public trust and establish a system of transparency, public participation, and collaboration. Openness will strengthen our democracy and promote efficiency and effectiveness in Government.
>
> —Barack Obama (White House Press Office 2009)

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The business of America is business," President Calvin Coolidge once famously opined, and no industry better represented American prowess than automobile manufacturing.[1] But that prowess has slowly eroded to the point that more than half of the cars Americans buy are "foreign" ("America's Other Auto Industry" 2008).[2] Domestic manufacturers—the so-called big three—have lost market share and face perhaps insurmountable financial troubles.

The big three's problems have several main sources, among others: high labor costs (for every United Auto Worker member working at a car manufacturer, three collect generous retirement benefits ["America's Other Auto Industry" 2008]); poor quality, whether perceived or real; inefficiency (in 1995, for example, a General Motors [GM] automobile required forty-six hours to build, whereas a Toyota required 29.4 ["America's Other Auto Industry" 2008]); and relatively low resale value. Escalating fuel costs worked against the sale of trucks and sport utility vehicles—something domestic producers did well and had hung their hats on. The financial crisis further exacerbated the problems Chrysler and GM faced to the point that both faced certain bankruptcy as 2008 came to a close. Domestic firms went from being the very symbol of American manufacturing strength to financial ruin.

Business has changed since Coolidge's day as well, with government stepping in to bail out struggling firms as never before. President George W. Bush, encouraged by President-elect Barack Obama, provided funds for GM and Chrysler from the Troubled Assets Relief Program (TARP) at the end of his term—a fund authorized by Congress to bail out banks and financial institutions. Bush defended his action by saying: "In the midst of a financial crisis and a recession, allowing the U.S. auto industry to collapse is not a responsible course of action" (qtd. in Isadore 2008).[3] Bush was simply keeping the firms afloat so that his successor could find a more permanent solution for the moribund manufacturers.

President Obama took responsibility for restoring the industry. In March 2009, he asserted: "Year after year, decade after decade, we've seen problems papered over and tough choices kicked down the road, even as foreign competitors outpaced us. Well, we've reached the end of that road! And we, as a nation, cannot afford to shirk responsibility any longer. Now is the time to confront our

1. The statement is from a speech by Coolidge called "The Press under a Free Government," delivered to the American Society of Newspaper Editors in Washington, D.C., on January 17, 1925. Coolidge apparently actually stated: "After all, the chief business of the American people is business." The entire speech indicates that he was not as materialistic as his detractors have asserted. See http://www.calvin-coolidge.org/html/the_business_of_america_is_bus.html.

2. International manufacturers employ more than one hundred thousand U.S. workers building Hondas, BMWs, Mercedes, Toyotas, Hyundais, and other foreign brands.

3. Owing in part to the timeliness of the issue and in part to the subject matter, we rely to a greater extent than is typical on information from the popular press. The reader should be aware that these accounts are not subject to the same scrutiny as refereed sources.

problems head-on and do what's necessary to solve them" (White House Press Office 2009).[4]

The president formed an automobile task force cochaired by Treasury secretary Tim Geithner and National Economic Council director Larry Summers, and Chrysler and GM were instructed to submit restructuring plans to the group for approval. Task force members included "the secretaries of Transportation, Commerce, Labor, Energy, the director of the Office of Management and Budget, the administrator of the Environmental Protection Agency, the director of the White House Office of Energy and Climate Change and the chair of the Council of Economic Advisors" (Shepardson and Trowbridge 2009).

Steven Rattner, an investment banker, was selected to head the team. Rattner acknowledged the complexity of the task and his team's inexperience in regard to the automobile industry, confessing, "We've learned a lot about how car dealers work, and how companies get paid when they sell a car to a dealer, and why there are a certain number of dealers more than are optimal" (qtd. in King and Stoll 2009).

The president seemed pleased with the automobile task force's progress. In a radio interview with Michael Smerconish, Obama criticized Bush's actions and praised his own efforts. "The only thing that we did was rather than just write GM and Chrysler a blank check, we said, 'You know what, if you're going to get any more taxpayer money, you've got to be accountable'" ("Obama Is Interviewed" 2009).

The task force rejected Chrysler's initial viability plan but later accepted its second plan. The company filed under Chapter 11 of the U.S. Bankruptcy Code and as a condition of the bankruptcy sought to close 789 of its 3,181 authorized dealerships. Dealerships received a list of all the firms slated for closure and a message that stated: "With regret, this letter is to inform you that on May 14, 2009, we are filing a motion in bankruptcy court rejecting the Sales and Service Agreement (s) between Chrysler Motors LLC and the dealerships listed above" (qtd. in Valdez-Dapena 2009).

Chrysler officials noted that the decision to close dealerships—in particular which franchises would be terminated—was difficult but necessary. James E. Press, vice chairman of Chrysler, stated, "This has been the most difficult business decision I have ever personally had to take. But the decision had to be made. They [*sic*] were gut-wrenching, but absolutely necessary for Chrysler's survival" (qtd. in Becker

4. One of the major philosophical debates on the federal government's "acquisition" of domestic automobile manufacturers pertains to the fundamental role of government. Although most elected federal officials avoided this question during the weeks leading up to the decision to acquire these companies, the question looms large. The larger question remains as to whether the government can or should acquire the assets of a failing major company, but the subtext of the "takeover" was not foreseen—the federal government now has conflicting, dual roles as both a competitor and a referee. An appropriate analogy would be to an umpire of a baseball game who wears the emblem of the team he prefers to win. This dual role reduces the trust and transparency that free markets require. Under this new "market" arrangement, all federal government regulations are suspect. The recent congressional hearings about the mechanical problems various Toyota models have experienced indicate that a third-way blend of government and corporations establishing a cooperative relationship is ill suited for free markets.

2009). The exact criteria used to determine which Chrysler dealerships got the ax were not clear. Chrysler's executive vice president for North American sales, Steven Landry, asserted that the process was a function of the numbers: "The decision, though difficult, was based on a data-driven matrix that assessed a number of key metrics" (qtd. in Valdez-Dapena 2009).

Various observers suggested that dealership profitability, customer-satisfaction surveys, whether the full line of Chrysler products was offered to shoppers, and dealership saturation in a particular area contributed to the decision to close a dealership. Heritage Foundation researchers argued that reducing intrabrand competition should be a significant factor in the decision-making process: "A surplus of franchises means dealers for the same manufacturer end up competing among themselves, resulting in lower returns across the board" (Sherk and Gattuso 2009, 2).

Nevertheless, many dealers, facing the loss of their franchise, complained bitterly that their firms were profitable and that "the criteria being used to determine which dealerships survive is [*sic*] not clear" (qtd. in Tapscott 2009). Others suggested that politics influenced the decision.

This assertion gained plausibility when it transpired that all of the dealerships in the McLarty-Landers-Johnson chain escaped closure. Robert Johnson, one of the firm's owners, is the founder of Black Entertainment Television and is a heavy contributor to the Democratic Party. "Mack" McLarty, another owner, was an aide to former president Bill Clinton. Accusations spread that dealerships owned by individuals with ties to the Republican Party were being targeted for closure.

In addition, adding fuel to the fire, people whose chief concern was politics rather than economics provided assistance to the task force. "Senior aides advising the task force include . . . former Obama campaign aides who are already hard at work reviewing a number of issues related to the restructuring of General Motors Corp. and Chrysler LLC" (Shepardson and Trowbridge 2009).

The Treasury Department responded with a statement claiming that the government had played no role in selecting the dealerships whose franchise agreement would be terminated. The "[d]epartment had no role in choosing which contracts would be dropped or in the number dropped" (qtd. in Valdez-Dapena 2009).

Nevertheless, attorney Leonard Bellavia, who represents a number of closed dealerships and has deposed senior Chrysler officials, told Reuters, "It became clear to us that Chrysler does not see the wisdom of terminating 25 percent of its dealers. It really wasn't Chrysler's decision. They [Chrysler officials] are under enormous pressure from the President's automotive task force" (qtd. in Tapscott 2009).[5]

5. At least one Chrysler executive has changed his tune: "[A]s Chrysler continues to report dismal sales, industry experts and even a former executive question whether the company blundered by dropping so many dealers and giving them just over three weeks to wind down operations. Jim Press, who served as Chrysler's president and vice chairman until last month, said in an interview that he personally fought the dealership closings. 'I saw it fraught with terrible issues and short-term sales cost as well as dislocation of customers,' Mr. Press said. 'Dealers are [Chrysler's] only customers, the reason we are in business. How do you eliminate your customer?'" (Maltby 2009).

Political Considerations

The Heritage Foundation, intrigued by the notion that political contributions might have shaped the decision to terminate Chrysler dealerships, conducted a study titled *Closing Car Dealerships: A Matter of Economics, Not Politics* (Sherk and Gattuso 2009). The authors analyzed data provided in Chrysler's Chapter 11 bankruptcy filings with the U.S. Bankruptcy Court for the Southern District of New York. These filings included the names of all dealerships—both those that were to remain open and those slated for closure—as well as each firm's address and owner(s).

The study's authors compared the political contributions of the majority owner of each dealership to the list of closures to determine if "Republican-leaning dealers were treated more harshly than those that supported Democrats." They concluded: "[C]laims that the method by which dealers were selected was biased appear to be unfounded, with no correlation between political contributions and terminations" (Sherk and Gattuso 2009, 5).

A Matter of Politics, Not Economics

Public-choice theory asserts that politicians are motivated by a desire for reelection and that this desire shapes which policies are pursued and how they are implemented. Thus, the public's outcry that government actions seldom solve real problems is misguided because the policy goal is not to provide a solution, but instead to build a winning coalition for the next election. In addition, government agencies—Obama's automobile task force certainly qualifies—are not immune to political influence. Both the executive branch and the legislative branch of government use the apparatus of government for reelection purposes. In short, politics trumps economics. A vast literature supports this assertion.

Several scholars have found that politics played an important role in the allocation of New Deal appropriations during the Great Depression (Wright 1974; Anderson and Tollison 1991; Couch and Shughart 1998). Despite Roosevelt's eloquent speeches about helping those in distress, economic need was virtually ignored when dollars were distributed across the nation. Instead, empirical evidence supports the claim that there was a reelection strategy to the allocation.

Economist William Shughart adds, "One key conclusion of public choice is that changing the identities of the people who hold public office will not produce major changes in policy outcomes" (Shughart 2008). Thus, the results of a Mercatus Center analysis of the Obama administration's distribution of stimulus funds should not be surprising. Examining fourth-quarter expenditures from the American Recovery and Reinvestment Act of 2009—Obama's stimulus package totaling more than $800 billion in expenditures and, to a much lesser extent, tax cuts—Jerry Brito and Veronique de Rugy found "no correlation between economic indicators and stimulus funding. Preliminary results find no effect of unemployment, median income, or even mean income on stimulus funds allocation" (2009, 6). Instead, the authors determined that stimulus dollars flowed disproportionately to Democratic-controlled congressional districts. Like FDR, the current administration has put political considerations ahead of economic need.

Bureaus and agencies succumb to political pressure as well. Jim Couch and associates (1999) found that the Internal Revenue Service (IRS) conducted fewer audits in states that had delivered more votes to Clinton. Marilyn Young and associates (2001) also found a political component to IRS enforcement activity. Thomas Garrett and Russell Sobel (2003) note that Federal Emergency Management Agency disaster expenditures have been guided at least in part by the current president's reelection strategy. Enforcement by the Environmental Protection Agency (Couch, Williams, and Wells 2008) and by antitrust authorities (Faith, Leavens, and Tollison [1982] 1995) has likewise been found to be politically motivated. Even the allocation of troops during the Vietnam War was discovered to be influenced by politics: more troops from states with less political clout were deployed to more dangerous locations and in more risky activities (Goff and Tollison 1987).

Empirical Evidence: Dealership Closure

Dealerships provide both direct and indirect employment opportunities; advertising revenue for local media; and generous tax revenue for city, county, and state governments derived from the sale of big-ticket items. Moreover, they are frequently called on to meet community philanthropic needs. Closure of a dealership, whether justified or not, is obviously unpopular with residents in the surrounding area. A politician seeking reelection would have a strong incentive to see that his supporters are not subjected to the negative effects of a closure.

Obama administration officials were quick to point out that they did not have a voice in the determination of which dealerships would be closed. They claimed that Chrysler officials made the call. Both the administration and Chrysler executives asserted that economics drove the calculation. An analysis of the data provides evidence as to whether the administration sought to shield its supporters from the difficulties associated with the closure of dealerships.

Data Analysis

We began by determining the percentage of dealerships in each state that were closed. The percentage varied widely from state to state, ranging from a high of 40 percent of total dealerships closed in North Dakota, Utah, and West Virginia to a low of only 10 percent of total dealerships closed in Vermont (Alaska actually had no dealerships closed). These data appear in table 1.

Table 1
Percentage of Dealerships Closed, by State

	Percentage of Dealerships Closed	Percentage of Dealerships Closed Full Line 1, 2*	Percentage of Dealerships Closed Full Line 3, 4*
Alabama	31.6	70.0	17.9
Alaska	0.0	0.0	0.0
Arizona	14.7	10.0	16.7
Arkansas	22.9	100.0	15.6
California	26.0	39.2	15.5
Colorado	27.5	29.4	26.1
Connecticut	16.3	35.3	3.8
Delaware	30.0	60.0	0.0
Florida	34.3	63.6	10.9
Georgia	17.8	50.0	11.5
Hawaii	14.3	0.0	14.3
Idaho	13.6	50.0	5.6
Illinois	27.7	59.3	9.0
Indiana	22.5	56.0	9.4
Iowa	25.0	53.8	19.7
Kansas	27.5	75.0	18.6
Kentucky	14.5	50.0	10.2
Louisiana	39.5	50.0	38.5
Maine	20.0	100.0	0.0
Maryland	34.7	61.5	4.3
Massachusetts	25.5	39.1	12.5
Michigan	26.0	57.6	6.3
Minnesota	25.0	33.3	22.4
Mississippi	15.6	50.0	10.7
Missouri	30.5	69.6	15.3
Montana	16.7	100.0	6.3
Nebraska	23.5	100.0	16.1
Nevada	35.7	50.0	20.0
New Hampshire	25.0	66.7	7.1
New Jersey	35.8	49.1	7.7
New Mexico	13.6	40.0	5.9
New York	17.7	52.6	5.5
North Carolina	18.1	35.3	12.7

(continued)

Table 1
(Continued)

	Percentage of Dealerships Closed	Percentage of Dealerships Closed Full Line 1, 2*	Percentage of Dealerships Closed Full Line 3, 4*
North Dakota	40.0	85.7	15.4
Ohio	31.3	63.3	15.3
Oklahoma	21.3	42.9	17.5
Oregon	14.3	22.2	11.1
Pennsylvania	30.1	53.8	8.2
Rhode Island	33.3	100.0	0.0
South Carolina	23.9	40.0	16.1
South Dakota	29.2	55.6	13.3
Tennessee	25.5	66.7	17.4
Texas	24.9	52.6	13.6
Utah	40.0	100.0	28.6
Vermont	10.0	25.0	0.0
Virginia	37.7	61.3	18.4
Washington	31.1	54.5	8.7
West Virginia	40.0	62.5	25.0
Wisconsin	16.0	63.2	4.9
Wyoming	26.3	66.7	18.8

*The "full-line" variable refers to the number of lines of Chrysler products a dealership offers. A value of 1 indicates the dealership offers only a single line of Chrysler products; a value of 4 indicates that the dealership offers the complete line of Chrysler products (three plus trucks).

As noted previously, various economic factors and dealership characteristics have been cited as possible reasons for closing certain Chrysler dealerships. We combined both individual dealership characteristics and political factors in our analysis to determine which of these variables played a role in the calculation of franchise termination.[6]

6. The selection of explanatory variables in the analysis was guided by specific factors that Chrysler officials mentioned and by political variables standard in the literature. Thus, we examine intrabrand competition, the number of products offered by each dealership, and a proxy for dealership profitability—namely, the unemployment rate. At first glance, interbrand competition might have contributed to the decision to close a Chrysler franchise. However, the literature suggests that competing dealerships cluster together. "Dealerships have become concentrated into a small number of large suburban clusters with the spacing between clusters influenced by territorial security concerns for dealers selling the same make of automobile. The strong clustering tendency of dealerships has been attributed to comparison shopping opportunities for consumers and advertising advantages to sellers" (Lord 1992, 283). The term *auto mile* has been used to describe a collection of competing automobile dealerships that cluster together to market their product better. Hence, empirical evidence suggests that firms seek out their competitors and locate in close proximity to them rather than avoid them.

We based our analysis on public-choice theory. Thus, rather than suggesting that political contributions by the owner of each closed dealership to the political party opposing the current administration were paramount in the closure decision, as the Heritage study does,[7] we employed a more direct measure, reelection efforts, which is standard in public-choice literature when analyzing the influence of the executive branch.

The percentage of the vote cast for Obama in each state served as a political variable in our investigation (for example, we entered the same Obama vote percentage for each dealership in Alabama). Electoral votes per capita at the state level and party of the congressperson in the U.S. House of Representatives in each dealership's district are included as additional measures of political influence.

We also factored individual dealership characteristics into our analysis. Chrysler officials noted that the decision to terminate a dealership franchise was based on a number of factors, but they specifically mentioned dealerships' profitability and level of customer service. These variables unfortunately are proprietary in nature, so our investigation admittedly suffers from their exclusion. We made an effort to account for profitability by including unemployment as a variable. Thus, the unemployment rate functions as a proxy for profitability in the analysis. If profitability is indeed a pertinent issue, then dealerships located in economically depressed areas—those with high unemployment rates—were more likely to be closed.

Additional dealership characteristics included in the study were the number of Chrysler products that each dealership offered for sale and dealership saturation in a particular area. It was expected that dealerships with more extensive offerings and larger customer bases were more likely to escape closure.

Our first model examined the percentage of total dealerships (data from table 1) in each state that was closed, so we investigated data at the state level first. Next we focused the analysis on individual dealerships. We analyzed the data to determine which factors played a statistically significant role in the decision to terminate a dealership franchise. A more technical analysis of the data and a description of the statistical models appear in the appendix to this article.

Both the state-level analysis and the individual-dealership analysis suggest that a relationship did exist between not offering a full line of Chrysler products and the likelihood of losing a franchise. Chrysler spokespersons indicated before the closures that this factor would be a determining one, and we found evidence that it was indeed considered in their calculation.

We found little evidence, however, to support the notion that Chrysler officials sought to limit intrabrand competition. In fact, the results from the dealership-level analysis indicate that Chrysler franchises facing less competition in the county were more likely to be closed, whereas dealerships in more heavily saturated areas were more likely to remain open.

7. The Heritage study examines whether a dealership remained open or was closed and the dollar amount donated to candidates, but it does not control for other factors associated with the decision to terminate franchises.

Based on the empirical analysis, we also found that the economic health of the area surrounding the dealership did not affect the decision to terminate a dealership. Our proxy for economic vitality in the county, the unemployment rate, was not significantly related to dealership closure.

Thus, of all the factors that various officials offered to explain how dealerships to be closed were selected, only "offering the full line of Chrysler products" was valid. None of the other explanations is supported by the analysis. However, we did find evidence that politics played a role.

After controlling for other factors thought to influence the decision to close, we found evidence that dealerships were more likely to remain open in states that offered political support for Obama.[8] This result is consistent in both the state-level and the dealership-level analyses. The evidence therefore suggests that the Obama administration was concerned with more than Chrysler's long-term viability—namely, it was concerned with protecting Obama's supporters from the negative consequences of a dealership closure.

Conclusion

Our results strongly support the notion that the Obama administration—either directly through the automotive task force or indirectly by putting pressure on Chrysler executives—played a key role in the selection of which dealerships would be closed. Although some observers argue that the government can effectively regulate the private sector, our results suggest that the temptation to succumb to political considerations is strong and, indeed, cannot be avoided.

All of the model specifications we estimated support a political motivation behind the selection of dealerships slated for closure.[9] President Obama ran on a platform of change and promised a more open, efficient, and effective government. In the case of

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8. A more innocuous explanation can account for the relationship between Obama and dealership closure. Suppose both Obama support in a state and dealership closures in a state are correlated with income. States with higher incomes may have given Obama greater political support and provided a more profitable environment for dealerships. Thus, the significance of the Obama variable may not indicate a political motivation but rather simply reveal that the Obama variable is a proxy for high income. We also tested for this possibility, and the evidence supporting the political hypothesis remains strong. Although state median income is positively and significantly related to state support for Obama, the percentage of dealerships closed in each state and median income are unrelated. The technical detail of the relationship among these variables is provided in the appendix.

9. Public choice assumes that decisions are influenced by the desire to build a strong reelection coalition. However, this behavior can manifest itself in several forms: politicians may choose to reward their loyal supporters or may instead attempt to influence swing voters. We entered the percentage of the vote for Obama in the model tests to see if supporters were favored. We also entered a second variable in the model to capture efforts to win swing voters. In order to test this hypothesis, we calculated a measure of electoral importance for each state. The variable was calculated as $E_i = EV_i P^* \left(1 - 4^*(P_i - 0.5)^2\right)$, where EV_i is the number of electoral votes per state and P_i is the percentage margin of victory for President Obama per state. Thus, a state in which the voting results were close would have greater importance in building a reelection strategy. We included this variable in one version of the model but found that it offers no explanatory power. Given the timing of the Chrysler reorganization—very early in Obama's term—it seems reasonable that the administration would have chosen a "reward your supporters" strategy over a "win a swing state" strategy.

Chrysler dealership closures, however, this administration's behavior displays politics as usual. Our results, unlike those of the Heritage Foundation's study, support the notion that political considerations, not economics, influenced the decisions.

Appendix

Procedure

As noted previously, we divided the political analysis into two parts: a study at the state level and an investigation at the individual-dealership level. First, we examined the state level, employing an ordinary least squares (OLS) regression. The percentage of total dealerships closed in each state served as the dependent variable in our empirical analysis. The data appear in table 1. Independent variables include the percentage of dealerships in each state that carry either the full line of Chrysler products or the full line of Chrysler products plus trucks. We derived information about the line of vehicles carried by each dealership from Chrysler's filings with the Bankruptcy Court.

The state unemployment rate in 2009 is included as an explanatory variable for dealership profitability. If maximizing sales per dealership was the decision makers' goal, then it was expected that more dealerships would be closed in states with weaker economies. In the first OLS model, we included the total number of dealerships in the state divided by state population in millions. In the second specification, we entered total number of dealerships per ten thousand square miles. Both obviously measure dealership saturation, and the expectation was that more franchise agreements would a priori likely be voided in states with greater intrabrand competition. The court filings provided the location of each dealership.

We included two political variables in the models. The first is the percentage of a state's vote cast for Obama in the presidential election. The second is the number of electoral votes per capita in each state. OLS regression results are presented in table 2.

Next, we conducted an examination of each individual dealership. Because the variable of interest in this case is whether a particular firm was allowed to remain open or forced to close, a logistic model is estimated. To determine the extent to which nonpolitical considerations influenced the closure decision, once again we included a number of independent variables suggested by Chrysler spokespersons.

The number or "line" of Chrysler products that each dealership offered for sale served as one such independent variable. If carrying a more extensive line of Chrysler products was associated with remaining open, as suggested, then this variable's regression coefficient was expected to be negative and statistically significant. To determine whether reducing intrabrand competition played a role in the decision to close, we calculated the ratio of county population to the number of dealerships in the county for each firm. A smaller ratio indicates fewer potential customers per dealership. Hence, the likelihood of closure should have increased as the ratio of potential customers per dealership declined. Finally, we included the county unemployment

Table 2
OLS Regressions

Variables	Model 1	Model 2
Constant	76.55 (5.56*)	81.0 (6.2*)
Obama Vote	–0.298 (2.22**)	–0.31 (2.34**)
Unemployment Rate	–0.72 (1.24)	–0.85 (1.55)
Full Line	–0.39 (4.61*)	–0.41 (4.41*)
Electoral Votes	–1.77 (1.28)	–1.48 (1.19)
Dealerships/Population	0.121 (0.57)	
Dealerships/Area		–0.028 (0.38)
R-squared	0.358	0.356

Note: T-statistics in parentheses.
*Statistical significance at the 1 percent level of confidence.
**Statistical significance at the 5 percent level of confidence.

rate in the model. If economic considerations played a role in the decision to close a dealership, this variable's regression coefficient would be expected to be positive and significant. High levels of unemployment should have translated into lower dealership profitability and thus greater likelihood of termination—at least according to Chrysler officials. Table 3 provides the results for the logistic model.

Results

The OLS models that examine the percentage of dealerships closed in each state both explain approximately 36 percent of the variance in the dependent variable. Neither the unemployment rate nor either of the measures of intrabrand competition has any explanatory power. However, as the percentage of total dealerships offering a more

Table 3
Logit Analysis

Parameter	Estimate	Pr > ChiSq
Intercept	3.56	0.0001*
Full Line	–0.992	0.0001*
Unemployment	0.001	0.936
Population/Dealership	0.0000001	0.029**
Representative	–0.148	0.127
Obama Vote	–3.12	0.0001*

Note: "Representative" is equal to one if the congressperson representing the dealership's district is a Democrat and zero otherwise.
*Significant at the 1 percent level of confidence.
**Significant at the 5 percent level of confidence.

complete line of Chrysler products in the state increased, the percentage of dealerships closed in the state decreased, and this result is statistically significant at the 1 percent level of confidence.

Electoral votes per capita has the correct sign but lacks statistical significance. The results do indicate that a smaller percentage of dealerships was closed in states that offered greater political support for Obama. This result is significant at the 5 percent level of confidence. Both specifications indicate that political considerations influenced dealership franchise termination. In particular, the results indicate that rather than attempting to win new voters, Obama instead used his influence to reward his allies by protecting dealerships where his support was stronger.

The logistic regression likewise supports the service of a political motivation in the decisions regarding which dealerships to close. The county unemployment rate offers no explanatory power in the model. Population per dealership is significant at the 5 percent level of confidence, but its sign is the opposite of what was expected: Chrysler dealerships with a larger customer base were terminated, whereas firms with a smaller base were allowed to remain open. However, the full-line variable is significantly related to closure and behaves as expected.[10] Dealerships that did not offer as many Chrysler products were more likely to lose their franchise.

Because we examine individual firms, the variable "Representative" is included. Representative measures the party of the congressperson in the U.S. House of Representatives in each dealership's district. The variable is insignificant in the analysis. But the independent variable that measured support for Obama in his contest with John McCain is significant at the 1 percent level of confidence. As the percentage of the vote for Obama increased in a state, the probability that dealerships in that state would survive increased as well.

As noted previously, support for Obama in the presidential contest is correlated with higher state average income. In other words, richer states offered more political support for Obama than did poorer states. Thus, the Obama variable may be serving as a proxy for income in our models, so that executives, in making the decision to close dealerships, simply terminated firms in lower-income areas.

To examine this possibility, we estimated regressions that include state median income, full line of Chrysler products, and Obama. In all the specifications, the Obama and full-line variables behaved as before and are statistically significant. However, median income does not offer any explanatory power. In addition, we constructed a correlation matrix with median income, Obama vote, and the percentage of dealerships closed. Although the Obama vote and median income are highly correlated, median income and percentage of dealerships closed are not related. Therefore, our evidence of political influence remains strong. The regressions and the correlation matrix are included in table 4.

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10. The full-line variable might represent higher income and more prosperous locations. The variable is not significantly correlated with income per capita or with the unemployment rate.

Table 4
Correlations

	Percentage of Obama Vote	Unemployment Rate	Percentage of Dealerships Closed
Unemployment Rate	0.207 (0.149)		
Percentage of Dealerships Closed	–0.056 (0.701)	–0.011 (0.941)	
Median Income	0.481 (0.000)	–0.151 (0.294)	0.065 (0.655)

Note: Pearson correlation values are in parenthesis. A number of regressions were run with income included as an explanatory variable. Median income was never statistically significant in any of the models, but both the full-line and Obama variables retained their statistical significance. The results from two specifications are:

% Dealerships Closed = 54.1 - 0.283 %Full Line - 0.000181 Median Income

% Dealerships Closed = 64.4 - 0.328 %Full Line - 0.252 %Obama - 0.000072 Median Income

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