The social cost of firm response to political risk: Evidence from wage theft

Abstract

Political risk increases firms perceived concerns about future cash holdings, leading them to impose social externalities on society by reducing employee pay to mitigate these concerns. This imposes negative externalities on workers, raising important ethical questions about how firms are managed. Tests to control for the endogenous nature of our setting suggest that the relation between political risk and wage theft is likely causal. This effect is short-term, attenuated in the presence of monitoring by major customers and government contractors and more pronounced in the presence of financial constraints. Finally, we show that in the presence of political risk wage theft is a substitute for a reduction in investment and employment. Our results contribute to broader debates on ethical firm behavior under uncertainty and support calls for stronger institutional mechanisms to protect employee rights.

JEL code: *G30, G32*

Keywords: political risk, social costs, wage theft, corporate governance, cash holdings, employees

1. Introduction

Political risk refers to uncertainty arising from political activities (Watts and Zimmerman, 1990). Firms exposed to firm-level political risk fundamentally change their corporate policies and disclosure (Ghoul et al. 2021). They reduce hiring and capital investment while increasing lobbying and donations to politicians (Hassan et al., 2019). Further, firm-level political risk has consequences for debt contracts and raises spillover effects across lending contracts (Gad et al., 2023).

In this study, we extend this literature by examining the consequences of increased political risk on employees. Specifically, we analyse if political risk exerts social externalities on employees in the form of wage theft. This perspective introduces an overlooked ethical dimension, i.e. whether firms, when facing external political shocks, shift the burden of adjustment onto employees.

Most of the literature examining the determinants of corporate misconduct focuses on current pressures arising from managerial incentives or firm financial constraints on future penalties for corporate misconduct. We take a different perspective by examining the effect of *anticipated future* financial pressures arising from political risk on current social externalities for employees, specifically wage theft measured at the time it occurs[1]. Specifically, we posit that firms increase their cash holdings by reducing their employee costs through wage theft in anticipation of future financial pressures due to rising political risk. This mechanism raises concerns about moral hazard in firms' treatment of workers, especially when the harm is difficult for employees to contest.

The magnitude of the social cost for employees is significant. It is estimated that wage theft, which includes the non-payment of overtime and underreporting of hours worked,

[1] Previous literature on corporate misconduct examines misconduct at the time when the penalty is issued. We show in Appendix 5 that there is a significant lag between the occurrence of wage theft (e.g. 2015 to 2020) and the date when the penalty is issued (i.e. 2023).

amounts to more than $15 billion per year (Raghunandan, 2021). Firms like Bank of America, FedEx and Amazon paid millions of dollars in fines to settle wage theft violations (FTC, 2021, GJF, 2018). However, the true extent of wage theft may be underestimated due to various factors that limit wage theft detection, including constraints in bringing claims to court, or intimidation tactics used by employers to discourage reporting. In many instances, the wage theft can remain invisible due to ethical asymmetries between firms and workers such as unequal power, lack of transparency, or fear of retaliation.

Legislators have responded to these concerns by implementing stricter accountability measures. For example, Senate Bill S2832A[2] - the Wage Theft Accountability Act passed in 2024, made non-payment or underpayment of wages a felony offense. Given the seriousness of wage theft, it is important to understand if and how employees are affected at times of increased political uncertainty.

The relation between firm-level political risk and wage theft is ex-ante unclear. In the wake of higher political uncertainty, firms undertake real changes such as reductions in investments and employment (Hassan et al., 2019). The reduction in investment or employment increases firm adjustment costs. To attenuate the increase in adjustment costs firms undertake activities to increase their future financial flexibility by increasing cash reserves. One way to immediately raise savings is by underpaying employees. Given this argumentation, we expect a positive relation between political risk and wage theft. We refer to this conjecture as the *precautionary savings conjecture*.

However, firm-level political risk might have effect on wage theft. Instead of undertaking wage theft, managers might attempt to release the pressure of political risk on the firm's performance by obfuscating disclosures or by treating their employees better (Mekhaimer et al., 2024; Curti et al., 2022). Consequently, managers experience less pressure

[2] https://www.nysenate.gov/legislation/bills/2023/S2832/amendment/A

to seek immediate savings and engage in wage theft. Given this argumentation we expect no or a negative relation between political risk and wage theft. We refer to this conjecture as the *disclosure and sustainability conjecture*.

Whether political risk impacts wage theft is the empirical question we address in this study. Using a sample of 42,564 observations for the period 2003-2021 we examine the relation between firm-level political risk and wage theft. We use the Hassan et al. (2019) measure of firm-level political risk that captures the share of a firms' quarterly conference call devoted to political risk. The greater the incidence of political conversation close to words indicating risk or uncertainty, the greater the firm-level political risk. Wage theft is measured using data from the U.S. Labor Department's WHISARD database. This database provides us with unique information that identifies firms undertaking wage theft, the period in which wage theft occurred, the back wages paid and penalties levied against the company for undertaking wage theft.[3] For example, in 2023 the U.S. District Court for the Central District of California released information that it ended litigation against TL Foods Inc. for deliberately trying to hide wage theft of $531,518 involving 113 workers from 2015 to 2020.[4]

Using information from the WHISARD database, we compute three measures of wage theft. The first measure captures the incidence of wage theft, the second measure captures the severity of wage theft by measuring the back wages paid, and the third measure captures the severity of wage theft as a function of the number of employees involved in wage theft. In our empirical analysis, we control for firm specific characteristics, and firm and year fixed effects. In doing so, our analysis is essentially a within-firm analysis, and our results are driven by changes in wage theft within the firm.

[3] The uniqueness of the wage theft data is that we can identify the time at which the wage theft occurred as opposed to the time when it was penalised. Therefore, we capture the exact timing when wage theft took place and its amount. This information is only available to the public only after the prosecution which typically takes a few years.

[4] https://www.dol.gov/newsroom/releases/sol/sol20230928 included also in Appendix 5.

Baseline results show a positive association between firm-level political risk and wage theft. Specifically, a one standard deviation increase in firm-level political risk increases wage theft for the average firm in our sample by 7%. While these baseline results provide support for a relation between firm-level political risk and wage theft, care should be taken in interpreting these results since some variation in political risk exposure is endogenous. Specifically, management decisions about the firms' location, markets in which it operates and competes, political connections and operations influence the firm political exposure. Similarly, wage theft is endogenous to managerial decision-making since management chooses to undertake wage theft. To address the endogenous nature of our setting, we undertake several tests.

First, we run our baseline analysis for only sampled firms that feature in the WHISARD database. This analysis attenuates the possibility that our results are driven by selection bias and ensures that all firms in our analysis are supervised by the U.S. Labor Department thus having an equal chance of being identified as undertaking wage theft. Inferences from this analysis are in line with our baseline results. Second, like Gad et al. (2023) we exploit an exogenous shock to firm-level political risk, by examining variations in political risk arising from the congressional redistricting following the 2010 decennial census. In this difference-in-differences analysis, we compare firms which were affected by congressional redistricting, and which as a result experienced an increase in political risk, to firms which were not influenced by congressional redistricting. To ensure that any systematic differences between firms affected by congressional redistricting and firms not affected by congressional redistricting do not affect our results, we use an entropy-balanced sample. We find that firms affected by congressional redistricting engage in significantly more wage theft relative to firms not affected by congressional redistricting. Third, in other robustness tests, we test the robustness of our baseline results by controlling for state-level monitoring intensity, volatility

of returns, as well as CEO and year-industry fixed effects. Results for these analyses are in line with the baseline results.[5]

Further, consistent with the *precautionary savings conjecture*, we find that wage theft undertaken in response to political risk leads to a rise in firm future cash holdings. Cross-sectional results for the effect of stakeholder oversight on our baseline results suggest that oversight attenuates the positive relation between firm-level political risk and wage theft. Specifically, we find that customer monitoring as proxied by the amount of government contracts and major customers attenuates the effect of political risk on wage theft. Conversely, the effect of political risk on wage theft is more pronounced for financially constrained firms further supporting the precautionary savings conjecture.

Finally, we examine whether wage theft is a complement or substitute to a reduction in investment. The theoretical literature on investment under uncertainty predicts that an increase in risk leads to a decrease in investment and employment growth (Dixit and Pindyck, 1994). We find that the expected effect of risk on investment is only present in the sample of non-violator firms, thus suggesting that firms use wage theft to mitigate the negative effects of political uncertainty on a firm's investment.

This study contributes to multiple streams of literature. First, our findings complement studies examining the consequences of political risk on corporate outcomes. Prior research shows that political risk impacts firms' financing, investment, accounting quality, and dividend decisions (Jens, 2017; Julio and Yook, 201; Bonaime et al., 2018; El Ghoul et al. 2021). While this literature has taken a macro-perspective to the examination of the consequences of political risk, more recent literature has noted that firms might be exposed to political risk even in the absence of industry or economy-wide political events (Hassan et al., 2019; Gad et al., 2023).

[5] Finally, note that our measure of wage theft is capturing the time when wage theft is occurring as opposed to when it is identified and investigated. This allows us to accurately capture the moment of management response to changes in political risk.

In this respect, prior studies show that political risk influences equity returns (Brogaard and Detzel, 2015), market information asymmetry and liquidity (Nagar et al., 2019; Berger et al., 2022). Recent studies using measures of firm-level political risk find that firm-level political risk reduces hiring and capital investment (Hassan et al., 2019), changes the cost of capital (Gad et al., 2023), and affects toxic emissions (Chu et al., 2021). We contribute to this stream of literature by providing evidence on the effects of firm-level political risk on an often-overlooked company stakeholder, i.e., employees. We show that firm-level political risk is related to wage theft.

Second, we contribute to the literature on the factors influencing employee mistreatment. Prior literature shows that firms are more likely to engage in behaviour detrimental to workers welfare when under pressure to meet earnings targets (Caskey and Ozel, 2017; Raghunandan, 2021), facing financing frictions (Cohn and Wardlaw, 2016) or when their CEOs are incentivised to take excessive risks. Time theft is facilitated by information and communication technologies after hours (Xu et al., 2023). Wage theft is legitimized as a signal of loyalty (Stanley et al., 2025). Conversely, employee mistreatment is less pervasive when firms are subject to greater monitoring by managers (Heese and Pérez-Cavazos, 2020; Lv et al., 2024), institutional investors (Li and Raghunandan, 2021), or due to equity incentives and supplier oversight (Chircop et al., 2023; Chircop et al., 2024), and in environments with a culture of recognition (Bernacchio, 2023), . In this study, we provide evidence that firm-level political risk is related to employee mistreatment. Unlike prior studies that analyse responses to current pressures, we examine how managers respond to anticipated future pressures as captured by political risk. This contribution offers new insight into how firms' ethical obligations toward employees may erode under contextual pressures created by political risk.

2. Literature Review

2.1 Wage theft

Wage theft refers to violations of the Fair Labor Standard Act (FLSA). The FLSA sets out requirements relating to minimum wage, youth employment standards, overtime, and recordkeeping. The Department of Labor, Wage and Hour Division (WHD) ensures that the requirements laid out in the FLSA are followed by undertaking proactive and reactive audits of firms. Specifically, the WHD undertakes both random audits and investigations in response to workers' complaints. Violations of the FLSA identified by WHD include the failure or incorrect payment of overtime and minimum wages, the failure to keep adequate employment records or non-compliance with the terms of the employment contract, and failure to pay commensurate rates to employees with disabilities among others (Raghunandan, 2021).

Instances where WHD identifies violations of the FLSA lead to the issue of penalties, which typically include the back pay due to employees and additional fines. Identified violations and the relevant penalties are publicly disclosed such that violations of FLSA lead to both financial and reputational costs (Johnson, 2020).

2.2 Political risk

Political risk refers to the risk arising from the political environment in which firms operate (Dymsza, 1972; Hassan et al., 2019). Early research that takes a macro-economic view of political risk finds that political risk is associated with a reduction in foreign direct investment (Kobrin, 1979), gross domestic product (Alesina et al., 1996), international trade (Handley and Limao, 2015) and investment (Julio and Yook, 2012). Recent literature examining political risk from a micro-economic perspective finds that political risk impacts firm decision making. Firm-level political risk is related to lower levels of innovation (Bhattacharya et al., 2017), retrenchment in hiring and capital investment (Hassan et al., 2019), lower R&D investment (Bloom, 2007), lower propensity of paying dividends (Huang et al., 2023), and engaging in M&A transactions (Bonaime et al., 2018). Firms also react in how they

formulate their disclosure to investors. For example, Mekhaimer et al. (2024) show that managers increase the complexity of disclosures when firm-level political risk increases.

2.3 Hypothesis development

Political risk increases uncertainty about the future operations and financial viability of the firm. It negatively affects earnings and cash flows as captured by the increase in stock volatility (Hassan et al., 2019; Huang et al., 2015). This increase in risk leads to an increase in the cost of capital (Pham et al., 2019; Gad et al., 2023), which in turn causes further downward pressure on the profitability of the company. To address this increase in uncertainty, prior literature has shown that during periods of heightened political risk, managers retrench hiring, reduce capital investment, R&D expenses, and M&A activities (Dixit and Pindyck, 1994; Bloom, 2007, Bonaime et al., 2018; Hassan et al., 2019). In so doing firms increase their cash holdings (Duong et al., 2020) and improve their financial flexibility (Wu and Lai, 2021), however these changes in firm's operations are associated with high adjustments costs and cannot be executed immediately.

We posit that one way in which firms can immediately increase their cash holdings, hence improving their financial flexibility, is by lowering their employee costs through wage theft. Given employees tend to be dispersed and knowledge about individual employee wages tends to be limited, wage theft tends to be less visible than other forms of theft or financial fraud. Also, the constraints in bringing wage theft claims to court and intimidation tactics by employers discourage reporting. Therefore, wage theft has immediate benefits and brings instant savings for the firm while the costs of wage theft are relatively low. In this respect, wage theft has lower adjustment costs than alternative actions that management might undertake to improve the firms' financial flexibility. We call this hypothesis the *precautionary savings conjecture*.

However, there are also reasons why firm-level political risk might have no effect on wage theft. Mekhaimer et al. (2024) show that when firm-level political risk increases, managers increase the complexity of disclosures, hence increasing the difficulty for users to understand financial statements. This reduces the ability of financial statement users to scrutinise management performance, thus reducing the incentives for management to improve performance by underpaying employees. From a different perspective, Curti et al. (2022) show that firms investing in socially responsible workforce policies have lower operational losses. Therefore, firms can potentially mitigate the negative consequences of political uncertainty by making improvements in how they treat their employees. Given the arguments above, we expect no or a negative relation between firm-level political risk and wage theft. We refer to this conjecture as the *disclosure and sustainability conjecture*.

Since the above arguments are not mutually exclusive, the relation between firm-level political risk and wage theft is an empirical question that we seek to examine in this study.

3. Data

3.1 Sample selection

To examine the relation between political risk and wage theft we combine data from several sources. We start by merging data on firm-level political risk measures from Hassan et al. (2019)[6] with firm-level data from Compustat. Subsequently, we merge this dataset with data on wage theft sourced from the Wage and Hour Division of the Labor Department's WHISARD database[7], by using the parent-subsidiary cross-link provided by Violation Tracker Database of Good Jobs First.[8] In doing so we assume that firms which do not feature in Violation Tracker have zero wage theft. Following previous literature, we limit our sample to

[6] Data are available at firmlevelrisk.com
[7] Data are available at https://enforcedata.dol.gov/views/data_summary.php
[8] Data are available at https://violationtracker.goodjobsfirst.org

companies with fiscal year ending on December 31st.[9] As shown in Appendix 1, following these sample selection criteria, we obtain a sample of 42,564 annual observations covering the period from 2003 to 2021 for 4,621 unique firms.

The distribution of observations is presented in Appendix 2 and reveals a consistent representation across the years. In examining the distribution across sectors, we employ the Fama-French 12-sector industry classification. We find that the Finance industry has the highest representation, accounting for 21.2% of the dataset, followed by Business Equipment industry constituting 16.95% of the sample. Conversely, the Consumer Durables and Chemicals and Allied Products industries display the lowest representation, representing 2.21% and 2.46% of the sample, respectively.

3.2 Wage theft measures

We measure wage theft using the data on wage and hour violations collected directly from the Wage and Hour Division of the US Labor Department's Wage and Hour Investigative System Retrieval Data (WHISARD) database.[10] The database contains information on all concluded investigations and provides details on the nature of violations, the amount of back wages due, the number of employees affected, as well as the start and end date of each violation.

To match with firm-level data, similar to Raghunandan (2021), we aggregate the data on violations at the calendar year level. We do so, by first evenly distributing the US dollar value of back wages (WHISARD item *bw_atp_amt)* and the number of employees (WHISARD item *ee_violtd_cnt*) over the violation period to then aggregate at a calendar year frequency for a subject firm. Using this data we create three proxies of wage theft, i.e. *WageTheft (log $ value),* which is a natural logarithm of the dollar value of back wages owed to employees of firm *i* during year *t*, *WageTheft (log $ value per ee)*, which is the natural logarithm of the dollar

[9] This is to we align the observations with financial and accounting data based on a fiscal year and in order to limit the effects of seasonality, as wage theft violations are recorded on a calendar year basis.
[10] Data are available at https://enforcedata.dol.gov/views/data_summary.php

value of back wages paid attributable to firm *i* during year *t* per employee involved, and finally *WageTheft*, which is an indicator variable that takes the value of one, otherwise zero, if there was a wage theft identified in a year *t* for firm *i*.

3.3 Political risk measures

In our study, we employ the firm-level, time-varying measures of political risk proposed by Hassan et al. (2019). Their measures of political risk are derived from transcripts of quarterly conference calls of publicly listed firms, capturing their unique sensitivity to political events. To derive these measures, Hassan et al. (2019) employ machine learning algorithms that are trained to identify the proportion of conversations in earnings calls that are dedicated to discussing risks in general but also risks associated with political topics, thereby proxying for political risk (for details on the construct of the measure refer to Hassan et al. (2019)). In our research, we employ measures of political risk (*PRisk)*, non-political risk (*NPRisk)*, and political sentiment (*Psentiment)*. The latter measure is included to ensure that our results do not reflect political sentiment about past or future events. To employ these measures in our analysis, we aggregate them by averaging the quarterly observations, aligning them with the annual frequency of our dataset.

3.4 Control variables

In our analysis, we include several time-varying control variables pertinent to corporate misconduct. To control for size, we include *Size* and *Employees. Size* is measured as the natural logarithm of market value and *Employees,* is the natural logarithm of the number of employees. *Leverage* is computed as the ratio of long-term debt relative to total shareholders' equity. *ROA* is a ratio of net income scaled by total assets. Additionally, to measure sales dynamics, we include *SalesGrowth*, the percentage change in sales. Next, we include market-to-book ratio, *MB*, which is calculated as the firm's market capitalization at fiscal year-end scaled by net

assets. *Loss,* provides insights into the firms' financial losses, is a binary indicator, equal one if income is negative and zero otherwise. To control for market concentration, we include the Herfindahl-Hirschman Index, *HHI*, based on total sales per two-digit SIC code industry and fiscal year. Lastly, to shed light on the intensity of labour employment, we include *LaborIntensity,* the standardized ratio of the number of employees to total assets.

We include firm fixed effects to control for time-invariant firm characteristics and year fixed effects to control for time trends in corporate wage theft. This fixed effect structure serves to mitigate the influence of unaccounted correlated variables on our findings. By employing these fixed effects, we essentially undertake a within-firm analysis where we examine the association between firm-level political risk and wage theft within a particular firm.[11]

3.5 Summary statistics

Table 1 presents summary statistics. In Panel A we focus on a sub-sample of 1,758 observations that include years marked by wage theft, to understand the severity as well as variation of the phenomenon. The logarithmic measure of wage theft, *WageTheft (log $ value),* suggests a substantial variation in misconduct, ranging from 7.52 at the10th percentile, to 10.20 at the 90th percentile. The variation is better understood via raw measures of the theft, *WageTheft ($ value winsorised)* and *WageTheft ($ value unwinsorised),* which report back wages of $1,842 at the 10th percentile (for both measures) and $26,907.04 and $105,150.40 at the 90th percentile for winsorised and unwinsorised measures, respectively.

Panel B shows descriptive statistics for the variables used in our baseline model. First, we report on wage theft measures. *WageTheft(indicator)* has a mean value of 0.04 suggesting that on average the frequency of wage theft in our sample is low, and a standard deviation of 0.19 suggesting substantial variation consistent with the findings presented in Panel A. The mean (median) dollar values of wage theft for both total and per-employee measures of wage

[11] Definitions of all the variables used in the analysis can be found in Appendix 3.

theft are 0.37 (0.00) and 0.28 (0.00), respectively. As evident from the descriptive statistics, the distributions of all three measures of wage theft are right-skewed.

Second, we report on risk measures. In our sample, the mean (median) firm's political risk *PRisk* is 130 (88), indicating a significant right skew. The mean (median) for non-political risk, *NPRisk*, and political sentiment, *PSentiment*, are 902.91 (170.65) and 1,150.48 (1,106.10). Following previous literature including Gad et al. (2023), in our subsequent analysis, we employ standardized values of political risk for ease of interpretation. We refer to these measures as *PRisk (standardized), NPRisk (standardized)* and *Psentiment (standardized).*

The bottom section of Panel B reports statistics for financial controls. The mean and median values of *Size* are similar, suggesting a normal distribution of firms in terms of their size. Specifically, the value of mean (median) *Size* is 7.28 (7.29) translating to an average market capitalisation of $1.46 billion ($1.47 billion), and the standard deviation of 2.02 implies diversity in terms of firms' size within the dataset. The wide range of companies in our sample is further captured by two labour-related metrics employed as controls. Specifically mean (median and standard deviation) of *LaborIntensity* and *Employees* are 3.50 (1.68 and 7.05), and 0.84 (0.86 and 2.10), respectively. Further, the mean (median) *Leverage* is 0.60 (0.59). The mean (median) values of financial performance indicators *ROA, SalesGrowth, MB,* and *Loss* are -0.024 (-0.17), 0.12 (-0.17), 2.97 (0.63), and 0.29 (0.00), respectively. Finally, the mean (median) industry concentration captured by the Herfindahl–Hirschman Index is 0.06 (0.02).

[Insert Table 1]

4. Results

4.1 Baseline results

We examine the effect of political risk on wage theft by estimating the following OLS regression model:

$$WageTheft_t = \alpha_0 + \alpha_1 PRisk_{t-1} + \alpha_2 Controls_t + FE + \varepsilon_t \quad (1)$$

where *WageTheft* is measured as either (1) *WageTheft (indicator)*, (2) *WageTheft (log $ value)*, or 3) *WageTheft (log $ value per ee)*. The main independent variable of interest is political risk measured by *PRisk (standardized)* and the other independent variables are the previously defined controls. We apply a one-year lag to all measures of risk (i.e., *PRisk (standardized)*, *NPRisk (standardized)*, *Psentiment (standardized*), and to all measures based on information derived from the balance sheet (i.e., *Size*, *Leverage*, *Employment*). All remaining variables are included contemporaneously with wage theft. *FE* refers to firm and year fixed effects. We estimate this regression model with standard errors clustered by firm.

We present the results of estimating Eq. (1) in Table 2 Panel A for the full sample and in Panel B for a sample of firms that violated at least once throughout the sample period to address the concerns about severity of wage theft conditional on incidence. We observe a positive and economically significant association between political risk and wage theft for both groups supporting the *precautionary savings conjecture*. In Panel A, column 1, the estimated coefficient on *PRisk* is 0.003 (t-stat.= 2.16), in column 2, the estimated coefficient on *PRisk* is 0.027 (t-stat.= 2.26), and in column 3, the estimated coefficient on *PRisk* is 0.021 (t-stat.= 2.07). These results suggest that a one standard deviation increase in firm-level political risk is associated with a 7% increase in wage theft for the full sample of firms. In Panel B, column 1, the estimated coefficient on *PRisk* is 0.016 (t-stat.= 2.17), in column 2, the estimated coefficient on *PRisk* is 0.149 (t-stat.= 2.29), and in column 3, the estimated coefficient on *PRisk* is 0.112 (t-stat.= 2.06). These results suggest that a one standard deviation increase in firm-level political risk is associated with around 6.5% increase in wage theft for the violators only sample.

[Insert Table 2]

4.2 Difference-in-difference analysis

Having established that political risk is positively associated with wage theft we now address causality. It is possible that political risk might be correlated with unobservable firm characteristics that also affect wage theft and lead to correlated omitted variable bias. Therefore, following Gad et al. (2023) we exploit the exogenous variation in political risk resulting from the 2010 redrawing of federal electoral districts as a natural experiment. Redrawing of congressional districts occurs every decade because of the 1960s U.S. Supreme Court ruling requiring that legislative districts should consist of equal populations. Therefore, after each decennial census, district boundaries are adjusted to account for changes in population size. For individual firms, the process of redrawing district boundaries can be considered as an exogenous occurrence since it is unlikely that firms can influence the outcome of redistricting. Thus, the process of drawing new electoral boundaries gives rise to exogenous variation in firm political risk (Denes et al., 2017). For example, prior to the census a firm might be represented in Congress by a moderate politician and following the redistricting by a partisan politician. Gad et al. (2023) claim that redistricting poses political uncertainty for firms. They show anecdotal evidence suggesting that firms discuss redistricting in their conference calls as a source of concern.

Therefore, exogenous variation in political risk due to redistricting allows us to estimate the causal effect of political risk on wage theft using a difference-in-difference approach. Following Gad et al. (2023) we collect data on congressional redistricting from the US Census Bureau website and from Lewis et al. (2013) shapefiles[12]. Next, we download the historical location of firm headquarters, and we geocode it using Google Sheets to obtain coordinates (latitude and longitude). These coordinates of the firm headquarters are then matched to the appropriate congressional district to check if the firm's district has changed.

[12] https://www2.census.gove/geo/tiger/ and http://cdmaps.polisci.ucla.ed

We identify *Treatment* firms as those that were affected by changes in the 2010 district boundaries i.e., firms that found themselves in a new congressional district after the 2010 redistricting. The control firms are those that did not experience a change in congressional district. Panel A in Table 3 presents the sample of firms that experienced redistricting following the 2010 decennial census. Our sample of redistricting firms is comparable to previous studies. For example, Gad et al. (2023) show that about 39% and 45% of firms in their full and loan sample, respectively were in different congressional districts after 2010 decennial census. In this study the percentage is 49% for the full sample of firms and 40% for the wage and hour violators.

Using this sample, we examine the effect of political risk on wage theft by estimating the following difference-in-difference regression model:

$$WageTheft_{i,t} = \alpha_0 + \alpha_1 Treatment_{i,t} x\ Post_t + \alpha_2\ Controls_{i,t} + FEs + \varepsilon_{i,t} \quad (2)$$

We define *Treatment* as one for firms whose headquarters experiences a change in the congressional district it belongs to after the 2010 decennial census, and zero otherwise. *Post* is equal to one after the 2010 decennial census, and zero otherwise. *FE* refers to the firm and industry-year fixed effects. We estimate this regression model with standard errors clustered at year and state level.

To ensure that our identification strategy effectively captures change in political risk we regress Eq. (2) but replace *WageTheft* with *PRisk* as the dependent variable in three periods: 1) before the change in 2010 decennial Census ($PRisk_{t-1}$), 2) at the time of the change in 2010 decennial Census ($PRisk_t$), and 3) after the change in 2010 decennial Census ($PRisk_{t+1}$). In Panel A of Table 3 we present the results. We show that the coefficient on *Treatment x Post* is only positive and statistically significant at the time of the change. This shows that political risk increases only at the time when we expect it to change and not before. The effect also disappears afterwards.

Further, we test for the parallel trend assumption to ensure that the effect is not driven by trend differences between treated and control firms (Angrist and Pischke, 2009). We decompose *Treatment* × *Post* into separate time periods for evidence of the parallel trend assumption (Bertrand and Mullainathan, 2004) and estimate the following equation:

$$WageTheft_t = \alpha_0 + \alpha_1 Treatment_t x\, Year_t + \alpha_2\, Controls_t + FEs + \varepsilon_t \quad (3)$$

where $Year_t$ is an indicator variable equal to one in year *t*, where *t* is for the period -3 to +3 relative to period 0, and zero otherwise. We show the results in Panel C of Table 3. The time trends show that results are driven by the 2010 redrawing of federal electoral districts. Prior to the redistricting event the estimated coefficients are not statistically different from zero, which is consistent with the parallel trend assumption. After redistricting, we find a positive and statistically significant effect for the three measures of wage theft. We also plot the estimated coefficients and the five percent confidence intervals in Figure 1. The effect of redistricting holds in the following three years although its magnitude decreases suggesting a short-term response to redistricting event.

[Insert Figure 1]

In Panel D of Table 3 we show the main effect of *Treatment x Post* on three measures of wage theft from estimating Eq. (2). In each column the coefficient is positive and significant suggesting that firms increase wage theft after the 2010 redrawing of federal electoral districts. This is consistent with our baseline results. In Panel E of Table 3 we show the main effect of *Treatment x Post* on three measures of wage theft from estimating Eq. (2) for entropy balanced sample of *Treatment* and *Control* firms. We match firms on three moments (Mean, Median, and SD) and balance covariates for *Size*, *Leverage*, *Employees*, *ROA*, *Sales_Growth*, *MB*, *Loss*, *LaborIntensity*, *HHI*, and industry. After entropy balancing there are no significant differences in covariates between the *Treatment* and *Control* firms. The main effect on *Treatment x Post*

in each column is again positive and significant suggesting that firms increase wage theft after the 2010 redrawing of federal electoral districts.

In Panel F of Table 3, we repeat the same exercise as above for the entropy balanced sample of *Treatment* and *Control* firms but now we only limit the sample to firms that committed wage and hour violation at least once throughout the sample period. The main effect of *Treatment x Post* on the three measures of wage theft is positive and significant. In Panel G of Table 3 we show the results from a *Placebo* test. We repeat our analysis using the year 2008 as the placebo year of exogenous change for a sample of -3 to +3 years relative to 2008. We find no evidence of any effect on wage theft.

[Insert Table 3]

4.3 Motivation for wage theft

Previous literature shows a positive association between investment and available cash (Lamont, 1997). Firms require sufficient cash to maintain their level of investment (Pindyck, 1988; Dixit and Pindyck, 1994). Based on the precautionary saving motive, firms use wage theft to increase cash reserves to maintain their level of investment. To test this assertion, we test if wage theft affects future cash holdings amid political uncertainty.

We use Eq. (4) where cash holdings at t+1 is the dependent variable and the interaction *WageTheft*Prisk* is the independent variable of interest. Following prior literature (e.g. Bates et al. (2009), and McLean (2011)) on cash holdings, we include *Size, Leverage, CashFlow, NetWorkingCapital, R&D, CAPEX and Dividend* in addition to *NPRisk (standardized), PSentiment (standardized)* as control variables measured at time *t* in our specification. The model includes time and firm fixed effects.

$$Cash_{t+1} = \alpha_0 + \alpha_1 WageTheft_t x\ PRisk_t + \alpha_2\ Controls_t + FEs + \varepsilon_t \quad (4)$$

We present the results in Table 4. The coefficient on the interaction term is positive and statistically significant. These results suggest that in the presence of political risk wage theft is motivated by increases in future cash.

[Insert Table 4]

4.4 Cross-sectional analysis

4.3.1 Customer monitoring

Non-investor stakeholders, such as customers, are important monitors of the firm. They can influence firms' accounting policies through demand for financial information. For example, Hui, Klasa, and Yeung (2012) show more conservative accounting due to firms having powerful suppliers and customers. Banerjee, Dasgupta, and Kim (2008) show firms with large principal customers use less debt. In general, customers monitor firm financial and investment policies, thus mitigating corporate misconduct (Chircop et al. 2023; Chen et al. 2025). We therefore test if customer monitoring has any effect on the relationship between political risk and wage theft. We expect that customer monitoring attenuates the relationship between political risk and wage theft.

To test this conjecture, we proxy for customer monitoring using two measures. First, following previous literature we measure customer monitoring with the presence of government contracts (Chircop et al. 2023; Samuels 2021). We create a variable that proxies for the importance of government contracts for the firm (*Contract/Sales)*, i.e., the total value of government contracts obligated to a firm *i* in year *t* scaled by firm sales. We introduce an interaction variable between political risk and the importance of government contracting, *PRisk x Contract/Sales* in our specification. We present the results in Table 5 Panel A. The coefficient on the interaction term is negative and significant across all specifications suggesting that the higher the proportion of government contracts to sales the lower the effect of political risk on wage theft.

Second, we create a variable that measures the importance of any major customer (*MajorCustomer/Sales*), i.e. total value of sales to major customers for a firm *i* in year *t* scaled by firm sales. We present the results in Table 5 Panel B. Our main variable of interest is again the interaction term - *PRisk x MajorCustomer/Sales*. Similarly, we find that the interaction term is negative and statistically significant across all specifications. The higher the proportion of sales to major customers the lower the effect of political risk on wage theft. Overall, this evidence shows that the effect of political risk on wage theft is less pronounced in the presence of customer monitoring.

4.3.2. Financial constraints

Financial constraints might affect the flexibility with which firms can address political risk. Cohn and Wardlaw (2016) show that firms that have higher leverage underinvest in employee safety and thus have a higher number of accidents and injuries. Financially constrained firms might, therefore, have greater incentives to engage in cost cutting through wage theft when they are exposed to political risk.

To measure financial constraints, we create a variable *FinConstrained* that is an indicator variable based on the Kaplan-Zingales index (Kaplan and Zingales, 1997). The index is constructed in accordance with Lamont et al. (2001)[13]. Each year, firms are classified as financially constrained if they fall within the top tercile of the index and as unconstrained when they fall within the bottom tercile. We present our results in Table 5 Panel E. Our variable of interest is the interaction term *PRisk x FinConstrained* and as expected it is positive and statistically significant. It suggests that when firms are financially constrained employees are more exposed to the negative effects of political risk on wage theft.

[Insert Table 5]

[13] KZ Index=-1.001909[(*ib*+*dp*)/$ppent_{t-1}$]+0.8286389[(*at*+*prcc_f* x *csho*-*ceq*-*txdb*)/*at*]+3.139193[(*dltt*+*dlc*)/(*dltt*+*dlc*+*seq*)]-39.3678[(*dvc*+*dvp*)/$ppent_{t-1}$]-1.314759[*che*/$ppent_{t-1}$]. All variables in italics represent Compustat data items.

4.4. Does wage theft substitute or complement for a reduction in investment?

In this section we test how political risk affects other actions taken by the firm. Theoretical literature on investment under uncertainty predicts that if risk increases one should expect a decrease in investment and employment growth (e.g., Bernanke, 1983; Pindyck, 1988; Dixit and Pindyck, 1994; Bloom et al., 2007). In this subsection, we investigate if the effect of political risk on wage theft substitutes or complements the changes in real investments resulting from increased uncertainty such as change in employment or capital expenditures.

We therefore test the effect of political risk on *decrease* in employment and CAPEX for two groups: 1) firms that committed wage theft at least once and 2) firms that never committed wage theft. We present the results in Table 6. In line with the theory of investment under uncertainty we find that the positive relation between political risk and decrease in employment and decrease in CAPEX is positive and statistically significant only for the group of non-violator firms (columns 3 and 4). In the sample of firms that committed wage theft at least once we do not observe such a relation. This evidence provides preliminary evidence that firms use wage theft to mitigate the effects of uncertainty in the short term. In other words, firms substitute the expected decrease in investment or employment growth with increases in wage theft.

[Insert Table 6]

5. Robustness tests

We present the results for alternative regression models in Table 7. In the first set of robustness tests, we apply a more demanding specification with year, firm, and CEO fixed effects. Including CEO fixed effects controls for CEO time invariant characteristics that might impact the prevalence of wage theft. Second, we control for the general level of risk faced by the firm by including as an additional control the standard deviation of monthly stock returns (*ReturnVol*) over the past two years. Third, we control for time variant industry level political

risk to control for macro- and industry-level trends. Fourth, we control for the intensity of monitoring by the Wage and Hour Division of the Department of Labour, by including the natural logarithm of the annual number of ongoing investigations in each state (*WHDInvestigations)*. Results for these specifications are consistent with the baseline results.

We also run several untabulated tests with additional controls. Specifically, we run our baseline specification with controls for corporate governance characteristics such as board independence, board size, board diversity, staggered boards, and entrenchment index. We find that only the coefficient on board independence is positive and significant. Most importantly the addition of these controls does not change our inferences.

[Insert Table 7]

6. Conclusion

Social cost to employees in the form of wage theft is the largest form of theft against workers in the US yet little is known about its determinants. In this paper, we study the effects of political risk on wage theft. On one hand firms might respond to political risk by undertaking wage theft, to reduce operational costs, hence increasing their financial flexibility. On the other hand, political risk increases firm disclosure obfuscation, hence reducing the firm incentives to engage in wage theft.

We document that there is a positive relation between political risk and social cost to employees. Firms undertake wage theft motivated by perceived future concerns about financial flexibility amid increased political uncertainty. To mitigate endogeneity concerns, we use a difference-in-differences design in which we exploit exogenous variation in the boundaries of congressional districts resulting from the 2010 decennial Census redistricting. We show that the relationship is likely to be causal. We further find that monitoring by firm stakeholders weakens the association between firm political risk and wage theft. Also, in firms that are financially constrained the relationship is more pronounced. Finally, our results suggest that

firms use wage theft to substitute for a reduction in investment. This substitution effect points to a broader managerial trade-off, in which firms may resort to ethically questionable labor practices in response to external shocks, underscoring the need for institutional safeguards to protect employee welfare in uncertain environments.

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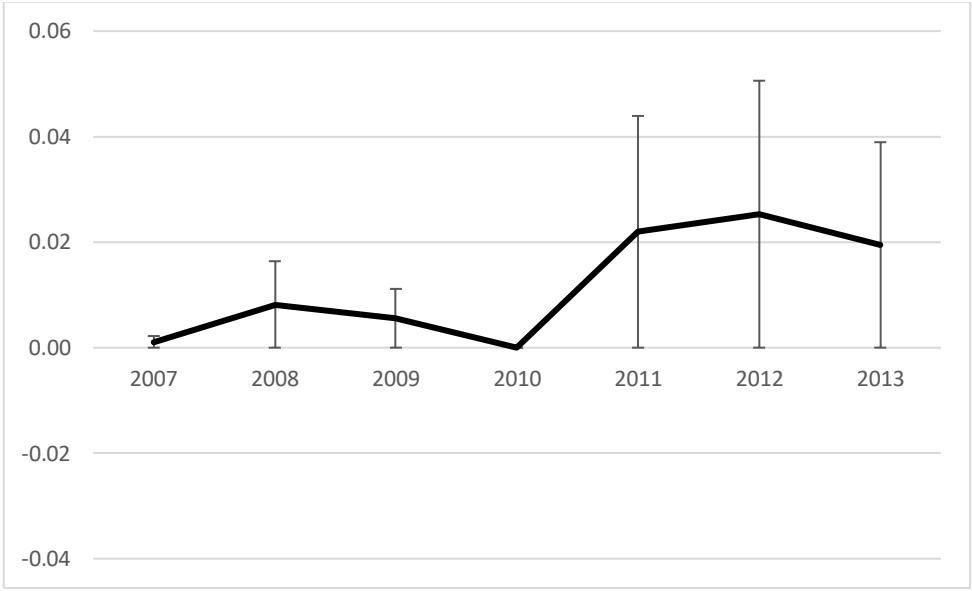
FIGURE 1

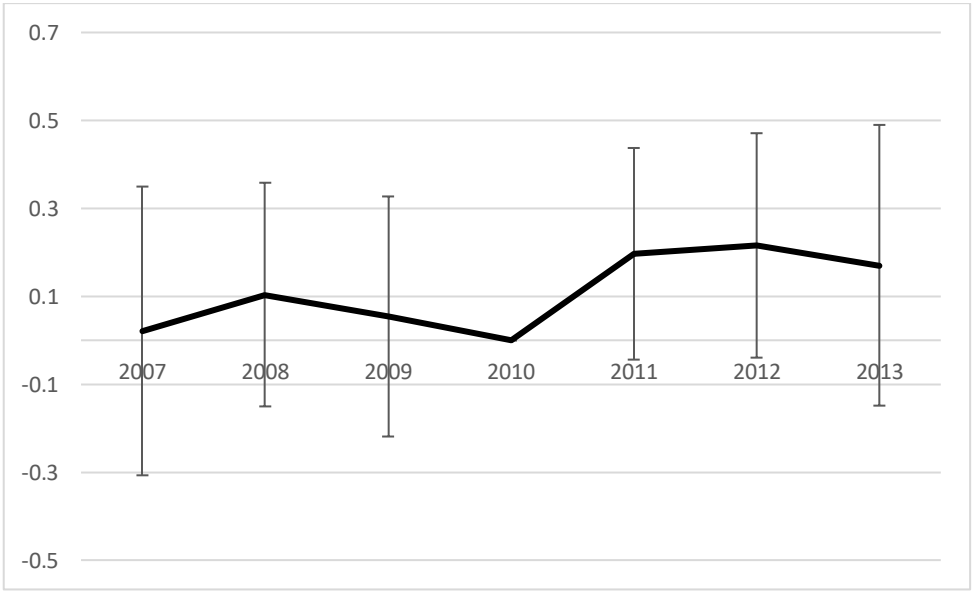
Changes in Wage Theft around Redistricting

This figure plots results of tests for the parallel trend assumption in the difference-in-differences analysis. Specifically, we plot the coefficients from the interaction term between the treatment group and each year in our sample period from equation (3). Panel A shows the results when *WageTheft (indicator)*, Panel B shows the results when *WageTheft (log $ value)* and Panel C shows the results when *WageTheft (log $ value per ee)* are dependent variables.

Panel A: Treatment effect on *WageTheft (indicator)*



Panel B: Treatment effect on *WageTheft (log $ value)*



Panel C: Treatment effect on *WageTheft (log $ value per ee)*

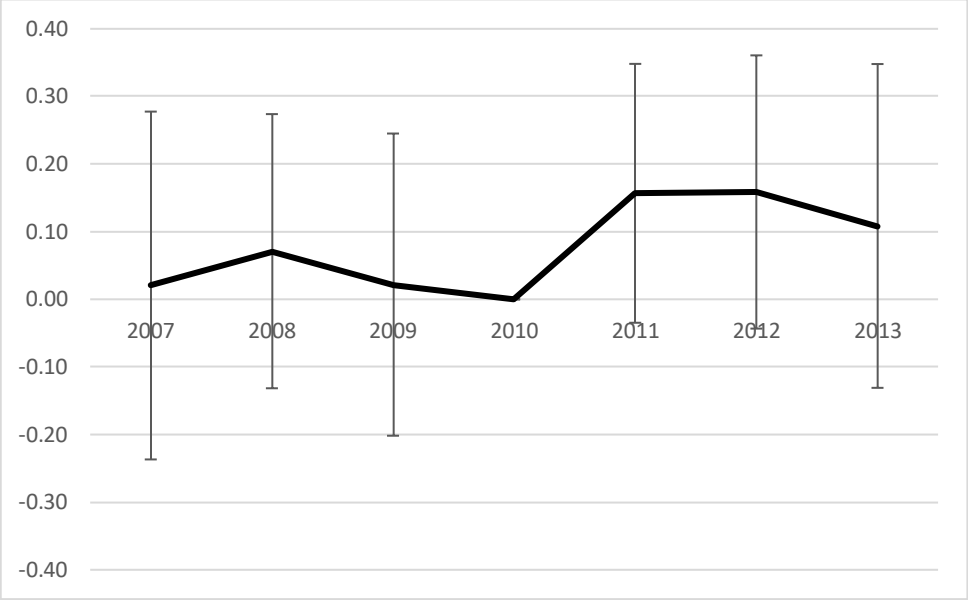


TABLE 1
Summary Statistics

The table presents summary statistics for the sample containing 42,564 observations for the period 2003-2021. The definitions of all variables are provided in the Appendix 3.

	Mean	Std. dev.	10th	Median	90th
Panel A. Wage theft severity within wage theft incidence years (n = 1,758)					
Wage Theft measures					
log $ value	8.95	1.38	7.52	9.22	10.20
$ value winsorised	13,382.77	10,270.65	1,842.00	10,144.59	105,150.40
$ value unwinsorised	61,436.48	301,812.80	1,842.00	10,144.59	105,150.40
Panel B. Summary statistics (n = 42,564)					
Wage Theft Variables					
WageTheft (indicator)	0.04	0.19	0	0	0
WageTheft (log $ value)	0.37	1.80	0	0	0
WageTheft (log $ value per ee)	0.28	1.40	0	0	0
Political Risk					
PRisk	130.30	134.86	21.21	88.28	286.71
NPRisk	902.91	863.22	170.65	641.77	1,939.63
PSentiment	1,150.48	997.97	2.86	1,106.10	2,389.43
Financial Controls					
Size	7.28	2.02	4.66	7.29	9.97
Leverage	0.60	0.36	0.24	0.59	0.91
ROA	-.024	0.29	-0.17	0.02	0.11
SalesGrowth	0.12	0.38	-0.17	0.07	0.41
MB	2.97	5.30	0.63	1.94	6.55
Loss	0.29	0.46	0.00	0.00	1.00
HHI	0.06	0.06	0.02	0.03	0.11
LaborIntensity	3.50	7.05	0.12	1.68	7.18
Employees	0.84	2.10	-1.92	0.86	3.63

TABLE 2
Political Risk and Wage Theft

This table reports the results from estimating Eq. (1). In column (1) the dependent variable is an indicator for whether firm i engaged in wage theft in year t; in column (2) the dependent variable is the natural logarithm of $ value of wage theft in year t; in column (3) the dependent variable is the natural logarithm of $ value of wage theft in year t scaled by number of employees involved. All variables are defined in Appendix 3. The sample spans the period 2003-2021. The values reported in parentheses below coefficients represent t-statistics. Standard errors are clustered at firm level. *, **, *** represent significance at 1%, 5%, and 10% respectively.

Panel A: Full Sample

	(1) *WageTheft (indicator)*	*(2)* *WageTheft (log $ value)*	*(3)* *WageTheft (log $ value per ee)*
PRisk (standardized)	**0.003****	**0.027****	**0.021****
	(2.16)	**(2.26)**	**(2.07)**
NPRisk (standardized)	-0.000	-0.003	-0.001
	(-0.18)	(-0.23)	(-0.11)
PSentiment (standardized)	0.000	0.003	0.004
	(0.31)	(0.19)	(0.39)
Size	-0.001	-0.014	-0.011
	(-0.58)	(-0.73)	(-0.75)
Leverage	-0.005	-0.043	-0.026
	(-0.86)	(-0.73)	(-0.60)
Employees	0.018***	0.155***	0.122***
	(4.48)	(4.37)	(4.28)
ROA	0.002	0.024	0.016
	(1.21)	(1.42)	(1.26)
SalesGrowth	0.001	0.011	0.008
	(0.45)	(0.60)	(0.58)
MB	0.000	0.001	-0.000
	(0.26)	(0.34)	(-0.10)
Loss	-0.001	-0.009	-0.012
	(-0.45)	(-0.38)	(-0.62)
HHI	-0.332***	-2.848***	-2.150***
	(-3.01)	(-2.94)	(-2.92)
LaborIntensity	0.001	0.014	0.007
	(1.47)	(1.62)	(1.12)
R-squared	0.416	0.419	0.400
Observations	42,564	42,564	42,564
Constant	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes

Panel B: Wage and Hour Violators Sample

	(1) *WageTheft (indicator)*	*(2)* *WageTheft (log $ value)*	*(3)* *WageTheft (log $ value per ee)*
PRisk (standardized)	**0.016****	**0.149****	**0.112****
	(2.17)	**(2.29)**	**(2.06)**
NPRisk (standardized)	-0.003	-0.032	-0.017
	(-0.44)	(-0.48)	(-0.32)
PSentiment (standardized)	0.014	0.115	0.100
	(1.57)	(1.46)	(1.59)
Size	0.005	0.019	0.010
	(0.34)	(0.16)	(0.10)
Leverage	-0.058	-0.438	-0.303
	(-1.01)	(-0.81)	(-0.73)
Employees	0.082***	0.672***	0.541***
	(3.98)	(3.69)	(3.68)
ROA	0.049	0.477	0.447
	(0.61)	(0.66)	(0.81)
SalesGrowth	0.020	0.228	0.165
	(0.83)	(0.99)	(0.90)
MB	0.000	0.003	-0.002
	(0.22)	(0.29)	(-0.18)
Loss	0.012	0.126	0.075
	(0.65)	(0.72)	(0.55)
HHI	-0.752***	-6.292***	-4.784***
	(-2.85)	(-2.72)	(-2.69)
LaborIntensity	-0.000	0.005	-0.007
	(-0.17)	(0.25)	(-0.51)
R-squared	0.298	0.305	0.284
Observations	7,131	7,131	7,131
Constant	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes

TABLE 3
Redistricting, Political Risk, and Wage Theft

This table reports the results from estimating Eq. (1). In column (1) the dependent variable is an indicator for whether firm i engaged in wage theft in year t; in column (2) the dependent variable is the natural logarithm of $ value of wage theft in year t; in column (3) the dependent variable is the natural logarithm of $ value of wage theft in year t scaled by number of employees involved. All variables are defined in Appendix 3. The sample spans the period 2003-2021. The values reported in parentheses below coefficients represent t-statistics. Standard errors are clustered at *year x state* level. *, **, *** represent significance at 1%, 5%, and 10% respectively.

Panel A: Sample Distribution

Sample	# of unique firms	# of unique redistricted firms	% of unique redistricted firms
Full Sample	5937	2901	49%
Wage and Hour Violators	258	103	40%

Panel B: Political Risk in Redistricted Firms

	(1) PRisk (t-1)	*(2) PRisk (t)*	*(3) PRisk (t+1)*
Treatment x Post	**0.074***	**0.052**	**-0.006**
	(1.88)	**(1.53)**	**(-0.13)**
R-squared	0.546	0.502	0.541
Observations	7,044	11,174	6,516
Constant	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes
Year *x* Industry fixed effects	Yes	Yes	Yes

Panel C: Time-trends

	(1) WageTheft (indicator)	*(2) WageTheft (log $ value)*	*(3) WageTheft (log $ value per ee)*
2013 x Treatment	0.020	0.174	0.111
	(1.11)	(1.08)	(0.89)
2012 x Treatment	0.025*	0.212	0.156
	(1.75)	(1.63)	(1.57)
2011 x Treatment	**0.022****	**0.193****	**0.153****
	(2.03)	**(2.00)**	**(2.13)**
2009 x Treatment	0.005	0.052	0.021
	(0.55)	(0.59)	(0.30)
2008 x Treatment	0.008	0.099	0.069
	(0.54)	(0.75)	(0.64)

2007 x Treatment	0.001	0.019	0.019
	(0.05)	(0.12)	(0.14)
R-squared	0.625	0.631	0.613
Observations	8,139	8,139	8,139
Constant	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes
Year *x* Industry fixed effects	Yes	Yes	Yes

Panel D: Difference-in-Difference

	(1) WageTheft (indicator)	*(2) WageTheft (log $ value)*	*(3) WageTheft (log $ value per ee)*
Treatment x Post	**0.019****	**0.152***	**0.117***
	(2.24)	**(1.93)**	**(1.96)**
R-squared	0.625	0.631	0.613
Observations	8,083	8,083	8,083
Constant	Yes	Yes	Yes
Controls	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes
Year *x* Industry fixed effects	Yes	Yes	Yes

Panel E: Entropy Matched Difference-in-Difference

	(1) WageTheft (indicator)	*(2) WageTheft (log $ value)*	*(3) WageTheft (log $ value per ee)*
Treatment x Post	**0.019****	**0.164****	**0.133****
	(2.24)	**(2.06)**	**(2.15)**
R-squared	0.723	0.731	0.723
Observations	5,529	5,529	5,529
Constant	Yes	Yes	Yes
Controls	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes
Year *x* Industry fixed effects	Yes	Yes	Yes

Panel F: Entropy Matched Difference-in-Difference: Wage and Hour Violators

	(1) WageTheft (indicator)	*(2) WageTheft (log $ value)*	*(3) WageTheft (log $ value per ee)*
Treatment x Post	**0.109****	**0.915****	**0.689****
	(2.52)	**(2.21)**	**(2.21)**

R-squared	0.522	0.531	0.515
Observations	1,325	1,325	1,325
Constant	Yes	Yes	Yes
Controls	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes
Year *x* Industry fixed effects	Yes	Yes	Yes

Panel G: Placebo test

	(1) WageTheft (indicator)	*(2) WageTheft (log $ value)*	*(3) WageTheft (log $ value per ee)*
Treatment x Post (Placebo)	**0.003**	**0.042**	**0.030**
	(0.28)	**(0.48)**	**(0.45)**
R-squared	0.638	0.644	0.631
Observations	7552	7552	7552
Constant	Yes	Yes	Yes
Controls	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes
Year *x* Industry fixed effects	Yes	Yes	Yes

TABLE 4
Precautionary Savings

The table reports the results for an analysis examining the effect of wage theft on cash holdings in the presence of political risk. The dependent variable is $Cash_{t+1}$, defined as a ratio of cash and short-term investment to total assets. All independent variables are captured at time t. Controls include *NPRisk (standardized), PSentiment (standardized), Size, Leverage, CashFlow* (cash flow as earnings after interest, dividends, and taxes but before depreciation divided by book assets), *NetWorkingCapital* (working capital minus cash by book assets), *R&D* (ratio of research and development expense over sales, zero if missing), *CAPEX* (ratio of capital expenditure to total assets), and *Dividend* (indicator variable equal one if a firm paid a dividend in time t, zero otherwise). All models include time and firm fixed effects. Standard errors clustered at firm. The sample spans the period 2003-2021. The values reported in parentheses below coefficients represent t-statistics. Standard errors are clustered at firm level. *, **, *** represent significance at 1%, 5%, and 10% respectively.

	(1) *Cash*	(2) *Cash*	(3) *Cash*
WageTheft x PRisk	**0.004***	**0.000***	**0.001***
	(1.80)	**(1.75)**	**(1.80)**
PRisk (standardized)	-0.001	-0.001	-0.001
	(-1.48)	(-1.48)	(-1.48)
WageTheft (indicator)	-0.007**		
	(-2.51)		
WageTheft (log $ value)		-0.001**	
		(-2.42)	
WageTheft (log $ value per ee)			-0.001**
			(-2.26)
NPRisk (standardized)	0.001	0.001	0.001
	(1.49)	(1.49)	(1.49)
PSentiment (standardized)	-0.001	-0.001	-0.001
	(-1.18)	(-1.19)	(-1.19)
Size	-0.005***	-0.005***	-0.005***
	(-2.84)	(-2.84)	(-2.84)
MB	0.001***	0.001***	0.001***
	(3.08)	(3.09)	(3.08)
Leverage	-0.024***	-0.024***	-0.024***
	(-3.48)	(-3.48)	(-3.48)
CashFlow	-0.090***	-0.090***	-0.090***
	(-4.60)	(-4.59)	(-4.60)
NetWorkingCapital	0.147***	0.147***	0.147***
	(8.93)	(8.93)	(8.93)
R&D	0.000	0.000	0.000
	(0.00)	(0.00)	(0.00)
CAPEX	-0.053***	-0.053***	-0.053***
	(-4.60)	(-4.60)	(-4.59)
Dividend	-0.005	-0.005	-0.005
	(-1.49)	(-1.49)	(-1.49)

Constant	0.238***	0.238***	0.238***
	(16.83)	(16.83)	(16.82)
R-squared	0.864	0.864	0.864
Observations	29,026	29,026	29,026
Firm fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes

TABLE 5
Political Risk and Wage Theft: cross section tests

This table reports the results from estimating Eq. (1). In column (1) the dependent variable is an indicator for whether firm i engaged in wage theft in year t; in column (2) the dependent variable is the natural logarithm of $ value of wage theft in year t; in column (3) the dependent variable is the natural logarithm of $ value of wage theft in year t scaled by number of employees involved. All variables are defined in Appendix 3. The sample spans the period 2003-2021. The values reported in parentheses below coefficients represent t-statistics. Standard errors are clustered at firm level. *, **, *** represent significance at 1%, 5%, and 10% respectively.

Panel A: Government Contractors

	(1) *WageTheft (indicator)*	*(2)* *WageTheft (log $ value)*	*(3)* *WageTheft (log $ value per ee)*
PRisk (standardized)	0.0023*	0.0216*	0.0163*
	(1.75)	(1.82)	(1.67)
PRisk (standardized) x Contract/Sales	**-0.0001****	**-0.0011****	**-0.0009****
	(-2.20)	**(-2.13)**	**(-2.25)**
Contract/Sales	-0.0001***	-0.0012***	-0.0009**
	(-2.79)	(-2.89)	(-2.52)
R-squared	0.413	0.415	0.397
Observations	41,849	41,849	41,849
Constant	Yes	Yes	Yes
Controls	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes

Panel B: Major Customers

	(1) *WageTheft (indicator)*	*(2)* *WageTheft (log $ value)*	*(3)* *WageTheft (log $ value per ee)*
PRisk (standardized)	0.003*	0.027*	0.020*
	(1.78)	(1.86)	(1.75)
PRisk (standardized) x MajorCustomer	**-0.005***	**-0.043***	**-0.038***
	(-1.71)	**(-1.69)**	**(-1.78)**
MajorCustomer	0.002	0.022	0.014
	(0.42)	(0.42)	(0.33)
R-squared	0.427	0.430	0.411
Observations	39,330	39,330	39,330
Constant	Yes	Yes	Yes
Controls	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes

Panel C: Financial Constraints

	(1) *WageTheft* *(indicator)*	*(2)* *WageTheft* *(log $ value)*	*(3)* *WageTheft* *(log $ value per ee)*
PRisk (standardized)	-0.001	-0.003	-0.006
	(-0.23)	(-0.15)	(-0.36)
PRisk x FinConstrained	**0.007***	**0.057***	**0.050***
	(1.93)	**(1.85)**	**(1.96)**
FinConstrained	0.000	-0.013	-0.005
	(0.07)	(-0.23)	(-0.11)
R-squared	0.459	0.460	0.448
Observations	25,675	25,675	25,675
Constant	Yes	Yes	Yes
Controls	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes

TABLE 6
Political Risk and Wage Theft: Complementary or Substitute

This table reports the results from estimating Eq. (1) for firms where wage theft occurred in columns (1) and (2) and for firms where wage theft never occurs in columns (3) and (4). In column (1) and (3) the dependent variable is *Employment Decrease*; in column (2) and (4) the dependent variable is *CAPEX Decrease*. All variables are defined in Appendix 3. The sample spans the period 2003-2021. The values reported in parentheses below coefficients represent t-statistics. Standard errors are clustered at firm level. *, **, *** represent significance at 1%, 5%, and 10% respectively.

	Wage theft firms		*Non-wage theft firms*	
	(1) Employment Decrease	*(2) CAPEX Decrease*	*(3) Employment Decrease*	*(4) CAPEX Decrease*
PRisk (standardized)	**-0.002**	**0.009**	**0.007***	**0.007***
	(-0.29)	**(1.08)**	**(1.96)**	**(1.77)**
R-squared	0.362	0.246	0.336	0.167
Observations	6,664	6,392	35,034	32,777
Constant	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes	Yes
Year *x* Industry fixed effects	Yes	Yes	Yes	Yes

TABLE 7
Political Risk and Wage Theft: Robustness

This table reports the results from estimating Eq. (1) with additional controls. In column (1) the dependent variable is an indicator for whether firm i engaged in wage theft in year t; in column (2) the dependent variable is the natural logarithm of $ value of wage theft in year t; in column (3) the dependent variable is the natural logarithm of $ value of wage theft in year t scaled by number of employees involved. All variables are defined in Appendix 3. The sample spans the period 2003-2021. The values reported in parentheses below coefficients represent t-statistics. Standard errors are clustered at firm level. *, **, *** represent significance at 1%, 5%, and 10% respectively.

Panel A: Controlling for CEO fixed effects

	(1) WageTheft (indicator)	*(2) WageTheft (log $ value)*	*(3) WageTheft (log $ value per ee)*
PRisk (standardized)	**0.003****	**0.027****	**0.021****
	(2.16)	**(2.26)**	**(2.07)**
R-squared	0.416	0.419	0.400
Observations	42,564	42,564	42,564
Constant	Yes	Yes	Yes
Controls	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
CEO fixed effects	Yes	Yes	Yes

Panel B: Controlling for Volatility

	(1) WageTheft (indicator)	*(2) WageTheft (log $ value)*	*(3) WageTheft (log $ value per ee)*
PRisk (standardized)	**0.004****	**0.037****	**0.029***
	(2.01)	**(2.09)**	**(1.95)**
ReturnVol	0.019	0.216	0.117
	(1.15)	(1.43)	(1.01)
R-squared	0.422	0.426	0.406
Observations	28,150	28,150	28,150
Constant	Yes	Yes	Yes
Controls	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes

Panel C: Controlling for industry time-varying heterogeneity

	(1) WageTheft (indicator)	*(2) WageTheft (log $ value)*	*(3) WageTheft (log $ value per ee)*

PRisk (standardized)	**0.003***	**0.029****	**0.025****
	(1.95)	**(2.03)**	**(2.06)**
R-squared	0.458	0.461	0.442
Observations	35,797	35,797	35,797
Constant	Yes	Yes	Yes
Controls	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes
Year *x* Industry fixed effects	Yes	Yes	Yes

Panel D: Controlling for monitoring intensity

	(1) *WageTheft* *(indicator)*	*(2)* *WageTheft* *(log $ value)*	*(3)* *WageTheft* *(log $ value per ee)*
PRisk (standardized)	**0.004****	**0.037****	**0.029****
	(2.26)	**(2.37)**	**(2.27)**
WHDInvestigations	0.001	0.015	0.007
	(1.37)	(1.54)	(1.02)
R-squared	0.419	0.422	0.403
Observations	33,920	33,920	33,920
Constant	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes

APPENDIX 1

Sample Selection

This table reports sample selection.

	#observations dropped	#observations
Number of firms available on Compustat between 2003-2021		149,598
Less :		
Missing political risk data	83,226	
Missing data to compute control variables	23,808	
Final sample		**42,564**

APPENDIX 2
Sample Composition

This table reports the composition of the sample by fiscal year in Panel A and by industry (in accordance with the Fama-French Industry Classification Type-12) in Panel B.

Panel A. Sample Composition by Year

Year	*Freq.*	*Percent*
2003	1,404	3.3
2004	1,784	4.19
2005	1,902	4.47
2006	2,060	4.84
2007	2,161	5.08
2008	2,293	5.39
2009	2,359	5.54
2010	2,342	5.5
2011	2,369	5.57
2012	2,386	5.61
2013	2,206	5.18
2014	2,224	5.23
2015	2,361	5.55
2016	2,338	5.49
2017	2,327	5.47
2018	2,505	5.89
2019	2,563	6.02
2020	2,553	6
2021	2,427	5.7

Panel B. Sample Composition by Industry

Industry Name	*Freq.*	*Percent*
Consumer Non-Durables	1,500	3.52
Consumer Durables	942	2.21
Manufacturing	3,807	8.94
Oil, Gas, and Coal Extraction and Production	2,409	5.66
Chemicals and Allied Products	1,048	2.46
Business Equipment	7,211	16.94
Telephone and Television Transmission	1,802	4.23
Utilities	1,522	3.58
Wholesale, Retail, and Some Services	2,363	5.55
Healthcare, Medical Equipment, and Drugs	4,990	11.72
Finance	9,023	21.2
Other (Mines, Constr, BldMt, Trans, Hotels, Bus Serv, Entertainment)	5,947	13.97

APPENDIX 3

Definitions of variables

Variable	Definition	Source
WageTheft (indicator)	A dummy variable equal to 1 if back wages paid attributable to firm *i* during year t, and zero otherwise.	WHISARD
WageTheft (log $ value)	The logarithm of $ value of back wages paid attributable to firm *i* during year t.	WHISARD
WageTheft (log $ value per ee)	The logarithm of $ value of back wages paid attributable to firm *i* during year t per employee involved.	WHISARD
PRisk (standardized)	Standardized firm-level political risk as defined in HHLT. *PRisk* is measured as the average firm-level political risk over the four quarters and standardized to have a mean equal to zero and a standard deviation of one.	HHLT
NPRisk (standardized)	Standardized firm-level political risk as defined in HHLT. *NPRisk* is measured as the average firm-level non-political risk over the four quarters and standardized to have a mean equal to zero and a standard deviation of one.	HHLT
Psentiment (standardized)	Standardized firm-level political sentiment in a conference call, defined as in HHLT. *Psentiment* is measured as the average firm-level sentiment over the four quarters and standardized to have a mean equal to zero and a standard deviation of one.	HHLT
Size	Natural logarithm of market value.	Compustat
Leverage	Long-term debt scaled by total shareholders' equity.	Compustat
ROA	Net income scaled by total assets.	Compustat
SalesGrowth	End of fiscal year sales minus beginning of fiscal year sales, divided by beginning of fiscal year sales.	Compustat
MB	Market-to-book ratio is calculated as the firm market capitalization at financial year end scaled by net assets.	Compustat

Loss	A dummy variable equal to 1 if income is negative and zero otherwise.	Compustat
HHI	Herfindahl-Hirschman Index based on total sales per two-digit SIC code industry and fiscal year.	Compustat
LaborIntensity	The standardized ratio of a number of employees to total assets.	Compustat
Employees	Natural logarithm of the number of employees.	Compustat
Subsidies	Binary indicator variable for whether the firm received any subsidies from the government.	Subsidy Tracker
ReturnVol	Standard deviation of monthly stock returns (ret) over the past two years.	CRSP
Contract/Sales	Total value of contracts obligated to a firm *i* in year t scaled by firm sales.	USAspending.gov, Compustat
MajorCustomer/Sales	Total value of sales to major customers for a firm *i* in year t scaled by firm sales.	Compustat
Emp_Decrease	An indicator variable equal to one if employment in *t* less employment in *t-1*, divided employment in *t-1* is negative, and zero otherwise	Compustat
Inv_Decrease	An indicator variable equal to one CAPEX in *t* less CAPEX in *t-1*, divided CAPEX in *t-1* is negative, and zero otherwise.	Compustat
FinConstrained	Indicator variable based on the Kaplan-Zingales Index created in accordance with Lamont et al (2001). Firms in the top tercile of KZ-Index are defined as constrained, and those in the bottom tercile are defined as unconstrained.	Compustat

APPENDIX 4
Correlation Table

	Variable Name	*(1)*	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*	*(11)*	*(12)*	*(13)*	*(14)*	*(15)*
(1)	*WageTheft (indicator)*	1.000														
(2)	*WageTheft (log $ value)*	0.988*	1.000													
(3)	*WageTheft (log $ value per ee)*	0.981*	0.981*	1.000												
(4)	*PRisk (standardized)*	0.019*	0.021*	0.021*	1.000											
(5)	*NPRisk (standardized)*	0.007	0.007	0.007	0.354*	1.000										
(6)	*PSentiment (standardized)*	0.005	0.003	0.005	-0.129*	-0.150*	1.000									
(7)	*Size*	0.135*	0.133*	0.134*	0.040*	0.018*	0.044*	1.000								
(8)	*Leverage*	0.030*	0.029*	0.029*	0.052*	0.068*	-0.045*	0.001	1.000							
(9)	*ROA*	0.043*	0.043*	0.043*	-0.033*	0.021*	-0.023*	0.308*	-0.395*	1.000						
(10)	*Sales_Growth*	-0.025*	-0.024*	-0.024*	-0.031*	-0.048*	0.085*	0.008	-0.073*	-0.002	1.000					
(11)	*MB*	0.002	0.002	0.001	-0.029*	-0.050*	0.096*	0.139*	-0.091*	0.029*	0.094*	1.000				
(12)	*Loss*	-0.074*	-0.073*	-0.074*	0.005	-0.035*	0.017*	-0.442*	0.044*	-0.400*	-0.011*	-0.004	1.000			
(13)	*HHI*	0.062*	0.056*	0.057*	-0.047*	-0.020*	0.013*	-0.010*	-0.010*	0.056*	-0.013*	0.005	-0.044*	1.000		
(14)	*LaborIntensity*	0.106*	0.102*	0.089*	-0.052*	-0.054*	0.061*	-0.176*	0.014*	-0.023*	-0.039*	0.028*	0.006	0.141*	1.000	
(15)	*Employees*	0.214*	0.211*	0.208*	-0.013*	-0.013*	0.037*	0.692*	0.109*	0.296*	-0.129*	0.007	-0.353*	0.167*	0.225*	1.000

APPENDIX 5

US Department of Labour Release

FEDERAL INVESTIGATION, LITIGATION RECOVERS $1.2M IN BACK WAGES, DAMAGES FROM LOS ANGELES-AREA POULTRY PROCESSORS FOR WORKERS DENIED OVERTIME

TL Foods, Express Poultry Services used shell companies, intimidation to hide wage theft

WEST COVINA, CA – A federal court has entered default judgments that require the operators of La Puente poultry processing plant **to pay more than $1 million after the U.S. Department of Labor found the employers deliberately denied overtime wages earned by 113 workers and tried to hide the wage theft.**

In addition to withholding overtime, the employers told some workers to forge timesheets and threatened them if they cooperated with federal investigators. They also created shell companies, hoping to hide overtime violations over a **five-year period from 2015 to 2020**.

The **Aug. 30, 2023,** action by the U.S. District Court for the Central District of California ends the department's long-running litigation against TL Foods Inc. and its owner Lily 'Mei' Tseng, Express Poultry Services Inc. and its owner Jimmy Huynh, and joint employers Aiwa Tang-Ton, Kevin Truong and KP Poultry Inc. for violations of the Fair Labor Standards Act.

The judgments require Tseng and TL Foods Inc. to pay more than $1 million in back wages and damages and Huynh and Express Poultry Services Inc. to pay $210,438 in back wages and damages to the affected workers. The court also forbids the employers from future FLSA violations.

Co-defendants and joint employers Tang-Ton, Truong and KP Poultry Inc. entered into consent judgments with the department previously and agreed to pay $531,518 in back wages, liquidated damages and interest to affected workers, and $20,000 in civil money penalties.

"For years, the employers in this case attempted to hide their wage violations. The Solicitor's Office is grateful for the courage and integrity of the workers who came forward despite the retaliation and intimidation they faced," said Regional Solicitor Marc Pilotin in San Francisco. "We will continue to use every legal tool available and necessary to protect the rights of vulnerable workers under federal law."

In total, the department obtained four judgments to recover more than $1.2 million in back wages, damages and interest to the affected workers.

"Poultry processing workers often spend long hours doing physically demanding work that helps to feed our communities and yet they are among the most vulnerable to exploitation and retaliation," said Wage and Hour Division District Director Daniel Pasquil in West Covina, California. "The Wage and Hour Division has always focused on helping vulnerable workers, and this case sends a signal to industry employers that we will not tolerate their failure to respect the dignity of workers and meet their legal responsibilities."

The division's West Covina District Office conducted the investigation and the department's Office of the Solicitor in San Francisco filed the complaint and secured the consent judgments.

The department is seeking any current or former employees of TL Foods, Express Poultry Services or KP Poultry who believe they may be owed back wages by these employers. Contact the West Covina District Office at (626) 966-0478 or visit the division's Workers Owed Wages website to search a database of workers for whom the division has money waiting to be claimed.

Agency: Office of the Solicitor

Date: September 28, 2023

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