NBER WORKING PAPER SERIES

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Working Paper 31071
http://www.nber.org/papers/w31071

NATIONAL BUREAU OF ECONOMIC RESEARCH
1050 Massachusetts Avenue
Cambridge, MA 02138
March 2023

We thank Huihua Nie, Daxuan Zhao and seminar participants at Renmin University of China for helpful comments and suggestions. Nianhang Xu acknowledges the financial support from the National Natural Science Foundation of China (Grant No. 72225005 and 72150004). Honglin Ren acknowledges the financial support from the National Natural Science Foundation of China [Grant no. 72202225]. All remaining errors are our own. The views expressed herein are those of the authors and do not necessarily reflect the views of the National Bureau of Economic Research.

Environmentally-Inclined Politicians and Local Environmental Performance: Evidence from Publicly Listed Firms in China
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NBER Working Paper No. 31071
March 2023
JEL No. D72,G38,H75,Q53

ABSTRACT

We study how environmentally-inclined politicians (EIPs), i.e., politicians with prior environment-related working experience, affect local environmental performance in China. Firms located in cities with EIPs have lower levels of sulfur dioxide (SO2) emissions. The effect is attenuated when the politician is in his/her second term and among firms that are economically important. Firms in cities with EIPs commit less environmental violations, receive more green subsidies from the local government, and choose to establish new polluting subsidiaries in cities without EIPs. Furthermore, these EIPs do not have inferior economic performance and their promotion likelihood is negatively related to local emission levels. The findings overall suggest that local officials strategically leverage their expertise in environment protection to allocate more effort on environmental causes.

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1. Introduction

Corporate actions benefiting or harming social welfare are often referred to as Environmental, Social, and Governance (ESG). Globally, investors increasingly demand investment opportunities incorporating ESG mandates.[1] With the global attention and joint efforts in addressing environmental issues, a large body of literature examines the interrelationships between a company's governance structure and its environmental activities. Characteristics have been shown to be associated with firms' environmental outcomes include the markets in which the firms operate, the leadership of the firm, and the firm's ownership structure (Gillan, Koch, and Starks, 2021). In western countries where market forces play an important role, institutional investors and social pressure from environmental activists have played an increasing role in promoting environmental protection (Kim et al., 2019; Chu and Zhao, 2019; Azar et al., 2021). By contrast, in China where the government continues to play an important role in its economic and social development, the effectiveness of environmental protection often rests in the enforcement of government regulations and the implementation of the top-level policy guidance. Much of these implementation and enforcement then relies on local government officials (Chen, Li, and Lu, 2018; Karplus, Zhang, and Zhao, 2021).

The purpose of this paper is to examine the relation between local environmental performance and city leaders' past environment working experience. We refer to politicians with prior environment-related working experience as *environmentally-inclined politicians* (EIPs). Prior literature suggests that past experience affects future economic decisions (Bamber, Jiang, and Wang, 2010; Bradley, Gokkaya, and Liu, 2017; Malmendier and Wachter, 2022). On one hand,

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[1] https://www.morningstar.com/articles/961765/sustainable-fund-flows-in-2019-smash-previous-records. https://www.msci.com/research-and-insights/2022-esg-trends-to-watch

EIPs have more experience in the local government agencies in charge of environmental and ecological issues, and have more expertise in pollution controls and improvement of local environment, thus their marginal cost of effort in reaching environmental goals is smaller than that of non-EIPs. In a multi-tasking model in which environment protection and economic development can both contribute to their promotions, EIPs who have a comparative advantage in environment protection will choose to optimally allocate more effort in environmental causes than their non-EIP counterparts. On the other hand, EIPs may have a stronger preference toward environmental protection, even if better environmental performance does not translate into an increase in their promotion chances. We refer to the first mechanism as the *strategic* channel; and the second the *preference* channel. Both channels predict a negative relation between EIPs and local environmental performance.

We conduct our empirical analysis on publicly listed firms in China and supplement with city-level evidence for the following reasons. First, in China, environmental issues are mainly guided by central government policies but addressed and enforced at the local government level. Therefore, China represents an ideal setting to study the role of the local government officials, in pollution control. Second, publicly listed firms are economically important and account for a significant proportion of the industrial pollutions in China.[2] Third, the public firms are subject to reporting requirements, so we are able to observe the details about the subsidies they receive from the government, as well as environmental sanctions, which help to understand how local government officials implement environmental regulations and policy guidance. Fourth, the

[2] The total market value of publicly listed firms is 96.53 trillion yuan, accounting for 84.40% of the national GDP. In 2021, the total revenue of listed companies is 64.97 trillion yuan. The R&D investment of non-financial listed companies totaled 1.31 trillion-yuan, accounting for the 47.02% of the national enterprise R&D investment. Furthermore, the CDP Carbon Majors Report (2017) shows that the cumulative emissions of 15 Chinese public firms in the coal industry accounted for 14.3% of global emissions for period between 1988 and 2015.

disclosure requirement of the publicly listed firms enables us to explore corporate strategies in response to increased local environmental enforcement, including establishing subsidiaries in other cities. Finally, we also investigate the relation between EIPs and city-level environmental and economic performance, and link them to EIPs' career advancement probabilities to better understand the impact of the local officials' career incentives.

We measure firms' environmental performance using SO_2 emissions because it is the main type of air pollutant emitted by firms, and it is a key environmental target during our sample period (Liu et al., 2021). Our data on SO_2 emissions is at the subsidiary level, which we obtain from the Environmental Survey and Reporting (ESR) database. We aggregate subsidiary-level emission data to the firm-level using the list of subsidiaries disclosed in the company information file from the Chinese Research Data Services Platform (CNRDS). We start by examining the relation between emission level of local publicly listed firms and EIPs. A city is considered to have an EIP if either its mayor or Chinese Communist Party (CCP) Secretary is an EIP. In a regression analysis controlling for firm, city, politician characteristics, and firm, city and year fixed effects, we find that firms headquartered in cities with EIP leaders have a lower level of SO_2 emissions by 46.9%.

To alleviate the concerns that certain city or firm characteristics may influence the relation between local firm emissions and EIPs, we focus on the switcher sample where a firm experiences a turnover of the city leader from a non-EIP to an EIP and conduct a matched-sample analysis using propensity score matching method. We match on city characteristics including GDP, population, wage and the value added of the secondary industry as a percentage of GDP, and firm characteristics including SO_2 emission level, firm size, leverage level, ROA and firm age. In the final sample we have 99 switch events at the firm-level. In this matched sample analysis, we further find a negative and statistically significant relation between EIPs and local firms' SO_2 emission level.

To shed light on whether the strategic or the preference motivation drives our results, we perform a series of cross-sectional analysis in which politicians face varying degrees of career motivations. First, we test whether the effect is stronger or weaker when the politician is less motivated to advance his/her career because he/she is already in his/her second term. Therefore, if we still observe any effect of EIPs on environmental performance improvement, the effect is more likely to be driven by the preference channel rather than strategic channel. Conversely, if we observe a weaker effect for EIPs in their second term, it would be more consistent with the strategic channel. Second, we explore whether the economic importance of a firm affects the relation between EIPs and firm emissions. If the result is driven by the preference channel, we would not expect to see the economic importance of a firm to mediate the relation. However, if the result is driven more by the strategic channel, we would expect to see the effect to be weaker among firms that are more important to the local economy. We find that the effect of EIPs on environmental performance is much weaker when the politician is in his/her second term and when the firm is more economically important. These findings are consistent with the strategic rather than the preference motivation for EIPs.

Next, we explore the ways through which local firms' environmental performance is improved. We find that firms located in cities with EIPs experience a greater likelihood of being detected of environmental violations, and hence they have an ex ante lower tendency to violate environment regulations. We further document that firms located in cities with EIPs receive more green subsidies from the local government, and that they are more likely to establish polluting subsidiaries in non-local cities without EIPs.

To further gauge whether EIPs improve environmental performance from a strategic or a preference motivation, we examine the relation between EIPs and local economic performance and other factors that determine their career advancement probability. Regional economic performance has long been suggested to be a key driver for the career advancement of local leaders (Li and Zhou, 2005; Wang, Zhang and Zhou, 2020). Local environmental performance is included in local officials' performance evaluation system only since China's Eleventh Five-Year Plan (2006-2010). The emphasis on environment is further strengthened after President Xi's took office. From the strategic point of view, an EIP would not improve local environment at the cost of economic performance. However, if an EIP truly prefers better environment and inject this preference to work, the local economic development might be sacrificed for better environmental performance. Therefore, we examine the relation between EIPs and local economic performance. Either using growth rate of local GDP or local GDP per capita as the measure of economic performance, we do not find that EIPs perform differently from non-EIPs. Furthermore, we examine the factors affecting politician's career advancement likelihood. We find that EIPs' career advancement likelihood is negatively related with local SO_2 emission level, suggesting that EIPs are evaluated with a greater weight on local environmental performance. This link between career advancement and environmental performance further rationalizes EIPs' strategic incentives to perform well on environment protection.

Our study contributes to the literature examining the relation between internal and external governance structure and firms' environmental performance. Past studies document various variables that are associated with a firm's environmental performance including CEO characteristics (Lewis, Walls, and Dowell, 2014), institutional ownership (Kim et al., 2019; Azar et al., 2021), earnings pressure (Liu et al., 2021), and pressure from supply chains (Shi, Wu, and

Zhang, 2022). We provide a new perspective for understanding the role of government, especially government officials, in local public firms' environmental performance.

The study also contributes to our understanding of the effects of politicians' background on their political preferences and behavior in office. Past studies show that politicians with business experience make different municipal fiscal policies (Kirkland, 2021) and prioritize economic over social infrastructure (Szakonyi, 2021), that Republican state governors implement more conservative environmental protection policies (Raff, Meyer, and Walter, 2022), that lawmakers who received more contributions from carbon intensive firms are more likely to cast anti-climate votes (Gao and Huang, 2022). We add to the literature by showing that politicians with past environmental-related working experience have better local environmental performance. Their behavior is more consistent with strategically leveraging their expertise in environment protection to gain potential advantages in career advancement than a pure preference for a better environment.

Our study also contributes to the incentive scheme faced by politicians. The literature documents a mixed results on the importance of economic performance (Li and Zhou, 2005; Yao and Zhang, 2013; Chen and Kung, 2016) and environmental performance (Wu and Gao, 2021) in government officials' career advancement. In our study, we consider heterogeneities in politicians and the potentially different incentive schemes faced by politicians with different characteristics. Specifically, we show that environmental performance is particularly important for the career advancement of EIPs, thus they respond strongly to such incentives.

2. Institutional background and hypothesis development

2.1 Background on environmental policy

Karplus, Zhang, and Zhao (2021) provide a detailed review on history of China's environmental policy and environmental regulatory system in China. In this section, we provide a summary of China's environmental policy, with a focus on the sample period in this study (2003 - 2020).

In China, government planning continues to play an important role in both economic growth and environmental protection. China's Five-Year Plans (FYPs) define the overarching principles to guide national policies and priorities for the subsequent 5-years. Through FYPs, the central government sets environmental priorities and targets, as well as the enforcement and assessment mechanisms. To limit environmental damages, the Tenth FYP (2001-2005) set caps on national emissions of six pollutants with specific caps for each province. However, these caps were not met due to the lax enforcement (Kahn, Li, and Zhao, 2015). The 11th FYP (2006–2010) furthermore incorporated, for the first time, meeting the emission targets for some pollutants, such as SO_2, into the evaluation of local governors (Jin et al, 2016; Chen, Li, and Lu, 2018; Stoerk, 2018; Karplus, Zhang, and Zhao, 2021; Liu et al. 2021). In the 2010s, environmental protection became an important political objective of the ruling CCP, which referred to environmental protection as the "ecological civilization". The Twelfth FYP (2011–2015) continued to strengthen the binding targets for environmental protection, including plant-level standards for water and air pollutant emissions, and setting the ambient water and urban air quality targets. At the end of 2013, the Organizational Department of the CCP Central Committee issued a notice on CCP leaders' and government officials' evaluations that further emphasizes "sustainability, social progress, ecological civilization", and increases the weight on environmental protection in the cadre evaluation system.[3]

[3] http://dangjian.people.com.cn/GB/136058/427510/428084/428612/428615/index.html (in Chinese)

In March 2014, Premier Li Keqiang "declared war" on pollution at the opening of the China's National People's Congress.[4] CCP General Secretary Xi Jinping also emphasized that only with the strictest systems and the rule of law could the state provide reliable guarantees for the building of an ecological civilization. The slogan of "Gold mines override clear water and green mountains" at the beginning of the reform has evolved into "Clear water and green mountains are gold mountains and silver mountains" today. In response, the government undertook the unprecedented regulatory changes on multiple fronts (Greenstone et al., 2021; Karplus, Zhang, and Almond, 2018; Karplus, Zhang, and Zhao, 2021). In 2015, the new Environmental Protection Law (EPL) also took effect.[5] The new EPL is perceived as the strictest law in history of environmental protection in China. The revised EPL was designed to address the poor enforcement, which is the root cause of China's environmental regulation failures, by introducing new penalties for environmental violations, including suspension of production, administrative detention, and criminal charges. It places more responsibility and accountability on local governments and law-enforcement agencies (Zhang et al. 2016).

2.2 Hypothesis

Plenty of evidence suggests that an individual's prior professional experience plays an important role in shaping his/her views and preferences on certain issues and subsequently affects his/her work performance. For example, Bamber, Jiang and Wang (2010) show that managers promoted from finance, accounting, and legal career tracks are more likely to develop corporate disclosure styles displaying certain conservative characteristics. Custódio and Metzger (2014) show that CEOs with financial career backgrounds tend to hold less cash, more debt, and engage

[4] https://www.reuters.com/article/us-china-parliament-pollution-idUSBREA2405W20140305
[5] The EPL was issued on a trial basis in 1979 and became a law in 1989.

more in share repurchases. Bradley, Gokkaya, and Liu (2017) find that analysts' prior industry experience help improve their forecasting accuracy. Kirkland (2021) show that mayors with prior business experience are more likely to invest in infrastructure while curtailing redistributive spending. Relatedly, Szakonyi (2021) show that Russian businessperson-turned politicians prioritize economic over social infrastructure. Under this framework, relative to local leaders without any relevant work experience in local environmental and ecological bureaus, EIPs are more likely to put emphasis on environmental issues and pollution control, and have different environmental performance outcomes.

There are several channels through which EIPs may have different environmental outcomes than non-EIPs. First, EIPs have more expertise and experience in local environmental protection, thus their marginal cost of effort in reaching environmental goals could be lower than that of non-EIPs. In a multitasking agency problem for government agents, career concern theories suggest that top bureaucrats are largely driven by the outcomes of their mandated tasks (Holmstrom and Milgrom, 1991; Dewatripont, Jewitt, and Tirole, 1999; Chen, Li, and Lu, 2018). When both environmental performance and economic performance can contribute to the promotion, EIPs will choose to optimally allocate more effort in environmental causes than non-EIPs because they have a comparative advantage in environment protection.

Second, EIPs may have a stronger preference toward environmental protection, even if better environmental performance does not increase their promotion chances. The literature provides evidence for the view that economic agents inject their personal preferences into their professional life. Most relatedly, Cordano and Frieze (2000) show that pollution reduction preferences of managers directly influence the environmental performance of their manufacturing organizations. Zhi (2021) show that nature-loving CEOs are more likely to participate in an environmental protection projects. Raff, Meyer, and Walter (2022) show that states governed by Republicans require cheaper and less effective abatement technology than states governed by Democrats. Similarly, when we consider related work experience as one possible source of politicians' preferences, EIPs might be more proactive in addressing environmental issues compared to non-EIPs.

We refer to the first mechanism as *strategic* channel; and the second the *preference* channel. Both channels would predict a negative relation between EIPs and SO_2 emission levels.

H1: Firms located in cities with EIPs have lower SO_2 emission levels.

To tease out which channel is more prevalent, we identify scenarios when the strategic motivation is weaker or stronger to examine whether the effect of EIPs on environmental performance is similarly weakened or enhanced. First, when politicians are in their second term, their chance of promotion is significantly lower, and thus the strategic motivation of improving environmental performance is weaker. Therefore, in this sample, we would expect a weaker relation between EIPs and environmental performance if the strategic channel dominants the preference channel. Second, when a firm contributes significantly to local economy, it weakens the incentive for politicians to regulate its environmental performance if their motives are more strategic than purely a preference for a better environment. Therefore, in this sample, we would also expect a weaker relation between EIPs and environmental performance.

H2a: If the strategic channel is more prevalent, the relation between EIPs and environmental performance is weaker when the politician is in his/her second term, or for economically important firms.

H2b: If the preference channel is more prevalent, the relation between EIPs and environmental performance would not be weaker when the politician is in his/her second term, or for economically important firms.

Empirical evidence suggests a negative relation between environmental improvement and economic growth (Greenstone, 2012; Walker, 2013; Chen, Li, and Lu, 2018; Li et al., 2020). When faced with multiple goals, EIPs having a lower cost in achieving environmental goals might not have an inferior economic performance especially if their incentives in improving environmental performance is more strategic. However, if a politician acts more out of a pure preference for a better environment to ensure long-term green and sustainable development, he/she might sacrifice short-term economic development when the two goals are in conflict.

H3a: The local economic performance of EIPs is not different from non-EIPs if EIPs' motives to improve environmental performance is more strategic.

H3b: The local economic performance of EIPs is worse than non-EIPs if EIPs improve local environmental performance at the cost of local economic development.

3. Data and variable construction

3.1 Data on politicians working experience

We identify 2,078 city Party Secretaries and mayors who served in 337 Chinese cities from 2003 to 2020.[6] City leaders' background information and working experience data are more

[6] Fang et al. (2022) notes that "There are five levels of government hierarchy in China: the central government and the four levels of local governments: the provincial level, the city/municipality level, the county level, and the township level. According to the 2014 China City Statistical Yearbook, there are 297 cities across 31 provinces and 4 centrally administrated cities (Beijing, Shanghai, Tianjin, and Chongqing) in mainland China. The top two leaders at the city level are the city's Communist Party Secretary and the mayor, reflecting the dual presence of the Communist Party and the government at each level of China's political hierarchy (Li and Zhou, 2005). City official turnover is under the control by the Organization Department of the Provincial Party Committee."

complete after 2003. Furthermore, city-level pollutant emissions information is available starting in 2003. Following Fang et al. (2022), we manually collect résumés of the 2,078 city leaders. These résumés contain detailed information including gender, age, educational background, hometown and work experience prior to their current positions. For most politicians such information is publicly disclosed on government official websites. When not available on the official website, we search for the information through Baidu (www.baidu.com), China's most popular search engine, and city statistical yearbooks.

We identify a politician as an EIP as follows. First, we read through each résumé to collect information on environment-related positions and the associated start and end date. Environment-related positions include: (1) environmental authorities at all levels (e.g., the Ministry of Ecology and Environment, provincial departments/municipal bureaus of ecology and environment, environmental protection and resources conservation committees of national/local People's Congresses, the Chinese People's Political Consultative Conference (CPPCC) special committees on population, resources and environment, etc.); (2) other environment-related departments and public institutions (e.g., administration of forestry and grassland/ natural resources/ energy, leading group for addressing climate change and energy conservation and emission reduction, research institute of environmental science, environmental protection department in SOEs, etc.). Second, deputy mayors are regularly assigned to take responsibilities in a specific field such as finance, education, agriculture and environment, but résumés rarely disclose this information. Therefore, for politicians who have served as deputy mayors, we collect the detailed responsibilities of deputy mayors from local governments' work documents in PKULaw Database (https://pkulaw.com/) and related news reports from WiseSearch and CNKI.net. Through this process, we further identify these politicians who have overseen environmental protection work (e.g., cooperating with upper and lower levels of environmental authorities, inspecting polluting firms, promoting the implementation of environmental policies) as EIPs. Altogether, we identify 184 out of 2,078 (8.85%) politicians with prior environment-related working experience.

3.2 Environmental performance data

Our sample of public firms starts from all non-financial firms listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange in China from 2003 to 2014. Public firm sample starts in 2003 to be consistent with the starting year for data on local officials and ends in 2014 due to the availability of information on pollutant emissions.[7] During this period, publicly listed firms rarely report their polluting information at the firm level. However, emissions are disclosed by individual manufacturing establishments (Liu et al., 2021). To measure emissions at the public firm's level, we identify establishments associated with each listed firm using disclosed list of subsidiaries in company information file from the Chinese Research Data Services Platform (CNRDS). We start with a name match. For the cases where one establishment is matched to multiple listed firms in the same year through the name matching process, we manually check the ownership status using an online database called Qichacha (https://www.qcc.com/) which contains various sources of firm/establishment level information from the National Enterprise Credit Information Publicity System, Judgment Document Network, Intellectual Property Office, corporate annual reports, etc. If it is still difficult to decide on the firm-establishment mappings after the above procedures, the data on this establishment is removed.

Establishment level emission data is from the Environmental Survey and Reporting (ESR) database, which is jointly administered and maintained by the Ministry of Ecology and

[7] Liu et al. (2021) using establishment-level sulfur dioxide emission data from China also starts in 2003.

Environment (or the former the Ministry of Environmental Protection/ State Environmental Protection Administration) and the National Bureau of Statistics. The ESR is the most comprehensive environmental dataset and used by various studies (He, Wang, and Zhang, 2020; Liu et al., 2021). Pollution-emitting establishments are required to report detailed environmental data on the amount of emission of major pollutants each year. This information is cross-verified by the local environmental protection authorities and the person who provides this information is held legally responsible for the accuracy and reliability of the provided data (Liu et al., 2021). Liu et al. (2021) and He, Wang, and Zhang (2020) also note that "the ESR data is first self-reported by each polluter, and then randomly verified by government auditors. To ensure data quality for policy making, the Environmental Protection Law explicitly states that the ESR data cannot be used as the basis for punishing and regulating the polluting firms. As a result, the polluting firms covered in the ESR sample have little incentive to misreport their emission records."

Following Liu et al. (2021), we focus on SO_2 emissions which is the main type of air pollutant emissions produced by firms and a key target of environmental regulation and enforcement during our sample period. Moreover, the data coverage on this measure in the ESR database is more complete than other pollutant measures. Establishment level characteristics including age, location and financial information are from the Annual Surveys of Industrial Firms (ASIF) conducted by the National Bureau of Statistics of China.

After we aggregate the establishment level data to the public firm level, we require a firm to have at least three years with non-zero SO_2 emissions to be included in our analysis so that we observe a firm multiple times in the sample. Our final sample includes 815 firms, of which 644 are from the manufacturing industry, and the sample covers 55.67% of all high-polluting firms according to the definitions from the Ministry of Ecology and Environment (or the former the

Ministry of Environmental Protection). Our final analysis sample consists of 5,721 firm-year observations. Our key measure for SO_2 emission at the firm-year level, *SO2_firm*, is the amount of total SO_2 emission (in tons) scaled by the firm's operating income (per 1,000,000 CNY) with adjustment for inflation following Liu et al. (2021).

City level environment performance data includes industrial SO_2 emission and several types of air pollutions including NO_2, dust, PM2.5, and industrial sewage. The SO_2 data from 2003 to 2020, dust emissions data from 2011 to 2019, and industrial sewage data from 2003 to 2020 are from China City Yearbooks. NO_2 data from 2013 to 2020 is from the CNRDS and PM2.5 data from 2003 to 2020 is from Atmospheric Composition Analysis Group derived from satellite data (van Donkelaar et al., 2016).

Other firm level control variables including size (*Size*), firm age (*FirmAge*), leverage (*Lev*), ROA, ratio of tangible assets (*Tangible*), industry competition (*Competition*), SOE status and the percentage of shares held by foreign shareholder (*Foreign*) are from the China Stock Market and Accounting Research (CSMAR) database. Establishment level control variables, including output and age, are from the Annual Surveys of Industrial Firms (ASIF). Macroeconomic control variables at city levels, including GDP, the added value of the secondary industry as a percentage of GDP, population, and average wage, are from China City Yearbook, China Urban-Rural Construction Statistical Yearbook and the National Bureau of Statistics (NBS). Appendix A provides variable definitions.

3.3 Descriptive statistics

[Table 1 About Here]

Panel A of Table 1 presents the descriptive statistics for key variables used in our analysis. At the firm-year level, the key explanatory variable EIP takes on the value of one for approximately 11.6% of the observations. The mean of *SO2_firm* is 0.465, meaning that an average public firm in our sample releases 0.465 ton of SO_2 per million CNY of operating income. Figure 1 further plots the proportion of EIPs among all city leaders by year, with the light green bar for the ratio of EIP Party Secretaries, dark green bar for the ratio of EIP mayors, and the line for the ratio of EIP Party Secretary and mayor together. We observe upward trending patterns in both city mayors and Party Secretaries with past working experience related to environmental authorities and public institutions.

Panel B presents the univariate comparisons of key variables between the EIP and the non-EIP samples. At various levels, including the city-year, the firm-year, and the subsidiary-year levels, the SO_2 emission levels are statistically significantly lower in the EIP sample compared to that of the non-EIP sample. For example, at the firm-year level, the average *SO2_firm* for the EIP sample is 0.282 versus 0.489 for the non-EIP sample, and the difference is statistically significant at 1% level. We also observe the differences in some other characteristic between the two groups of observations highlighting the importance in controlling for these observable characteristics in our later analysis.

[Figure 1 About Here]

4. EIP and local environmental performance

4.1 EIP and firm SO_2 emissions

4.1.1 Baseline results

In this section, we analyze whether having an EIP affects local firms' emission level by estimating the following regression:

$$SO2_{firm_{i,j,t}} = \beta EIP_{j,t} + \gamma_1 CityChar_{j,t} + \gamma_2 PoliticianChar_{j,t} + \gamma_3 FirmChar_{i,t} + FirmFE$$

$$+ CityFE + YearFE + \varepsilon_{i,t} \qquad (1)$$

where $SO2\_firm_{i,j,t}$ measures the amount of total SO_2 emission scaled by operating income adjusted for inflation for firm *i* headquartered in city j in year *t*; $EIP_{j,t}$ captures whether the firm's headquarter city j has an EIP in year *t*. We also include control variables for time-varying characteristics of the city, the politician, and the firm: $CityChar_{j,t}$ includes GDP, the added value of the secondary industry as a percentage of GDP, population and average wage; $PoliticianChar_{j,t}$ includes his/her age, gender, tenure in the position, and indicators for whether the politician holds a degree in environmental-related majors, whether the politician works in his/her hometown city, and whether the politician holds a bachelor's degree; $FirmChar_{i,t}$ includes size, firm age, leverage, ROA, ratio of tangible assets, industry competition, SOE status and the percentage of shares held by foreign shareholders. We further include fixed effects for firm, city and year to estimate within-firm effects. Year fixed effects also help to control for the time-series variations in environmental regulations and policies at the national level.

[Table 2 About Here]

Table 2 presents the results from estimating Equation (1). Column (1) reports the estimate of EIP without any control variables, but with firm, city, and year fixed effects. We observe a negative association (significant at the 1% level) between having an EIP and local firms' SO_2 emission level. Column (2) includes control variables for the time-varying characteristics of the city, the firm, and the politician, and Column (3) further replaces the year fixed effects with industry-year fixed effects to control for possible industry-level shocks, i.e., industry-level environmental policies, that can affect firm emissions differently in different industries (Cai et al., 2016). Both columns show a negative association between having an EIP and firm's SO_2 emission level, confirming the finding in Column (1). The economic magnitude is also significant. Using the estimate in Column (2) for illustration, publicly listed firms located in a city with an EIP has a 47% (0.219/0.465) lower SO_2 emission level. Taken together, our estimates suggest that having an EIP has a negative effect on local firms' SO_2 emissions level, consistent with our hypothesis *H1*.

4.1.2 Matched sample analysis

In this section, we address the concern that certain city or firm characteristics may influence the relation between local firm emissions and EIP. For example, the appointment of EIPs is correlated with previous city-level or firm-level emissions, which may lead to endogenous matching between politicians and firms.[8] Another explanation is that differences in firm-level emissions ex-post are sourced from their differences ex-ante. To further validate our main results, we conduct a matched sample analysis.

We focus on the switch sample and conduct a propensity score matching analysis to identify hypothetical counterfactual scenarios. We first identify firms that experience the turnover of city politicians from a non-EIP to an EIP as the treatment group. To avoid the endogenous selection problem that firms move their headquarters based on whether a city has an EIP or not, we limit our firm-year sample to firms that locate in the same city throughout the whole sample period. Furthermore, we require that the treated firm experiences only one EIP turnover within 5 years to avoid overlapping effects from multiple politician turnover events. After these procedures, we identify 99 switch events at firm-level which are associated with 23 city-level switch events.[9] Then, for each of these firm-years, we identify a control firm from the same city level (sub-

[8] In Appendix A, we conduct a determinants analysis of EIPs at the city-level. We do not observe any significant relation between city characteristics and the appointment of EIP to a city, suggesting that there is not a very strong selection issue in appointing an EIP to a city with a particular type of characteristics.

[9] Initially at the city-level, we identify 54 EIP switch events at the city level. However, after matching to the public firms sample, the event number reduced to 23.

provincial city or ordinary prefecture-level city) with the closest propensity score based on city characteristics including GDP, population, wage and the secondary industry added value as a percentage of GDP, and firm characteristics including SO_2 emission level, firm size, leverage level, ROA and firm age. These variable values are measured at the year prior to the EIP turnover. The event year for a target firm also serves as the "pseudo-event" year for its matched firm. Panel A of Table 3 shows that the characteristics of the treatment group (the switch sample) and the control group are similar.

[Table 3 About Here]

In our sample, the average years of tenure for mayors and party secretaries are 3.19 and 3.37, respectively. Therefore, in estimating the impact of EIP on firm emissions, we focus on seven years around each event (from three years before the event to three years after the event). Control variables are the same as the main regression in Table 2 and firm, city, and year fixed effects are included. Panel B of Table 3 presents the results. In Column (1), we observe a negative and statistically significant estimated coefficient for the interaction term, *Treat*×*Post*, complementing our findings in the baseline model that EIP is effective in reducing SO_2 emissions at the firm level. In Column (2), we further add event time fixed effects so that the *Post* dummy is absorbed in this specification. We continue to find a statistically significant and negative coefficient estimate on the interaction term.

In Column (3), we present the dynamic effect of EIP on firms by augmenting the model with leads and lags of the explanatory variable. Specifically, we include dummies that capture the difference in SO_2 emission levels between the treated and the control firms for different years (with the year *t-3* as the reference category). We observe that for years before the event time, the treatment groups are not statistically significantly different from the control groups in their firm-level SO_2 emissions, collaborating the parallel-trends assumption between the two groups before the treatment. Starting from the event year, the treatment firms exhibit significantly lower SO_2 emissions compared to the control firms. Furthermore, the effect of EIP persists into the third year after the EIP becomes the leader of a city.

Taken together, our matched sample analysis focusing on the switched sample and their matched control firms confirms our finding that firm SO_2 emission decreases significantly after an EIP takes office and such effect persists throughout the term when the EIP is in the office.

4.2 Cross-sectional variations

We further explore several cross-sectional variations where we expect the relation between EIPs and firm emissions to be stronger or weaker depending on politician's incentives in improving local environmental performance and the tradeoffs and/or constraints they face as local politicians.

[Table 4 About Here]

First, we investigate whether a politician in his/her second term affects the effectiveness in emission reduction. Li and Zhou (2005) argue that leaders on their second term in the same position may have a disadvantage in upward mobility, therefore reducing their incentives to perform well including improving the local environment. We define a politician as in his/her second term if he/she has been in the position for more than five years (*SecondTerm*). To empirically estimate the effect of these factors, we augment Equation (1) with the interaction term *SecondTerm*×*EIP*. Results are displayed in Column (1) of Table 4. Consistent with our hypothesis, the estimated coefficient on the interaction term is positive. This effect is economically significant: the negative effect of EIP on firm emissions is cancelled out by the interaction term. This finding suggests that politician's career advancement likelihood affects his/her incentives thus the effectiveness of an EIP in improving local environmental performance.

Second, we examine the effect of economic importance of a firm in affecting the relation between the EIP and firm emissions. Both economic performance and environmental performance are important factors for which city officials are evaluated. Furthermore, there is ample evidence on the economic costs of environmental protection (He, Wang, and Zhang, 2020; Zhang, 2021). Therefore, we hypothesize that the effect of having an EIP on SO_2 emissions may be smaller for economically important firms. We define a firm as economically important (*Pillar =1*) if the firm's operating income to the city's GDP is greater than the sample median in the prior year. Column (2) of Table 4 shows that the coefficient estimate of the interaction term of *Pillar ×EIP* is positive, indicating a weaker effect in emission reduction among economically important firms. This finding suggests that the economically important firms face less scrutiny on its environmental performance.

Taken together, the effectiveness of an EIP in local firm's environmental performance varies with the politician's incentives and types of firms, lending further support on the causal effect of EIPs on environmental governance. The weaker relation between EIPs and environment performance when politicians' career advancement motive is lower and when firms are economically more important, providing evidence supporting the strategic channel and hypothesis *H2a*.

4.3 Mechanisms

Next, we explore several mechanisms through which we observe the negative relation between having an EIP and the local firms' emission level. We investigate from two distinct but complementary perspectives, including the deterrence of environmental violations and the provision of government subsidies to support green projects.

4.3.1 Environmental violations

First, we investigate whether EIPs better enforce the detection of environmental violations and therefore reduce firms' propensity to violate environmental requirements or regulations in the first place. Regulatory punishments for pollution violations are widely used in the environmental policy of industrialized countries, which can bring dramatic improvements in environmental quality (Kagan, Gunningham and Thornton, 2003; Earnhart, 2004; Gray and Shimshack, 2011). Therefore, we would like to explore whether EIPs improve firms' environmental performance through enforcement activities. We manually collect environmental violations data from websites of municipal bureaus of ecology and environment and PKULaw Database (https://pkulaw.com/) from 2003 to 2018. Violations information includes the entity name, the sanction date, and the specific enforcement agency. Examples of environmental violations include excessive discharge of pollutants, non-compliance with environmental disclosure requirements, etc.[10] We end the sample period in 2018 for sample completeness because it takes time from committing a violation to the detection of it.[11]

In any fraud or violations sample there is a partial observability problem. That is, we only observe detected violations, not the whole population of violation commissions. Detected violations depend on two distinct but latent processes – the commission of violations and the detection of violations. We follow Wang, Winton, and Yu (2010), Wang (2013), and Khanna et al.

[10] For example, in 2013 the "New North Zone", a subsidiary of Chongqing Brewery Co.,Ltd (600132.SH), was fined by the Chongqing Municipal Environmental Supervision Office for 12,479,400 yuan for illegally discharging 1,517,100 tons of sewage from February 2009 to May 2013.

[11] Khanna et al. (2015) shows that it takes an average of two to three years to detect a fraud from when the fraud occurred.

(2015) and employ a bivariate probit model to estimate the factors that determine violation detection and the violation commission. We define *Detect_local* as an indicator for whether the firm is sanctioned by *local* municipal environmental authorities, and *Detect_nonLocal* as an indicator for whether the local firm is sanctioned by *non-local* environmental authorities. Respectively, we construct two indicator variables, *Fraud_Local* and *Fraud_nonLocal*, for fraud commissions.

Our common set of variables explaining a firm's likelihood of committing fraud and being detected first include all control variables that are used in equation (1) to predict a firm's emission levels since excessive emissions constitute a large proportion of corporate environmental violations.[12] We further include an indicator for whether the city is on the List of Key Cities for Environmental Protection according to the "Eleventh Five-Year Plan" for National Environmental Protection for the reason that greater attention from the central government might lead to stricter environmental enforcement in those cities. Following Wang, Winton, and Yu (2010), we include the median Tobin's Q of industry to proxy for industry-level litigation risk that a fraudulent firm is more likely to get caught when investigators and investors are looking closely into the industry to which a firm belongs. Finally, prior literature shows that external and internal governance affect corporate environmental litigation risk and thus their incentives in conducting fraud. Therefore, we include an indicator for whether a firm is audited by a Big Four accounting firm (Du et al., 2018), the percentage of shares held by institutional investors (Fernando et al., 2017), and the logarithm of number of analysts following (Chen et al., 2015; Luo et al., 2015) as proxy measures for external governance quality, and the percentage of independent directors as a proxy measure for internal governance quality (Kassinis and Vafeas, 2002).

[12] http://www.xinhuanet.com//english/2017-06/11/c_136356860.htm

The bivariate probit model estimation requires that the commission and detection estimations do not contain the same set of variables. Therefore, for estimating the likelihood of fraud commission, we include the percentage of shares held by executives in the estimating equation. Managerial fraud incentives are highly correlated with the degree of alignment between managers and firms, but there is little evidence that such incentives affect a firm's probability of being detected by authorities (Johnson, Ryan and Tian., 2009; Wang, Winton and Yu 2011). Furthermore, we include a few extra variables that are associated with a firm's likelihood of being detected as suggested by the literature. First, Khanna, Kim and Lu (2015) shows that fraudulent activity by higher-growth firms is more likely to be detected because these firms attract more investor attention. Second, the litigation literature (e.g., Jones and Weingram, 1996; Wang, Winton, and Yu, 2010) suggests that stock returns are related to a firm's litigation risk. Third, we conjecture that the proportion of businesses conducted locally might also affect local government's supervision of the firm. Therefore, we include growth rate in operating income, annual stock returns, and the proportion of local subsidiaries in the estimating equation of violation detection.

[Table 5 About Here]

Results are reported in Panel A of Table 5. In the sample of environmental violations detected by local environmental authorities, Column (1) shows that EIPs are negatively related to the propensity in committing violations and Column (2) shows that EIPs are positively related to probability of violation detection. Both estimates are statistically significant at least 5% level. These estimates suggest that a firm located in a city with an EIP faces a higher probability of violation detection and a lower propensity to commit violations compared to a firm located in a city without an EIP. Furthermore, we examine this relation in the violations sample detected by non-local or central environmental authorities. Results in columns (3) and (4) suggest that the detection probability in the non-local sample does not change although the overall likelihood of conducting environmental violations is reduced.

4.3.2 Green subsidies

Government subsidies are one common economic intervention tool used by governments around the world to meet social policy objectives (Schwartz and Clements, 1999). Subsidies can be in the form of grants (non-repayable sums of money), tax relief, or loans. Green subsidies are direct government financial support given to firms as an incentive to promote green manufacturing and sustainable development or to offset the costs of mandatory environmental standards. In this section, we investigate whether green subsidies are one tool used by EIPs to promote local greenness by utilizing detailed firm-level subsidies data.

In 2006, the China Securities Regulatory Commission (CSRC) implemented a new set of reporting and accounting rules which require companies listed on any of China's stock exchanges to disclose all direct government subsidies received, along with a brief description of the nature of these subsidies (Fang et al., 2022; Branstetter, Li, and Ren, 2022). For the period from 2007 to 2020, we manually collect the information on government subsidies received by firms from the footnotes of their annual reports. To identify green subsidies, we first construct a dictionary of environment-related words from the Report of the State Council on Environmental Protection Work (2003-2021).[13] After filtering out the list of subsidies containing the words/phrases from the dictionary, we manually go through the list to clean out misidentified records. Through the manual process, we also identify the funding source of subsidies on whether the subsidy is funded by the central, the provincial, or the municipal government.[14]

[13] See Appendix C for the list of environment-related key words and their corresponding English translations.

[14] For example, in the 2020 annual report of Shenzhen Salubris Pharmaceuticals Co., Ltd. (深圳信立泰药业股份有限公司), the firm disclosed a government subsidy item named "Subsidies for atmospheric environmental quality

Green subsidies are pervasive in China, and the resources involved in subsidies are sizable. From our estimates, as of 2016, the central government spent around $1.8 billion (12 billion CNY) a year on green subsidies to non-financial listed firms, reaching a peak high in our sample period. For our purposes of analyzing the effect of city EIPs on firms' green subsidies, we focus on the sample of subsidies received from the local government where city leaders potentially have greater control. Specifically, for each firm-year, we define *Sub_Local1* as green subsidies a firm receives from the local government (municipal) divided by its total assets, *Sub_Local2* as the same numerator but scaled by operating income as denominator, *Sub_Local3* as the natural logarithm of the total amount of green subsidies from the local government. Panel B of Table 5 reports the results examining the relation between green subsidies and city EIPs. Columns (1) to (3) show that, compared to firms located in cities without EIPs, firms located in cities with EIPs receive an increased amount of green subsidies from the local government, either using the scaled measures or the raw amount received.

If the firms located in cities with EIPs are systematically better at applying and obtaining green subsidies from the government, the above results might be driven by the differences in the firms rather than in the city leaders. Therefore, we construct a measure, *Sub_nonLocal*, to capture the part of subsidies a firm receives from other cities, to rule out the possibilities that the effect is not specific to local EIPs. Results are reported in the Column (4) of Table 5. We find an insignificant estimated coefficient on the *EIP* dummy in this sample, suggesting that firms do not receive more green subsidies from non-local cities. This piece of evidence helps to rule out the

improvement from Shenzhen Municipal Bureau of Ecology and Environment (深圳市生态环境局大气环境质量提升补贴)" with an amount of 1,359,323.00 CNY. In the 2020 annual report of Guangxi Fenglin Wood Industry Group Company Limited (广西丰林木业集团股份有限公司), the firm disclosed a government subsidy item named "Refund income of VAT for comprehensive utilization of resources (增值税资源综合利用退税收入)" with an amount of 27,934,209.51 CNY.

possibility that firms located in cities with EIPs just universally benefit more from the green subsidies policies.

Taken together, these findings suggest that EIPs promote local companies to reduce SO2 emissions through both deterring non-compliance and financial support. These mechanisms potentially complement each other in improving local firm's environmental performance.

4.4 Subsidiary-level analysis

Our analysis so far has focused on the firm-level where we aggregate the emissions at the establishment-level up to the firm-level. In this section, we further investigate the effect of EIPs at the subsidiary-level. The purpose of this section is twofold. First, subsidiary-level analysis provides a robustness check to our results using firm-level information. Second, more importantly, subsidiaries are potentially located at different locations with different environmental policy requirements and/or different levels of enforcements, which allows us to explore firm's internal strategies in managing and/or allocating pollutant emissions across subsidiaries. Specifically, we first explore whether the reduction in emissions is different for local and non-local subsidiaries. Second, we investigate site selection decisions for companies that need to build new polluting facilities.

4.4.1 Spillover effects on non-local subsidiaries

To analyze the effect of EIPs on firms at the subsidiary level, we re-estimate Equation (1) using subsidiary-level emission data. We further include subsidiary fixed effects and subsidiary's located city fixed effects. Results are reported in Column (1) of Table 6. The *EIP* indicator is for whether the subsidiary's parent firm is headquartered in a city with an EIP leader. Consistent with firm-level evidence, we find a negative and statistically significant coefficient estimate on the *EIP* indicator. We further investigate whether this effect only comes from local establishments which are located in the same city with the parent firm. Therefore, we split the sample of establishments into local group and non-local group and estimate the effect of EIPs in each of the group separately. Results are reported in Columns (2) and (3). We observe a negative and statistically significant estimated coefficient on the EIP indicator for both groups of establishments. These results suggest that the effect of EIPs on firm SO_2 emissions is not only local, but also spills over to firms' establishments located in other cities.

[Table 6 About Here]

Chen et al. (2021) and Bartram, Hou, and Kim (2022) document that firm-specific and region-specific environmental policies lead to emissions and output shifts due to regulatory arbitrage strategies enacted by firms. Our findings complement these studies to uncover a positive spillover effect of EIPs on non-local establishments of the public firms, and suggest a more effective environmental regulatory approach.

4.4.2 Site selection for new polluting subsidiaries

Providing evidence that firms reduce pollutant emissions when their headquarter city has an EIP, we further explore whether having an EIP at a firm's headquarter location affects firms' decisions in whether and where to establish new polluting subsidiaries.[15] Information on subsidiaries of public firms is obtained from in the CNRDS database. CNRDS collects subsidiaries information mainly from the public firms' periodic reports, and supplement them using NECIPS (National Enterprise Credit Information Publicity System) of China. Information on subsidiaries includes the subsidiary's name, location, and establishment date. We use the establishment date to

[15] Using plant-level data for U.S. manufacturing industries from 1990 to 2007, Cui and Moschini (2020) show that multi-plant firms are more likely to shut down dirty plants in response to increasingly stringent environmental regulations at the county level compared to single-plant firm. The effect is stronger with the presence of more sibling plants residing in neighboring counties that are free from regulatory controls.

identify the year when the subsidiary is established. Furthermore, following He, Wang, and Zhang (2020), we categorize subsidiaries into polluting industries and nonpolluting industries based on the classification in the Environmental Information Disclosure Handbook of Listed Firms issued by the Ministry of Ecology and the Environment, which is also used by the China Securities Regulatory Commission (CSRC) in the Environmental Inspection Categories of Listed Firms.

To test whether and where firms set up new polluting subsidiaries, at the firm-year level, we create four indicator variables for whether firms set up new polluting subsidiaries in the parent firm's city (local), in other cities (non-local), in other cities with no EIP (non-local and non-EIP), and other cities with an EIP (non-local and EIP). We separately estimate the effect of having an EIP at the parent firm's city on the firms' location choices in establishing polluting establishments using the four indicators and results are presented in Columns (1) to (4) of Table 7, respectively.

[Table 7 About Here]

We observe a negative and statistically significant coefficient estimate on the *EIP* dummy in Column (1) and a positive and significant one in Column (2), which suggests that when a firm's headquartered city has an EIP, firms are less likely to set up new polluting subsidiaries locally but more likely to set up new polluting subsidiaries non-locally. Furthermore, we observe a positive and significant coefficient estimate in Column (3), which suggests that firms are more likely to establish new polluting subsidiaries in a non-local city with no EIPs; in addition, we observe a positive but not statistically significant coefficient in Column (4), suggesting that the effect is much smaller and not statistically significant in non-local cities with EIPs. In untabulated results, we continue to find similar patterns for polluting public firms and after controlling for city-level and politician-level characteristics of the subsidiary city.

Taken together, these results suggest that firms make strategic decisions when selecting cities for new polluting subsidiaries, taking into account local environmental requirements and the relative intensity of enforcement across locations.

5. Politician career advancement analysis

In this section, we examine whether environmental performance affects a politician's career advancement probability and whether this relation depends on whether the politician is an EIP or not. To begin with, we first present evidence on the relation between having an EIP as the city leader and the city's environmental and economic performance. Then, we investigate the relation between promotion and local performance, as well as the time-series variations in the relation.

5.1 City-level environmental and economic performance

Having an EIP reduces local firms' emissions. In this section, we further explore the relation between EIP and the city-level environmental performance. At the city-level, we observe more types of pollutants to measure its environmental performance, including the natural logarithm of GDP-adjusted industrial SO_2 emissions (in tons), the natural logarithm of GDP-adjusted industrial dust emissions (in tons), the average of PM2.5 level in a year, the average of daily NO_2 concentration in a year, and the natural logarithm of GDP-adjusted industrial sewage discharge (in 10,000 tons).

[Table 8 About Here]

We estimate a model where the dependent variable is the different environmental performance measures, and the key independent variable is whether a city has an EIP or not. We further control for the city and politician characteristics which are the same as those in equation

(1), as well as the city and the year fixed effects. Results are reported in Panel A of Table 8. We find a statistically significant negative relation between EIP and a city's SO_2, CO_2 and NO_2 levels, and industrial sewage discharge level, suggesting that having an EIP is effective in reducing the city's overall pollutant emissions.[16]

Furthermore, we examine the relation between a city's economic performance and the presence of an EIP in a city. In Panel B of Table 8, we find that there is no significant relation between the *EIP* dummy and city-level economic outcomes measured by the growth rate of local GDP or GDP per capita, suggesting that EIPs do not perform differently on economic matters from non-EIPs.[17] These findings support the strategic channel and are consistent with hypothesis *H3a*.

5.2 Politician promotion analysis

Next, we investigate factors affecting a politician's likelihood of career advancement and whether that differs for EIPs and non-EIPs. Following Wang, Zhang, and Zhou (2020), a politician is considered as promoted if he/she is promoted either (1) from prefecture-level to deputy-province-level, provincial-level, politburo-level; or (2) from deputy-province-level to provincial-level or politburo-level; or (3) from provincial-level to politburo-level (all of those politicians are from the four provincial-level cities); or (4) to positions of same level but greater power, for example from mayor to CPC secretary, after the current term. For factors affecting the likelihood of a politician's promotion, we consider the city's average economic and environmental performance over his/her tenure. We further consider the interaction effect between *EIP* and economic and environmental performance to entertain the possibility that EIPs might be evaluated

[16] For potential channels, we find that cities with EIP have more discussions on environmental issues in their government working reports, have more green investments, and more environmental violation enforcement. Results are not tabulated for brevity.

[17] We also conduct analysis on the relation between having an EIP and local firms' financial performance. We measure a firm's financial performance using ROA, ROS, Tobin's Q, and abnormal return adjusted with industry average. Across all performance measures, we do not find a significant relation between having an EIP as a local leader and local public firm's performance.

differently from non-EIPs. We hypothesize that EIPs might be evaluated with more weight on his/her environmental performance compared to non-EIPs who might be evaluated with more emphasis on economic performance. To test these hypotheses, we estimate the following model:

$$Promotion_{i,j,t} = \alpha_1 EIP_{i,j,t} + \alpha_2 avgEconPerf_{j,t} + \alpha_3 avgEconPerf_{j,t} \times EIP_{i,j,t} + \alpha_4 avgEnvirPerf_{j,t} + \alpha_5 avgEnvirPerf_{j,t} \times EIP_{i,j,t} + CityChar_{j,t} + PolititianChar_{i,t} + CityFE + YearFE + PoliticanFE + PositionFE + \epsilon_{k,t} \quad (2)$$

where $Promotion_{i,j,t}$ is an indicator variable that equals one if the EIP *i* of city *j* is promoted in his/her next position, and zero otherwise; $EIP_{i,j,t}$ is an indicator variable that equals one if the politician *i* of city *j* is an EIP politician in year *t*, and zero otherwise; $avgEconPerf_{j,t}$ is the average GDP growth rate after the city leader takes over the current position; $avgEnvirPerf_{j,t}$ is the average of the natural logarithm of GDP-adjusted city-level SO_2 emissions (in tons) after the city leader takes over the current position. $CityChar_{j,t}$ is the same as in equation (1). $PolititianChar_{i,t}$ includes the same set of variables as in equation (1). Following Li and Zhou (2005), we further include the square term of the EIP's tenure for the possible non-linear relation between promotion and the time a politician stays in the current position. Normally, a politician needs to stay in a position for some time to get promoted. However, the likelihood of promotion might decrease as an EIP stays in the current position for too long. City fixed effects, year fixed effects, politician fixed effects, and position fixed effects are further included, and standard errors are clustered at the politician level.

[Table 9 About Here]

Results are reported in Table 9. In Column (1), when only *EIP*, city-level and politician-level controls are included, we do not observe a significant relation between *EIP* and the promotion likelihood. In Column (2), we include economic performance measure and its interaction term with the *EIP* dummy. We do not find the economic performance affects the likelihood of a politician's promotion, consistent with Yao and Zhang (2013) and Chen and Kung (2016). In Column (3), we further consider the impact of environmental performance on promotion likelihood by including environmental performance measure and its interaction term with the *EIP* dummy. We find a negative and statistically significant coefficient estimate on the interaction term between *EIP* and city-level average SO_2 emissions level. This finding suggests that, for an EIP, his/her promotion likelihood is lower if the environmental performance of the city where he/she oversees is worse. In other words, the city's environmental performance affects an EIP's promotion likelihood. In Column (4), we include both economic and environmental performance factors. We continue to find that a poor environmental performance would negatively affect an EIP's promotion likelihood. Furthermore, we notice that there is a positive estimate on the interaction term between the *EIP* dummy and the city's economic performance, suggesting that, for an EIP the promotion likelihood is greater if his/her economic performance is better.

As discussed in the institutional background section, the central government issued guidance on increasing the weight of environmental protection in local leaders' evaluation at the end of 2013 and China "declared war" on pollution in 2014. These changes are likely to affect which factors affecting government officials' promotions before and after 2013. Therefore, we further split our sample into pre-2013 period and post-2013 period (including year 2013) and repeat our analysis. Columns (5) and (6) report the results. In the periods prior to 2013, we do not find a difference in the promotion likelihood between EIPs and non-EIPs. Furthermore, neither economic performance nor environmental performance affects the promotion probability. In the post-2013 period, we observe the negative effect of poor environmental performance on the promotion likelihood of EIPs. This finding suggests that the promotion decision for EIPs factors in their environmental performance in their current position. It reflects the implementation of the concept of “clean water and lush mountains are invaluable assets” in the performance evaluations of local officials.

6. Conclusions

In this study, we demonstrate that local politicians with prior environmental-related work experience are associated with lower levels of SO_2 emissions at both the firm and city level. The effect varies with politicians’ career incentives. Specifically, the relation between EIPs and environmental performance is attenuated when politicians are less likely to be promoted in their second term. We find that firms in cities with EIPs are less likely to commit environmental violations, and their violations are more likely to be detected. Firms in cities with EIPs receive more green subsidies from the local government. The effect of EIP to reduce SO_2 emissions is not restricted to the parent establishment in the local city but also to its subsidiaries in other cities; however, parent company located in cities with EIPs are more likely to establish polluting subsidiaries in cities without EIPs. Evidence also suggests that EIPs strategically consider the tradeoffs between economic and environmental performance. First, when a firm is economically important to the city governed by an EIP, the impact of EIP to reduce its SO_2 emissions is significantly smaller. Second, the economic performance of the city governed by EIPs is not statistically different from that of the city governed by non-EIPs. Finally, we find that EIPs’ likelihood of promotion is linked to environmental performance, indicating that politicians’ characteristics and expertise are factored in their performance evaluation.

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Appendix A: Variable Definition

Variable	Definition	Source
Panel A: Politician & City Level Variables		
EIP	An indicator variable equals one if the politician (mayor / CPC secretary) previously has environmental work experience, and zero otherwise. Environmental work experience includes working experience of: (1) all levels of government departments responsible for ecological and environmental affairs; (2) other government agencies and environmental research institutes with functions of protecting natural resources, energy saving and emission reduction, etc.; (3) mayor or deputy mayor responsible for regional environmental protection and such duties are clearly documented in government documents.	Hand-collected
Age	The natural logarithm of the politician's age.	Hand-collected
Gender	An indicator variable equals one if the politician is female, and zero otherwise.	Hand-collected
Hometown	An indicator variable equals one if the politician was born in the city where he works, and zero otherwise.	Hand-collected
College	An indicator variable equals one if the politician has a bachelor's degree or above, and zero otherwise.	Hand-collected
Edegree	An indicator variable equals one if the politician is graduated with a degree of environmental related majors, and zero otherwise.	Hand-collected
Mayor_deputy	An indicator variable equals one if the politician has previously worked as a deputy mayor, and zero otherwise.	Hand-collected
Tenure	The natural logarithm of years since the politician takes office.	Hand-collected
Gdp	GDP adjusted for inflation.	China City Yearbook & National Bureau of Statistics of China
Gdp_growth	GDP growth rate adjusted for inflation.	China City Yearbook & National Bureau of Statistics of China
PCGdp_growth	The growth rate of GDP per capita adjusted for inflation.	China City Yearbook & National Bureau of Statistics of China
Second_ind	The added value of the secondary industry as a percentage of GDP.	China City Yearbook
Population	The natural logarithm of city population.	China Urban-Rural Construction Statistical Yearbook
Wage	Average wage of employees adjusted for inflation.	China City Yearbook & National Bureau of Statistics of China
City_envir	An indicator variable equals to one if the city is on the *List of Key Cities for Environmental Protection* according to the "Eleventh Five-Year Plan" for National Environmental Protection, and	http://www.gov.cn/

	zero otherwise.	
Normal	An indicator variable equals to one if the city is an ordinary prefecture-level city, and zero if the city is sub-provincial or directly administered by the central government.	http://www.gov.cn/
SO2_City	The natural logarithm of city-level GDP-adjusted industrial SO_2 emission (in tons).	China City Yearbook
CO2_City	The natural logarithm of GDP-adjusted carbon emissions (in 10,000 tons). Sources of carbon emissions include electricity, gas and LPG, transportation and thermal energy consumption.	China City Yearbook
NO2_City	The average of daily NO_2 of city in a year.	CNRDS
Dust_City	The natural logarithm of GDP-adjusted industrial dust emission (in tons).	China City Yearbook
PM25_City	The average of PM2.5 of city in a year.	Atmospheric Composition Analysis Group
Sewage_City	The natural logarithm of GDP-adjusted industrial sewage discharge (in 10,000 tons).	China City Yearbook
GDP_Growth_avg	Average of city GDP growth rate over the politician's tenure.	China City Yearbook & National Bureau of Statistics of China
SO2_City_avg	Average of city GDP-adjusted industrial SO_2 emission over the politician's tenure.	China City Yearbook & National Bureau of Statistics of China

Panel B: Firm Level Variables		
Listed Company Level (As a Whole)		
SO2_Firm	The amount of total SO_2 emission (in tons) scaled by operating income (per 1,000,000 CNY), adjusted for inflation.	ASIF & CSMAR & National Bureau of Statistics of China
Size	The natural logarithm of total assets.	CSMAR
Lev	Total liabilities / total assets.	CSMAR
Growth	Growth rate in operating income.	CSMAR
ROA	Net income / total assets.	CSMAR
ROS	Return on sales.	CSMAR
RET	Annual stock return.	CSMAR
TQ	Tobin's Q.	CSMAR
TQ_industry	The median Tobin's Q of firm's industry.	CSMAR
FirmAge	The natural logarithm of years since firm's establishment.	CSMAR
Tangible	Tangible assets / total assets.	CSMAR
Competition	Herfindahl-Hirschman Index (HHI) based on a firm's prime operating revenue.	CSMAR
Foreign	The percentage of shares held by foreign shareholder.	CSMAR
Ana_attention	The natural logarithm of number of analysts following a firm for a year.	CSMAR
Big4	An indicator variable equals to one if the firm is audited by a Big Four accounting firm.	CSMAR
INS	The percentage of shares held by institutional investors.	CSMAR
Indeppct	The percentage of independent directors.	CSMAR
LocalSub_pct	A ratio of number of local subsidiaries over the total number of all subsidiaries for a firm.	CSMAR
SOE	An indicator variable equals to one if the firm is	CSMAR

	state-owned, and zero otherwise.	
HighPolluteFirm	An indicator variable equals to one if the firm's SO_2 emission in *t*-1 is among the industry top quartile, and zero otherwise.	ASIF & CSMAR & National Bureau of Statistics of China
Fraud_Local	An indicator variable equals to one if the firm 's environmental violation is punished by local authorities, and zero otherwise.	Hand-collected
Fraud_nonLocal	An indicator variable equals to one if the firm 's environmental violation is punished by authorities of other cities or central/provincial bureau, and zero otherwise.	Hand-collected
Detect_Local	An indicator variable equals to one if the firm's environmental violation is detected by local authorities, and zero otherwise.	Hand-collected
Detect_nonLocal	An indicator variable equals to one if the firm's environmental violation is detected by authorities of other cities or central/provincial bureau, and zero otherwise.	Hand-collected
Sub_Local1	Environment-related subsidies a firm receives from local government (municipal), divided by its total assets.	Annual report
Sub_Local2	Environment-related subsidies a firm receives from local government (municipal), divided by its operating income.	Annual report
Sub_Local3	The natural logarithm of the amount of environment-related subsidies a firm receives from local government (municipal).	Annual report
Sub_nonLocal	Environment-related subsidies a firm receives from other cities, divided by its total assets.	Annual report

Subsidiary Level		
SO2_subsidiary	The amount of total SO_2 emission (in tons) scaled by the subsidiary's total industrial output (per 1000 CNY), adjusted for inflation.	ASIF & National Bureau of Statistics of China
SubSize	Industrial output adjusted for inflation.	ASIF & National Bureau of Statistics of China
SubAge	The natural logarithm of years since subsidiary's establishment.	ASIF
Entry_Pollute	An indicator variable equals to one if the firm establishes at least one new polluting subsidiary in the city, and zero otherwise.	CNRDS
ParentCity_EP	An indicator variable equals to one if the subsidiary's parent firm locates in a city governed by an EIP, and zero otherwise.	Hand-collected
SubCity_nonEP	An indicator variable equals to one if the subsidiary locates in a city not governed by an EIP, and zero otherwise.	Hand-collected
Distance	The natural logarithm of the distance between the subsidiary city and the parent firm city.	CNRDS

Appendix B: Determinants of EIP appointment

We examine the relation between the EIP appointment and observable city characteristic. The analysis is conducted at the city level. We identify all cases where there is a change in the city leadership team and take the city-year observation that is one year prior to the change. Then we compare key characteristics of city-year observations with an incoming EIP versus those without. Results are in Panel A of Table B1. Among the city-year observations with an incoming EIP, their city average wage is greater, while their GDP growth rate, the added value of the secondary industry scaled by GDP, and SO_2 emission rate are slightly lower.

We further conduct multivariate analysis by estimating the following model:

$$EIP_{i,j,t+1} = \beta CityChar_{j,t} + CityFE + YearFE + \varepsilon_{i,t+1} \qquad (3)$$

where $EIP_{i,j,t+1}$ is an indicator variable that equals one if the city *j* has an incoming EIP *i* in year *t*+1, and zero otherwise; $CityChar_{j,t}$ is a set of city characteristics including city GDP, GDP growth, population, wage, the added value of the secondary industry scaled by city GDP, SO_2 emission rate, average PM2.5, whether the city is on the List of Key Cities for Environmental Protection according to the "Eleventh Five-Year Plan", and whether the city is an ordinary prefecture-level city. City fixed effects and year fixed effects are further included, and standard errors are clustered at the city level. We use both Logit and linear probability estimations, and results are reported in Panel B. Across all model specifications, we do not observe any significant relation between city characteristics and the appointment of an EIP to a city, suggesting that there is not a very strong selection issue in appointing an EIP to a city with a particular type of characteristics.

Table B1: Determinants of EIP appointment

This table explores the determinants of EIP appointment. Panel A provides a comparison of city and politician characteristics between EIP and non-EIP cities. Panel B reports the results of multivariate analysis using logit and linear probability model. The dependent variable is an indicator of whether the city has at least one EIP leader in the current year. See Appendix A for detailed definitions of the control variables. All specifications include fixed effects as indicated in the table. The *t*-statistics, in parentheses, are based on standard errors clustered by city. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Univariate analysis

Variable	EIP=0	EIP=1	diff (EIP=0 - EIP=1)	*p*-value
City-year Level				
Gdp	6.952	6.970	-0.018	0.633
Gdp_growth	0.114	0.102	0.013*	0.051
Population	1.776	1.777	-0.002	0.954
Wage	4.488	4.548	-0.060***	0.001
Second_ind	48.385	46.132	2.252**	0.021
SO2_City_raw	4.553	4.495	0.058	0.174
SO2_City	4.597	4.517	0.080*	0.092
PM25	1.660	1.647	0.014	0.263
City_envir	0.390	0.352	0.037	0.396
Normal	0.949	0.930	0.020	0.336
Age	3.976	3.964	0.012	0.325
Gender	0.050	0.035	0.014	0.457
Hometown	0.039	0.021	0.018	0.294
College	0.994	1.000	-0.006	0.359

Panel B: Multivariate analysis

	(1)	(2)	(3)	(4)	(5)	(6)
	All		Before 2013		Post 2013	
	Logit	LPM	Logit	LPM	Logit	LPM
Gdp	-0.799	-0.169	-1.210	-0.249	-0.230	-0.263
	(-1.28)	(-0.56)	(-1.40)	(-0.83)	(-0.29)	(-0.40)
Gdp_growth	1.359	0.172	1.647	-0.244	2.946	0.132
	(0.75)	(0.80)	(0.63)	(-0.84)	(1.01)	(0.24)
Population	0.567	-0.221	0.515	0.024	0.549	0.261
	(0.88)	(-1.08)	(0.63)	(0.12)	(0.65)	(0.48)
Wage	1.961	0.507	3.259	0.201	-0.277	-0.293
	(1.07)	(1.45)	(1.52)	(0.42)	(-0.10)	(-0.44)
Second_ind	-0.020	0.000	-0.025	-0.000	-0.016	-0.005
	(-1.35)	(0.09)	(-1.35)	(-0.05)	(-0.85)	(-0.48)
SO2_City	0.044	0.026	-0.170	0.065	0.579	0.121
	(0.16)	(0.41)	(-0.48)	(0.81)	(1.34)	(0.73)
PM25_City	0.208	-0.478	-1.350	-0.868*	1.345	0.298
	(0.19)	(-1.29)	(-0.99)	(-1.71)	(0.93)	(0.48)
City_envir	-0.288		-0.050		-0.466	
	(-0.99)		(-0.13)		(-1.17)	
Normal	-0.297		-0.509		-0.388	
	(-0.47)		(-0.57)		(-0.48)	
N	1001	999	583	526	418	327
YearFE	Y	Y	Y	Y	Y	Y
CityFE	N	Y	N	Y	N	Y
Pseudo / Adjusted R^2	0.049	0.216	0.074	0.301	0.041	0.336

Appendix C: Dictionary of environment-related Chinese key words and their corresponding translations

Category	Sub-category	Key word (Chinese)	Key word (English)
Environment	Environment in general	环境	environment/environmental
		环保/环境保护	environment protection/ environmental conservation
		环境质量	environment quality
		环境治理/整治/防治	environment governance
		生态	ecology/ecological
		绿色/绿色转型	green/green transition
		蓝天	blue sky
		可持续发展	sustainable development
		环境责任保险/环责险	environmental liability insurance
	Energy & Natural resource	能源	energy
		能耗	energy consumption
		新能源	new energy
		清洁能源	clean energy
		太阳能/光伏/光电	solar energy/photovoltaic energy /PV
		风能/风力发电/风电	wind energy/wind power
		余热	cogeneration
		煤改气/油改气	coal to gas/oil to gas
		资源	resource
		海洋资源	marine/ocean
		土壤资源	soil
		森林资源/森林/林地	forest/forest land
		退耕还林	return farmland to forest
	Energy conservation	节约	save/preserve/ conserve/conservation
		节能	energy conservation/save energy
		降耗	reduce consumption
		节电/节约用电	save electricity
		节水/节约用水	save water
		节煤/减煤	save coal
	Emission reduction	减排/低排/减污	reduce emission/reduce pollution
		低碳/低氮	low carbon/ low nitrogen
		脱硫	desulfurization
		脱硝	denitrification
	Recycling	回收	recycle
		再利用	reuse
		循环	circular
		再生	regeneration
		综合利用	comprehensive utilization
		以旧换新	trade-in
	Rehabilitation	恢复/修复/重建	rehabilitate/rehabilitation/ remediate/remediation/ restore/restoration

		清洁/清理/洁净/清扫/清除/淘汰	clean/remove/eliminate
		清淤	dredge
		吸污	suction
Pollution	Gas	空气污染/大气污染	air pollution
		废气/烟气/尾气/烟尘	waste gas/exhaust gas/flue gas/smoke
		一氧化碳/二氧化碳	CO/carbon monoxide/CO_2/carbon dioxide
		氮氧化物	NO_2/oxides of nitrogen/
		二氧化硫	sulfur dioxide
		挥发性有机化合物	VOCs
	Liquid	水污染	water pollution
		废水/废液/污水	waste water/polluted water/sewage
		废酸	waste acid
		酸雨	acid rain
		污泥	sludge/mud
	Solid	固体废物/固废	solid waste
		垃圾/废物/废弃物	rubbish
		废渣	waste residue
		危险废物/危废	hazardous waste
	Other	污染/污染物	pollution/pollutant
		排放/释放/排污	emit/emission
		锅炉	boiler
		烟囱	chimney
		黄标车	yellow label car
		噪音	noise
		在线监测系统	online monitoring system

Figure 1: Ratio of EIPs by year

Figure 1 presents the distribution of city leaders (mayors/CPC secretaries) with past environment working experience by year.

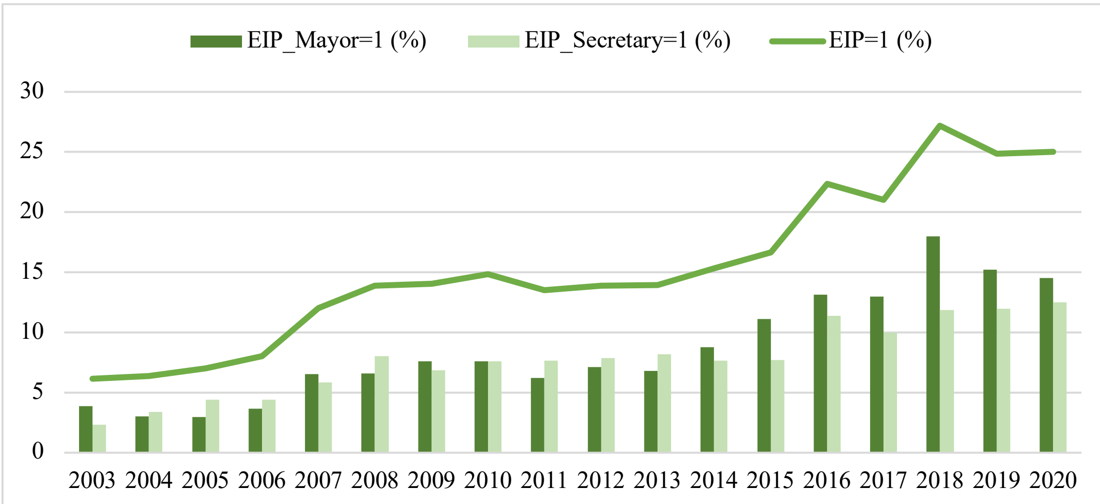

Table 1: Summary Statistics

This table presents the descriptive statistics of variables used in this study. Panel A corresponds to statistics at firm-year level. Panel B corresponds to univariate comparisons between the EIP and non-EIP sample at city-year, firm-year and subsidiary-year level. The sample for firm-year and subsidiary-year level covers the period between 2003 and 2014 due to SO_2 data availability. The sample for city-year level covers the period between 2003 and 2020. See Appendix A for detailed definitions of the control variables.

Panel A: Summary statistics of the firm-year sample (2003 – 2014)

Variable	N	Mean	SD	p5	p25	p50	p75	p95
SO2_Firm	5,721	0.465	1.452	0.000	0.005	0.040	0.250	1.985
EIP	5,721	0.116	0.320	0.000	0.000	0.000	0.000	1.000
Gdp	5,721	7.484	0.513	6.620	7.090	7.487	7.903	8.276
Population	5,721	2.357	0.558	1.573	1.893	2.308	2.749	3.362
Wage	5,721	4.600	0.191	4.254	4.478	4.611	4.735	4.904
Second ind	5,721	47.392	9.959	24.940	42.100	48.350	54.090	62.300
Age	5,721	4.021	0.154	3.850	3.951	4.007	4.078	4.205
Gender	5,721	0.033	0.178	0.000	0.000	0.000	0.000	0.000
Hometown	5,721	0.052	0.222	0.000	0.000	0.000	0.000	1.000
College	5,721	0.993	0.081	1.000	1.000	1.000	1.000	1.000
Edegree	5,721	0.119	0.324	0.000	0.000	0.000	0.000	1.000
Tenure	5,721	1.067	0.599	0.000	0.693	1.099	1.386	2.079
Size	5,721	22.116	1.326	20.279	21.156	21.921	22.872	24.632
FirmAge	5,721	0.972	0.291	0.301	0.845	1.041	1.176	1.301
Lev	5,721	0.513	0.186	0.181	0.386	0.522	0.649	0.800
ROA	5,721	0.035	0.054	-0.048	0.011	0.032	0.060	0.123
Tangible	5,721	0.948	0.054	0.839	0.934	0.964	0.982	0.999
Competition	5,721	0.110	0.104	0.019	0.047	0.077	0.131	0.309
SOE	5,721	0.640	0.480	0.000	0.000	1.000	1.000	1.000
Foreign	5,721	1.175	5.525	0.000	0.000	0.000	0.000	6.340

Panel B: Univariate comparisons between the EIP and non-EIP sample

Variable	EIP=0	EIP=1	diff (EIP=0 - EIP=1)	*p*-value
City-year Level (2003-2020)				
SO2_City	4.496	4.261	0.235***	0.000
Gdp	6.989	7.028	-0.039**	0.036
Population	1.799	1.807	-0.008	0.610
Wage	4.466	4.505	-0.039*	0.068
Second_ind	47.685	44.341	3.344***	0.000
Age	3.995	3.975	0.020**	0.014
Gender	0.036	0.042	-0.006	0.433
Hometown	0.045	0.026	0.020**	0.020
College	0.983	0.997	-0.014***	0.007
Edegree	0.077	0.230	-0.153***	0.000
Tenure	0.985	0.903	0.081***	0.001
Mayor_Deputy	0.416	0.669	-0.253***	0.000
Firm-year Level (2003-2014)				
SO2_Firm	0.489	0.282	0.207***	0.001
Size	22.116	22.116	-0.000	0.996
FirmAge	0.972	0.965	0.007	0.542
Lev	0.512	0.517	-0.004	0.573
ROA	0.035	0.038	-0.003	0.135
Tangible	0.948	0.947	0.001	0.708
Competition	0.110	0.109	0.001	0.796
SOE	0.653	0.545	0.107***	0.000
Foreign	1.257	0.552	0.705***	0.002
Subsidiary Level (2003-2014)				
SO2_Sub	1.473	1.063	0.410***	0.000
SubSize	8.485	8.390	0.094***	0.000
SubAge	1.087	1.048	0.039***	0.000

Table 2: EIP and firm SO_2 emission (Baseline)

This table relates local public firms' environmental performance and city leaders' past environment working experience. *EIP* is an indicator variable equals one if the politician (mayor / CPC secretary) has previous environmental work experience, and zero otherwise. The dependent variable *SO2_Firm* is the natural logarithm of city-level GDP-adjusted industrial SO_2 emission (in tons). See Appendix A for detailed definitions of the control variables. All specifications include fixed effects as indicated in the table. The *t*-statistics, in parentheses, are based on standard errors clustered by firm and city. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	(1) SO2_Firm	(2) SO2_Firm	(3) SO2_Firm
EIP	-0.245***	-0.219***	-0.252***
	(-3.29)	(-2.65)	(-3.51)
Gdp		-1.590**	-1.408*
		(-1.98)	(-1.69)
Population		0.046	-0.205
		(0.12)	(-0.64)
Wage		-0.795	-1.005
		(-0.96)	(-1.34)
Second_ind		-0.001	0.002
		(-0.14)	(0.30)
Age		-0.561	-0.720**
		(-1.51)	(-2.31)
Gender		0.034	0.049
		(0.50)	(0.76)
Hometown		0.026	0.091
		(0.29)	(1.24)
College		-0.255*	-0.174
		(-1.89)	(-1.63)
Edegree		0.028	0.069
		(0.35)	(1.04)
Tenure		-0.070*	-0.043
		(-1.88)	(-1.41)
Size		-0.363***	-0.341***
		(-3.19)	(-3.55)
FirmAge		0.292	0.201
		(1.20)	(0.73)
Lev		0.125	0.284
		(0.36)	(0.89)
ROA		-0.104	-0.214
		(-0.26)	(-0.66)
Tangible		0.909*	0.662
		(1.73)	(0.80)
Competition		0.769*	0.000
		(1.82)	(0.00)
SOE		-0.246	-0.194
		(-1.48)	(-1.22)
Foreign		-0.000	-0.001
		(-0.02)	(-0.19)
N	5967	5721	5577
FirmFE	Y	Y	Y
CityFE	Y	Y	Y
YearFE	Y	Y	N
IndustryYearFE	N	N	Y
Adjusted R^2	0.461	0.476	0.576

Table 3: Matching analysis (PSM-DID analysis of EIP arriving)

This table provides dynamic evidence on the impact of EIPs on local public firms' environmental performance by conducting a PSM-DID analysis. Panel A reports summary statistics at the firm-year level for the subsample of firms that experienced EIP arriving events and for the control sample. The control sample is formed by matching each event firm to the non-event firm from the same city level (sub-provincial city or ordinary prefecture-level city) with the closest propensity score based on city characteristics including GDP, population, wage and the secondary industry added value as a percentage of GDP, and firm characteristics including SO_2 emission level, firm size, leverage level, ROA and firm age. The variable values are measured as of the year prior to the EIP turnover. For each variable, we report the mean, standard deviation, and the *t*-statistics for the differences in mean values between the treated and matched firms. Panel B presents estimation results. We include observations from three years prior to through three years post events for both the treated and the matched firms. *Treat* is a dummy variable indicating whether the firm experienced an EIP turnover event, *Post* is a dummy variable equal to one if the treated firm (matched control firm) is within [0, 3] years after the turnover event year (the pseudo-event year). Firm-level, city-level as well as politician-level control variables are the same as those in Table 2. See Appendix A for detailed definitions of the control variables. All specifications include fixed effects as indicated in the table. The t-statistics, in parentheses, are based on standard errors clustered by firm and city. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Comparisons of matching variables

	Treat Event (N=99)		Pseudo Event (N=99)		Difference	
	mean	sd	mean	sd	Treat-Pseudo	*p*-value
Gdp	7.298	0.415	7.392	0.397	-0.094	0.105
Population	2.115	0.382	2.151	0.355	-0.036	0.489
Wage	4.526	0.164	4.545	0.173	-0.019	0.434
Second_ind	49.954	6.791	51.085	7.686	-1.131	0.274
SO2_Firm	0.043	1.984	0.012	0.052	0.032	0.171
Size	21.773	0.984	21.623	1.281	0.150	0.358
Lev	0.493	0.174	0.467	0.210	0.025	0.361
ROA	0.044	0.049	0.043	0.065	0.001	0.887
FirmAge	0.865	0.288	0.830	0.325	0.035	0.421

Panel B: PSM-DID estimation results

	(1) SO2_Firm	(2) SO2_Firm	(3) SO2_Firm
Treat * Post	-0.376***	-0.363***	
	(-3.56)	(-3.46)	
Post	0.047		
	(1.14)		
Treat * I (T= -2)			-0.466
			(-1.41)
Treat * I (T= -1)			-0.518
			(-1.36)
Treat * I (T= 0)			-0.803**
			(-2.12)
Treat * I (T= 1)			-0.646*
			(-1.79)
Treat * I (T= 2)			-0.933***
			(-2.76)
Treat * I (T= 3)			-0.751**
			(-2.43)
N	583	583	583
Controls	Y	Y	Y
FirmFE	Y	Y	Y
CityFE	Y	Y	Y
YearFE	Y	Y	Y
WindowFE	N	Y	Y
Adjusted R^2	0.517	0.520	0.521

Table 4: Cross-sectional variations

This table examines the cross-sectional heterogeneity in the effect of EIP on firm emissions. *SecondTerm* is an indicator variable equals to one if the leader has been in the position for more than 5 years (following Li and Zhou (2005)). *Pillar* is an indicator variable of firm's economic importance which equals to one if the ratio of firm's operating income to city's GDP is higher than the sample median. Firm-, city- and politician-level control variables are the same as those in Table 2. See Appendix A for detailed definitions of the control variables. All specifications include fixed effects as indicated in the table. The *t*-statistics, in parentheses, are based on standard errors clustered by firm and city. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	(1) SO2_Firm	(2) SO2_Firm
EIP	-0.248***	-0.412***
	(-2.92)	(-3.31)
SecondTerm	0.011	
	(0.18)	
EIP * SecondTerm	0.296**	
	(2.36)	
Pillar		-0.383***
		(-2.86)
EIP * Pillar		0.350**
		(2.03)
N	5721	5721
Controls	Y	Y
FirmFE	Y	Y
CityFE	Y	Y
YearFE	Y	Y
Adjusted R^2	0.476	0.479

Table 5: Mechanisms

This table explores several mechanisms through which we observe the negative relation between having an EIP and local firms' emission level. Panel A reports bivariate probit model estimation results of corporate environment fraud. *Detect_Local* is an indicator for whether the local firm is sanctioned by local environmental authorities, *Detect_nonLocal* is an indicator for whether the local firm is sanctioned by non-local environmental authorities. *Fraud_Local* and *Fraud_nonLocal*, are similarly defined for fraud commissions. Variables explaining a firm's likelihood of committing fraud and being detected are defined in Section 4.3.1 in detail. Robust standard errors are clustered at the firm level are reported in parentheses. Panel B reports the results of green subsidies that firms receive from the government. Dependent variables are environment-related subsidies a firm receives from the local government (municipal) scaled by its total assets (column (1)), scaled by its operating income (column (2)), the natural logarithm of the total amount of green subsidies received from the local government (column (3)), and green subsidies a firm receives from other cities divided by its total assets (column (4)). Firm-, city- and politician-level control variables are the same as those in Table 2 if not further illustrated. See Appendix A for detailed definitions of the control variables. All specifications include fixed effects as indicated in the table. The *t*-statistics, in parentheses, are based on standard errors clustered by firm and city if not further illustrated. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Corporate environment fraud (2003-2018)

	(1) Fraud_Local	(2) Detect_Local	(3) Fraud_non Local	(4) Detect_non Local
EIP	-0.426***	0.188**	-0.229***	-0.101
	(-5.14)	(1.96)	(-3.38)	(-1.60)
N	24171		24171	
Controls	Y		Y	
YearFE	Y		Y	
L-likelihood	-1422.502		-2321.128	

Panel B: Green subsidies (2007-2020)

	(1) Sub_Local1	(2) Sub_Local2	(3) Sub_Local3	(4) Sub_nonLocal
EIP	0.074***	0.151***	0.442***	-0.006
	(3.13)	(2.87)	(4.11)	(-0.97)
N	31810	31782	31810	31810
Controls	Y	Y	Y	Y
FirmFE	Y	Y	Y	Y
CityFE	Y	Y	Y	Y
YearFE	Y	Y	Y	Y
Adjusted R^2	0.185	0.180	0.250	0.179

Table 6: Spillover effects on non-local subsidiaries (2003-2014)

This table presents the effect of EIPs on non-local subsidiaries of local public firms. The dependent variable is establishment-level SO_2 emission, which is defined as the amount of total SO_2 emission (in tons) scaled by the subsidiary's total industrial output (per 1000 CNY), adjusted for inflation. Firm-level, city-level as well as politician-level control variables are the same as those in Table 2. Extra control variables include the ratio of number of local subsidiaries over the total number of all subsidiaries for a firm, subsidiary size and age. See Appendix A for detailed definitions of the control variables. All specifications include fixed effects as indicated in the table. The *t*-statistics, in parentheses, are based on standard errors clustered by subsidiary and city. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)
	All	Local	Non-local
EIP	-0.539***	-0.732**	-0.476**
	(-3.22)	(-2.03)	(-2.50)
LocalSub_pct	0.022	0.165	-0.156
	(0.08)	(0.45)	(-0.44)
SubSize	-2.521***	-2.003***	-2.877***
	(-10.11)	(-3.42)	(-11.12)
SubAge	0.253***	0.202	0.283**
	(2.75)	(1.25)	(2.40)
N	15142	4093	10109
Other Controls	Y	Y	Y
FirmFE	Y	Y	Y
SubsidiaryFE	Y	Y	Y
CityFE	Y	Y	Y
SubCityFE	Y	N	Y
YearFE	Y	Y	Y
Adjusted R^2	0.634	0.577	0.634

Table 7: Strategies of site selection for new polluting subsidiaries (2003-2020)

This table explores firms' strategies of site selection for new polluting subsidiaries in response to local EIPs. Dependent variables for columns (1)-(4) are four indicator variables for whether firms set up new polluting subsidiaries in the parent firm's city (local), in other cities (non-local), in other cities with no EIP (non-local and non-EIP), and other cities with an EIP (non-local and EIP). Classification of polluting subsidiaries are described in Section 4.4.2. Firm-level, city-level as well as politician-level control variables are the same as those in Table 2. See Appendix A for detailed definitions of the control variables. All specifications include fixed effects as indicated in the table. The *t*-statistics, in parentheses, are based on standard errors clustered by firm and city. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	(1) Local sub	(2) Non-local sub	(3) Non-local and non-EIP city	(4) Non-local and EIP city
EIP	-0.002*	0.004*	0.005**	0.001
	(-1.73)	(1.91)	(2.52)	(1.43)
N	13640	13640	13640	13640
Controls	Y	Y	Y	Y
FirmFE	Y	Y	Y	Y
CityFE	Y	Y	Y	Y
YearFE	Y	Y	Y	Y
Adjusted R^2	0.089	0.102	0.178	0.216

Table 8: City level analysis

This table presents the impact of EIPs on city-level environmental and economic performances. In Panel A, dependent variables are the natural logarithm of GDP-adjusted pollution measures with different sample periods due to data availability. In Panel B, dependent variables are GDP growth rate and GDP growth rate per capita. City- and politician-level control variables are the same as those in Table 2. See Appendix A for detailed definitions of control variables. All specifications include fixed effects as indicated in the table. The *t*-statistics, in parentheses, are based on standard errors clustered by city. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Panel A: EIP and city pollutant emissions

	(1)	(2)	(3)	(4)	(5)	(6)
	SO2_City (2003-2020)	CO2_City (2006-2019)	Dust_City (2011-2019)	PM25_City (2003-2020)	NO2_City (2013-2020)	Sewage_City (2003-2020)
EIP	-0.043**	-0.020**	0.013	0.002	-0.032***	-0.018*
	(-2.49)	(-2.15)	(0.56)	(0.62)	(-2.75)	(-1.97)
N	4509	3030	2069	4911	1681	4674
Controls	Y	Y	Y	Y	Y	Y
YearFE	Y	Y	Y	Y	Y	Y
CityFE	Y	Y	Y	Y	Y	Y
Adjusted R^2	0.877	0.888	0.848	0.937	0.777	0.866

Panel B: EIP and city economic outcomes (2003-2020)

	(1)	(2)	(3)	(4)
	Gdp_growth	Gdp_growth	PCGdp_growth	PCGdp_growth
EIP	0.002	0.002	-0.002	0.001
	(0.61)	(0.44)	(-0.36)	(0.09)
EIP * Post2013		-0.000		-0.004
		(-0.02)		(-0.56)
N	4461	4461	4409	4409
Controls	Y	Y	Y	Y
YearFE	Y	Y	Y	Y
CityFE	Y	Y	Y	Y
Adjusted R^2	0.472	0.471	0.233	0.233

Table 9: Politician promotion determinants analysis (2003-2020)

This table reports the results of factors affecting a politician's likelihood of promotion and whether that differs for EIPs and non-EIPs. The dependent variable is an indicator of politician promotion defined following Wang, Zhang and Zhou (2020). Economic performance is measured using the average of city GDP growth rate over the politician's tenure. Environmental performance is measured using the average of city GDP-adjusted industrial SO_2 emission over the politician's tenure. See Appendix A for detailed definitions of the control variables. All specifications include fixed effects as indicated in the table. The *t*-statistics, in parentheses, are based on standard errors clustered by politician. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	(1) Full	(2) Full	(3) Full	(4) Full	(5) Before 2013	(6) Post 2013
EIP	-0.039	-0.074*	0.569**	0.675**	0.181	0.963***
	(-1.15)	(-1.66)	(2.01)	(2.45)	(0.32)	(2.66)
Gdp_Growth_avg		0.065		-0.004	-0.044	-0.023
		(0.40)		(-0.02)	(-0.20)	(-0.07)
EIP * Gdp_Growth_avg		0.401		0.758**	0.760	0.362
		(1.26)		(2.33)	(1.01)	(0.65)
SO2_City_avg			0.036	0.036	0.012	0.090
			(0.84)	(0.83)	(0.18)	(1.20)
EIP * SO2_City_avg			-0.140**	-0.180***	-0.059	-0.257***
			(-2.13)	(-2.77)	(-0.45)	(-3.01)
Gdp	-0.568***	-0.620***	-0.537***	-0.588***	-0.513**	-0.813*
	(-3.40)	(-3.49)	(-3.15)	(-3.23)	(-2.23)	(-1.93)
Population	-0.046	-0.043	-0.047	-0.044	-0.085	-0.054
	(-0.48)	(-0.45)	(-0.49)	(-0.46)	(-0.72)	(-0.21)
Wage	-0.006	-0.006	-0.006	-0.005	-0.015	-0.006
	(-0.48)	(-0.47)	(-0.44)	(-0.40)	(-0.13)	(-0.43)
Second_ind	0.004**	0.004**	0.004**	0.004**	0.006**	0.009**
	(2.15)	(2.11)	(2.01)	(1.99)	(2.19)	(2.36)
Age	18.217***	18.225***	18.371***	18.556***	24.980***	22.668*
	(3.53)	(3.54)	(3.54)	(3.59)	(3.30)	(1.74)
Hometown	-0.236***	-0.235***	-0.243***	-0.243***	-0.221*	-0.015
	(-3.04)	(-3.04)	(-3.12)	(-3.13)	(-1.76)	(-0.07)
Tenure	0.040***	0.040***	0.039***	0.038***	-0.028	0.005
	(3.43)	(3.38)	(3.31)	(3.23)	(-1.56)	(0.20)
Tenure_sq	-0.007***	-0.007***	-0.007***	-0.007***	-0.003	-0.008***
	(-4.06)	(-4.05)	(-4.02)	(-4.02)	(-1.11)	(-2.97)
N	7043	7043	7043	7043	4053	2836
YearFE	Y	Y	Y	Y	Y	Y
CityFE	Y	Y	Y	Y	Y	Y
PoliticianFE	Y	Y	Y	Y	Y	Y
PositionFE	Y	Y	Y	Y	Y	Y
Adjusted R^2	0.230	0.230	0.231	0.231	0.209	0.226