The Elephant vs Donkey and Rank-and-file Employee Compensation*

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Abstract

We examine how executive political ideology shapes rank-and-file employee compensation. Using over 300,000 H-1B applications from 2010–2020, we document that firms led by Republican-leaning executives pay approximately 8% lower wages to H-1B workers than Democratic-leaning firms, after considering firm, job, and location characteristics. These findings align with agency theory and upper-echelons theory, which predict that managerial preferences influence organizational policies when discretion is high. Wage gaps intensify among financially constrained firms, firms with greater bargaining power, and in political environments with reduced scrutiny of rent-extracting practices. The mechanism reflects managerial rent-seeking that leverages labor market frictions faced by H-1B workers. These compensation decisions carry real consequences: underpaying firms subsequently exhibit reduced innovation, lower valuations, and higher risks. Our findings show that executive political ideology has a significant influence on rank-and-file employee compensation, which affects worker productivity and firm performance.

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Keywords: Executive Political Ideology, Rent-seeking Behavior, Rank-and-File Employee Compensation, Labor Market, Corporate Governance

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1. Introduction

As an integral part of the nexus of contracts within the firm, employees play a critical role in ensuring firm success (Hart, 1989). A large literature documents how executive compensation structures influence firm outcomes and identifies the determinants of executive compensation (i.e., Datta, Iskandar-Datta, and Raman, 2001; Jiang, Petroni, and Wang, 2010; Armstrong, Larcker, Ormazabal, and Taylor, 2013; Hartzell and Starks, 2003; Graham, Li, and Qiu, 2012; Gopalan, Milbourn, Song, and Thakor, 2013; Humphrey-Jenner, Lisic, Nanda, and Silveri, 2016; Hoi, Wu, and Zhang, 2019). However, there is little understanding about rank-and-file employee compensation, despite its critical influence on workforce retention, worker productivity and morale, and firm performance.[1] Recent work has tried to address this gap. For example, Armstrong, Kepler, Larcker, and Shi (2024) show that firms achieve better financial reporting quality when they offer their rank-and-file accounting employees higher compensation, providing the first evidence of how rank-and-file employee compensation affects firm outcomes. Our study complements this emerging literature by examining a key determinant of rank-and-file employee compensation: executive political ideology.[2]

While labor market models predict that competitive markets discipline firms to pay wages equal to workers' marginal productivity, empirical evidence documents persistent wage dispersion across firms for observably similar workers (Card, Heining, and Kline, 2013; Song, Price, Guvenen, Bloom, and von Wachter, 2019). This wage heterogeneity suggests that firm-specific factors, including managerial preferences and behaviors, play an important role in determining labor market outcomes. Understanding what drives these firm-specific differences in compensation is therefore crucial for both theory and practice.

[1]For example, results from a survey by the SHRM suggest that compensation could be the primary driver for workers to quit their jobs (https://www.shrm.org/topics-tools/news/employee-relations/cash-remains-king-new-survey-confirms-others-said-years)

[2]Note that, similar to Armstrong et al. (2024), we study the compensation of individual rank-and-file employees. This differs from the literature that examines the impact of the aggregated rank-and-file employee stock options, such as Call, Kedia, and Rajgopal (2016); Chen, Ofosu, O'Sullivan, Veeraraghavan, and Zolotoy (2025). Particularly, we investigate whether and how firm leaders' political ideology influences their firms' compensation design to high-skilled foreign workers (i.e., H-1B workers).

Agency theory provides a framework for understanding how managers may influence employee compensation through rent-extracting behavior. The theory predicts that managers exercise discretion over inputs in ways that enable rent extraction when monitoring is imperfect or incentives are misaligned with shareholder interests (Jensen and Meckling, 1976; Holmström, 1979). Empirical studies have documented various manifestations of such behavior, including empire-building through excessive capital expenditures (Jensen, 1986; Malmendier and Tate, 2005), consumption of perquisites (Yermack, 2006), and earnings manipulation (Bergstresser and Philippon, 2006). These efforts may enhance managers' own compensation or career prospects while imposing costs on workers and potentially reducing long-run firm value. Notably, managerial efforts that aim at reducing labor expenses may be rewarded by the equity market through increased stock prices.[3]

Building on this foundation, we draw from upper echelons theory (Hambrick and Mason, 1984) to argue that top managers' personal preferences significantly influence their organization's compensation strategies. A large strand of literature shows that individual manager characteristics affect corporate behaviors (Bertrand and Schoar, 2003; Davidson, Dey, and Smith, 2015). For instance, Gupta and Wowak (2016) find that firms with conservative boards (i.e., boards with more Republican-leaning members) tend to pay their CEOs more and use compensation structures with greater pay-for-performance sensitivity. Similarly, various studies demonstrate that CEOs' personal preferences meaningfully influence their firms' disclosure choices (Bamber, Jiang, and Wang, 2010; Lewis, Walls, and Dowell, 2014; Hribar and Yang, 2016; Bochkay, Chychyla, and Nanda, 2019; Arikan, Kara, Masli, and Xi, 2023). These findings suggest that firms cater to their top leaders' preferences when designing organizational policies and practices, including compensation policies for rank-and-file employees.

To identify variation in managerial rent-extracting behavior, we exploit systematic differences in corporate policies between Republican-leaning and Democratic-leaning executives. Prior research has shown that executive political ideology predicts meaningful differences in firm decisions

[3]For example, Meta's efforts in saving cost of labor in 2024 were associated with positive short-term reactions from the equity market. (https://financialpost.com/fp-work/meta-stock-bounce-big-job-cuts-pay-off)

including tax planning, corporate social responsibility, environmental policies, and labor relations (Di Giuli and Kostovetsky, 2014; Gupta and Wowak, 2016; Gupta, Briscoe, and Hambrick, 2017). Particularly relevant to our study, findings indicate that Democratic-leaning executives are more likely to favor policies that emphasize equal rights among workers while Republican-leaning managers may prioritize strategies that lower labor costs. For example, Hutton, Jiang, and Kumar (2015) show that firms with Republican cultures are more likely to be subject to civil rights and labor litigation than firms with Democratic cultures. Similarly, Weng and Yang (2023) show that firms with Democratic-leaning CEOs exhibit lower vertical within-firm disparity as evidenced by lower CEO to average worker pay ratios.

Based on these theoretical and empirical foundations, we predict that firms with Republican-leaning managers may exhibit more aggressive efforts to save on labor costs through rent-extracting behavior than firms led by Democratic-leaning executives and directors. Specifically, if Republican executives place lower weight on worker welfare in their objective function, they will be more willing to exercise monopsony power to reduce wages below marginal productivity and capture surplus that would otherwise accrue to labor. This behavior is consistent with agency theory where managers maximize a weighted combination of shareholder value and private benefits (Jensen and Meckling, 1976), with ideological preferences determining the weight placed on worker treatment.

We test the effects of managerial discretion on rank-and-file worker compensation based on a sample of foreign high-skilled workers in the U.S. (i.e., H-1B workers). There are two unique advantages of our setting. First, a fundamental challenge to test the effects of managerial discretion and labor input on firm performance is data availability. Despite the easy access to executive compensation information, comprehensive compensation data for rank-and-file employees is not available. We overcome this challenge by leveraging H-1B employment data from U.S. Citizenship and Immigration Services (USCIS) and H-1B Labor Condition Application (LCA) data from the U.S. Department of Labor, which provide worker-level information on offered wages, occupations, work locations, and employers.

Second, unlike domestic workers, H-1B visa holders face substantial mobility frictions due to employer-specific visa sponsorship requirements. High-skilled foreign workers employed in the U.S. must obtain H-1B visas through their U.S. employers (i.e., the sponsor). The H-1B visa is sponsor-specific, meaning foreign workers must obtain a new H-1B visa through a new employer if they wish to change jobs. Not all U.S. firms are willing to sponsor H-1B visas because the application process can be lengthy and costly to the sponsor (as we discuss below in the institutional backgrounds section). This unique feature creates a quasi-monopsonistic labor market condition for firms that hire H-1B workers, which amplifies managerial discretion (Depew, Norlander, and Sørensen, 2017; Mukhopadhyay and Oxborrow, 2012). When workers' ability to switch employers is constrained, the outside option that disciplines wage-setting in competitive models becomes less binding, and it expands the range of feasible wages managers can offer. The power asymmetry in the H-1B worker setting thus creates an ideal environment to study how managerial preferences impact rank-and-file worker compensation.

To test our hypothesis, we merge H-1B datasets from USCIS and LCA with executive political ideology measures constructed from political campaign contribution data provided by the Center for Responsive Politics (CRP). As a result, our sample spans 2010-2020 and includes over 300,000 H-1B applications from publicly traded firms. Using the comprehensive data, we document that firm managers' political ideology significantly influences rank-and-file employee compensation. Findings from our baseline specification, which includes firm fixed effects, job position-by-year fixed effects, firm headquarter state-by-year fixed effects, and worker state-by-year fixed effects, suggest that firms with managers aligned with the Republican party pay about 7.6% less to their H-1B workers than firms whose managers identify with the Democratic party.

Beyond establishing this baseline relation, we provide extensive cross-sectional evidence supporting our proposed mechanism that Republican-leaning managers engage in rent-extracting behavior to minimize labor costs. First, the negative relation between Republican leadership and H-1B compensation intensifies among financially constrained firms, consistent with greater pres-

sure to reduce operating expenses. Using both the Kaplan-Zingales and Whited-Wu indices of financial constraints, we find that Republican managers' cost-minimization behavior becomes more aggressive when their firms face tighter financial conditions. Second, the relation is more pronounced among firms with greater negotiation power over their workers. We proxy for negotiation power using firm size (larger firms have more resources for H-1B sponsorship and thus face less competition) and industry concentration (firms in concentrated industries face less competition for talent).

Third, we document that political environments moderate this behavior. During the Trump presidency in our sample (2017-2020), federal government policies made it more difficult for foreign workers to navigate the U.S. job market, and thus reduced H-1B workers' outside options. We find that Republican-leaning firms paid H-1B workers even less relative to Democratic-leaning firms during this period. Similarly, Republican-leaning firms pay H-1B workers less in Republican-leaning congressional districts, where exploitative labor practices may face less local backlash. We also find that national and local political environments reinforce each other – firms with Republican-leaning leaders exhibit strong rent-extracting behaviors in H-1B worker compensations in Republican-leaning districts during the Trump presidency.

Lastly, the negative relationship is less strong for H-1B workers located closer to firm headquarters, consistent with the quiet life hypothesis, which suggests that managers may choose to pay higher wages to workers in closer proximity to them as a means of buying labor peace and avoiding conflict.

After documenting the negative relation between Republican-leaning firm leadership and H-1B rank-and-file employee compensation, we move on to study the potential impacts of such rent-extracting behavior. Our results suggest that this under-compensation has real economic consequences. Firms with Republican-leaning leadership that underpay H-1B workers subsequently produce fewer patents, experience lower valuations, and exhibit higher levels of risk.

We argue that the mechanism behind our finding that Republican-leaning firms pay less to

H-1B workers is their preference to rent-extracting compensation policies. A possible alternative explanation to our finding is that Republican managers may simply have preference to policies that can reduce their firms' reliance on foreign workers rather than influencing wage-setting to reduce compensation. Under this explanation, Republican-leaning firms would not only pay H-1B workers less but would also hire fewer H-1B workers in the first place, as the lower wages would reflect a compensating differential for reluctantly employing workers the managers ideologically oppose. This alternative explanation makes predictions that differ distinctly from our proposed mechanism: our mechanism predicts lower wages but unchanged hiring (managers continue hiring foreign workers because they can pay them less), whereas this alternative explanation predicts both lower wages and reduced hiring.

We directly test this alternative explanation by examining whether Republican-leaning firms differ in their H-1B hiring patterns. Replacing the dependent variable in our baseline specification with the number of H-1B petitions filed by a firm in a year and an indicator for whether a firm files any H-1B petitions, we find no evidence that firms with Republican-leaning leaders hire less H-1B workers. The absence of any hiring effect provides strong evidence to discount this alternative explanation: Republican-leaning managers are just as willing as Democratic-leaning managers to hire foreign high-skilled workers while paying them less, consistent with cost-minimization exploitation rather than ideological opposition.

The interpretation of our findings is not immune to endogeneity concerns. Reverse causality would suggest that firms select their board members based on how much they pay foreign workers, which is unlikely given that board composition reflects strategic considerations and shareholder preferences rather than entry-level employee compensation practices. Nevertheless, omitted variables could generate spurious correlation if, for example, certain firm cultures both attract Republican executives and directors and lead to lower compensation for workers. We address this concern through a quasi-natural experiment design by exploiting the unexpected outcome of the 2016 presidential election. Limiting our sample to 2016-2017 and to firms that did not change

their board political composition during this period, we implement a difference-in-differences specification comparing compensation changes for Republican-leaning versus Democratic-leaning firms after Trump's election, which is unexpected and exogenous to particular firms. We find that Republican-leaning firms paid significantly less to H-1B workers in 2017 relative to 2016 compared to Democratic-leaning firms. Results from this analysis support a causal interpretation of our findings.

Our study makes several contributions to the literature. First, we extend the investigation in the emerging literature that tries to understand the impacts of rank-and-file employee compensation. Unlike the large literature that studies how executive compensation shapes firm policies (Datta et al., 2001; Jiang et al., 2010; Armstrong et al., 2013) and the determinants of executive compensation (Hartzell and Starks, 2003; Graham et al., 2012; Gopalan et al., 2013; Humphrey-Jenner et al., 2016; Hoi et al., 2019), an emerging literature devotes to understanding the impact of rank-and-file employee compensation. One strand of this literature studies aggregated rank-and-file employee stock options and shows that the aggregated lower-level employee stock options affect firm financial reporting quality (Call et al., 2016) and workplace safety (Chen et al., 2025). More recently, Armstrong et al. (2024) demonstrates that individual rank-and-file employee compensation significantly influences firm outcomes. Due to lack of individual rank-and-file employee compensation data, there is a lack of understanding of the implications and determinants of individual rank-and-file employee compensation. Our study fills this important gap in the literature by showing that firm leaders' political ideology is an important determinant of rank-and-file employee compensation, and this difference has meaningful implications on firm performance and risks. To the best of our knowledge, we are the first study that investigates individual rank-and-file employee compensation on a large scale that covers various functions of a business[4]

Second, we add to the literature that studies how executive personal political ideology affects their firms' outcomes. Given the increased political polarization among firm executives (Fos, Kempf, and Tsoutsoura, 2025), a growing literature studies whether and how firm decisions and

[4]Armstrong et al. (2024) studies only accounting rank-and-file employee compensation.

policies are shaped by their executives' personal political preferences. For example, Hutton, Jiang, and Kumar (2014) document that firms led by Republican managers tend to have more conservative policies such as lower level of debt and less risky investment. Arikan et al. (2023) show that firms' financial disclosures are more optimistic when their managers are politically aligned with the U.S. president. Gupta and Wowak (2016) find that boards with more conservative directors tend to render high compensations to their executives. We extend the queries in this literature to the influence of manager personal political ideology's impact on rank-and-file employee compensation. Our study provides the theoretical framework and the first piece of evidence to link executive personal preferences to lower-level employee compensation.

Lastly, we speak to the strand of research that investigates the impact of foreign high-skilled labors. A growing body of research aims to understand how highly skilled immigrants (i.e., the H-1B visa program in the U.S.) affect firm outcomes. Evidence suggests that H-1B workers contribute to better firm performance and lower unemployment (Mayda, Ortega, Peri, Shih, and Sparber, 2020), better financing and exit success for start-ups (Dimmock, Huang, and Weisbenner, 2022), and the quality of innovation (Chen, Hshieh, and Zhang, 2021). Beracha, Kim, Wintoki, and Xi (2025) also documents that H-1B workers contribute to the local economy via the residential property market. Instead of studying the impacts that H-1B workers have, our paper adds to this literature by studying an important factor that affects H-1B workers' welfare – namely, their compensation. We, for the first time, uncover how managers' rent-extracting behavior due to their political preferences affect the compensation choices for H-1B workers, who are subject to more labor market constraints.

2. Institutional Background

2.1. H-1B Visa Program

The H-1B visa program was created to address domestic labor shortages in highly skilled workers. The Immigration and Nationality Act of 1952 first established the "highly skilled labors" visa category for individuals of distinguished merit and ability who perform temporary services requir-

ing exceptional qualifications. However, the modern H-1B program was formally created through the Immigration Act of 1990.[5]

The 1990 Act fundamentally restructured the temporary worker visa system by introducing the concept of "specialty occupation". A specialty occupation is defined as one that requires specialized knowledge along with at least a bachelor's degree in a specific field. This legislation established an annual cap of 65,000 H-1B visas and required employers to pay H-1B workers at least the prevailing wage for their position. Employers must obtain approval through a Labor Condition Application process administered by the Department of Labor.

Since fiscal year 2004, the annual cap for H-1B visas has remained at 65,000. An additional 20,000 visas are available for foreign professionals who hold a master's degree or higher from U.S. institutions, bringing the total annual cap to 85,000. When H-1B applications exceed the annual cap, all applications, except those for exempt positions such as university faculty, enter a lottery system where applications are randomly selected.

The United States Citizenship and Immigration Services (USCIS), in coordination with the Department of Labor (DOL), administers the H-1B program. USCIS is responsible for processing H-1B petitions, conducting fraud investigations, and managing the lottery process.

2.2. Historical Application Numbers and Countries

Demand for H-1B visas has fluctuated significantly over the past two decades due to changes in economic conditions, policy adjustments, and labor market dynamics. The number of annual H-1B filings almost doubled from approximately 240,000 in fiscal year 2000 to nearly 400,000 in fiscal year 2020. This substantial increase reflects both new applications for initial employment and renewal applications for workers already in H-1B status. The distribution of H-1B visas by country of origin has remained highly concentrated. India has dominated H-1B approvals since at least fiscal year 2010. Indian nationals received approximately 71 percent of approved applications in fiscal year 2020. China consistently ranks second, accounting for approximately 12 percent of

[5] https://www.congress.gov/bill/82nd-congress/house-bill/5678/text
https://www.congress.gov/bill/101st-congress/senate-bill/358/text

approvals in fiscal year 2020. Other countries with notable shares include Canada, the Philippines, and South Korea.[6]

2.3. Application Process

The H-1B application process involves multiple stages across two federal agencies (USCIS and DOL) and operates on a strict annual cycle aligned with the federal fiscal year, which runs from October 1 through September 30.

When the number of registrations exceeds the annual cap of 85,000, USCIS conducts a random lottery to select which registrations can proceed to full petition filing in April. The lottery uses a two-tier system. First, USCIS selects registrations for the 20,000 visas reserved for beneficiaries with U.S. master's degrees or higher. Then, it conducts a second selection for the remaining 65,000 regular cap positions, including any master's degree holders not selected in the first round. Selected employers receive notifications and have 90 days to submit complete H-1B petitions.

Before filing the H-1B petition with USCIS, employers must obtain a certified Labor Condition Application (LCA) from the Department of Labor between April and June. The LCA requires employers to attest to three main conditions. First, the employer will pay the H-1B worker at least the prevailing wage or the actual wage paid to similarly employed workers, whichever is higher. Second, employing the H-1B worker will not negatively affect the working conditions of U.S. workers. Third, there is no strike or lockout in the occupation at the workplace. The LCA must also specify the job title, job duties, wage, and worksite location.

3. Data and Methodology

3.1. Data

We obtain H-1B visa employer and wage information from two primary sources – H-1B petition data from the United States Citizenship and Immigration Services (USCIS) and Labor Condition Application (LCA) disclosure data from the Department of Labor (DOL). The USCIS H-1B

[6]Reports on H-1B Petitions by USCIS:
https://www.uscis.gov/sites/default/files/document/reports/FY10H-1BPetitions.pdf
https://www.uscis.gov/sites/default/files/document/reports/ola_signed_h1b_characteristics_congressional_report_FY24.pdf

Employer Data Hub provides comprehensive information on employers who have submitted petitions to employ H-1B nonimmigrant workers from fiscal year 2009 through the present, including employer names and addresses. The DOL LCA disclosure data includes detailed wage information such as the offered wage, prevailing wage level, prevailing wage source, full-time or part-time employment designation, and Standard Occupational Classification codes (i.e., detailed job position codes) for all certified Labor Condition Applications. The LCA data also provides geographic information including worksite city, county, state, and ZIP code, which is for employers who hire H-1B workers to multiple locations. We link these two datasets using employer identifiers to construct a comprehensive database that captures both the petition filing at USCIS and the wage attestation process at DOL.

To measure the political leaning of firm executives, we construct a director Republican-leaning index using campaign contribution data from the Center for Responsive Politics (CRP). The CRP data records political campaign contributions. Particularly, it provides information on each contribution's dollar amount, the name of the contributor, and the name of the candidate that receives the contribution. CRP also classifies the party affiliation of each candidate. We follow the literature to consider contributions to Democratic and Republican candidates to identify an individual's political leaning (Lee, Lee, and Nagarajan, 2014; Wintoki and Xi, 2020). We calculate a Rep Index for each director n on a firm's board as follows:

$$Rep\ Index_{n,t} = \frac{Amount\ Rep_{n,t} - Amount\ Dem_{n,t}}{Amount\ Rep_{n,t} + Amount\ Dem_{n,t}} \tag{1}$$

where Amount Rep (Dem) represents the total amount of contributions an individual makes to Republican (Democratic) candidates in the CRP data. We then aggregate this measure to the firm level as the simple average:

$$Director\ Rep\ Index_{i,t} = \frac{\Sigma_0^N Rep\ Index_{n,t}}{N_t} \tag{2}$$

where n represents director n for a firm i, and N represents the total number of directors for the firm in that year t. By design, Director Rep Index ranges from -1 to 1, with -1 (1) suggests a purely

Democratic- (Republican-) leaning board.

Firm-specific financial and market data are obtained from Compustat, BoardEx, and CRSP. From Compustat, we extract accounting variables including total assets, total liabilities, market capitalization, net income, and research and development expenditures. These variables allow us to control for firm size, and financial health in our empirical specifications. From BoardEx, we calculate executives' compensation measures. From CRSP, we calculate market performance measures including abnormal returns (alpha), idiosyncratic volatility (ivol), and bid-ask spread. We calculate fiscal year alpha, ivol, and bid-ask spread based on daily data. Particularly, we estimate the alpha and ivol using the Fama-French three factor plus momentum model based on daily stock returns. For each fiscal year, we collect a stock's daily returns from CRSP. We obtain the daily factors from French's website. We estimate the following model for each fiscal year:

$$Return_{i,t} - r_f = \alpha_{i,t} + SMB_{i,t} + HML_{i,t} + MOM_{i,t} + \varepsilon_{i,t} \tag{3}$$

where $Return_{i,t}$ is the stock's return, r_f is the risk free rate. We record the fiscal year $\alpha_{i,t}$ as the alpha, and the standard deviation of $\varepsilon_{i,t}$ as ivol. We also define bid-ask spread as the average daily bid-ask spread in a fiscal year. We merge these financial datasets with our H-1B data. Detailed variable descriptions for all the variables we use in the analysis are provided in Table A1 in Appendix A.

4. Firm Leaders' Political Ideology and Rank-and-file Employee Compensation

4.1. Main results

We test the relation between firm leaders' political ideology and rank-and-file H-1B worker compensation using the following model:

$$\begin{aligned} ln(Inflation\ Adj\ Wage)_{i,j,t} = {} & Director\ \ Rep\ \ Index_{i,t} + Firm\ \ Controls_{i,t} \\ & + Application\ \ Controls_{j,t} + \gamma_i + \theta_{s,t} + \rho_{w,t} + \psi_{j,t} \end{aligned} \tag{4}$$

where $Director\ Rep\ Index_{i,t}$ measures the political leaning of firm i's executives and directors in year t. γ_i represents firm fixed effects, $\theta_{s,t}$ represents HQ state-by-year fixed effects, $\rho_{w,t}$ represents worker state-by-year fixed effects, and $\psi_{j,t}$ represents job position-by-year fixed effects.

Each observation in this analysis represents a unique H-1B filing. Table 2 documents findings from this analysis. We run a parsimonious model in column (1). As shown, there is a statistically significant and negative relation between Director Rep Index and H-1B worker compensation. This finding provides initial evidence to support our prediction that firms with Republican-leaning leadership tend to pay less to their rank-and-file employees.

In column (2), we expand our model by controlling for factors that may influence H-1B worker compensation. For example, Gupta and Wowak (2016) find that firms with conservative boards have higher pay for their CEOs. We control for executive and CEO compensation to address the possibility that rank-and-file employee compensation may simply reflect a firm's compensation strategy for all employees, including top executives. We also control for whether an H-1B filing is for a full-time position, since it is likely that full-time positions have higher compensation than other types of employment. Lastly, we control for firm fundamentals such as size (total assets), performance (ROA), and leverage. In addition to control variables, we include a slate of fixed effects. Particularly, we include firm fixed effects to address time-invariant firm characteristics that may affect H-1B worker compensation. We also include firm headquarters' state-by-year fixed effects and worker's job state-by-year fixed effects to absorb variations in H-1B worker compensation that stem from local economic conditions in a year (i.e., cost of living in a region). Lastly, we append our model with job position-by-year fixed effects to ensure that our results can be interpreted as comparing compensations for the same type of positions in a year (i.e., the same computer engineering position in a firm with Republican leaders versus the same position in a firm with Democratic leaders). As shown in column (2), we continue to find a statistically significant and negative relation between Director Rep Index and H-1B worker pay (-0.0397, t-statistic = -2.38). Economically, this coefficient suggests that firms with managers aligned with the Republican Party

pay about 7.6% less to their H-1B workers than do firms whose managers lean toward the opposing party (i.e., the Democratic Party).[7]

4.2. *Why do firms with Republican-leaning leaders pay less to their H-1B workers?*

Our baseline results show that firms with more Republican-leaning leaders pay less to their H-1B rank-and-file employees. We argue that this relation is due to Republican firm leaders' preference for policies that allow them to take advantage of labor-cost savings opportunities. We test this mechanism in this section by studying the conditions that may present firms with more opportunities or needs to exploit compensation to their rank-and-file employees.

4.2.1. The influence of financial constraints

The first condition we explore is a firm's financial constraints. Firms that face greater financial constraints have a greater need to save operational costs. As Campello, Graham, and Harvey (2010) and Siemer (2019) show, firms with financial constraints often choose to cut costs by reducing labor-related expenses. Given the vulnerability of H-1B workers in the job market and Republican managers' tendency to exploit labor costs, as we discussed in the Introduction, we expect the negative relation between Director Rep Index and H-1B worker compensation to be more pronounced among firms with greater financial constraints.

We test this prediction by augmenting the more stringent model used in column (2) of Table 2 with two measures of a firm's financial constraints – the KZ index and the WW index:

$$\begin{aligned} ln(Inflation\ Adj\ Wage)_{i,j,t} = Director\ \ Rep\ \ Index_{i,t} \times Financial\ \ Constraint\ \ Index_{i,t} \\ +Firm\ \ Controls_{i,t} + Application\ \ Controls_{j,t} + \gamma_i + \theta_{s,t} + \rho_{w,t} + \psi_{j,t} \end{aligned} \tag{5}$$

where Director Rep Index is the political leaning measure of firm i's executives and directors in year t, and Financing Constraint Index is either the KZ (Kaplan-Zingales) Index following Kaplan

[7] exp[-0.0397*1 - (-0.0397*(-1))] - 1 = -0.076

and Zingales (1997) or the WW (Whited-Wu) Index following Whited and Wu (2006). γ_t represents firm fixed effects, $\theta_{s,t}$ represents HQ state-by-year fixed effects, $\rho_{w,t}$ represents worker state-by-year fixed effects, and $\psi_{j,t}$ represents job position-by-year fixed effects.

Table 3 presents findings from this analysis. Column (1) shows that the interaction term between Director Rep Index and KZ index is negative and statistically significant (-0.0022, t-statistic = -4.57). Similarly, in column (2), we find that the interaction term between Director Rep Index and WW index is negative and statistically significant (-0.0264, t-statistic = -2.80).[8] These findings suggest that firms with more Republican-leaning managers tend to pay even less to H-1B workers when they face greater financial constraints. The consistency across both financial constraint measures strengthens the robustness of this result.

4.2.2. The influence of a firm's negotiation power

If our notion that the mechanism behind the finding that firms with more Republican-leaning leaders pay less to their rank-and-file employees is due to exploitative behavior, then an important factor that would moderate this behavior is a firm's negotiation power. Compensation represents an employment term that results from negotiations between the employer and their employees. We thus expect that the cost-minimizing behavior will be more pronounced among firms with greater negotiation power.

We document our findings from this analysis in Table 4. Column (1) uses firm size as a proxy for a firm's negotiation power. This is particularly relevant to our setting of H-1B workers. As discussed before, not all firms are willing to sponsor foreign workers for the H-1B visa given the complexity of the legal process as well as the associated costs. Larger firms tend to have more resources and experience in dealing with foreign worker-related issues (i.e., legal resources). As shown in Table 4 column (1), the interaction term between Director Rep Index and firm size is negative and statistically significant (-0.0212, t-statistic = -5.43). This finding suggests that larger firms with Republican-leaning leadership exploit their bargaining power to pay H-1B workers even

[8]The mean value of KZ index is -9.02 with a standard deviation of 16.86, and the mean value of KZ index is -0.30 with a standard deviation of 0.35.

less.

We use a firm's industry competition as another proxy for a firm's negotiation power in Column (2). Particularly, we calculate the Herfindahl index (HHI) for each industry every year. Higher HHI values indicate less competitive industries. For firms that operate in less competitive industries (i.e., with a higher HHI), potential external options are limited for skilled workers, which makes firms face less competition for talent (Michaels, Handfield-Jones, and Axelrod, 2001; Manning, 2003; Azar, Marinescu, Steinbaum, and Taska, 2020). In such concentrated industries, firms have greater monopsony power over their workers. Therefore, we expect to observe stronger rent-extracting behaviors among firms with more Republican-leaning leaders when an industry has higher HHI (i.e., less competitive). The results presented in column (2) confirm this prediction: we observe a negative and statistically significant interaction term between Director Rep Index and HHI (-0.6880, t-statistic = -2.50). This finding suggests that firms with Republican-leaning leadership in less competitive industries pay H-1B workers even less, consistent with exploitation of monopsony power. Taken together, the findings in Table 4 show that firms with more Republican-leaning leaders pay H-1B employees even less when they have stronger power in compensation negotiations. These findings provides additional support for the mechanism of exploitative behaviors.

4.2.3. The influence of the political environment

Our maintained hypothesis is that Republican-leaning managers are more likely to engage in exploitative behaviors when setting compensation for their rank-and-file employees. Exploitative behavior is a preference that can be significantly influenced by the environment surrounding an individual (Wilson, 1987; Case and Katz, 1991; Dimant, 2019). In our setting, Republican-leaning managers' preferences toward lower compensation for foreign high-skilled workers (i.e., H-1B workers) can be amplified when they operate in a political environment that provides opportunities, or exposes them to fewer repercussions, for engaging in this exploitative behavior.

The policies under President Trump tended to make it more challenging for foreign highly skilled workers to navigate the U.S. job market. For example, the presidential proclamation is-

sued on September 19, 2025 explicitly targeted the H-1B program and placed substantially higher obstacles for firms to hire H-1B workers.[9] Policies like this effectively shrank the scope of opportunities for foreign-born highly skilled workers. This reduced demand for foreign workers provided firms greater negotiation power and enabled Republican-leaning managers to further exploit H-1B workers.

We directly test this hypothesis by studying the impact of the Trump presidency on our baseline finding. Column (1) in Table 5 documents these results. We create a binary variable with a value of 1 for the Trump presidency period in our sample (2017–2020), and 0 otherwise. As shown, the interaction term between Director Rep Index and Trump Presidency is negative and statistically significant (-0.0577, t-statistic = -3.98). This provides strong evidence that firms with more Republican leaders exhibited greater rent-extracting behavior toward H-1B workers during the Trump presidency.

In addition to the national political environment, the local political landscape should also influence how Republican-leaning managers exercise discretion over rank-and-file employee compensation. As we discussed earlier, studies show that Republican ideology tends to favor firm policies that prioritize lower costs relative to Democratic ideology. Firms do not operate in isolation, and the preferences of local communities in which they operate influence firm decisions and practices. Thus, firms that operate in areas with Republican-leaning (Democratic-leaning) cultures tend to face less (more) backlash against their exploitative behavior in rank-and-file employee compensation. If our finding that firms with Republican-leaning managers pay less to H-1B workers is due to their exploitative behavior, we should observe this relation to be stronger in regions with more Republican-leaning cultures.

We test this prediction by collecting data that identify local political preferences. Particularly, we collect data from congressional district returns for elections to the U.S. House of Representatives produced by MIT Election Data and Science Lab to identify the political affiliation of the

[9] https://www.whitehouse.gov/presidential-actions/2025/09/restriction-on-entry-of-certain-nonimmigrant-workers/

U.S. House Representative for the district in which an H-1B worker's job is located.[10] We calculate the local political leaning variable, *Rep Work Location*, as the proportion of votes for the Republican House Representative over the total votes casted in the congressional district where the H-1B worker works.

We employ a more stringent model for this test to further rule out alternative explanations. Particularly, we include position-by-firm-by-year fixed effects, which control for any factors specific to a position in a firm in a given year that may affect H-1B compensation.[11] This setup allows us to draw conclusions that are likely related only to the local political landscape.

Column (2) in Table 5 presents results from this analysis. As shown, the interaction term between Director Rep Index and *Rep Work Location* is negative and statistically significant (-0.0471, t-statistic = -2.12). This finding is consistent with our expectation—firms with more Republican-leaning leaders are even more likely to pay their H-1B workers less in job locations that are more Republican-leaning. We have found evidence that firms led by Republican-leaning leaders are more likely to pay H-1B workers less during the Trump presidency. It is possible that national and local political environments work together to further amplify exploitative behavior among Republican-leaning managers. Our test in column (3) of Table 5 provides support for this conjecture—the interaction term between Director Rep Index, ln(Rep Work Location), and Trump Presidency is negative and statistically significant (-0.3562, t-statistic = -31.41). Taken together, findings from this set of analyses support our maintained mechanism that Republican-leaning managers' exploitative behavior in H-1B worker compensation is more pronounced when it is elevated by national and local political environments.

4.2.4. The influence of distance to firm headquarters

Although a firm's leadership has substantial influence on the overall design and structure of foreign-worker compensation policies, the actual compensation for any individual H-1B worker is

[10] Data retrieved from https://doi.org/10.7910/DVN/IG0UN2

[11] For example, these fixed effects absorb any factors that may affect the compensation to all H-1B workers at Apple for the position of entry-level computer engineer in 2018.

set by local management (Kalnins and Lafontaine, 2013; John, Knyazeva, and Knyazeva, 2011; Ferner, Almond, Clark, Colling, Edwards, Holden, and Muller-Camen, 2004). This decentralization of compensation decisions creates potential agency problems, as local managers may not always act in shareholders' best interests when setting worker pay. The quiet life hypothesis argues that poorly governed managers prefer to avoid the difficult decisions associated with stringent corporate operations (Hicks, 1935; Bertrand and Mullainathan, 2003). Rather than engaging in potentially contentious negotiations, these managers may choose to pay higher wages to workers as a means of buying labor peace and avoiding conflict.

Empirical evidence supports the hypothesis that managerial entrenchment and weak governance lead to higher employee compensation in contexts where maintaining harmonious labor relations provides private benefits to managers. Cronqvist, Heyman, Nilsson, Svaleryd, and Vlachos (2009) provide evidence that entrenched CEOs pay premium wages to employees in closer proximity to senior management, whether measured by organizational hierarchy, or geographic distance from headquarters. These patterns suggest that managers use compensation as a tool to minimize personal costs associated with workplace conflict, particularly when monitoring is more direct and the potential for disruption is greater. If our findings reflect the quiet life mechanism, we should observe systematic variation in the relationship between Republican-leaning leadership and H-1B worker pay based on geographic proximity to headquarters. Specifically, we expect the negative relation between board Republican orientation and H-1B worker compensation to be attenuated for workers at job sites closer to firm headquarters, where managerial oversight is stronger, the potential for workplace disruption is more visible to managers, and they face greater incentives to maintain labor peace.

We test this proximity-based prediction by obtaining detailed H-1B job site location data from actual H-1B visa application filings submitted to the Department of Labor and matching this information with firm headquarters location data extracted from corporate 10-K filings. Table 6 presents the results. We construct two measures to capture proximity between workers and headquarters.

First, we create an indicator variable, Worker at HQ, which equals one if the worker's job location is at the firm's headquarters and zero otherwise. This measure captures whether a H-1B employee locates in the same site as senior management. Second, we construct a continuous measure, Closeness to HQ, calculated as the negative value of natural logarithm of the distance in miles between the firm's headquarters and the worker's job location. This continuous measure allows us to examine whether the relationship varies gradually with geographic distance rather than exhibiting a discrete break at the headquarters location.

The empirical results strongly support our prediction. The interaction term between Director Rep Index and Worker at HQ is positive and statistically significant, indicating that the negative association between Republican-leaning firm leadership and H-1B worker pay is indeed less pronounced for workers located at headquarters. Similarly, the interaction term between Director Rep Index and Closeness to HQ is positive and statistically significant, suggesting that the negative association between Republican-leaning firm leadership and H-1B worker pay is weaker for workers located closer to headquarters. These findings are consistent with the quiet life hypothesis.

4.2.5. Do firms also hire less H-1B workers?

Our main hypothesis derives from the theoretical development based on agency theory and upper echelons theory. Particularly, we argue that Republican firm leaders prefer policies that pay less to H-1B workers because of their exploitative behavior—that is, they actively seek to minimize labor costs for workers with limited bargaining power. An alternative explanation for our finding is that Republican-leaning managers may hold ideological preferences against foreign workers generally, leading them to avoid hiring H-1B workers altogether rather than strategically exploiting them through lower wages. Under this alternative mechanism, we would observe that firms with Republican-leaning leaders not only pay less to H-1B workers but also hire fewer H-1B workers in the first place. In contrast, if rent-extracting behavior is indeed the mechanism behind our findings, we should observe that Republican-leaning managers do not reduce their firms' hiring of foreign-born highly skilled workers—they simply pay them less.

Table 7 presents our analysis of firms' hiring decisions regarding H-1B workers at the firm-by-year level. Particularly, we replace the dependent variable in Equation (4) with the number of H-1B filings a firm sponsors in a year (column 1 – OLS regression) and an indicator variable for whether a firm files any H-1B petitions in a year (column 2 – Logit regression). As shown, the coefficient estimates on Director Rep Index are not statistically significant in either specification (-0.0261, t-statistic = -0.56 in column 1; 0.0464, t-statistic = 0.13 in column 2). These results suggest that firm leaders' political ideology does not affect their firms' hiring patterns of H-1B workers, thus ruling out the alternative explanation that our findings are driven by Republican managers' ideological opposition to foreign workers.

4.3. Endogeneity checks

There are two general sources of endogeneity: reverse causality and omitted variables. In our setting, reverse causality would suggest that firms appoint their board of directors based on how much they pay their foreign workers (i.e., H-1B workers). While theoretically possible, reverse causality is implausible in our setting because it is highly unlikely that firms' rank-and-file employee compensation, especially that of entry-level foreign workers, would influence the composition of their board of directors, which is determined by strategic considerations and shareholder preferences.

The interpretation of our analysis, however, may be affected by omitted variables. For example, a firm may have some fundamental and unspecified characteristics that make it both form a board with more Republican-leaning members and offer lower compensation to H-1B workers. We follow the literature in addressing this issue by employing a sample consisting of firms whose boards never change their political ideology (Arikan et al., 2023). This filter allows us to control for a firm's fundamental preferences for a board with a particular political leaning.

We employ an approach similar to that in Section 4.2.3, where we show that the Trump presidency amplifies Republican-leaning firms' exploitative behavior toward H-1B workers. Particularly, we estimate the regression model from that test with the additional requirement that firms in

this sample do not change their boards' political leaning. In addition, we limit our sample period to 2016–2017, so that firms do not have sufficient time to make major changes to their boards in response to the election outcome. The outcome of the 2016 presidential election was unexpected by many observers and market participants.[12] Therefore, the treatment effect on firms in this sample due to the Trump presidency is plausibly exogenous.

Table 8 documents findings from our endogeneity analysis. In column (1), we require firms to experience no changes in their Director Rep Index in 2016 and 2017. We define *Post* as a binary variable with a value of 1 for the year 2017 and a value of 0 for the year 2016. As shown, the coefficient estimate on *Post* × *Director Rep Index* is negative and statistically significant (-0.0989, t-statistic = -4.09). We perform another set of analyses with a less stringent filter to include more firms in this subsample analysis—we keep firms with similar Director Rep Index values in 2016 and 2017 (instead of requiring no change). Particularly, we define "similar" as firms whose Director Rep Index differences are within one standard deviation of the differences in the same industry (2-digit SIC) in the same year. As shown in column (2), we find similar results using this larger sample (24,951 observations in the relaxed sample vs. 6,079 in the strict no-change sample). Findings from these endogeneity checks suggest that it is unlikely that our findings that firms with more Republican-leaning leaders pay less to H-1B workers are mainly due to endogeneity.

5. Firm Leaders' Political Ideology and Rank-and-file Employee Compensation: The Consequences

H-1B workers are foreign-born highly skilled immigrants. For example, H-1B filing reports suggest that approximately 60% of these workers hold a master's or higher degree, and roughly 65% work in the tech industry.[13] Research shows that under-compensation may lead to reduced efficiency and morale among workers (Yellen, 1995; Coviello, Deserranno, and Persico, 2022;

[12] https://www.npr.org/2016/11/09/500716650/donald-trump-clinches-the-presidency-in-major-upset. Also see Wagner, Zeckhauser, and Ziegler (2018)

[13] https://www.uscis.gov/sites/default/files/document/reports/Characteristics_of_Specialty_Occupation_Workers_H-1B_Fiscal_Year_2018.pdf

Shapiro and Stiglitz, 1984). Given the substantial presence of highly skilled H-1B workers in knowledge-intensive industries, it is important to investigate the consequences of under-compensation among firms with Republican-leaning leaders.

5.1. Firm innovation

As discussed above, a substantial percentage of H-1B workers are in the tech industry. If under-compensation reduces their morale and efficiency, firms may experience reductions in innovation activities. We test this conjecture by utilizing company patent filing data gathered from the USPTO following Stoffman, Woeppel, and Yavuz (2022).[14] We estimate a Poisson model following Cohn, Liu, and Wardlaw (2022):

$$\begin{aligned} \#\,Patent_{i,t\to t+k} = Director\ \ Rep\ \ Index_{i,t+k} \times Excess\ \ \$UnderPay\ \ Index_{i,t} \\ +Firm\ \ Controls_{i,t} + \gamma_i + \theta_{s,t+k} \end{aligned} \tag{6}$$

where Director Rep Index is the executives political leaning measure of firm i in year t, and *Excess $Underpay* is the dollar amount by which firm i in year t pays less than other firms in the same job code (i.e., similar job position), industry, state, and year. γ_i represents firm fixed effects and $\theta_{s,t}$ represents state-by-year fixed effects.We measure patent counts in years t, $t+1$, and $t+2$ to capture the lagged effects of under-compensation on innovation output.

Table 9 documents our findings on the consequences of wage underpayment by firms with Republican-leaning directors for subsequent innovation outcomes. We track patenting activity over the three years following the hiring year, estimating cumulative patent filings in year t, over the interval [t, $t+1$], and over the interval [t, $t+2$] as the dependent variable in columns (1), (2), and (3), respectively. The coefficient on the interaction between Director Rep Index and Excess $Underpay is negative and statistically significant in columns (2) and (3), indicating that underpaying H-1B workers is associated with meaningfully fewer patent filings in the one- and two-year windows following the hiring year. The absence of a significant effect in column (1) is consistent with the

[14]Data retrieved from Mike Woeppel's website (https://github.com/mwoeppel/patent-crsp-permco-match)

patent application process, which typically takes more than one year from conception to filing.

5.2. Firm valuation and risks

The evidence of reduced patenting activities in the previous section suggests that Republican-leaning firms' undercompensation of H-1B workers may lead to significant reductions in workforce effectiveness and morale. This may have important economic consequences for their shareholders. We investigate this potential impact by studying firm valuation and risks.

To proxy for firm performance and risk, we employ both accounting and market based measures. For firm valuation, we use return on assets (ROA) as an accounting-based measure and alpha (excess market return) as a market-based measure. For risk, we use idiosyncratic volatility and the bid-ask spread. Specifically, ROA is calculated as operating income after depreciation and amortization scaled by total assets. A firm's annualized alpha and idiosyncratic volatility (IVOL) are estimated using the Fama-French three-factor model augmented with a momentum factor. We also compute the average bid-ask spread over each fiscal year (BASpread). We then estimate the following panel regression:

$$ROA \ or \ ln(Alpha) \ or \ ln(ivol) \ or \ ln(BASpread)_{i,t+k} = Director \ Rep \ Index_{i,t} \times Excess \ \$UnderPay_{i,t} + Firm \ Controls_{i,t} + \gamma_i + \theta_{s,t+k} \quad (7)$$

where Director Rep Index is the executive's political leaning measure of firm i in year t, and *Excess $Underpay* is the dollar amount by which firm i in year t pays less than other firms with similar characteristics (same job code, industry, state, and year). γ_i represents firm fixed effects and $\theta_{s,t}$ represents state-by-year fixed effects.

Table 10 documents our tests of the valuation consequences of H-1B wage underpayment. The coefficient on the interaction between Director Rep Index and Excess $Underpay is negative and statistically significant in columns (2) and (3), where we use ROA as the dependent variable in years *t+1* and *t+2*, and in column (6), where we use alpha as the dependent variable in year *t+2*.

Table 11 reports the corresponding risk outcomes. The coefficient on the interaction term is positive and statistically significant for idiosyncratic volatility (icol) in columns (1) and (3), corresponding to years *t* and *t+2*, and for the bid-ask spread (BASpread) in columns (1) and (2), corresponding to years *t* and *t+1*, respectively. These results suggest that firms with more Republican-leaning directors that underpay H-1B workers experience lowered valuation and elevated risk exposure in the years following the hiring decision.

6. Conclusion

Our study provides the first piece of comprehensive evidence using large-scale data to understand factors that affect rank-and-file employee compensation. Compensation significantly influences workforce efficiency and morale, which directly affect firm performance. However, there is limited understanding of the determinants of rank-and-file employee compensation, mostly due to lack of data. We fill this important gap in the literature by leveraging the foreign-born high-skilled worker setting (i.e., H-1B workers), which provides detailed compensation information for each H-1B worker. We find that the political leaning of a firm's leadership exerts significant influence on H-1B worker compensation. Firms led by more Republican-leaning directors pay H-1B workers significantly less than firms led by more Democratic-leaning managers. This finding is not only statistically significant but also economically meaningful. Our endogeneity checks suggest that this relation is unlikely to be driven by endogeneity concerns.

We propose and find support for the mechanism that Republican managers' preference for policies that favor savings on labor costs drives our finding. Based on the implications from agency theory, the upper echelons theory, and the systematic differences in preferences regarding compensation strategy between Republican- and Democratic-leaning executives, we predict that firms with Republican-leaning leaders may exhibit more aggressive efforts in saving on labor costs than firms led by Democratic-leaning executives and directors. Particularly, if Republican executives place lower weight on worker welfare in their objective function, they will be more willing to exercise monopsony power to reduce wages below marginal product and capture surplus that would other-

wise accrue to labor. This behavior is consistent with agency models where managers maximize a weighted combination of shareholder value and private benefits (Jensen and Meckling, 1976), with ideological preferences determining the weight placed on worker treatment. Consistent with this mechanism, we find that the negative relation between Director Rep Index and H-1B worker compensation is more pronounced among firms that (1) have greater financial constraints, (2) maintain more negotiation power vis-à-vis H-1B workers, (3) operate in political environments that expose them to fewer repercussions for engaging in exploitative behavior, and (4) have more control over the decisions of H-1B workers.

We rule out an important alternative explanation that rather than reflecting exploitative behavior, Republican-leaning managers might simply prefer policies that rely less on H-1B workers for ideological reasons. Under this alternative, firms with Republican-leaning leaders would not only pay less to H-1B workers but also hire fewer H-1B workers in the first place. Our tests show no evidence that firms with more Republican-leaning leaders hire fewer H-1B workers, thus discounting this alternative explanation.

We provide a clear pattern in which firm policies and practices in compensating their rank-and-file employees vary significantly based on their leadership's political ideology, mainly due to differences in exploitative behaviors related to labor costs. We also document important economic consequences of this under-compensation, including reduced innovation output, lower firm valuations, and greater risk exposure.

Our findings should be interpreted with some caution. One important limitation of our study is the use of H-1B worker compensation data. This setting provides two unique advantages in studying rank-and-file employee compensation: detailed compensation data are available, and H-1B workers are more subject to firms' exploitation of their wages due to the constraints they face in the labor market. However, we note that H-1B workers often represent only a portion of a firm's workforce, and the dynamics of compensation negotiations may differ between H-1B workers and domestic workers. As a result, it would be important to examine rank-and-file employee

compensation dynamics if detailed lower-level employee compensation data for domestic workers become available in future research.

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Table 1: Descriptive Statistics

This table reports sample statistics for our regression sample of 323,322 individual H-1B visa applications between Fiscal Year 2010 and 2020. First panel provides sample statistics of firm level characteristics, and Panel B provides sample statistics of application level characteristics. Each panel reports means, standard deviations, lower quartiles, medians, and upper quartiles for characteristics of our sample of firms and applications. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Table A1 in Appendix A.

Panel A: Firm-level Variables

							Mean		
	N	Mean	SD	Pctl(25)	Median	Pctl(75)	h1b=0	h1b=1	Diff	t-stat
Director Rep Index	20,575	−0.04	0.23	−0.20	−0.04	0.13	−0.02	−0.06	0.04	10.47***
ln(Dem HQ Location)	16,169	0.43	0.11	0.34	0.44	0.53	0.42	0.44	−0.02	−10.17***
ln(Rep HQ Location)	17,195	0.35	0.14	0.24	0.36	0.46	0.36	0.34	0.02	9.80***
ln(Executives Comp)	20,575	6.12	0.60	5.82	6.08	6.39	6.10	6.17	−0.07	−8.23***
ln(CEO Comp)	20,575	6.64	0.99	6.41	6.75	7.00	6.64	6.65	−0.01	−0.47
ln(# Total H1B)	20,575	0.81	1.40	0.00	0.00	1.10	0.00	2.34		
ln(Assets)	20,575	7.95	1.82	6.69	7.84	9.08	7.93	7.97	−0.04	−1.50
Liabilities/Assets	20,575	0.58	0.25	0.40	0.58	0.75	0.60	0.54	0.07	18.27***
ROA	20,575	0.11	0.11	0.06	0.11	0.16	0.10	0.12	−0.01	−7.53***
Book-to-market	20,575	0.54	0.48	0.24	0.44	0.73	0.58	0.46	0.12	17.81***
R&D Exp/Sales	20,530	0.05	0.12	0.00	0.00	0.03	0.03	0.08	−0.05	−28.85***

Panel B:Individual Application-level Variables

	N	Mean	SD	Pctl(25)	Median	Pctl(75)
Wage	325,250	102.975	30.714	80.000	97.400	120.500
ln(Wage)	325,250	11.50	0.30	11.29	11.49	11.70
Inflation Adj Wage	325,250	93.208	26.655	72.975	89.548	109.653
ln(Inflation Adj Wage)	325,250	11.40	0.29	11.20	11.40	11.61
Full Time	325,250	0.84	0.36	1.00	1.00	1.00
ln(Dem Work Location)	189,078	0.40	0.16	0.26	0.41	0.51
ln(Rep Work Location)	186,283	0.59	0.16	0.47	0.59	0.73

Table 2: Firm Leaders' Political Ideology and H-1B Worker Compensation

This table reports regression results on estimating how firm leaders' political ideology affects their H-1B worker compensation. The dependent variable in the table, *ln(Inflation Adj Wage)*, is the natural logarithm of the wage of an H-1B worker, adjusted for inflation, as reported on the USCIS application by firm i in year t. The main explanatory variable, *Director Rep Index*, is Aggregated value of a Rep Index for each director n on a firm's board by each firm i *Rep Index*$_{n,t} = \frac{Amount\ Rep_{n,t} - Amount\ Dem_{n,t}}{Amount\ Rep_{n,t} + Amount\ Dem_{n,t}}$ where Amount Rep (Dem) represents the total amount of contributions an individual makes to Republican (Democratic) candidates in the CRP data. Standard errors are multi-clustered by firm, 2-digit SIC, and job position. t-statistics are reported in parentheses, and *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively. All variables are defined in Table A1 in Appendix A.

	(1) Ln(Inflation Adj Wage)	(3) Ln(Inflation Adj Wage)
Director Rep Index	**-0.498*** **	**-0.0397** **
	(-6.24)	**(-2.38)**
Ln(Executives Comp)		0.0240**
		(2.30)
Ln(CEO Comp)		−0.0032**
		(−2.19)
Full Time		0.0088
		(1.63)
Ln(# Total H1B)		0.0028
		(0.47)
Ln(Assets)		0.0082
		(1.48)
Liabilities/Assets		−0.0215
		(−0.99)
ROA		0.0210
		(0.50)
Book-to-market		−0.0233***
		(−3.83)
R&D Exp/Sales		0.102
		(1.10)
Constant	11.33***	11.15***
	(348.32)	(99.06)
N	325,250	309,898
Firm FE	No	Yes
Position*Year FE	No	Yes
HQ State*Year FE	No	Yes
Worker State*Year FE	No	Yes
Adj. R-squared	0.148	0.566

Table 3: Effect of Financial Constraint on H-1B Worker Compensation

This table reports regression results on estimating how the financial constraint of a firm influences the effect of firm leaders' political ideology on their H-1B worker compensation. The dependent variable in the table, *ln(Inflation Adj Wage)*, is the natural logarithm of the wage of an H-1B worker, adjusted for inflation, as reported on the USCIS application by firm *i* in year *t*. The main explanatory variables in Column (1) and Column (2) are *Director Rep Index* interacted with *KZ Index*, and *WW Index*, respectively. *KZ Index* is the financial constraint measure for firm *i* in year *t* following Kaplan and Zingales (1997), and *WW Index* is the financial constraint measure for firm *i* in year *t* following Whited and Wu (2006). Standard errors are multi-clustered by firm, 2-digit SIC, and job position. *t*-statistics are reported in parentheses, and *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively. All variables are defined in Table A1 in Appendix A.

	(1) Ln(Inflation Adj Wage)	(2) Ln(Inflation Adj Wage)
Director Rep Index	–0.0766***	–0.0520***
	(–4.33)	(–3.02)
KZ Index	0.0002*	
	(1.68)	
Director Rep Index*KZ Index	**-0.0022*** **	
	(-4.57)	
WW Index		–0.0012
		(–0.34)
Director Rep Index*WW Index		**-0.0264*** **
		(-2.80)
Controls	Yes	Yes
N	308,604	308,622
Firm FE	Yes	Yes
Position*Year FE	Yes	Yes
HQ State*Year FE	Yes	Yes
Worker State*Year FE	Yes	Yes
Adj. R-squared	0.562	0.566

Table 4: Effect of Firm's Bargaining Power on H-1B Worker Compensation

This table reports regression results on estimating how the bargaining power of a firm influences the effect of firm leaders' political ideology on their H-1B worker compensation. The dependent variable in the table, *ln(Inflation Adj Wage)*, is the natural logarithm of the wage of an H-1B worker, adjusted for inflation, as reported on the USCIS application by firm *i* in year *t*. The main explanatory variables in Column (1) and (2) are *Director Rep Index* interacted with *ln(Assets)*, and HHI, respectively. *ln(Assets)* is the logarithm of total assets of firm *i* in year t, and *HHI* is Herfindahl–Hirschman Index (HHI) based on total sales of all firms in the same 2-digit SIC industry *j*, calculated as $\sum(\text{Sales}_i/\text{Sales}_j)^2$. Standard errors are multi-clustered by firm, 2-digit SIC, and job position. *t*-statistics are reported in parentheses, and *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively. All variables are defined in Table A1 in Appendix A.

	(1) Ln(Inflation Adj Wage)	(2) Ln(Inflation Adj Wage)
Director Rep Index	0.171***	−0.0045
	(4.55)	(−0.23)
Ln(Assets)	0.0049	0.0120**
	(0.87)	(2.02)
HHI		0.3631**
		(2.26)
Director Rep Index	**-0.0212*** **	
***Ln(Assets)**	**(-5.43)**	
Director Rep Index		**-0.6880** **
***HHI**		**(-2.50)**
Controls	Yes	Yes
N	309,898	309,898
Firm FE	Yes	Yes
Position*Year FE	Yes	Yes
HQ State*Year FE	Yes	Yes
Worker State*Year FE	Yes	Yes
Adj. R-squared	0.562	0.563

Table 5: Effect of Political Environment of Job Location on H-1B Worker Compensation

This table reports regression results on estimating how local political environment of job location of H-1B worker influences the effect of firm leaders' political ideology on their H-1B worker compensation. The dependent variable in the table, *ln(Inflation Adj Wage)*, is the natural logarithm of the wage of an H-1B worker, adjusted for inflation, as reported on the USCIS application by firm *i* in year *t*. The main explanatory variables in Column (1)-(3) are *Director Rep Index* interacted with either *ln(Rep Work Location)* or *Trump Presidency*. *ln(Rep Work Location)* is the natural logarithm of the Republican Party's vote share in the congressional district where the H-1B worker's worksite is located, and *Trump Presidency* is indicator variable equal to one during Trump presidential administrations (2017–2020) and zero otherwise. To control for same-position characteristics within firms Columns (2) and (3) include Firm × Job Position × Year fixed effects. Standard errors are multi-clustered by firm, 2-digit SIC, and job position. *t*-statistics are reported in parentheses, and *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively. All variables are defined in Table A1 in Appendix A.

	(1) Ln(Inflation Adj Wage)	(2) Ln(Inflation Adj Wage)	(3) Ln(Inflation Adj Wage)
Director Rep Index	−0.0069		
	(−0.33)		
Director Rep Index	**-0.0577*** **		
***Trump Presidency**	**(-3.98)**		
Director Rep Index		**-0.0471*** **	−0.0913***
***Ln(Rep Work Location)**		**(-2.12)**	(−10.68)
Director Rep Index			**-0.3562*** **
***Trump Presidency**			**(-31.41)**
***Ln(Rep Work Location)**			
Controls	Yes	Yes	Yes
N	309,898	182,790	186,661
Firm FE	Yes	No	No
Position*Year FE	Yes	No	No
Firm*Position*Year FE	No	Yes	Yes
HQ State*Year FE	Yes	Yes	Yes
Worker State*Year FE	Yes	Yes	Yes
Adj. R-squared	0.562	0.666	0.666

Table 6: Effect of The Distance to Firm Headquarters on H-1B Worker Compensation

This table reports regression results on estimating how the intensity of headquarter controls to H-1B workers' job location influences the effect of firm leaders' political ideology on their H-1B worker compensation. The dependent variable in the table, *ln(Inflation Adj Wage)*, is the natural logarithm of the wage of an H-1B worker, adjusted for inflation, as reported on the USCIS application by firm *i* in year *t*. The main explanatory variable in Column (1) is *Director Rep Index* interacted with *Worker at HQ*. *Worker at HQ* is indicator variable equal to one if the worker's work location is at the firm's headquarters, and zero otherwise. The main explanatory variable in Column (2) is *Director Rep Index* interacted with *Closeness to HQ*. *Closeness to HQ* is negative of the natural logarithm of the distance between the firm's headquarters and the H-1B worker's work location. To control for same-position characteristics within firms Columns (1) and (2) include Firm × Job Position × Year fixed effects. Standard errors are multi-clustered by firm, 2-digit SIC, and job position. *t*-statistics are reported in parentheses, and *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively. All variables are defined in Table A1 in Appendix A.

	(1) Ln(Inflation Adj Wage)	(2) Ln(Inflation Adj Wage)
Worker at HQ	0.0045	
	(0.86)	
Worker at HQ*Director Rep Index	**0.0508*** **	
	(9.20)	
Closeness to HQ		0.0017*
		(1.78)
Closeness to HQ*Director Rep Index		**0.0075*** **
		(3.91)
Controls	Yes	Yes
N	185,156	180,761
Firm*Position*Year FE	Yes	Yes
HQ State*Year FE	Yes	Yes
Worker State*Year FE	Yes	Yes
Adj. R-squared	0.666	0.675

Table 7:
Firm Leaders' Political Ideology and H-1B Worker Hiring Decision - Firm-level Regression

This table reports regression results on estimating how the intensity of headquarter controls to H-1B workers' job location influences the effect of firm leaders' political ideology on their H-1B worker compensation. The dependent variable of OLS regression in Column (1), *ln(# Total H1B)*, is the natural logarithm of the total number of H-1B applications firm *i* submitted in year t. The dependent variable of logit regression in Column (2), *H1B*, is indicator variable equal to one if firm *i* submitted at least one H-1B application in year year t, otherwise zero. The main explanatory variable, *Director Rep Index*, is Aggregated value of a Rep Index for each director *n* on a firm's board by each firm *i* $Rep\ Index_{n,t} = \frac{Amount\ Rep_{n,t} - Amount\ Dem_{n,t}}{Amount\ Rep_{n,t} + Amount\ Dem_{n,t}}$ where Amount Rep (Dem) represents the total amount of contributions an individual makes to Republican (Democratic) candidates in the CRP data. Standard errors are clustered by 2-digit SIC. *t*-statistics are reported in parentheses, and *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively. All variables are defined in Table A1 in Appendix A.

	(1) Ln(# Total H1B)	(2) H1B
Director Rep Index	**-0.0261**	**0.0464**
	(-0.56)	**(0.13)**
Ln(Executives Comp)	0.0026	0.0682
	(0.10)	(0.43)
Ln(CEO Comp)	−0.0091	0.0480
	(−0.75)	(0.80)
Ln(Assets)	0.178***	0.462***
	(5.53)	(4.51)
Liabilities/Assets	0.0530	−0.230
	(1.05)	(−0.88)
ROA	0.0235	−0.259
	(0.27)	(−0.57)
Book-to-market	−0.0255	−0.275**
	(−1.27)	(−2.54)
R&D Exp/Sales	0.174	0.0605
	(0.80)	(0.07)
Constant	−0.588*	
	(−1.93)	
N	19,998	7,891
Firm FE	Yes	Yes
State*Year FE	Yes	Yes
Adj. R-squared	0.863	

Table 8:

Firm Leaders' Political Ideology and H-1B Worker Compensation: Endogeneity Check

This table reports regression results on estimating how firm leaders' political ideology affects their H-1B worker compensation during the transition period of the presidency (year 2016 and 2017). The dependent variable in the table, *ln(Inflation Adj Wage)*, is the natural logarithm of the wage of an H-1B worker, adjusted for inflation, as reported on the USCIS application by firm *i* in year *t*. The main explanatory variable in Column (1) and Column (3) is the interaction term with *Post* variable and *Director Rep Index*. *Post* is an indicator variable equal to one if year t is the first year of a Trump presidency (t = 2017), and zero if year t is 2016. *Treat* is an indicator variable equal to one if firm *i* has a *Director Rep Index* higher than industry average value, otherwise zero. Column (1) and (2) use the sample where a firm has the same *Director Rep Index* during the sample period (2016-2017), and Column (3) and (3) use the sample where a firm has the varience of *Director Rep Index* during the sample period (2016-2017) lower than median variance of other firms. Standard errors are multi-clustered by firm, 2-digit SIC, and job position. *t*-statistics are reported in parentheses, and *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively. All variables are defined in Table A1 in Appendix A.

	Same Rep Index for 2016–2017	**Similar Rep Index for 2016–2017**
	(1)	(2)
	Ln(Inflation Adj Wage)	Ln(Inflation Adj Wage)
Post*Director Rep Index	**-0.0989*** **	**-0.1035** **
	(-4.09)	**(-2.50)**
Controls	Yes	Yes
N	6,079	24,951
Firm FE	Yes	Yes
Position*Year FE	Yes	Yes
HQ State*Year FE	Yes	Yes
Worker State*Year FE	Yes	Yes
Adj. R-squared	0.539	0.364

Table 9: The Consequence on Firm Innovation - Firm-level Regression

This table reports regression results on estimating how the effect of firm leaders' political ideology on their H-1B worker compensation affects firm's patent filings. The dependent variables of Poisson regression in Column (1)-(3) are the total number of patents firm *i* filed in year *t*, years between *t* and *t+1*, and years between *t* and *t+2*, respectively. The main explanatory variable, *Director Rep Index*Excess $Underpay*, is an interaction term of Director Rep Index variable with Excess $Underpay, defined as dollar amount by which firm *i* in year *t* pays less than other firms in the same job code, industry, state, and year. Standard errors are double clustered by firm and 2-digit SIC. *t*-statistics are reported in parentheses, and *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively. All variables are defined in Table A1 in Appendix A.

	(1) $Patent_t$	(2) $Patent_{t\to t+1}$	(3) $Patent_{t\to t+2}$
Director Rep Index	0.143	0.149	0.135
	(1.44)	(1.64)	(1.51)
Excess $Underpay	−0.0132	−0.0247	−0.0294
	(−0.22)	(−0.48)	(−0.92)
Director Rep Index*Excess $Underpay	**0.0049**	**-0.257****	**-0.450*****
	(0.04)	**(-2.16)**	**(-4.23)**
Ln(Executives Comp)	0.0274	0.0476*	0.0537*
	(0.90)	(1.68)	(1.78)
Ln(CEO Comp)	−0.0487***	−0.0387***	−0.0234
	(−3.32)	(−2.60)	(−1.51)
Ln(# Total H1B)	0.0851***	0.0725***	0.0558***
	(9.51)	(6.75)	(3.42)
Ln(Assets)	0.248***	0.239***	0.221***
	(4.35)	(4.36)	(3.68)
Liabilities/Assets	−0.105	−0.124*	−0.0968
	(−1.16)	(−1.93)	(−1.35)
ROA	0.784*	0.796**	0.729**
	(1.79)	(1.97)	(2.18)
Book-to-market	−0.0077	−0.0580	−0.143
	(−0.10)	(−0.75)	(−1.44)
R&D Exp/Sales	1.569**	1.351*	1.106
	(2.05)	(1.79)	(1.52)
Constant	2.714***	3.417***	3.572***
	(4.41)	(5.87)	(5.69)
N	5,001	5,116	5,100
Firm FE	Yes	Yes	Yes
State*Year FE	Yes	Yes	Yes

Table 10: The Consequence on Firm Valuation - Firm-level Regression

This table reports regression results on estimating how the effect of firm leaders' political ideology on their H-1B worker compensation affects firm valuation, measured by return on asset and alpha. The dependent variables of OLS regression in Column (1)-(3) are the values of return on asset (ROA) of firm *i* in year *t*, *t+1*, and *t+2*, respectively. ROA is calculated as operating income after depreciation and amortization divided by total assets. The dependent variables of OLS regression in Column (4)-(6) are the values of alpha (α) of firm *i* in year *t*, *t+1*, and *t+2*, respectively. (α) is estimated using the Fama-French three factor plus momentum model based on daily stock returns. The main explanatory variable, *Director Rep Index*Excess $Underpay*, is an interaction term of Director Rep Index variable with Excess $Underpay, defined as dollar amount by which firm *i* in year *t* pays less than other firms in the same job code, industry, state, and year. Standard errors are double clustered by firm and 2-digit SIC. *t*-statistics are reported in parentheses, and *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively. All variables are defined in Table A1 in Appendix A.

	Return-on-Asset			**Alpha**		
	(1) ROA	(2) ROA_{t+1}	(3) ROA_{t+2}	(4) Ln(Alpha)	(5) $Ln(Alpha_{t+1})$	(6) $Ln(Alpha_{t+2})$
Director Rep Index	0.0144	0.0102	0.0218*	0.0236	-0.0139	-0.0051
	(1.63)	(1.16)	(1.74)	(0.81)	(-0.64)	(-0.17)
Excess $Underpay	-0.0031	-0.0038	-0.0053	-0.0091	0.0117*	-0.0217**
	(-0.85)	(-0.67)	(-0.88)	(-1.06)	(1.82)	(-2.27)
Director Rep Index	**0.0012**	**-0.0355***	**-0.0249****	**0.0545**	**-0.0557**	**-0.0982****
***Excess $Underpay**	**(0.08)**	**(-1.89)**	**(-2.31)**	**(1.16)**	**(-1.28)**	**(-2.19)**
Controls	Yes	Yes				
N	6,694	6,481	6,221	6,694	6,481	6,221
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
State*Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R-squared	0.804	0.764	0.748	0.326	0.295	0.279

Table 11: The Consequence on Firm Risks - Firm-level Regression

This table reports regression results on estimating how the effect of firm leaders' political ideology on their H-1B worker compensation affects firm risks, measured by idiosyncratic volatility and bid-ask spread in the equity market. The dependent variables of OLS regression in Column (1)-(3) are the values of volatility of firm *i* in year *t*, *t+1*, and *t+2*, respectively. Idiosyncratic Volatility is estimated using the Fama-French three factor plus momentum model based on daily stock returns. The dependent variables of OLS regression in Column (4)-(6) are the values of bid-ask spread of firm *i* in year *t*, *t+1*, and *t+2*, respectively. Bid-ask spread is estimated as the average daily bid-ask spread in a fiscal year. The main explanatory variable, *Director Rep Index*Excess $Underpay*, is an interaction term of Director Rep Index variable with Excess $Underpay, defined as dollar amount by which firm *i* in year *t* pays less than other firms in the same job code, industry, state, and year. Standard errors are double clustered by firm and 2-digit SIC. *t*-statistics are reported in parentheses, and *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively. All variables are defined in Table A1 in Appendix A.

	Idiosyncratic Volatility			**Bid-Ask Spread**		
	(1) Ln(ivol)	(2) Ln($ivol_{t+1}$)	(3) Ln($ivol_{t+2}$)	(4) Ln(Baspread)	(5) Ln($Baspread_{t+1}$)	(6) Ln($Baspread_{t+2}$)
Director Rep Index	-0.0.0041	0.0415*	0.0361	0.0003	0.0023*	0.0006
	(-0.17)	(1.71)	(1.27)	(0.22)	(1.83)	(0.36)
Excess $Underpay	0.0025	-0.0019	0.0822*	0.0002	-0.0001	-0.0001
	(0.17)	(-0.15)	(1.87)	(0.59)	(-0.29)	(-0.11)
Director Rep Index	**0.1870*** **	**0.0626**	**0.0822***	**0.0094*** **	**0.0050*** **	**0.0037**
***Excess $Underpay**	**(4.48)**	**(1.32)**	**(1.87)**	**(4.58)**	**(2.99)**	**(1.59)**
Controls	Yes	Yes				
N	6,695	6,485	6,227	6,695	6,485	6,227
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
State*Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R-squared	0.807	0.803	0.797	0.819	0.829	0.798

A. Variable Definitions

Table A1: Variable Definitions

Variable Name	Variable Definition
Director Rep Index	Aggregated value of a Rep Index for each director n on a firm's board by each firm i $$Rep\ Index_{n,t} = \frac{Amount\ Rep_{n,t} - Amount\ Dem_{n,t}}{Amount\ Rep_{n,t} + Amount\ Dem_{n,t}} \quad \text{(A1)}$$ where Amount Rep (Dem) represents the total amount of contributions an individual makes to Republican (Democratic) candidates in the CRP data.
Republican Presidency	Indicator variable equal to one during Republican presidential administrations (2017–2020) and zero otherwise.
ln(Dem HQ Location)	Natural logarithm of the Democratic Party's vote share in the congressional district where the firm's headquarters is located.
ln(Rep HQ Location)	Natural logarithm of the Republican Party's vote share in the congressional district where the firm's headquarters is located.
ln(Executives Comp)	Natural logarithm of total compensation paid to all executive officers, including salary, bonuses, stock options, and other benefits.
ln(CEO Comp)	Natural logarithm of average CEO compensation for firm i in year t.
H1B	Indicator variable equal to one if a firm submitted at least one H-1B application in year t, otherwise zero.
ln(# Total H1B)	Natural logarithm of the total number of H-1B visa applications submitted by firm i in year t.
ln(Assets)	Natural logarithm of total assets for firm i in year t.
Liabilities/Assets	Ratio of total liabilities to total assets for firm i in year t.
ROA	Return on assets for firm i in year t, calculated as operating income after depreciation and amortization divided by total assets.
Book-to-market	Book-to-market ratio for firm i in year t, calculated as (Total Assets – Liabilities) / Market Capitalization.
R&D Exp/Sales	Ratio of research and development expenditures to total sales for firm i in year t.
Wage	Wage of an H-1B worker as reported on the USCIS application by firm i in year t.
ln(Wage)	Natural logarithm of the wage variable.
Inflation Adj Wage	Wage of an H-1B worker, adjusted for inflation, as reported on the USCIS application by firm i in year t.
ln(Inflation Adj Wage)	Natural logarithm of the inflation-adjusted wage.
Full Time	Indicator variable equal to one if the H-1B application is for a full-time position, and zero otherwise.
ln(Dem Work Location)	Natural logarithm of the Democratic Party's vote share in the congressional district where the H-1B worker's worksite is located.
ln(Rep Work Location)	Natural logarithm of the Republican Party's vote share in the congressional district where the H-1B worker's worksite is located.
HHI	Herfindahl–Hirschman Index (HHI) based on total sales of all firms in the same 2-digit SIC industry j, calculated as $\sum(\text{Sales}_i/\text{Sales}_j)^2$.

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Table A1 – continued from previous page

Variable Name	Variable Definition
KZ Index	Financial constraint measure for firm i in year t following Kaplan and Zingales (1997): $KZIndex = -1.001909 \times \text{cashflow} + 0.2826389 \times \text{Tobin's q} + 3.139193 \times \text{debt/total capital} - 39.3678 \times \text{dividends} - 1.314759 \times \text{cash}$.
WW Index	Financial constraint measure for firm i in year t following Whited and Wu (2006): $WWIndex = -0.091 \times ((NetIncome)/TotalAssets) - 0.062 \times DivIndicator + 0.021 \times (Long - termDebt/TotalAssets) - 0.044 \times ln(TotalAssets) + 0.102 \times IndustrySalesGrowth - 0.035 \times SalesGrowtn$.
ln(Age)	Natural logarithm of firm age.
Excess Low # H1B Hiring	The number of H-1B workers hired by firm i in year t that is below the industry–state–year average.
Worker at HQ	Indicator variable equal to one if the worker's work location is at the firm's headquarters, and zero otherwise
Closeness to HQ	Negative of the natural logarithm of the distance between the firm's headquarters and the H-1B worker's work location.
Excess $Underpay	Dollar amount by which firm i in year t pays less than other firms in the same job code, industry, worker state, and year.
Post	Indicator variable equal to one if year t is the first year of a Republican presidency ($t = 2017$), and zero if year t is 2016.
Tobin's q	Measure of firm value, calculated as (Market Capitalization – Book Equity + Total Assets) / Total Assets.
Patent_t	Total number of new patents filed by firm i in year t.
$\text{Patent}_{t \to t+1}$	Total number of new patents filed by firm i in year t and $t+1$.
$\text{Patent}_{t \to t+2}$	Total number of new patents filed by firm i in year t, $t+1$ and $t+2$.
$\ln(\text{ivol}_t)$	Natural logarithm of the idiosyncratic volatility of firm i in year t.
$\ln(\text{ivol}_{t+1})$	Natural logarithm of the idiosyncratic volatility of firm i in year $t+1$.
$\ln(\text{ivol}_{t+2})$	Natural logarithm of the idiosyncratic volatility of firm i in year $t+2$.
$\ln(\text{Alpha}_t)$	Natural logarithm of the annualized abnormal stock market return of firm i in year t.
$\ln(\text{Alpha}_{t+1})$	Natural logarithm of the annualized abnormal stock market return of firm i in year $t+1$.
$\ln(\text{Alpha}_{t+2})$	Natural logarithm of the annualized abnormal stock market return of firm i in year $t+2$.
$\ln(\text{BAspread}_t)$	Natural logarithm of the annualized abnormal bid–ask spread of firm i in year t.
$\ln(\text{BAspread}_{t+1})$	Natural logarithm of the annualized abnormal bid–ask spread of firm i in year $t+1$.
$\ln(\text{BAspread}_{t+2})$	Natural logarithm of the annualized abnormal bid–ask spread of firm i in year $t+2$.